SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 26, 1998

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)
FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 1-10948

OFFICE DEPOT, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	59-2663954
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2200 OLD GERMANTOWN ROAD, DELRAY BEACH, FLORIDA	33445
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: 561/438-4800

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

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common Stock, par value $0.01 per share	New York Stock Exchange
Preferred Share Purchase Rights	New York Stock Exchange
Liquid Yield Option Notes due 2007 convertible into Common Stock	New York Stock Exchange
Liquid Yield Option Notes due 2008 convertible into Common Stock	New York Stock Exchange

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

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of the 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. [ ]

The aggregate market value of voting stock held by non-affiliates of the registrant as of March 5, 1999 was approximately $8,413,828,062.

As of March 5, 1999, the Registrant had 248,983,334 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Annual Report to Stockholders for the fiscal year ended December 26, 1998 are incorporated by reference in Part II, and the Proxy Statement to be mailed to stockholders on or about March 19, 1999 for the Annual Meeting to be held on April 21, 1999 is incorporated by reference in Part III.

PART I

ITEM 1. BUSINESS.

GENERAL

Office Depot, Inc. ("Office Depot" or the "Company") is the largest supplier of office products and services in the world. The Company sells to consumers and businesses of all sizes through three business segments -- Stores, Business Services and International. The Company operates on a 52 or 53 week fiscal year ending on the last Saturday in December.

Stock Split

On February 24, 1999, the Company's Board of Directors declared a three-for-two stock split in the form of a 50% stock dividend payable on April 1, 1999 to stockholders of record on March 11, 1999. With the exception of pro forma earnings per share, share and per share information in this Form 10-K does not reflect this stock split.

Stores

Office Depot began its operations by opening its first retail office supply store in Florida in October 1986. Through its Stores Division, as of March 12, 1999, it operated 706 retail office supply stores in 41 states, the District of Columbia and 5 Canadian provinces.

The Company's stores use a warehouse format. This method of retailing involves the display of merchandise using low-profile fixtures, pallets, bins and industrial steel shelving that permit the bulk stacking of inventory and quick and efficient restocking. Shelving is positioned to form aisles large enough to comfortably accommodate customer traffic and merchandise movement. The stores carry a wide selection of merchandise, including brand name office supplies, business machines and computers, computer software, office furniture and other business-related products. The stores sell primarily to small offices/home offices and individual consumers. Each Office Depot store also contains a multipurpose print and copy center offering printing, copying and a wide assortment of other services. The stores' sales staff includes specialists who are trained to answer customer questions regarding a wide variety of technology-oriented products.

The Company's expansion program is carried out either by leasing existing retail space and renovating it according to Office Depot's specifications or by constructing new space. Prior to selecting a new store site, the Company obtains detailed demographic information indicating business concentrations, traffic counts, population, income levels and future growth prospects. The Company's stores are located primarily in suburban strip shopping centers on major commercial roadways where the cost of space is generally lower than at urban locations. These suburban locations are generally more accessible to the Company's primary customers, have convenient parking and readily receive inventory on a daily basis.

The Company's retail stores average 27,500 square feet and conform to a model designed to achieve cost efficiency by minimizing rent and eliminating the need for a central warehouse. Each store displays virtually all of its inventory on the sales floor according to a uniform store layout plan. This plan is intended to display merchandise effectively, use merchandising space efficiently and provide customers with a consistent and appealing store layout. In 1998, the Company accelerated its store remodeling program and remodeled approximately 200 of its stores to a newer and more appealing store layout.

Prior to being displayed on the sales floor, inventory is labeled for automatic processing. Sales are processed through sophisticated registers located at the front of the store. In the retailing business, different products are managed and referred to using unique alpha-numeric codes known as stock-keeping-units, or "SKUs." Each day, sales and inventory information are transmitted by SKU to the Company's central computer system, and pricing information is transmitted from the central computer system to the stores. Rather than individually price marking each product, a master sign for each product displays its price. As price changes occur, new master signs are automatically generated for the product display and the new prices are reflected in the register, allowing the Company to avoid labor costs associated with price remarking.

The Company's overall business strategy for its Stores Division is to increase the sales and profitability of existing stores and to add new stores in locations where the Company can establish a significant market presence. Store opening activity for the last five years is summarized as follows:

	OPEN AT BEGINNING OF YEAR	OPENED	CLOSED	RELOCATED	OPEN AT END OF YEAR
1994	351	71	2	1	420
1995	420	82	1	6	501
1996	501	60	--	3	561
1997	561	42	1	2	602
1998	602	101	1	5	702

The rate of new store openings during 1997 and the first nine months of 1998 was reduced because of uncertainty associated with the proposed merger with Staples, Inc. ("Staples"), which was terminated in July 1997. By the fourth quarter of 1998, however, the Company restaffed its real estate department and significantly increased the pace of store openings. The Company currently plans to open at least 105 stores in the United States and Canada during 1999.

Business Services

In the early 1990's, Office Depot expanded its delivery business and began offering contract stationer services. Through its contract stationer operations, the Company provides a wide variety of office products to medium and large business customers who have continuing relationships with the Company, often through contractual agreements. The customer relationship is typically managed by a dedicated sales organization.

The Company's Business Services Group offers delivery and contract services to individuals, small and home office businesses, larger businesses, educational institutions and government agencies through catalogs, contract and public web sites and a dedicated sales force.

The Company provides its contract and commercial customers access to a broad selection of stocked office products and office furniture, as well as special order items. In addition, the Company provides its contract customers with specialized services designed to aid them in achieving improved efficiencies and a significant reduction in their overall office products and office furniture costs. These services include electronic ordering, stockless office procurement, desktop delivery and comprehensive product usage reports.

Office Depot currently operates customer service centers ("CSCs") in 18 states. CSCs, which range in size from 51,000 to 662,000 square feet, serve as warehouse and delivery facilities. Many also house sales offices, call centers and administrative offices. Most of the Company's delivery business is handled through these facilities. The Company believes that its CSCs, along with their surrounding satellite facilities, provide cost effective and efficient delivery services to its customers in the 48 contiguous states. In 1998, the Company merged with Viking Office Products, Inc. ("Viking"), a global direct marketing office products company, significantly increasing the customer base and marketing expertise of the Business Services Group.

In 1998, prior to the merger with Viking, the Company completed the integration of its Office Depot CSCs into a national delivery network. This integration included replacing and significantly expanding a number of existing facilities with larger, more efficient CSCs and installing uniform order entry, warehouse management and routing systems. Customers place orders by phone, fax, electronic data interchange ("EDI") and e-commerce (Internet/intranet). Orders are routed to the appropriate CSC for delivery. If an item is not in stock, the order is automatically routed to a wholesaler. Wholesaler orders are generally delivered to the CSC the same day, enabling Office Depot to deliver complete orders to its customers the next day.

With the addition of 10 facilities through its merger with Viking, the Company currently operates 30 CSCs. In formulating its strategy for integrating the two companies, the Company has announced plans to close several facilities by the end of 2000. See MERGERS AND ACQUISITIONS for further discussion of the merger.

In January 1998, the Company introduced the Office Depot Internet site (www.officedepot.com), expanding its e-commerce capabilities beyond the existing contract web site. The Company's web site provides customers with the same assortment of products offered to its catalog customers with the convenience of electronic ordering. It also provides news articles that would be of interest to small office/home office businesses as well as pertinent information about Office Depot.

The Company's strategies for growing its Business Services Group include continuing to build and expand upon its integrated national network to provide efficient and effective delivery services to customers. During 1998, the Company completed the consolidation of its five Office Depot CSCs in California into two larger facilities. The Company will begin integrating the Viking order entry, warehouse management and routing systems into its national network in 1999. Additionally, the Business Services Group plans to increase its penetration into new and existing markets by expanding the coverage of its contract sales force, which currently exceeds 900 account executives, and by increasing the frequency and variety of its direct mail catalogs.

International

The Viking brand launched its international expansion in 1990 with the opening of its United Kingdom operations. The first Office Depot store outside of the United States and Canada opened in Colombia in late 1993. Today, the Company's International Division has expanded its international retail and catalog business to include operations in 17 countries outside of the United States and Canada.

The International Division operates retail office supply stores and provides catalog and delivery services to customers in Australia, Austria, Belgium, Colombia, France, Germany, Hungary, Ireland, Israel, Italy, Japan, Luxembourg, Mexico, The Netherlands, Poland, Thailand and United Kingdom. In addition to delivery warehouses, certain of the Company's international CSCs house call centers and administrative offices. While most of the International Group's operations are wholly-owned, certain countries operate under license and joint venture agreements. Stores, call centers, and CSCs open as of December 26, 1998 were located in the following countries:

COUNTRY	STORES	CALL CENTERS	CUSTOMER SERVICE CENTERS
Australia(4)	--	1	2
Austria	--	1	--
Colombia(1)	4	--	--
France(3)(4)	15	1	2
Germany	--	--	2
Hungary(1)	3	--	--
Ireland(4)	--	1	1
Israel(2)	15	--	1
Italy	--	1	1
Japan(2)	3	--	2
Mexico(2)	34	--	2
The Netherlands	--	1	1
Poland(1)	11	--	--
Thailand(2)	2	--	--
United Kingdom(4)	--	3	3
Total	87	9	17

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(1) Operated under license agreements.
(2) Operated under joint venture agreements.
(3) In November 1998, the Company purchased its joint venture partner's 50% ownership share in its French operations, making France a wholly-owned operation. See MERGERS AND ACQUISITIONS.
(4) The call centers are housed inside the customer service centers.

MERGERS AND ACQUISITIONS

On August 26, 1998, the Company completed its merger with Viking. In conjunction with the merger, each outstanding share of Viking common stock was converted into one share of Office Depot common stock. The merger was accounted for as a pooling of interests. Accordingly, all financial data, statistical data, financial statements and discussions of financial and other information have been restated to include Viking's information as if the merger had taken place at the beginning of the periods reported.

In September 1998, in formulating its strategy for integrating Office Depot and Viking, management announced plans to close several facilities by the end of 2000. The facilities to be closed are either redundant or handle business that can be more efficiently handled by other existing facilities. The Company recorded costs of $108.1 million during the year ended December 26, 1998 that were directly related to the Viking merger. These costs consisted of legal fees, investment banker fees, asset impairment associated with the closure of identified facilities, write-off of software applications to be abandoned, personnel costs and other facility exit and integration costs. For additional information regarding the restructuring, refer to Management's Discussion and Analysis incorporated by reference in Item 7 of this report.

In November 1998, the Company increased its ownership position in its operations in France from 50% to 100% by purchasing for $27.7 million its joint venture partner's ownership share. As a result of the purchase, the Company recorded goodwill of $20.2 million.

RESTRUCTURING

In addition to the Company's core office products retail and delivery businesses, the Company has also operated the following concepts:

Images(TM) and Office Depot Express(TM) -- Retail stores located in South Florida that provide graphics design, printing, copying, shipping and fulfillment services as well as a limited assortment of office supplies.

Furniture At Work(TM) -- Retail office furniture stores offering a broad line of office furniture, office accessories and design services.

In November 1998, the Company decided to focus its attention on more rapidly expanding its core businesses, both domestically and internationally. In conjunction with this decision, the Company plans to close its five Furniture at Work(TM) and four Images(TM)/Office Depot Express(TM) stores. In 1998, the Company recorded restructuring costs of $11.0 million in conjunction with this restructuring. These costs consist primarily of estimated lease commitments subsequent to the closing of the stores and the write-off of certain fixed assets. For additional information regarding the restructuring, please refer to Management's Discussion and Analysis incorporated by reference in Item 7 of this report.

OFFICE PRODUCTS INDUSTRY

The office products industry is comprised of three broad categories of merchandise: general office supplies, technology products and office furniture. Office products distributors include contract stationers (selling at significant discounts from list prices to their contract customers), mail order companies (selling through catalogs) and retailers (including office superstores such as those operated by Office Depot). More recently, Internet companies have emerged as a new force in the industry.

Although the industry has changed in recent years, a significant portion of the market is still served by small dealers. These dealers purchase a significant portion of their merchandise from national or regional office supply distributors who, in turn, purchase merchandise from manufacturers. Dealers often employ a commissioned sales force that use the distributor's catalog, showing products at retail list prices, for selection and price negotiation with the customer. The Company believes that these dealers generally sell their products at prices higher than those offered by the Company.

Over the past decade, high-volume office supply superstores have emerged throughout the United States. These stores offer a wide selection of products, strong customer service and low prices. High-volume office products retailers typically offer substantial price savings to individuals and small- to medium-sized businesses, which traditionally have had limited opportunities to buy at significant discounts from retail list prices. Recently, other retailers, including mass merchandisers and warehouse clubs, have begun offering a wide variety of similar products at low prices and have become increasingly competitive with office supply superstores. Direct mail and Internet-based companies are also gaining wide acceptance in the office products industry.

Larger customers have been, and continue to be, served primarily by full service contract stationers offering contract bids at discounts equivalent to or greater than those offered by the Company's retail stores and catalogs. These stationers, including the Company's contract stationer business, traditionally serve larger businesses through a commissioned sales force, purchase in large quantities primarily from manufacturers, and offer competitive pricing and customized services to their customers.

COMPETITION

Office Depot operates in a highly competitive environment. Historically, its markets were served by traditional office products dealers and contract stationers. The Company believes it competes favorably against dealers on the basis of price because these dealers typically purchase their products from distributors and generally sell their products at prices higher than those offered by Office Depot. The Company competes against other full service contract stationers on the basis of price, service and value-added technology. The Company also competes with other office supply superstores, wholesale clubs selling general merchandise, discount stores, mass merchandisers, conventional retail stores, catalog showrooms and direct mail companies. These companies, in varying degrees, compete with Office Depot on both price and selection. The Company's ability to buy in large quantities directly from manufacturers affords a competitive advantage against competitors who buy from distributors.

Several high-volume office supply chains that are similar in concept to Office Depot in terms of store format, pricing strategy and product selection and availability also operate in the United States. The Company competes with these chains and other competitors described above in substantially all of its current markets. The Company anticipates that in the future it will face increased competition from these chains.

The Company's Business Services Group principally competes against national and regional full service contract stationers, national and regional office furniture dealers, independent office product distributors, discount superstores and, to a lesser extent, direct mail order houses, stationery retail outlets and Internet-based merchandisers. Other office supply superstore chains also operate contract stationer businesses. The Company competes with these businesses in substantially all of its current markets. In the future, the Company may face increased competition from Internet-based merchandisers who dedicate a larger portion of their resources to e-commerce than does Office Depot.

MERCHANDISING AND PRODUCT STRATEGY

Office Depot's merchandising strategy uses two brands, Office Depot and Viking, to offer a broad selection of brand-name office products which provide customers with the most compelling combination of quality, assortment, price and service. The Company offers a comprehensive selection of office products, including general office supplies, computers, software and computer supplies, business machines and related supplies, and office furniture. Each of the Company's office supply stores stocks approximately 7,000 SKUs, including variations in color and size; and the Company's CSCs stock approximately 18,000 SKUs, including the 7,000 SKUs stocked at the office supply stores. During the integration process, the Company will evaluate and reduce the number of SKUs to the most efficient level, while retaining a broad assortment of products for its customers.

The table below shows sales of each major product group as a percentage of total merchandise sales for 1996, 1997 and 1998:

	1996	1997	1998
General office supplies(1)	42.73%	42.65%	42.85%
Computers, business machines and related supplies(2)	45.65%	45.69%	46.02%
Office furniture(3)	11.62%	11.66%	11.13%
	100.0%	100.0%	100.0%

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(1) Includes paper, filing supplies, organizers, business cases, writing instruments, mailing supplies, desktop accessories, calendars, business forms, binders, tape, post-it notes, staplers, fasteners, art supplies, school supplies, engineering, food and janitorial supplies, and revenues from the print and copy center located in each store.
(2) Includes calculators, typewriters, projectors, telephones, cameras and film, cash registers, copiers, facsimile machines, tape recorders, computers, printers, computer diskettes, ribbons, cartridges, software and books.
(3) Includes chairs, desks, tables, partitions, bookcases, filing and storage cabinets, and furniture accessories such as chairmats, lamps and clocks.

The Company buys substantially all of its merchandise directly from manufacturers and other primary source suppliers. Products are delivered by manufacturers either directly to the stores or CSCs or to the Company's ten cross-dock facilities. Office Depot's supply chain operations, including the cross-docks, employ a customized system that manages the inbound flow of merchandise with the goal of achieving optimal in-stock positions at the lowest possible cost. This system maintains optimal in-stock positions by allowing for a shorter delivery cycle to the stores and CSCs, while still meeting the minimum ordering requirements of the vendors. The use of cross-docks also reduces the Company's freight costs by centralizing the receiving function.

While the Business Services Group is party to several multi-year contracts with certain of its contract customers and anticipates increasing this business in the future, the Company has no material long-term contracts or commitments with any vendor or customer, the loss of which would have a material adverse effect on the Company. The Company has not experienced any difficulty in obtaining desired quantities of merchandise for sale and does not foresee any significant difficulties in the future.

Buyers at the Company's corporate headquarters are responsible for selecting and purchasing merchandise. For merchandise offered to retail, direct mail and Internet customers, corporate buyers also determine pricing. The pricing of merchandise sold to contract customers is determined by the contract sales force in the Business Services Group. Replenishment buyers, or rebuyers, located both centrally and in the field, monitor inventory levels and initiate product reorders with the assistance of the Company's customized replenishment system. This system allows buyers to devote more time to selecting products, developing new product lines, analyzing competitive developments and negotiating with vendors to obtain more favorable prices and product availability.

The Company currently transmits purchase orders by EDI and receives Advance Shipment Notices and invoices electronically from vendors that account for a significant portion of its purchases. This method of electronic ordering expedites orders and promotes accuracy and efficiency. The Company plans to expand this program to the remainder of its vendors.

CATALOG PRODUCTION

The Company uses its catalogs and Internet sites to market directly to both existing and prospective customers. Separate catalog assortments promote both the Office Depot and Viking brands. Each catalog is printed in full color with pictures and narrative descriptions that emphasize key product benefits and features. The Company has developed a consistent and distinctive style for its catalogs, most of which are produced in-house by its designers, writers and production artists, using a computer-based catalog creation system.

The Company's Viking brand catalog mailings include monthly sale catalogs which are mailed to all active customers and contain the items most popular with Viking customers. A complete "Buyers' Guide" containing all of the products offered at regular discount prices is delivered to catalog customers every six months. The Buyers' Guides for international customers are somewhat smaller than those circulated domestically and vary between countries. Prospecting catalogs with special offers designed to acquire new customers are mailed frequently.

Both Office Depot and Viking offer several different specialty catalogs, including catalogs dedicated to office furniture, computer supplies, custom printed business forms and stationery, pager products, shipping and warehouse supplies (including cleaning and janitorial products) and presentation supplies (including transparencies and overhead slides). Other specialty catalogs are being considered and may be introduced in the future. The Company mailed approximately 242 million, 225 million and 184 million copies of over 100 different Office Depot and Viking brand catalogs during 1998, 1997 and 1996, respectively.

MARKETING AND SALES

The Company is able to maintain its competitive pricing policy primarily as a result of the significant cost efficiencies achieved through its operating format and purchasing power.

Marketing. The Company's marketing programs are designed to attract new customers and to induce existing customers to make additional purchases. The Company advertises in the major local newspapers in each of its markets. These advertisements are supplemented with local and national radio and television advertising and direct marketing efforts. The Company continuously acquires new customers by selectively mailing specially designed catalogs to prospective customers. The Company sometimes obtains the names of prospective customers in new and existing markets through the use of selected mailing lists from outside marketing information services and other sources. The Company uses a database marketing system for its Viking catalogs and other promotional mailings. The Company plans to use this same technology to increase the effectiveness of its Office Depot brand catalogs in the future. Catalogs are also distributed through the Company's contract sales force and are available in each of the Company's stores.

The Company has a low price guarantee policy for its Office Depot brand. Under this policy, the Company will match any comparable competitor's lower price. In addition, the guarantee gives the customer a credit of 55% of the difference, up to $55. This program assures customers of always receiving low prices from the Company even during periodic sales promotions by competitors. Monthly competitive pricing analyses are performed to monitor each market, and prices are adjusted as necessary to adhere to this pricing philosophy and ensure competitive positioning.

Sales. In addition to the sales associates at each of its stores and the customer service representatives at its call centers, the Company has a dedicated sales force serving its contract customers in the Business Services Group. The Company's dedicated sales force operates out of its 68 regional sales offices. All members of the Company's sales force are employees of the Company.

In early 1998, the Company introduced an Internet site enabling customers to order directly from the Company. The Company's customers nationwide can place orders over the Internet or by telephone or fax using toll-free telephone numbers that route the calls through the Company's call centers located in South Florida, Atlanta, Texas, Ohio, Connecticut, Kansas, and California. Orders received by the call centers or via the Internet are transmitted electronically to the store or CSC nearest the customer for pick-up or delivery at a nominal delivery fee (free with a minimum order size). Orders are packaged, invoiced and shipped for next-day delivery or same-day delivery as is the case for Viking orders in selected markets.

The Company, through its Business Services Group, provides its contract customers with a wide range of services designed to improve efficiencies and reduce costs, including electronic ordering, stockless office procurement, business forms management services and comprehensive product usage reports. The Business Services Group provides certain of its customers with desktop delivery, wherein merchandise is delivered to individual departments within a customer's facilities, rather than being delivered to one central receiving point. The Company also provides electronic ordering to its contract customers through customized intranet sites developed in tandem with these customers. Customer orders placed through an intranet site are sent to the Company over the Internet.

Terms. The Company offers its contract and qualified commercial customers credit through open accounts, although the payment options available to retail customers are also available to all contract and commercial customers. The Company also offers revolving credit terms to Office Depot brand customers through the use of private label credit cards. These credit cards are issued without charge to credit-qualified customers. Sales transactions using the private label credit cards are transmitted electronically to financial services companies, which credit Office Depot's bank account with the net proceeds within two days. The Company offers its contract customers a store purchasing card which allows these customers to purchase office supplies at one of the Company's office supply stores under the terms of their contracts. No single customer accounts for more than one percent of the Company's sales.

MANAGEMENT INFORMATION SYSTEMS

Inventory is received and stocked in each facility using an automated inventory tracking system. Prior to the merger with Viking, Office Depot completed the conversion of its warehouse and order entry systems to a new common platform. The Company has begun the integration of Viking's delivery and warehouse systems with Office Depot's. See MERGERS AND ACQUISITIONS. Customer orders placed via telephone, fax or electronically are filled by the appropriate CSC or office supply store, usually for next-day delivery. The appropriate delivery location is determined by the Company's automated routing systems, and the order is filled using both in-stock and wholesaler-supplied inventory.

The Company uses IBM ES9000 mainframes, IBM System AS/400 computers and client/server technologies that primarily run on Microsoft Windows in operating its business. The Company's information systems include advanced software packages that have been customized for the Company's specific business operations. By integrating these technologies, the Company is able to efficiently manage inventories, order processing, replenishment and marketing efforts.

Inventory data is entered into the Company's information system upon its receipt, and sales data is entered through the use of either the Company's point-of-sale or its telemarketing order entry system. The point-of-sale system permits the entry of sales data through the use of bar code laser scanning. The system also has a price "look-up" capability that permits immediate price verification and efficient movement of customers through the check-out process. Information is centrally processed at the end of each day, permitting a perpetual daily inventory and the calculation of average unit cost by SKU for each store and CSC. Daily compilation of sales and gross margin data allows the Company to monitor profitability and inventory by item and product line, as well as the success of sales promotions. For all SKUs, management has immediate access to on-hand daily unit inventory, units on order, current and past rates of sale and other information pertinent to the management of its inventory.

All of the Company's computer operations are managed internally in state-of-the-art facilities that use automated systems management tools, a help desk which is manned 24 hours per day/7 days per week, and off-site disaster recovery facilities. The Company's fully redundant network is managed internally using advanced technologies throughout the system. These operations result in industry leading system availability and reliability.

The Company's public Internet site -- www.officedepot.com -- is a state-of-the-art electronic commerce site that has won a number of Internet honors. The Company's business-to-business e-commerce site has sophisticated work-flow components that help customers electronically manage their ordering process for office supplies, with thousands of customer orders processed on a daily basis. Internet-enabled applications allow our suppliers to directly interact with our systems, improving order flow and supply chain management. The Company's corporate personnel make use of an internally developed and managed intranet to greatly increase productivity and customer responsiveness and to reduce internal costs.

EMPLOYEES, STORE MANAGEMENT AND TRAINING

As of March 12, 1999, the Company employed approximately 44,000 persons. Additional employees will be added as needed to support the Company's expansion program. The Company is committed to the development and promotion of its employees. However, the Company's rapid growth will require continued management recruitment from outside the Company.

The Company hires and trains new employees well in advance of new store and CSC openings. In general, store managers have extensive experience in retailing, particularly with warehouse store chains or discount stores that generate high sales volumes. Each of the Company's new retail store managers usually spends two to four months in an apprenticeship position at an existing Office Depot store prior to being assigned to a new store. Typically, the Company's CSC managers have extensive experience in distribution operations.

The Company's retail sales associates view product knowledge videos and complete written training programs relating to certain products before being allowed to assist customers. The Company creates some of these videos and training programs internally. New product information is transmitted to associates via satellite broadcasts on a routine basis. The satellite broadcasts are also used for associate training.

The Company grants stock options and offers bonus programs to certain of its employees as an incentive to attract and retain such employees.

The Company has never experienced a strike or any other work stoppage among its domestic employees, and management believes that its relations with all of its employees are good. There are no collective bargaining agreements covering any of the Company's employees. However, certain of its international employees are covered by various labor arrangements as dictated by government regulation or local custom.

ITEM 2. PROPERTIES.

As of March 12, 1999, Office Depot operates 675 office product stores in 41 states and the District of Columbia (including 666 office supply stores, four Images(TM)/Office Depot Express(TM) stores, and five Furniture At Work(TM) stores), 40 office supply stores in five Canadian provinces and 92 office supply stores (including those operated under licensing and joint venture agreements) in 8 countries outside of the United States and Canada. The Company also operates 30 CSCs in 18 U.S. states and 17 CSCs in 10 foreign countries. The following table sets forth the locations of these facilities.

STORES				CSCS	
LOCATION	#	LOCATION	#	LOCATION	#
UNITED STATES:		North Dakota	1	UNITED STATES:	
Alabama	14	Ohio	25	Arizona	1
Arizona	8	Oklahoma	7	California	4
Arkansas	7	Oregon	14	Colorado	2
California	109	Pennsylvania	7	Connecticut	1
Colorado	19	South Carolina	11	Florida	3
District of Columbia	2	Tennessee	13	Georgia	1
Florida	78	Texas	80	Illinois	1
Georgia	31	Utah	4	Louisiana	1
Hawaii	3	Virginia	15	Maryland	2
Idaho	1	Washington	22	Massachusetts	1
Illinois	30	West Virginia	3	Michigan	1
Indiana	12	Wisconsin	11	Minnesota	2
Iowa	5	Wyoming	1	New Jersey	1
Kansas	7	CANADA:		North Carolina	1
Kentucky	7	Alberta	8	Ohio	2
Louisiana	21	British Columbia	8	Texas	3
Maryland	11	Manitoba	4	Utah	1
Michigan	20	Ontario	18	Washington	2
Minnesota	8	Saskatchewan	2	AUSTRALIA	2
Mississippi	5	COLOMBIA	4	FRANCE	2
Missouri	13	FRANCE	17	ISRAEL	1
Montana	1	HUNGARY	3	GERMANY	2
Nebraska	3	ISRAEL	17	IRELAND	1
Nevada	8	JAPAN	3	ITALY	1
New Jersey	4	MEXICO	35	JAPAN	2
New Mexico	4	POLAND	11	MEXICO	2
New York	9	THAILAND	2	THE NETHERLANDS	1
North Carolina	21			UNITED KINGDOM	3

Most of the Company's facilities are leased or subleased, with lease terms (excluding renewal options) expiring between 1999 and 2020, except for 60 facilities, excluding corporate facilities, that are owned by Office Depot. The owned facilities are located in 17 states, primarily Florida and Texas, three Canadian provinces, the United Kingdom, Australia, Thailand, Mexico and France. The Company operates its office supply stores under the names Office Depot, The Office Place (in Ontario, Canada) and Office Depot Express (internationally). The Business Services Group operates under the names Office Depot, Viking Office Products and a number of variations of those names.

The Company's corporate offices in Delray Beach, Florida consist of approximately 575,000 square feet in three adjacent buildings, two of which are owned and one leased. The corporate office building in Torrance, California, which the Company owns, consists of approximately 180,000 square feet.

ITEM 3. LEGAL PROCEEDINGS.

The Company is involved in litigation arising in the normal course of its business. The Company believes that these matters will not materially affect its financial position or the results of its operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED SECURITY HOLDER MATTERS.

Office Depot's common stock is listed on the New York Stock Exchange (NYSE) under the symbol ODP. As of March 5, 1999, there were 3,484 holders of record of common stock. The last reported sale price of the common stock on the NYSE on March 5, 1999 was $34.6875.

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

1997	HIGH	LOW
First Quarter	$23.250	$16.375
Second Quarter	21.250	12.000
Third Quarter	21.563	14.500
Fourth Quarter	23.688	18.750

1998	HIGH	LOW
First Quarter	$30.063	$21.750
Second Quarter	34.750	28.063
Third Quarter	37.250	20.000
Fourth Quarter	36.625	15.875

The Company has never declared or paid cash dividends on its common stock and does not currently intend to pay cash dividends in the foreseeable future. Earnings and other cash resources of the Company will be used to continue the expansion of the Company's business.

On February 24, 1999, the Company's Board of Directors declared a three-for-two stock split in the form of a 50% stock dividend payable on April 1, 1999 to stockholders of record on March 11, 1999. In conjunction with the stock split, approximately 125 million additional shares will be issued on April 1, 1999.

ITEM 6. SELECTED FINANCIAL DATA.

The information required by this Item is set forth in Exhibit 13 under the heading "Financial Highlights" as of and for the fiscal years ended December 26, 1998, December 27, 1997, December 28, 1996, December 30, 1995 and December 31, 1994. This information is set forth in our Annual Report to Stockholders for the fiscal year ended December 26, 1998 (on page 1) and is incorporated herein by this reference and made a part hereof.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

CAUTIONARY STATEMENTS FOR PURPOSES OF THE "SAFE HABOR" PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

The information required by this item is set forth in Exhibit 13 under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations." This information is set forth in the Company's Annual Report to Stockholders for the fiscal year ended December 26, 1998 (on pages 33-44) and is incorporated herein by reference and made a part hereof. The following Cautionary Statements are in addition to those contained in the Company's Annual Report.

In December 1995, the Private Securities Litigation Reform Act of 1995 (the "Act") was enacted by the United States Congress. The Act contains certain amendments to the Securities Act of 1933 and the Securities Exchange Act of 1934. These amendments provide protection from liability in private lawsuits for "forward-looking" statements made by public companies and other persons specified in the Act. The Company desires to take advantage of the "safe harbor" provisions of the Act. In order to do so, these cautionary statements are provided.

This Annual Report on Form 10-K contains both information which is historical in nature and other information which looks towards the future performance of the Company. Examples of historical information include the 1998 financial statements and the commentary on past performance contained in Management's Discussion and Analysis ("MD&A"), which are incorporated herein by reference to the respective information in the Company's Annual Report to Stockholders for the fiscal year ended December 26, 1998. The Company cautions readers that, with the exception of information which clearly deals with historical matters, the information contained in this Annual Report on Form 10-K should be considered to be "forward-looking statements" as referred to in the Act. Without limiting the generality of the preceding sentence, any time the words "estimate," "project," "intend," "expect" and similar expressions are used, these are intended to clearly express that the information deals with possible future events and is forward-looking in nature.

Forward-looking information involves risks and uncertainties, including certain matters which are discussed in more detail below. This information is based on various factors and important assumptions about future events that may or may not actually come true. As a result, the Company's operations in the future and its financial results could differ materially and substantially from those discussed in the forward-looking statements in this Annual Report on Form 10-K. In particular, the factors discussed below could affect the Company's actual results and could cause the Company's actual results during 1999 and in future years beyond 1999 to differ materially from those expressed in any forward-looking statement made by or on behalf of the Company in this Annual Report on Form 10-K.

COMPETITION: The Company competes with a variety of retailers, dealers and distributors in a highly competitive marketplace. High-volume office supply chains, mass merchandisers, warehouse clubs, computer stores and contract stationers that compete directly with the Company operate in most of its geographic markets. Well-established mass merchant retailers have the financial and distribution ability to compete very effectively with the Company should they choose to enter the office superstore retail category, Internet office supply or contract stationer business. This could have a material adverse effect on the Company's business and results of operations.

INTERNET: More recently, Internet-based merchandisers have begun competing with the Company. This competition is expected to increase in the future as both the Company and these and other companies continue to expand their operations. Many startup operations focused exclusively on Internet sales may be able to effectively compete with the Company in the areas of price and selection. While most of them cannot offer the levels of service and stability of supply provided by the Company, they nevertheless may be formidable competitors, particularly for customers who are willing to look for the absolute lowest price without regard to other attributes of the business. Some of these competitors may be willing to substantially sacrifice their profitability in order to gain a foothold in the marketplace, and the stock market success of certain Internet retailers may enable such operations to raise capital in the public markets without regard to profitability for the near future. In addition, certain manufacturers of computer hardware, software and peripherals, including suppliers of the Company, have expanded their own direct marketing of products, particularly over the Internet. Even as the Company expands its own Internet sales, its ability to anticipate and adapt to the developing Internet sales market and to Internet competition will be key factors in its success. Additionally, the capabilities of the Company's network infrastructure (including its server, hardware and software) to efficiently handle the Company's rapidly expanding operations, including its Internet traffic, is of critical importance. Failure to execute in any of these key areas could have a material adverse effects on the Company's future sales growth, profitability and operating results.

EXECUTION OF EXPANSION PLANS: The Company plans to open approximately 105 stores in 1999, and the Company considers its expansion program to be an integral part of its plan to achieve anticipated operating results in future years. However, there can be no assurance that the Company will be able to find favorable store locations, negotiate favorable leases, hire and train store and account managers, and integrate the new stores in a manner that will allow the Company to meet its expansion program. Conditions outside the Company's control, such as adverse weather conditions affecting construction schedules, unavailability of materials, labor disputes and similar issues also could impact anticipated store openings. The failure to expand by opening new stores as planned could have a material adverse effect on the Company's future sales growth, profitability and operating results.

CANNIBALIZATION OF SALES IN EXISTING OFFICE DEPOT BUSINESS LOCATIONS: In addition, as the Company expands the number of its stores in existing markets, sales of existing stores may suffer. New stores typically require an extended period of time, generally exceeding a year, to reach the levels of sales and profitability of the Company's existing stores; and there can be no assurance that new stores will ever be as profitable as existing stores because of competition from other store chains and the tendency of existing stores to share sales as the Company opens new stores in its more mature markets. The Company's comparable sales results are affected by a number of factors, including the opening of additional Office Depot stores; the expansion of the Company's contract stationer business in new and existing markets; competition from other office supply chains, mass merchandisers, warehouse clubs, computer stores and other contract stationers as well as Internet-based businesses; and regional, national and international economic conditions. In addition, the Company's gross margin and profitability would be adversely affected if its competitors were to attempt to capture market share by reducing prices.

COSTS OF REMODELING, UPDATING STORES: The remodeling of stores has contributed to increased store expenses, and these costs are expected to continue impacting store expenses throughout 1999 and beyond. While a necessary aspect of keeping existing stores up to date both from a technology and merchandising point of view, the expenses associated with such activities could result in a significant impact on the Company's operating results in the future. Furthermore, the Company's growth, through both store openings and acquisitions, will continue to require the expansion and upgrading of the Company's informational, operational and financial systems, as well as necessitate the hiring of new managers at the store and supervisory level.

HISTORICAL FLUCTUATIONS IN PERFORMANCE: Fluctuations in the Company's quarterly operating results have occurred in the past and may occur in the future. A variety of factors such as new store openings with their concurrent pre-opening expenses; the extent to which new stores are less profitable than existing stores as they commence operations; the effect new stores have on the sales of existing stores in more mature markets; warehouse integration; the pricing activity of competitors in the Company's markets, including the Internet; changes in the Company's product mix; increases and decreases in advertising and promotional expenses; the effects of seasonality; acquisitions of competitors' contract stationers and stores; or other events could contribute to this quarter to quarter variability.

VIKING MERGER; INTEGRATION; INTERNATIONAL ACTIVITY: On August 26, 1998, the Company merged with Viking Office Products, Inc. ("Viking"). Costs related to the integration of Viking's facilities into the Company's business will contribute to increased operating expenses in 1999 and possibly beyond. Moreover, integrating the operations and management of Office Depot and Viking is a complex process. There can be no assurance that this integration process will be completed as rapidly as management anticipates or, even if achieved as anticipated, that it will result in all of the anticipated synergies and other benefits expected to be realized. The integration of the two companies will require significant management attention, which may temporarily distract management from other matters. The inability of management to integrate successfully the operations of Office Depot and Viking could have a material adverse effect on the future revenues and sales growth, profitability, and operating results of the Company.

The Company has operations in several international markets, including in particular those markets in which Viking has operated prior to the merger. The Company intends to enter other international markets as attractive opportunities arise. Such entry could be in the form of acquisitions of stock or assets or by the formation of joint venture or licensing agreements. In addition to the risks described above arising from the Company's domestic store, delivery, contract, and Internet operations, internationally, the Company also faces such additional risks as foreign currency fluctuations, unstable political and economic conditions, obtaining adequate and appropriate inventory and, because some of its foreign operations are not wholly-owned, compromised operating control in certain countries. Moreover, the Company does not have a large group of managers experienced in international operations and will have to recruit additional management resources to successfully compete in many foreign markets. All of these risks could have a material adverse effect on the Company's financial position and results of operations.

CONTRACT AND COMMERCIAL SALES: The Company competes with a number of contract stationers who supply office products and services to large and small businesses both nationally and internationally. In order to achieve and maintain expected profitability levels, the Company must continue to grow this segment of the business. There can be no assurance the Company will be able to continue expanding its contract and commercial business while retaining its base of existing customers, and any failure to do so could have a material adverse effect on the Company's profitability and operating results.

SOURCES AND USES OF CASH; FINANCING: The Company believes that its current cash and cash equivalents, future operating cash flows, lease financing arrangements and funds available under its revolving credit facility should be sufficient to fund its planned expansion, integration and other operating cash needs, for at least the next year. However, there can be no assurance that additional sources of financing will not be required during the next twelve months as a result of unanticipated cash demands, opportunities for expansion or acquisition, changes in growth strategy or adverse operating results. The Company could attempt to meet its financial needs through the capital markets in the form of either equity (for example, the issuance of more stock) or debt (for example, new borrowings) financing. Alternative financing will be considered if market conditions make it financially attractive. There can be no assurance that any additional funds required by the Company, whether within the next twelve months or thereafter, will be available to the Company on satisfactory terms, either in the equity or debt markets. The inability of the Company to access needed financial resources could have a material adverse effect on the Company's financial position and its results of operations.

Y2K ISSUES: While the Company has worked diligently to bring its own systems into compliance with Year 2000 issues and has endeavored to ensure that its suppliers, vendors and major customers are also Y2K compliant (see pages 40-41 of Management's Discussion and Analysis), there can be no assurance that the Company and all of its suppliers, vendors and major customers will in fact become Year 2000 compliant. Any significant failure by the Company's suppliers, vendors or major customers, or indeed, any unanticipated failure by the Company to become fully Y2K compliant could have a material adverse effect on the Company's financial position and results of operations. In addition to the business risks inherent in the Y2K issues, there is also the possibility of litigation from customers and other parties claiming to have been damaged by failures of products and/or services provided to them by the Company. While the Company fully expects to rely on indemnifications from suppliers of various products, there is a possibility that certain claims might not be the subject of indemnification and that the results of such litigation could have a material adverse effect on the Company and its businesses.

DISCLAIMER OF OBLIGATION TO UPDATE: The Company assumes no obligation (and specifically disclaims any obligation) to update these Cautionary Statements or any other forward-looking statements contained in this Annual Report on Form 10-K to reflect actual results, changes in assumptions or other factors affecting such forward-looking statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Interest Rate Risks

The Company's short-term investment portfolio generates interest income which is affected by changes in interest rates. As of December 26, 1998, assuming the investment portfolio was held constant, management estimates that a ten percent change in short-term interest rates would result in an after-tax increase or decrease of approximately $2 million in investment income on an annual basis. The Company's zero coupon, convertible, subordinated notes offer stated yields to maturity which are not subject to interest rate risks. Borrowings under the Company's bank credit agreement would be subject to variable interest rates; however, there were no such borrowings at December 26, 1998.

Foreign Exchange Rate Risks

The Company conducts business in various countries outside of the United States, and does, from time to time, enter into forward or option contracts to minimize the exposure to foreign exchange rate risk related to specific transactions. During 1998, a maximum of $13.1 million in foreign exchange forward contracts was outstanding at any one time. As of December 26, 1998, there were no forward or option contracts outstanding.

Foreign currency transaction exposure arises when an operating unit transacts business denominated in a currency that is not its own functional currency. The Company's transaction risks are attributable primarily to inventory purchases from third party vendors. The introduction of the euro has significantly reduced such risks, and transaction exposures on an overall basis are not significant.

The Company also has foreign exchange translation exposures resulting from the translation of foreign currency-denominated earnings into U.S. dollars in the Company's consolidated financial statements. Management estimates that, as of December 26, 1998, a ten percent change in applicable foreign exchange rates would have raised or lowered the Company's after-tax earnings by approximately $3.5 million on an annual basis.

ITEM 8. FINANCIAL STATEMENTS.

The information required by this Item is set forth in Exhibit 13 under the headings "Consolidated Balance Sheets," "Consolidated Statements of Earnings," "Consolidated Statements of Stockholders' Equity," "Consolidated Statements of Cash Flows" and "Notes to Consolidated Financial Statements" as of December 26, 1998 and December 27, 1997 and for the fiscal years ended December 26, 1998, December 27, 1997 and December 28, 1996. This information is set forth in our Annual Report to Stockholders for the fiscal year ended December 26, 1998 (on pages 46-63) and is incorporated herein by this reference and made a part hereof.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

Information with respect to directors and executive officers of the Company is incorporated herein by reference to the information under the caption "Directors & Management" in the Company's Proxy Statement for the 1999 Annual Meeting of Stockholders.

ITEM 11. EXECUTIVE COMPENSATION.

Information with respect to executive compensation is incorporated herein by reference to the information under the caption "Executive Compensation" in the Company's Proxy Statement for the 1999 Annual Meeting of Stockholders.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

Information with respect to security ownership of certain beneficial owners and management is incorporated herein by reference to the information under the caption "Stock Ownership" in the Company's Proxy Statement for the 1999 Annual Meeting of Stockholders.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

Information with respect to certain relationships and related transactions is incorporated herein by reference to the information under the caption "Certain Relationships and Related Transactions" in the Company's Proxy Statement for the 1999 Annual Meeting of Stockholders.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

(a) The following documents are filed as a part of this report:

1. The financial statements listed in the "Index to Financial Statements."

2. The financial statement schedule listed in "Index to Financial Statement Schedule."

3. The exhibits listed in the "Index to Exhibits."

(b) Reports on Form 8-K.

The Company did not file any Reports on Form 8-K during the fourth quarter of fiscal 1998.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on this 22nd day of March, 1999.

OFFICE DEPOT, INC.

By: /s/ DAVID I. FUENTE

David I. Fuente, Chairman and
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities indicated on March 22, 1999.

SIGNATURE	CAPACITY
/s/ DAVID I. FUENTE David I. Fuente	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)
/s/ IRWIN HELFORD Irwin Helford	Vice Chairman and Director
/s/ JOHN C. MACATEE John C. Macatee	Director, President and Chief Operating Officer
/s/ M. BRUCE NELSON M. Bruce Nelson	Corporate Executive Officer and Director
/s/ BARRY J. GOLDSTEIN Barry J. Goldstein	Executive Vice President -- Finance, Chief Financial Officer and Treasurer
/s/ CHARLES E. BROWN Charles E. Brown	Senior Vice President -- Finance and Controller (Principal Accounting Officer)
/s/ LEE A. AULT, III Lee A. Ault, III	Director
/s/ NEIL R. AUSTRIAN Neil R. Austrian	Director
/s/ CYNTHIA R. COHEN Cynthia R. Cohen	Director
/s/ W. SCOTT HEDRICK W. Scott Hedrick	Director
/s/ JAMES L. HESKETT James L. Heskett	Director
/s/ MICHAEL J. MYERS Michael J. Myers	Director
/s/ FRANK P. SCRUGGS, JR. Frank P. Scruggs, Jr.	Director
/s/ PETER J. SOLOMON Peter J. Solomon	Director

INDEX TO FINANCIAL STATEMENTS

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* Incorporated herein by reference to the respective information in the Company's Annual Report to Stockholders for the fiscal year ended December 26, 1998.

INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENT SCHEDULE

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

We have audited the consolidated financial statements of Office Depot, Inc. and Subsidiaries as of December 26, 1998 and December 27, 1997 and for each of the three years in the period ended December 26, 1998, and have issued our report thereon dated February 17, 1999 (February 24, 1999 as to the stock split described in Note A); such consolidated financial statements and reports are included in the Company's Annual Report to Stockholders for the fiscal year ended December 26, 1998 and are incorporated herein by reference. Our audits also included the financial statement schedule of Office Depot, Inc. and Subsidiaries listed in the Index to Financial Statement Schedule. The financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

DELOITTE & TOUCHE LLP

Certified Public Accountants
Miami, Florida
February 17, 1999, (February 24, 1999 as to the stock split described in Note A)

INDEX TO FINANCIAL STATEMENT SCHEDULE

All other schedules have been omitted because they are inapplicable, not required or the information is included elsewhere herein.

SCHEDULE II

OFFICE DEPOT, INC. AND SUBSIDIARIES
VALUATION AND QUALIFYING ACCOUNTS(1)
(IN THOUSANDS)

COLUMN A	COLUMN B	COLUMN C		COLUMN D	COLUMN E
		ADDITIONS			
DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	CHARGED TO COSTS AND EXPENSES	CHARGED TO OTHER ACCOUNTS	DEDUCTIONS -- WRITE-OFFS	BALANCE AT END OF PERIOD
Allowance for Doubtful Accounts:					
1998	$25,587	$23,702	--	$23,362	$25,927
1997	17,662	25,254	--	17,329	25,587
1996	8,694	19,763	600	11,395	17,662

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(1) Amounts for 1997 and 1996 have been restated to reflect the merger with Viking Office Products, Inc. on a pooling of interests basis.

INDEX TO EXHIBITS

EXHIBIT NUMBER	EXHIBIT
3.1	Restated Certificate of Incorporation, as amended to date(13)
3.2	Bylaws(2)
4.1	Form of certificate representing shares of Common Stock(3)
4.2	Form of Indenture (including form of LYON) between the Company and The Bank of New York, as Trustee(4)
4.3	Form of Indenture (including form of LYON) between the Company and Bankers Trust Company, as Trustee(5)
4.4	Rights Agreement dated as of September 4, 1996 between Office Depot, Inc. and ChaseMellon Shareholder Services, L.L.C., as Rights Agent, including the form of Certificate of Designation, Preferences and Rights of Junior Participating Preferred Stock, Series A attached thereto as Exhibit A, the form of Rights Certificate attached thereto as Exhibit B and the Summary of Rights attached thereto as Exhibit C(6)
10.1	Stock Purchase Agreement, dated as of June 21, 1989, between the Company and Carrefour S.A. (3)
10.2	Agreement and Plan of Reorganization, dated December 19, 1990, among the Company, The Office Club, Inc. and OD Sub Corp. (3)
10.3	Stock Purchase Agreement, dated as of April 24, 1991, between the Company, Carrefour S.A. and Carrefour Nederland B.V. (7)
10.4	Revolving Credit and Line of Credit Agreement dated as of February 20, 1998 by and among the Company and SunTrust Bank, Central Florida, National Association, individually and as Administrative Agent; Bank of America National Trust and Savings Association, individually and as Syndication Agent; NationsBank, National Association, individually and as Documentation Agent; Royal Bank of Canada, individually and as Co-Agent; Citibank, N.A., individually and as Co-Agent; The First National Bank of Chicago, individually and as Co-Agent; The First National Bank of Chicago, individually and as Co-Agent; CoreStates Bank, N.A.; PNC Bank, National Association; Fifth Third Bank; and Hibernia National Bank. (Exhibits to the Revolving Credit and Line of Credit Agreement have been omitted, but a copy may be obtained free of charge upon request to the Company)(12)
10.5	Office Depot, Inc. Long-Term Equity Incentive Plan*(8)
10.6	Amended and Restated Agreement and Plan of Merger dated as of July 12, 1993 and amended and restated as of August 30, 1993 by and among the Company, Eastman Office Products Corporation, EOPC Acquisition Corp. and certain investors(9)
10.7	1997-2001 Office Depot, Inc. Designated Executive Incentive Plan*(12)
10.8	Partnership Agreement, dated as of June 10, 1995, between the Company and Carrefour, a joint stock company incorporated under French law(10)
10.9	Form of Employment Agreement, dated as of September 4, 1996, by and between Office Depot, Inc. and each of F. Terry Bean, Thomas Kroeger and William P. Seltzer(11)
10.10	Form of Employment Agreement, dated as of September 4, 1996, by and between Office Depot, Inc. and each of David I. Fuente, John C. Macatee, Barry J. Goldstein and Richard M. Bennington(11)
10.11	Form of Indemnification Agreement, dated as of September 4, 1996, by and between Office Depot, Inc. and each of David I. Fuente, Cynthia R. Cohen, W. Scott Hedrick, James L. Heskett, Michael J. Myers, Peter J. Solomon, Barry J. Goldstein, F. Terry Bean, Richard M. Bennington, William P. Seltzer, John C. Macatee, Thomas Kroeger and R. John Schmidt, Jr.(11)

EXHIBIT NUMBER	EXHIBIT
10.12	Form of Employment Agreement, dated as of October 21, 1997, by and between Office Depot, Inc. and each of Richard M. Bennington, Barry J. Goldstein, John C. Macatee and William P. Seltzer(12)
13.1	Annual Report to Securityholders
21.1	List of the Company's subsidiaries
23.1	Consent of Deloitte & Touche LLP
27.1	Financial Data Schedule

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+ This information appears only in the manually signed original copies of this report.
* Management contract or compensatory plan or arrangement.
(1) Incorporated by reference to the respective exhibit to the Company's Proxy Statement for its 1995 Annual Meeting of Stockholders.
(2) Incorporated by reference to the Company's Quarterly Report on Form 10-Q, filed with the Commission on August 12, 1996.
(3) Incorporated by reference to the respective exhibit to the Company's Registration Statement No. 33-39473.
(4) Incorporated by reference to the respective exhibit to the Company's Registration Statement No. 33-54574.
(5) Incorporated by reference to the respective exhibit to the Company's Registration Statement No. 33-70378.
(6) Incorporated by reference to the Company's Current Report on Form 8-K, filed with the Commission on September 6, 1996.
(7) Incorporated by reference to the respective exhibit to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 29, 1991.
(8) Incorporated by reference to the respective exhibit to the Company's Proxy Statement for its 1997 Annual Meeting of Stockholders.
(9) Incorporated by reference to the respective exhibit to the Company's Registration Statement No. 33-51409.
(10) Incorporated by reference to the respective exhibit to the Company's Annual Report on Form 10-K for the year ended December 30, 1995.
(11) Incorporated by reference to the respective exhibit to the Company's Annual Report on Form 10-K for the year ended December 28, 1996.
(12) Incorporated by reference to the respective exhibit to the Company's Annual Report on Form 10-K for the year ended December 27, 1997.
(13) Incorporated by reference to the respective exhibit to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 26, 1998.

Upon request, the Company will furnish a copy of any exhibit to this report upon the payment of reasonable copying and mailing expenses.

EXHIBIT 13.1

ANNUAL REPORT TO SECURITYHOLDERS

FINANCIAL HIGHLIGHTS

Statements of Earnings Data (In thousands, except per share amounts and statistical data)	1998(1)	1997(1)	1996(1)	1995(1)	1994(1)
Sales	$ 8,997,738	$ 8,100,319	$ 7,250,931	$ 6,233,985	$ 4,939,857
Cost of goods sold and occupancy costs	6,484,464	5,963,521	5,395,223	4,650,240	3,671,516
Gross profit	2,513,274	2,136,798	1,855,708	1,583,745	1,268,341
Store and warehouse operating and selling expenses	1,642,042	1,443,192	1,280,107	1,041,514	838,418
Pre-opening expenses	17,150	6,609	9,827	17,746	11,990
General and administrative expenses	330,194	272,022	222,714	195,816	158,809
Amortization of goodwill	6,174	6,146	6,147	6,113	6,224
Merger and restructuring costs	119,129	16,094	--	--	--
Operating profit	398,585	392,735	336,913	322,556	252,900
Interest income	25,309	7,570	3,726	4,004	5,328
Interest expense	(22,356)	(21,680)	(26,378)	(22,741)	(18,268)
Equity in earnings (losses) of investees, net	(12,811)	(7,034)	(2,178)	(962)	197
Earnings before income taxes	388,727	371,591	312,083	302,857	240,157
Income taxes	155,531	136,730	115,865	117,797	96,818
Net earnings	$ 233,196	$ 234,861	$ 196,218	$ 185,060	$ 143,339
Earnings per share					
Basic	$ .95	$ .97	$ .82	$ .79	$ .63
Diluted	.91	.93	.79	.75	.60
Dividends	--	--	--	--	--
Pro forma earnings per share(2)					
Basic	$ .64	$ .65	$ .55	$ .53	$ .42
Diluted	.61	.62	.53	.50	.40

Statistical Data					
Facilities open at end of period:					
United States and Canada:					
Office supply stores	702	602	561	501	420
Customer service centers	30	33	32	31	30
Call Centers	8	8	6	5	5
International (excluding Canada):					
Office supply stores(3)	87	39	21	9	3
Customer service centers(3)	17	16	12	8	4
Call Centers	9	8	6	6	4
Balance Sheet Data (In thousands)					
Working capital	$1,249,434	$1,093,463	$ 860,280	$ 836,761	$ 594,843
Total assets	4,113,041	3,520,819	3,200,213	2,896,589	2,167,453
Long-term debt(4)	470,711	447,020	416,757	494,910	393,800
Common stockholders' equity	2,028,879	1,717,638	1,469,110	1,238,820	889,824

(1) All amounts previously reported for 1994 through 1997 have been restated to reflect the Company's merger with Viking Office Products, Inc. in August 1998 on a pooling of interests basis. All periods consist of 52 weeks, except 1995, which consists of 53 weeks.
(2) Pro forma earnings per share reflect the Company's declaration of a three-for-two stock split on February 24, 1999 in the form of a 50% stock dividend, payable April 1, 1999.
(3) Includes facilities operated under licensing and joint venture agreements.
(4) Excludes current maturities.

Office Depot, Inc. and Subsidiaries

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

General

Office Depot, Inc. ("Office Depot" or the "Company") is the largest supplier of office products and services in the world. The Company sells to consumers and businesses of all sizes through its three business segments - Stores, Business Services and International. The Company operates on a 52 or 53 week fiscal year ending on the last Saturday in December.

On February 24, 1999, the Company declared a three-for-two stock split in the form of a 50% stock dividend payable on April 1, 1999 to stockholders of record on March 11, 1999. With the exception of pro forma earnings per share, share and per share amounts reported do not reflect this stock split.

Stores Division: Office Depot began operations by opening its first office supply store in Florida in October 1986. From its inception, the Company has used store expansion to establish itself as a leader in the retail office supplies industry, targeting markets with high concentrations of small- and medium-sized businesses. As of the end of 1998, the Company's Stores Division operated 702 office supply stores in 41 states, the District of Columbia and Canada. Store activity for the last five years has been as follows:

	Open at Beginning of Period	Opened	Closed	Relocated	Open at End of Period
1994	351	71	2	1	420
1995	420	82	1	6	501
1996	501	60	--	3	561
1997	561	42	1	2	602
1998	602	101	1	5	702

The rate of new store openings during 1997 and the first nine months of 1998 was reduced due to uncertainty associated with the proposed merger with Staples, Inc. ("Staples"), which was terminated in July 1997. By the end of 1998, the Company had restaffed its real estate department and increased the pace of its store openings. The Company currently plans to open at least 105 retail stores in the United States and Canada during 1999.

Business Services Group: In 1993 and 1994, the Company expanded into the full service contract stationer business by acquiring eight contract stationers with 18 domestic customer service centers. Customer service centers ("CSCs") are warehouse and delivery facilities, many of which also house sales offices, call centers and administrative offices. These acquisitions also allowed the Company to broaden its commercial and retail delivery business. During the past four years, the Company has replaced several outdated, inefficient facilities with new CSCs and converted all of these facilities' warehouse and order entry systems to a common platform. With the integration of these facilities complete, the Company continues to direct its attention toward increasing market share in its Business Services Group. With the addition of 10 domestic facilities through its August 1998 merger with Viking Office Products, Inc. ("Viking"), the Company's Business Services Group operated 30 CSCs throughout the United States at the end of 1998. While the Company plans to integrate its delivery network, it will continue to operate under both the Office Depot and Viking brands.

In January 1998, the Company introduced its Office Depot public Internet site (www.officedepot.com), expanding its e-commerce capabilities beyond its existing contract web site. In 1998, the Company's e-commerce sales exceeded $66 million, $29 million of which were made in the fourth quarter. Although this channel is relatively new to the Company, based on growth rates experienced during 1998, management believes its Internet-based business will provide further growth opportunities for the Business Services Group through the Office Depot and Viking (www.vikingop.com) web sites.

International Division: In December 1993, the Company established its presence outside of the United States and Canada by opening its first store in Colombia through a license agreement. The Company continued its international expansion through license and joint venture agreements. Prior to 1998, all of the International Division's office supply stores and its Office Depot CSCs were operated under license and joint venture agreements. In 1998, the Company expanded internationally through its merger with Viking, whose international operations are wholly-owned, and by increasing its ownership position in its operations in France and Thailand to 100% and 80%, respectively. International store and CSC activity, including facilities operated through license and joint venture agreements, for the last five years is as follows:

	Office Supply Stores				Customer Service Center			
	Open at Beginning of Period	Opened	Closed	Open at End of Period	Open at Beginning of Period	Opened	Closed	Open at End of Period
1994	1	2	--	3	3	1	--	4
1995	3	6	--	9	4	4	--	8
1996	9	12	--	21	8	4	--	12
1997	21	18	--	39	12	4	--	16
1998	39	48	--	87	16	2	1	17

Results of Operations

Sales

Dollars in thousands	Sales	Annual increase
1998		
Stores Division	$ 5,128,621	9%
Business Services Group	2,825,564	13%
International Division	1,047,472	19%
Inter-segment	(3,919)	
Total	$ 8,997,738	11%
1997		
Stores Division	$ 4,716,991	6%
Business Services Group	2,503,826	22%
International Division	882,806	20%
Inter-segment	(3,304)	
Total	$ 8,100,319	12%
1996		
Stores Division	$ 4,470,525	
Business Services Group	2,046,189	
International Division	737,380	
Inter-segment	(3,163)	
Total	$ 7,250,931	

The increases in sales in the Stores Division resulted from comparable stores sales growth of 3% in 1998 and 1% in 1997, coupled with the incremental sales attributable to the net increases in its store base in 1998 and 1997 of 100 and 41, respectively. The Company's comparable store sales in the future may be impacted by competition, the opening of new Office Depot stores in markets where stores already exist, and various other economic conditions. The increases in sales in the Business Services Group were achieved primarily by expanding its contract sales force and by increasing circulation of direct mail catalogs from 95 million in 1996 to 113 million in 1998. The sales increases in the International Division were primarily the result of continued penetration of the Viking brand in existing and new European markets. In U.S. dollars, the Company increased its sales in the U.K. by 14% in 1998 and 16% in 1997; with increases of 31% and 46% for the same two years, respectively, in Germany. Over 60% of the International Division's sales are made in the U.K. and Germany.

The Company's sales by product group are as follows:

	1998	1997	1996
General office supplies	42.85%	42.65%	42.73%
Computers, business machines and related supplies	46.02%	45.69%	45.65%
Office furniture	11.13%	11.66%	11.62%
	100.00%	100.00%	100.00%

The Company's merchandise mix has remained relatively stable over the periods, with the increase in computers, business machines and related supplies in 1998 driven by growth in business machine supplies.

Gross Profit

Dollars in thousands	Gross profit	Gross profit %
1998		
Stores Division	$ 1,222,529	23.8%
Business Services Group	862,069	30.5%
International Division	430,173	41.1%
Inter-segment	(1,497)	
Total	$ 2,513,274	27.9%
1997		
Stores Division	$ 1,012,127	21.5%
Business Services Group	768,059	30.7%
International Division	357,792	40.5%
Inter-segment	(1,180)	
Total	$ 2,136,798	26.4%
1996		
Stores Division	$ 916,665	20.5%
Business Services Group	644,942	31.5%
International Division	295,113	40.0%
Inter-segment	(1,012)	
Total	$ 1,855,708	25.6%

As the Company has grown and strengthened its relationships with its key vendors, gross profit percentages continue to benefit from decreasing net product costs. Furthermore, while the computers, business machines and related supplies product group yields lower gross profit percentages than other product groups, the Company has seen a favorable shift in product mix within that group toward machine supplies and accessories, which has contributed to higher overall gross profit margins. In addition, the Company has improved its margins on computers by reducing its brand assortment and inventory levels and by increasing its inventory turns.

In addition to strengthening technology margins, the improvements in gross profit percentage in the Stores Division are largely due to proactive merchandising and pricing strategies applied to all product categories. As the Business Services Group has aggressively pursued market share growth in a highly competitive environment, particularly in the contract business, its gross margin percentage has declined somewhat. The Company expects its Business Services margins to improve as its market penetration increases and as it continues to utilize a more disciplined pricing approach. Gross profit in the International Division has improved as the Company's direct mail operations in various European countries have continued to mature.

The Company's gross profit percentage fluctuates as a result of numerous factors, including competitive pricing pressures, changes in product and customer mix, suppliers' pricing changes, as well as the Company's ability to achieve purchasing leverage through growth in total merchandise purchases. Additionally, occupancy costs, which reduce gross profit, can vary as the Company adds stores and CSCs in new markets.

Store and Warehouse Operating and Selling Expenses

Dollars in thousands	Store and warehouse operating and selling expenses	Percentage of sales
1998		
Stores Division	$ 684,348	13.3%
Business Services Group	675,674	23.9%
International Division	283,102	27.0%
Other	(1,082)	
Total	$1,642,042	18.3%
1997		
Stores Division	$ 622,266	13.2%
Business Services Group	577,752	23.1%
International Division	243,952	27.6%
Other	(778)	
Total	$1,443,192	17.8%
1996		
Stores Division	$ 578,055	12.9%
Business Services Group	494,797	24.2%

International Division	207,894	28.2%
Other	(639)	
Total	$1,280,107	17.7%

The largest components of operating and selling expenses are personnel expenses and credit card processing fees for the Stores Division; personnel and delivery expenses for the Business Services Group; and advertising, personnel and delivery expenses for the International Division. Direct mail constitutes the largest international sales channel, and advertising includes the cost of catalog preparation and mailing. Operating and selling expenses as a percentage of sales are significantly higher in the Business Services Group than in the Stores Division, principally because of the need for a more experienced and more highly compensated sales force. Operating expenses as a percentage of sales are significantly higher in the International Division than in the Company's other segments primarily because of the use of an extensive catalog marketing program to drive sales in new and existing markets. Additionally, operating internationally typically requires a longer start-up period for certain sales channels, resulting in higher costs relative to sales during the start-up phase.

The Stores Division added 100 stores in 1998 (68 of which opened in the fourth quarter) and 41 stores in 1997 (28 of which were in the fourth quarter), resulting in an overall lower average age for the store base. Because newer stores generally have lower average sales than mature ones, operating and selling expenses as a percentage of sales in the Stores Division have increased. These increases were driven largely by payroll and other expenses which have a fixed cost component. In addition, opening new stores in existing markets can cannibalize the sales of other Office Depot stores in those markets, causing increases in expense percentages. Certain incremental expenses were also incurred in the Stores Division in 1998 because of the Company's aggressive store remodeling program. The Stores Division completed approximately 200 store remodels in 1998 and plans to continue its remodeling program in 1999.

Operating and selling expenses as a percentage of sales increased in the Business Services Group in 1998 as compared to 1997 primarily because of the costs associated with consolidating and integrating five Office Depot CSCs into two larger and more efficient facilities, and converting its Office Depot warehouse and order entry systems to common platforms. These expenses as a percentage of sales declined in 1997 as compared to 1996 largely as a result of enhanced operating efficiencies in its warehouses, coupled with a 22% increase in sales. Management believes that operating synergies arising from the Viking merger will positively impact the Business Services Group's operating and selling expenses as a percentage of sales in 1999 as the Company begins integrating Office Depot's and Viking's warehouses and systems. See additional discussion of the planned integration in "Merger and Restructuring Costs."

Operating and selling expenses as a percentage of sales decreased in the International Division primarily as a result of the Company's operations continuing to mature in countries such as Germany, which the Company entered in late 1995. As the Company's operations in a particular market grow, certain fixed operating expenses decline relative to sales. Additionally, as market share increases, costs for advertising in the form of prospecting decline as a percentage of sales. The Company expects its International Division's operating expenses as a percentage of sales to continue to improve in its established markets. These improvements, however, will be offset by incremental costs incurred to develop newer markets.

Pre-opening Expenses

Dollars in thousands	1998	1997	1996
Pre-opening expenses	$17,150	$6,609	$9,827
Office supply stores opened*	106	44	63

*Includes relocations.

Pre-opening expenses consist principally of personnel, property and advertising expenses incurred in the Stores Division. Since these items are expensed as incurred, the amount of pre-opening expenses each year is generally proportional to the number of new stores opened, in the process of being opened, or relocated during the year. The decrease in these expenses from 1996 to 1997 was due to the slowed store openings that resulted from uncertainty surrounding the proposed merger with Staples. Pre-opening expenses, which currently approximate $125,000 per standard office supply store, are predominantly incurred during a six-week period prior to the store opening. Pre-opening expenses also include, to a lesser extent, expenses incurred to open and relocate CSCs in the Business Services Group. Expenses incurred in the pre-opening phase of a new standard-sized CSC are approximately $500,000, and pre-opening expenses for a new, larger-sized CSC approximate $1,750,000. However, these expenses may vary with the size and type of future CSCs.

General and Administrative Expenses

Dollars in thousands	1998	1997	1996
General and administrative expenses	$330,194	$272,022	$222,714
Percentage of sales	3.7%	3.4%	3.1%

General and administrative expenses consist primarily of personnel-related costs incurred in the administration of support functions. As these functions, for the most part, support all segments of the Company's business, they are not considered in determining segment profitability. The increase in general and administrative expenses as a percentage of sales in 1998 is principally attributable to the strengthening of the Company's overall corporate management infrastructure, including the addition of several key executives. In the area of merchandising and supply chain operations, this increased staffing drove reductions in inventory levels. Additionally, certain incremental corporate expenses were incurred to support the Company's store remodeling and CSC consolidation initiatives. Costs associated with the Company's Year 2000 compliance efforts and e-commerce initiatives also contributed to higher general and administrative expenses in 1998. In 1997, staffing issues associated with the proposed Staples merger resulted in fewer corporate personnel, thus reducing certain general and administrative costs. However, these reductions were offset by the Company's continued investment in improving its management information systems and, to some extent, by bonus accruals under the Company's incentive pay programs. In contrast, in 1996, the Company did not meet most of its performance goals under these programs; thus, no bonuses were awarded to senior management. While the Company has been able to decrease certain other general and administrative expenses as a percentage of sales, there can be no assurance that the Company will be able to continue to increase sales without a proportionate increase in corporate expenditures. Synergies arising from the Viking merger are expected to positively impact the Company's general and administrative expenses in the future.

Other Income and Expenses

In thousands	1998	1997	1996
Interest income	$ 25,309	$ 7,570	$ 3,726
Interest expense	(22,356)	(21,680)	(26,378)
Equity in earnings (losses) of investees, net	(12,811)	(7,034)	(2,178)

As interest income and expense arise from corporate financing strategies, they are not considered by management in the determination of segment profitability. Increases in interest income reflect improved operating cash flows, which have yielded higher cash balances, allowing the Company to repay all of its short-term borrowings during 1997. The majority of the Company's interest expense is fixed in nature and relates to its convertible, subordinated debt.

Equity in earnings (losses) of investees, net, represents the Company's share of the earnings (losses) of the joint ventures in which the Company has an ownership interest of 50% or less, as well as royalty and license income generated under license agreements. Because all of the Company's equity investees operate outside of the United States and Canada, equity in earnings (losses) of investees is included in the determination of profitability of the International Division. During 1998, the Company increased its share of ownership in its operations in France and Thailand to 100% and 80%, respectively. Accordingly, the results of these operations have been consolidated from the date of the respective share purchase transactions. The increased losses in 1998 and 1997 were substantially attributable to start-up losses in the Company's joint venture in Japan. The Company, through its equity method joint ventures, opened 34 locations in 1998 (excluding six locations in Mexico that were purchased and did not require start-up costs and one location in France that was opened subsequent to November 1998, when the Company began consolidating its results), 18 locations in 1997 and 10 locations in 1996. Aggregate losses incurred by the Company's joint venture operations are expected to continue in 1999 as a result of the protracted start-up period generally associated with international operations. However, the addition of Viking's management expertise and marketing experience is expected to shorten the start-up period and improve the Company's profitability in its international operations.

Merger and Restructuring Costs: In August 1998, the Company completed its merger with Viking. In conjunction with the merger, each outstanding share of Viking common stock was converted into one share of Office Depot common stock. The merger was accounted for as a pooling of interests. Accordingly, the prior periods' consolidated financial statements and other non-financial information of the Company have been restated and combined with the consolidated financial statements and other non-financial information of Viking as if the merger had taken place at the beginning of the periods reported. In September 1998, in formulating its strategy for integrating the two companies, management announced its plan to close several facilities by the end of 2000. These facilities have been identified as redundant, or management believes that the business handled by these facilities can be more efficiently handled by other existing facilities. Accordingly, certain assets have been written off and certain costs accrued. Additionally, in November 1998, management decided to focus its attention on continued growth in its core businesses and on expansion of its international operations. In conjunction with this decision, the Company plans to close its five Furniture at Work(TM) and five Images(TM) stores, one of which was closed during the fourth quarter of 1998. Management expects all remaining stores to be closed by the end of the third quarter of 1999.

In September 1996, the Company entered into an agreement and plan of merger with Staples. In June 1997, the proposed merger was blocked by a preliminary injunction granted by the Federal District Court at the request of the Federal Trade Commission. In July 1997, the Company and Staples announced that the merger agreement had been terminated.

Merger and restructuring costs in 1998 and 1997 consist of the following charges:

In thousands	1998	1997
Viking and Staples mergers:		
Costs directly attributable to merger transactions	$ 31,555	$16,094
Asset impairment associated with the closure of identified facilities and the write-off of software applications to be abandoned	41,962	--
Other facility exit costs, principally estimated lease costs subsequent to closing of facilities	18,143	--
Personnel retention and termination costs incurred through December 26, 1998	14,553	--
Other integration costs	1,936	--
	108,149	16,094
Furniture at Work(TM) and Images(TM) closings:		
Asset impairment associated with the closure of stores	3,882	--
Other exit costs, principally estimated lease costs subsequent to closing of stores	7,098	--
	10,980	--
Total	$119,129	$16,094

The fair value of asset impairments was determined based on estimating the net realizable value at the time of the anticipated closure or discontinuation. Estimated proceeds from and costs in connection with disposal of these assets were determined through analysis of historical data and expected outcomes.

As of December 26, 1998, approximately $84.8 million related to merger and restructuring costs is included in accrued expenses on the consolidated balance sheet. Excluding the after-tax impact of merger and restructuring costs and the effect of the stock split described in Note A, the Company's diluted earnings per share would have been $1.24 in 1998 and $.97 in 1997.

Income Taxes

Dollars in thousands	1998	1997	1996
Income taxes	$ 155,531	$ 136,730	$ 115,865
Effective income tax rate*	40.0%	36.8%	37.1%
Effective income tax rate,* excluding merger and restructuring costs	37.0%	36.8%	37.1%

*Income taxes as a percentage of earnings before income taxes.

The increase in the overall effective income tax rate between 1997 and 1998 is the result of certain non-deductible merger-related charges incurred in the last half of 1998. The Company's effective income tax rate, excluding merger and restructuring costs, generally fluctuates as a result of various tax planning strategies employed domestically and internationally.

Liquidity and Capital Resources

Cash provided by (used in) the Company's operating, investing and financing activities has been as follows:

In thousands	1998	1997	1996
Operating activities	$ 660,032	$ 446,975	$ 181,645
Investing activities	$(252,734)	$(141,056)	$(242,439)
Financing activities	$ 61,747	$(131,929)	$ 61,690

Operating: The Company has historically relied principally on cash flow generated from its operations as the primary source of its funds because the majority of the Company's store sales are on a cash and carry basis.

Furthermore, the Company utilizes private label credit card programs administered and financed by financial services companies, which allow the Company to expand its sales without the burden of carrying additional receivables. Cash requirements are also reduced by vendor credit terms that allow the Company to finance a portion of its inventory. Sales made to larger customers through the Company's contract and direct mail channels are generally made pursuant to regular commercial credit terms under which the Company carries its own receivables, as opposed to sales made to smaller retail and commercial customers, who generally pay in cash or by credit card. Therefore, as the Company expands its contract and direct mail business, management anticipates that its accounts receivable portfolio will continue to grow. Receivables from vendors under rebate, cooperative advertising and marketing programs, which comprise a significant percentage of total receivables, tend to fluctuate somewhat seasonally, growing during the second half of the year and declining during the first half, as certain collections occur after an entire program year has been completed.

Slower store openings contributed to the $265 million increase in net cash provided by operating activities in 1997. By the fourth quarter of 1998, the Company had restaffed its real estate department and increased the pace of its store openings. While these increases in store openings utilized additional cash, the increase in comparable store sales, coupled with a reduction in overall inventory levels, provided funds to more than offset this impact in 1998. As a result, net cash provided by operating activities grew to $660.0 million in 1998. The Company's continued focus on supply chain management drove the $138.9 million reduction in inventory balances in 1998 without negatively impacting its in-stock position. Increases in contract and commercial sales from existing CSCs, both in 1998 and 1997, also leveraged assets employed and generated incremental operating cash flow.

Investing: The acquisition of capital assets, which is generally driven by the number of stores and CSCs opened or remodeled each year, as well as the increase in computer and other equipment at the corporate office required to support such expansion, represents the Company's primary investing activity. The increase and decrease in capital expenditures in 1998 and 1997, respectively, resulted primarily from the fluctuation in store openings and remodels.

The Company currently plans to open at least 105 stores during 1999. Management estimates that the Company's cash requirements, exclusive of pre-opening expenses, will be approximately $1.5 million for each new office supply store, with approximately $784,000 allocated to leasehold improvements, fixtures, point-of-sale terminals and other equipment in the stores, and approximately $750,000 allocated to that portion of the inventories that is not financed by vendors. In addition, management estimates that each new office supply store requires pre-opening expenses of approximately $125,000. The cash requirements for a new CSC, exclusive of pre-opening expenses, are significantly more than for a store. Each new CSC requires pre-opening expenses ranging from $500,000 to $1,750,000, depending upon the size of the facility.

Financing: The Company paid down all of its short-term borrowings, totaling $140 million, in February 1997. Since that time, the Company has not borrowed any amounts against its credit facility. In February 1998, the Company entered into a new credit agreement with a syndicate of banks which provides for a working capital line and letters of credit totaling $300 million. The new credit agreement replaced the Company's previous credit agreement and provides for various borrowing rate options, including a rate based on credit rating and fixed charge coverage ratio factors that currently would result in an interest rate of .18% over LIBOR. The credit facility expires in February 2003 and contains certain restrictive covenants relating to various financial statement ratios. As of December 26, 1998, the Company had no outstanding borrowings under the credit facility and had outstanding letters of credit totaling $9.2 million. In addition to bank borrowings, the Company has historically used equity capital, convertible debt and capital equipment leases as supplemental sources of funds.

In 1992 and 1993, the Company issued Liquid Yield Option Notes ("LYONs") which are zero coupon, convertible subordinated notes maturing in 2007 and 2008, respectively. Each LYON is convertible at the option of the holder at any time on or prior to maturity into common stock of the Company at conversion rates of 29.263 and 21.234 shares per 1992 and 1993 LYON, respectively. The Company, at its option, may elect to pay the purchase price on any particular conversion date in cash or common stock, or any combination thereof.

The Company's management continually reviews its financing options. Although it currently anticipates that all 1999 expansion and other activities will be financed through cash on hand, funds generated from operations, equipment leased under the Company's lease facilities and funds available under the Company's revolving credit facility, alternative financing will be considered if market conditions make it financially attractive. The Company's financing requirements beyond 1999 will be affected by changes in operating and investing decisions, including the number of new stores or CSCs opened or acquired.

Impact of the Year 2000 Issue

The Year 2000 ("Y2K") issues arise because of the inability of certain electronic data operating systems to differentiate between the years 1900 and 2000 when processing data. Many systems and programs were written to recognize and process two digits for the year, instead of four.

In recent years, the producers of electronic data operating systems, as well as most other businesses, have generally become aware of Y2K issues and the potential for disruption in the operation of business as a result of systems that are not Y2K compliant. Y2K issues can arise at any point in the Company's operational or financial processes. Most systems and programs developed in the past several years have been designed to be Y2K compliant, whereas many of the older systems and programs are not Y2K compliant and require various changes in order to bring them into compliance.

Most of the Company's current application systems were developed over the past four years and were designed to use four-digit year values. Management believes that these systems are already Y2K compliant. To ensure a smooth transition into the millennium, the Company has established the Year 2000 Project Office led by a Year 2000 Project Team ("Project 2000"). The objective of Project 2000 is to establish standards and guidelines, assist in development and remediation plans, track and report on progress, and answer customer and vendor inquiries regarding its Y2K compliance efforts. Project 2000 consists of four major components: Technology Systems, including (1) Operations and (2) Development; and Non-technology Systems, including (3) Facilities and (4) Merchandising.

Technology Systems: Operations includes the review of data center process automation equipment, software not internally developed or supported by the MIS department, and data/voice networks. The phases of this component are: (1) review all equipment and complete an inventory of all hardware and software, (2) evaluate the readiness of all hardware and software and plan for required upgrades to Y2K compliant versions and (3) correct all non-compliant hardware and software through upgrades certified as Y2K compliant by their vendors. The Company expects to have all phases of this component complete by August 1999.

MIS Development focuses on the proper operation of application software developed or supported in-house. The phases of this component are: (1) assess systems for potential Y2K issues, (2) remediate any non-compliant systems by changing the program code to properly process all dates, (3) test to make sure remediation has not changed the functionality of the application, and place new program code into production, (4) test the accuracy of the output under multiple scenarios and (5) certify that the systems are Y2K compliant. This component is being completed by multiple MIS teams. Although each team is at a different phase in the project, this component, as a whole, is currently on schedule to be substantially completed by the end of the second quarter of 1999. Overall, the two Technology components together are currently approximately 80% complete.

Non-technology Systems: The Facilities component of Project 2000 involves the Company's buildings and transportation. Typical concerns related to buildings include security, environment and telephone systems. Concerns related to transportation include scheduling, communication, security, tracking and maintenance. The phases of this component are: (1) develop an inventory of equipment and services and associated vendors, (2) contact all vendors to verify Y2K compliance of their equipment and services, (3) upgrade systems and equipment to compliant versions, if necessary, (4) test equipment and systems and (5) certify that all such equipment and services are Y2K compliant. The Company has completed phases 1 and 2 of this component and has begun work on phase 3. This component is currently on schedule to be completed by April 1999.

For the Merchandising component of Project 2000, the Company will attempt to ensure that merchandise suppliers are able to meet their delivery commitments. The phases of this component are: (1) develop a supplier survey, (2) request that suppliers confirm Y2K compliance, (3) establish confidence/risk levels by product, (4) develop contingency plans for non-compliant vendors (e.g., alternate product sources, increased inventory levels, etc.) and (5) certify products as Y2K compliant or implement contingency plans. Phase 1 has been completed and phases 2 and 3 are in the process of being completed. The Company will continue to follow up with vendors until they have all responded. Nearly 90% of respondents have plans in place for internal systems compliance and almost 70% have already certified that their products are Y2K compliant. This component is currently on schedule to be completed by April 1999.

The Company's Y2K effort is being undertaken on a worldwide basis to identify the level of Y2K preparedness of the Company's operations in each country. Because of the interdependent nature of the Company's operations with those of its suppliers and customers, the Company could be materially adversely affected if utilities, private businesses or governmental entities with which it does business are not adequately prepared for the year 2000. A reasonably possible worst case scenario resulting from the Company not being fully Y2K compliant by January 1, 2000 might include, among other things, temporary store or CSC closings, delays in the delivery of products, delays in the receipt of supplies, payment and collection errors, and inventory and supply obsolescence. Consequently, the business and the results of operations of the Company could be materially adversely affected by a temporary inability of the Company to conduct its business in the ordinary course for a period of time after January 1, 2000. However, management believes that its Y2K readiness program should significantly reduce any adverse effect from any such disruptions, and the effect on the Company's financial position or the results of its operations is not expected to be material. The Company has not experienced any significant delays in other MIS initiatives as a result of Project 2000.

Costs for hardware and software are capitalized and depreciated over the assets' estimated useful lives. All other costs specifically associated with Project 2000 (e.g., labor, consulting fees, maintenance contracts, etc.) are expensed as Total costs incurred in 1998 related to Project 2000 were approximately $5 million, most of which were expensed. The Company expects to spend another $7 to $9 million to complete Project 2000, most of which will be expensed as incurred.

The Company's Y2K readiness program is an ongoing process, and the estimates of costs and completion dates for various components of the Y2K readiness program described above are subject to change. The estimates and conclusions herein contain forward-looking statements and are based on management's best estimates of future events. Although the Company expects its systems and facilities to be Y2K compliant by the end of the third quarter of 1999, there is no assurance that this goal will be achieved. Risks to completing the plan include the availability of resources, the Company's ability to identify and correct any potential Y2K issues, and the willingness and ability of suppliers, customers and governmental agencies to bring their systems into Y2K compliance.

Euro

On January 1, 1999, certain member countries of the European Union established fixed conversion rates between their existing currencies and the European Union's common currency (the euro). The euro is currently trading on currency exchanges and may be used in business transactions. The ultimate conversion to the euro will eliminate currency exchange rate risk among the member countries. The former currencies of the participating countries are scheduled to remain legal tender as denominations of the euro until January 1, 2002. During this transition period, parties may settle transactions using either the euro or a participating country's former currency. Beginning in January 2002, new euro-denominated bills and coins will become the legal currency, and, during the ensuing months, all former currencies will be withdrawn from circulation.

The use of a single currency in the participating countries may affect the Company's ability to price its products differently in the various European markets because of price transparency. One possible result is price harmonization at lower average prices for items sold in some markets. Nevertheless, other market factors such as local taxes, customer preferences and product assortment may reduce the need for price equalization.

The Company has significant sales in Europe and is currently evaluating the business implications of the conversion to the euro, including the need to adapt internal systems to accommodate euro-denominated transactions, the competitive implications of cross border price transparency, the impact on existing marketing programs, and other strategic implications. Based on these evaluations, the Company does not expect the conversion to the euro to have a material effect on its financial position or the results of its operations.

INTEREST RATE AND FOREIGN EXCHANGE MARKET RISKS

INTEREST RATE RISKS: The Company's short-term investment portfolio generates interest income which is affected by changes in interest rates. As of December 26, 1998, assuming the investment portfolio was held constant, management estimates that a ten percent change in short-term interest rates would result in an after-tax increase or decrease of approximately $2 million in investment income on an annual basis. The Company's zero coupon, convertible, subordinated notes offer stated yields to maturity which are not subject to interest rate risks. Borrowings under the Company's bank credit agreement would be subject to variable interest rates; however, there were no such borrowings at December 26, 1998.

FOREIGN EXCHANGE RATE RISKS: The Company conducts business in various countries outside of the United States, and does, from time to time, enter into forward or option contracts to minimize its exposure to foreign exchange rate risk related to specific transactions. During 1998, a maximum of $13.1 million in foreign exchange forward contracts was outstanding at any one time. As of December 26, 1998, there were no forward or option contracts outstanding.

Foreign currency transaction exposure arises when an operating unit transacts business denominated in a currency that is not its own functional currency. The Company's transaction risks are attributable primarily to inventory purchases from third party vendors. The introduction of the euro has significantly reduced such risks, and transaction exposures on an overall basis are not significant.

The Company also has foreign exchange translation exposures resulting from the translation of foreign currency-denominated earnings into U.S. dollars in the Company's consolidated financial statements. Management estimates that, as of December 26, 1998, a ten percent change in applicable foreign exchange rates would have raised or lowered the Company's after-tax earnings by approximately $3.5 million on an annual basis.

INFLATION AND SEASONALITY

Although the Company cannot precisely determine the effects of inflation on its business, it does not believe inflation has a material impact on its sales or the results of its operations. The Company considers its business to be somewhat seasonal, with sales in its Stores and Business Services Groups trending slightly higher during the first and fourth quarters of each year and sales in its International Division trending slightly higher in the third quarter.

NEW ACCOUNTING PRONOUNCEMENT

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," which requires reporting every derivative instrument at its fair value on the balance sheet. This statement also requires recognizing any change in the derivatives' fair value in earnings for the current period unless specific hedge accounting criteria are met.

SFAS No. 133 is effective for fiscal quarters of fiscal years that begin after June 15, 1999. The Company has not determined the impact that this statement will have on its financial position or the results of its operations upon adoption.

CAUTIONARY STATEMENTS FOR PURPOSES OF THE "SAFE HARBOR" PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

In December 1995, the Private Securities Litigation Reform Act of 1995 (the "Act") was enacted by the United States Congress. The Act contains certain amendments to the Securities Act of 1933 and the Securities Exchange Act of 1934. These amendments provide protection from liability in private lawsuits for "forward-looking" statements made by public companies and other persons specified in the Act. The Company desires to take advantage of the "safe harbor" provisions of the Act. In order to do so, these cautionary statements are provided.

This Annual Report contains both information which is historical in nature and other information which looks toward the future performance of the Company. Examples of historical information include the 1998 financial statements and the commentary on past performance contained in this Management's Discussion and Analysis. The Company cautions readers that, with the exception of information which clearly deals with historical matters, the information contained in this Annual Report should be considered to be "forward-looking statements" as referred to in the Act.

Forward-looking information involves risks and uncertainties, including certain matters which are discussed in more detail below and in the Company's report on Form 10-K, filed with the Securities & Exchange Commission. This information is based on various factors and important assumptions about future events that may or may not actually come true. As a result, the Company's operations in the future and its financial results could differ materially and substantially from those discussed in the forward-looking statements in this Annual Report. In particular, the factors discussed below and in the Company's Form 10-K could affect the Company's actual results and could cause the Company's actual results during 1999 and in future years to differ materially from those expressed in any forward-looking statement made by or on behalf of the Company in this Annual Report.

COMPETITION: The Company competes with a variety of retailers, dealers and distributors in a highly competitive marketplace, including high-volume office supply chains, warehouse clubs, computer stores, contract stationers and well-established mass merchant retailers. Internet-based merchandisers have begun competing with the Company. This competition is expected to increase in the future as both the Company and these and other companies continue to expand their operations. Many startup operations focused heavily on Internet sales may be able to effectively compete with the Company in the areas of price competition and selection.

Some of these competitors may be willing to substantially sacrifice their profitability in order to gain a foothold in the marketplace. In addition, certain manufacturers of computer hardware, software and peripherals, including suppliers of the Company, have expanded their own direct marketing of products, particularly over the Internet. If the Company is unable to effectively counter this competitive expansion, it could have a material adverse effect on the Company's sales growth and operating results.

EXECUTION OF EXPANSION PLANS: The Company plans to open at least 105 stores in 1999, and the Company considers its expansion program to be an integral part of its plan to achieve anticipated operating results in future years. Conditions outside the Company's control, such as adverse weather conditions affecting construction schedules, unavailability of acceptable sites or materials, labor disputes and similar issues could impact anticipated store openings. Additionally, as the Company expands the number of its stores in existing markets, sales of existing stores may suffer from cannibalization. New stores typically require an extended period of time, generally exceeding a year, to reach the sales and profitability levels of the Company's existing stores. There can be no assurance that new stores will ever be as profitable as existing stores because of competition from other store chains and the tendency of existing stores to share sales as the Company opens new stores in its more mature markets. The failure to expand by opening new stores as planned and the failure to generate the anticipated sales growth in markets where new stores are opened could have a material adverse effect on the Company's future sales growth, profitability and operating results.

VIKING MERGER AND INTEGRATION: On August 26, 1998, the Company merged with Viking. Costs related to the integration of Viking's warehouse facilities with the Company's delivery network will increase warehouse expenses in 1999 and possibly beyond 1999. Moreover, integrating the operations and management of Office Depot and Viking is a complex process. The integration of the two companies will require significant management attention, which may temporarily distract management from other matters. The inability of management to integrate successfully the operations of Office Depot and Viking could have a material adverse effect on the future revenues, sales growth, profitability, and operating results of the Company.

INTERNATIONAL MARKET: The Company has operations in a number of international markets. The Company intends to enter additional international markets as attractive opportunities arise. In addition to the risks described above, internationally the Company faces such risks as foreign currency fluctuations, unstable political and economic conditions, obtaining adequate and appropriate inventory and, because some of its foreign operations are not wholly-owned, compromised operating control in certain countries.

BUSINESS SERVICES SALES: The Company competes with a number of contract stationers, mail order operators and retailers who supply office products and services to large and small businesses both nationally and internationally. In order to achieve and maintain expected profitability levels, the Company must continue to grow this segment of the business. Some of the Company's competitors do not compete in the retail superstore category in which the Company operates and therefore may be able to focus more attention on the business services segment, thereby providing formidable competition for the Company. Failure of the Company to adequately address this segment of its business could put it at a competitive disadvantage relative to these competitors.

SOURCES AND USES OF CASH; FINANCING: The Company believes that its current level of cash and cash equivalents, future operating cash flows, lease financing arrangements and funds available under its revolving credit facility should be sufficient to fund its planned expansion, integration and other operating cash needs for at least the next year. However, there can be no assurance that additional sources of financing will not be required during the next twelve months as a result of unanticipated cash demands, opportunities for expansion or acquisition, changes in growth strategy or adverse operating results. The inability of the Company to access needed financial resources could have a material adverse effect on the Company's financial position or its results from operations.

Y2K ISSUES: While the Company has worked diligently to bring its own systems into Year 2000 compliance and has endeavored to ensure that its suppliers, vendors and major customers are also Y2K compliant, there can be no assurance that the Company and all of its suppliers, vendors or major customers will, in fact, become Y2K compliant on a timely basis. Any significant failure by the Company's suppliers, vendors or major customers, or indeed, any unanticipated failure by the Company to become fully Y2K compliant could have a material adverse effect on the Company's financial position and results of operations.

DISCLAIMER OF OBLIGATION TO UPDATE: The Company assumes no obligation (and specifically disclaims any obligation) to update these Cautionary Statements 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.

Office Depot, Inc. and Subsidiaries

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Office Depot, Inc.

We have audited the consolidated balance sheets of Office Depot, Inc. and Subsidiaries as of December 26, 1998 and December 27, 1997, and the related consolidated statements of earnings, stockholders' equity and cash flows for each of the three years in the period ended December 26, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Office Depot, Inc. and Subsidiaries as of December 26, 1998 and December 27, 1997 and the results of their operations and their cash flows for each of the three years in the period ended December 26, 1998 in conformity with generally accepted accounting principles.

DELOITTE & TOUCHE LLP

Certified Public Accountants
Miami, Florida
February 17, 1999 (February 24, 1999 as to the
stock split described in Note A)

Office Depot, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)	DECEMBER 26, 1998	December 27, 1997
ASSETS		
Current assets:		
Cash and cash equivalents	$ 704,541	$ 239,877
Short-term investments	10,424	17,868
Receivables, net of allowances of $25,927 in 1998 and $25,587 in 1997	721,446	652,786
Merchandise inventories	1,258,355	1,397,266
Deferred income taxes	52,422	35,846
Prepaid expenses	33,247	37,436
Total current assets	2,780,435	2,381,079
Property and equipment, net	979,229	846,676
Goodwill, net of amortization	227,964	212,344
Other assets	125,413	80,720
	$ 4,113,041	$ 3,520,819
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,027,591	$ 988,738
Accrued expenses	430,666	265,267
Income taxes	69,910	31,138
Current maturities of long-term debt	2,834	2,473
Total current liabilities	1,531,001	1,287,616
Long-term debt, net of current maturities	35,490	29,406
Deferred income taxes and other credits	82,450	68,545
Zero coupon, convertible subordinated notes	435,221	417,614
Commitments and contingencies		
Stockholders equity:		
Common stock--authorized 800,000,000 shares of $.01 par value; issued 249,211,803 in 1998 and 245,109,330 in 1997	2,492	2,451
Additional paid-in capital	839,368	762,911
Unamortized value of long-term incentive stock grants	(2,874)	(3,210)
Accumulated other comprehensive income	(18,078)	(19,289)
Retained earnings	1,209,721	976,525
Less: 2,163,447 shares of treasury stock, at cost	(1,750)	(1,750)
	2,028,879	1,717,638
	$ 4,113,041	$ 3,520,819

The accompanying notes are an integral part of these statements.

Office Depot, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF EARNINGS

(In thousands, except per share amounts)	52 WEEKS ENDED DECEMBER 26, 1998	52 Weeks Ended December 27, 1997	52 Weeks Ended December 28, 1996
Sales	$ 8,997,738	$ 8,100,319	$ 7,250,931
Cost of goods sold and occupancy costs	6,484,464	5,963,521	5,395,223
Gross profit	2,513,274	2,136,798	1,855,708
Store and warehouse operating and selling expenses	1,642,042	1,443,192	1,280,107
Pre-opening expenses	17,150	6,609	9,827
General and administrative expenses	330,194	272,022	222,714
Amortization of goodwill	6,174	6,146	6,147
Merger and restructuring costs	119,129	16,094	--
Operating profit	398,585	392,735	336,913
Other income (expense):			
Interest income	25,309	7,570	3,726
Interest expense	(22,356)	(21,680)	(26,378)
Equity in earnings (losses) of investees, net	(12,811)	(7,034)	(2,178)
Earnings before income taxes	388,727	371,591	312,083
Income taxes	155,531	136,730	115,865
Net earnings	$ 233,196	$ 234,861	$ 196,218
Earnings per share:			
Basic	$ .95	$ .97	$ .82
Diluted	.91	.93	.79
Pro forma earnings per share:			
Basic	$ .64	$ .65	$ .55
Diluted	.61	.62	.53

The accompanying notes are an integral part of these statements.

Office Depot, Inc. and Subsidiaries

Consolidated Statements of Stockholders' Equity

Period from December 31, 1995 to December 26, 1998

(In thousands, except for number of shares)	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Unamortized Value of Long-term Incentive Stock Grant	Retained Earnings	Treasury Stock	Compre-hensive Income	Accumulated Other Compre-hensive Income
Balance at December 31, 1995	240,306,271	$2,403	$ 699,545	$(7,445)	$ 545,446	$(1,750)		$ 621
Comprehensive income:								
Net earnings					196,218		$196,218	
Foreign currency translation adjustment							(1,567)	(1,567)
Comprehensive income							$194,651	
Exercise of stock options (including tax benefits)	2,593,503	26	24,907					
Issuance of stock under employee stock purchase plan	393,790	4	7,982					
Restricted stock awards	54,127	1	771					
401(k) plan matching contributions	108,681	1	2,070					
Conversion of LYONs to common stock	292	--	6					
incentive stock grant	30,000	--	745	(745)				
Cancellation of long-term incentive stock grant	(400,000)	(4)	(3,071)	2,358				
Amortization of long-term incentive stock grant	--	--		588				
Balance at December 28, 1996	243,086,664	$ 2,431	$732,955	$(5,244)	$ 741,664	$(1,750)		$ (946)
Comprehensive income:								
Net earnings					234,861		$234,861	
Foreign currency translation adjustment							(18,343)	(18,343)
Comprehensive income							$216,518	
Exercise of stock options (including tax benefits)	1,818,162	18	23,104					
Issuance of stock under employee stock purchase plan	352,379	4	6,336					
401(k) plan matching contributions	151,190	1	2,800					
Conversion of LYONs to common stock	935	--	20					
Cancellation of long-term incentive stock grant	(300,000)	(3)	(2,304)	1,640				
Amortization of long-term incentive stock grant	--	--		394				
Balance at December 27, 1997	245,109,330	$ 2,451	$762,911	$(3,210)	$ 976,525	$(1,750)		$(19,289)
Comprehensive Income:								
Net earnings					233,196		$233,196	
Foreign currency translation adjustments							1,211	1,211
Comprehensive income							$234,407	
Exercise of stock options (including tax benefits)	3,599,964	36	63,474					
Issuance of stock under employee stock purchase plan	311,596	3	7,897					
401(k) and deferred compensation plans matching contributions	135,370	1	3,883					
Conversion of LYONs to common stock	55,543	1	1,203					
Amortization of long-term incentive stock grant				336				
Balance at December 26, 1998	249,211,803	$ 2,492	$839,368	$(2,874)	$1,209,721	$(1,750)		$(18,078)

The accompanying notes are an integral part of these statements.

Office Depot, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	52 Weeks Ended December 26, 1998	52 Weeks Ended December 27, 1997	52 Weeks Ended December 28, 1996
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	$ 8,928,519	$ 8,017,406	$ 7,193,535
Cash paid to suppliers	(8,137,802)	(7,420,731)	(6,924,217)
Interest received	23,972	(4,703)	3,914
Interest paid	(3,625)	(4,166)	(9,187)
Income taxes paid	(151,032)	(140,831)	(82,400)
Net cash provided by operating activities	660,032	446,975	181,645
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of short-term investment securities and bonds	(36,697)	--	(30,230)
Proceeds from maturities or sale of short-term investment securities and bonds	44,260	20,030	20,539
Purchase of remaining ownership interest in joint venture	(27,680)		
Capital expenditures	(254,981)	(165,213)	(234,489)
Proceeds from sale of property and equipment	22,364	4,127	1,741
Net cash used in investing activities	(252,734)	(141,056)	(242,439)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from exercise of stock options and sale of stock under employee stock purchase plan	64,237	19,959	22,677
Proceeds from long- and short-term borrowings	--	--	146,652
Payments on long- and short-term borrowings	(2,490)	(151,888)	(107,639)
Net cash provided by (used in) financing activities	61,747	(131,929)	61,690
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(4,381)	(1,939)	(1,020)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	464,664	172,051	(124)
Cash and cash equivalents at beginning of period	239,877	67,826	67,950
Cash and cash equivalents at end of period	$ 704,541	$ 239,877	$ 67,826
RECONCILIATION OF NET EARNINGS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Net earnings	$ 233,196	$ 234,861	$ 196,218
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	140,940	119,476	99,118
Provision for losses on inventory and accounts receivable	81,270	76,919	49,606
Accreted interest on zero coupon, convertible subordinated notes	18,812	18,005	17,064
Contributions of common stock to employee benefit and stock purchase plans	4,501	3,373	2,780
Deferred income taxes	(38,244)	9,534	6,605
Loss (gain) on disposal of property & equipment	2,023	4,657	(430)
Changes in assets and liabilities:			
Increase in receivables	(88,595)	(147,991)	(61,791)
Decrease (increase) in merchandise inventories	106,189	(28,251)	(103,463)
Increase in prepaid expenses and other assets	(42,013)	(22,492)	(26,607)
Increase in accounts payable, accrued expenses and deferred credits	241,953	178,884	2,545
Total adjustments	426,836	212,114	(14,573)
Net cash provided by operating activities	$ 660,032	$ 446,975	$ 181,645

The accompanying notes are an integral part of these statements.

Note A: Summary of Significant Accounting Policies

Office Depot, Inc. and Subsidiaries (the "Company" or "Office Depot") is the world's largest supplier of office products and services, utilizing an international chain of high-volume office supply stores; a contract sales network throughout the United States; and catalog, mail order and delivery operations to serve its customers in 19 countries. The Company currently operates under two brands--Office Depot and Viking Office Products.

Basis of Presentation: The consolidated financial statements include the accounts of the Company and its wholly- and majority-owned subsidiaries. All significant intercompany transactions have been eliminated in consolidation. Certain reclassifications were made to prior year statements to conform them to the current year presentation.

The Company maintains license agreements for the operation of Office Depot stores in Colombia, Hungary and Poland and joint venture agreements to operate stores in Israel, Japan, Mexico and Thailand. In April 1998, the Company increased its ownership share in its Thai joint venture from 20% to 80%, and in November 1998, the Company increased its ownership share in its French operations from 50% to 100%. Accordingly, the Company's share of the Thai joint venture's financial position, results of operations and cash flows since April 1998, as well as the entire financial position, results of operations and cash flows of its French operations since November 1998, have been included in the consolidated financial statements. All other joint ventures are accounted for using the equity method.

In August 1998, the Company merged with Viking Office Products, Inc. ("Viking"). The merger was accounted for as a pooling of interests. Accordingly, the consolidated financial statements of the Company have been restated and combined with the consolidated financial statements of Viking as if the merger had taken place at the beginning of the periods reported. With the addition of Viking, the Company now has operations on a wholly-owned, joint venture or licensed basis in Australia, Austria, Belgium, Canada, Colombia, France, Germany, Hungary, Ireland, Israel, Italy, Japan, Luxembourg, Mexico, the Netherlands, Poland, Thailand, the United Kingdom and the United States.

The Company operates on a 52- or 53-week fiscal year ending on the last Saturday in December. Prior to the merger, Viking operated on a 52- or 53-week fiscal year ending on the last Friday in June. In order to conform Viking's financial statements to Office Depot's fiscal years, Viking's historical quarterly amounts were realigned according to Office Depot's fiscal year.

On February 24, 1999, the Company declared a three-for-two stock split in the form of a 50% stock dividend payable on April 1, 1999 to stockholders of record on March 11, 1999. Pro forma earnings per share reflect the impact of the three-for-two stock split on reported amounts. In conjunction with the stock split, approximately 125 million additional shares will be issued on April 1, 1999.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect amounts reported in the financial statements, and to disclose contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Foreign Currency Translation: The financial statements of the Company's subsidiaries outside of the United States are measured using the local currency as the functional currency. Assets and liabilities are translated at the rates of exchange at the balance sheet date. Income and expenses are translated at the average monthly rates of exchange. The resulting translation adjustments are included in accumulated other comprehensive income, which is a separate component of common stockholders' equity. Accumulated other comprehensive income also includes gains and losses on intercompany loans that are not expected to be repaid in the foreseeable future.

Cash and Cash Equivalents: The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Short-term Investments: Short-term investments are classified as "available for sale" under the provisions of Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities," and are, accordingly, reported at fair value. Under SFAS No. 115, fluctuations in fair value are included as a separate component of stockholders' equity. At December 26, 1998, short-term investments consisted of $9.0 million of tax exempt municipal bonds and $1.4 million of investments in government agency bonds. All of the tax exempt municipal bonds at December 26, 1998 are due within one year. As of December 26, 1998 and December 27, 1997, the fair value of short-term investments approximated cost.

Receivables: Receivables as of December 26, 1998 and December 27, 1997 include trade receivables not sold through outside programs, totaling $464.0 million and $428.4 million, respectively. An allowance for doubtful accounts is provided for estimated amounts considered uncollectible. The credit risk related to these trade receivables is limited because of the large number of customers comprising the Company's customer base and their dispersion across many different industries and geographic regions.

Other receivables, totaling $257.4 million and $224.4 million as of December 26, 1998 and December 27, 1997, respectively, consist primarily of estimated receivables from vendors under purchase rebate, cooperative advertising and various other marketing programs. Funds received from vendors under rebate and other programs related to purchases of merchandise inventories are capitalized and recognized as a reduction of cost of goods sold as the merchandise is sold. Amounts relating to cooperative advertising and marketing programs are recognized as a reduction of advertising expense in the period that the related expenses are incurred.

Merchandise Inventories: Inventories are stated at the lower of cost or market value. The Company uses the weighted average method of determining cost for approximately 90% of its inventories and the first-in-first-out (FIFO) method for the balance.

Income Taxes: The Company provides for Federal and state income taxes currently payable, as well as deferred income taxes resulting from temporary differences between the bases of assets and liabilities for tax purposes and for financial statement purposes, using the provisions of SFAS No. 109, "Accounting for Income Taxes." Under this standard, deferred tax assets and liabilities represent the tax effects, based on current tax law, of future deductible or taxable amounts attributable to events that have been recognized currently in the financial statements.

The Company has not recognized income taxes on the undistributed earnings of certain of its foreign subsidiaries. It is the Company's intention to reinvest such earnings permanently to fund further overseas expansion. Cumulative undistributed earnings of foreign subsidiaries for which no Federal income taxes have been provided approximated $248.3 million and $172.2 million as of December 26, 1998 and December 27, 1997, respectively.

Property and Equipment: Property and equipment is recorded at cost. Depreciation and amortization are provided in amounts sufficient to relate the cost of depreciable assets to operations over their estimated useful lives using the straight line and accelerated methods. Estimated useful lives are 10 to 30 years for buildings and 3 to 10 years for furniture, fixtures and equipment. Leasehold improvements are amortized over the lesser of the terms of the underlying leases, including probable renewal periods, or the estimated useful lives of the improvements.

Goodwill: Goodwill represents the excess of purchase price and related costs over the value assigned to the net tangible and identifiable intangible assets of businesses acquired under the purchase method of accounting. Goodwill is amortized on a straight-line basis over 40 years. Accumulated amortization of goodwill was $37.5 million and $31.3 million as of December 26, 1998 and December 27, 1997, respectively.

Impairment of Long-Lived Assets: In accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," long-lived assets, certain identifiable intangibles, and goodwill related to those assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Measurement of an impairment loss for such long-lived assets and identifiable intangibles is based on the fair value of the asset. Long-lived assets and certain identifiable intangibles to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell. With the exception of costs included in merger and restructuring costs (see Note B), the Company has not recognized significant impairment losses during the periods presented.

Fair Value of Financial Instruments: SFAS No. 107, "Disclosure about Fair Value of Financial Instruments," requires disclosure of the fair value of financial instruments, both assets and liabilities, recognized and not recognized in the consolidated balance sheets of the Company, for which it is practicable to estimate fair value. The estimated fair values of financial instruments which are presented herein have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required in interpreting market data to develop estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of amounts the Company could realize in a current market exchange.

The following methods and assumptions were used to estimate fair value:

- the carrying amounts of cash and cash equivalents, receivables and accounts payable approximate fair value because of their short-term nature;

- discounted cash flows using current interest rates for financial instruments with similar characteristics and maturity were used to determine the fair value of short-term and long-term debt; and

- quoted market prices were used to determine the fair value of short-term investments and the zero coupon, convertible subordinated notes.

There were no significant differences as of December 26, 1998 and December 27, 1997 in the carrying value and fair value of financial instruments except for the zero coupon, convertible subordinated notes which had a carrying value of $435.2 million and $417.6 million and a fair value of $633.6 million and $429.4 million at the end of 1998 and 1997, respectively.

Advertising: Advertising costs are either charged to expense when incurred or, in the case of direct marketing advertising, capitalized and amortized in proportion to related revenues. The Company and its vendors participate in cooperative advertising programs in which the vendors reimburse the Company for a portion of certain advertising costs. Advertising expense, net of vendor cooperative advertising allowances, amounted to $230.8 million in 1998, $201.8 million in 1997 and $171.5 million in 1996.

Pre-opening Expenses: Pre-opening expenses related to the opening of new and relocated stores and warehouses are expensed as incurred.

Post-retirement Benefits: The Company does not currently provide post-retirement benefits for its employees.

Insurance Risk Retention: The Company retains certain risks for workers' compensation, auto and general liability, and employee medical insurance programs and accrues estimated liabilities on an undiscounted basis for known claims and claims incurred but not reported.

Comprehensive Income: Comprehensive income represents the change in stockholders' equity from transactions and other events and circumstances arising from non-stockholder sources. The Company's comprehensive income for 1998, 1997 and 1996 consists of net income and foreign currency translation adjustments.

Derivative Financial Instruments: The Company's use of derivatives is currently limited to forward exchange contracts that are used to minimize foreign exchange risk related to specific transactions. During 1998 and 1997, the Company purchased foreign currency contracts to hedge certain inventory purchases. In 1996, in addition to hedging certain inventory purchases, the Company purchased foreign currency contracts to hedge certain advances to one of its subsidiaries. The Company's foreign exchange contracts minimize the exposure to exchange rate movement risk. At December 26, 1998, the Company had no forward exchange contracts outstanding. At December 27, 1997, the Company had approximately $13.1 million of forward exchange contracts outstanding which matured at varying dates through June 1998. Gains and losses on qualifying hedges of these exposures are deferred and recognized in earnings when the underlying hedged transaction is consummated.

New Accounting Pronouncement: In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," which requires reporting every derivative instrument at its fair value on the balance sheet. This statement also requires recognizing any change in the derivatives' fair value in earnings for the current period unless specific hedge accounting criteria are met.

SFAS No. 133 is effective for fiscal quarters of fiscal years that begin after June 15, 1999. The Company has not determined the impact that this statement will have on its financial position or the results of its operations upon adoption.

Note B: Merger and Restructuring Transactions

In August 1998, the Company completed its merger with Viking. In conjunction with the merger, each outstanding share of Viking common stock was converted into one share of Office Depot common stock. A total of 85,404,459 shares of Office Depot common stock were issued pursuant to the merger. The merger was accounted for as a pooling of interests. Accordingly, the prior periods' consolidated financial statements and other non-financial information of the Company have been restated and combined with the consolidated financial statements and other non-financial information of Viking as if the merger had taken place at the beginning of the periods reported. In September 1998, in formulating its strategy for integrating the two companies, management announced its plan to close several facilities by the end of 2000. These facilities have been identified as redundant, or management believes that the business handled by these facilities can be more efficiently handled by other existing facilities. Accordingly, certain assets have been written off and certain costs accrued. Additionally, in November 1998, management decided to focus its attention on continued growth in its core businesses and on expansion of its international operations. In conjunction with this decision, the Company plans to close its five Furniture at Work and five Images stores, one of which was closed during the fourth quarter of 1998. Management expects all remaining stores to be closed by the end of the third quarter of 1999.

In September 1996, the Company entered into an agreement and plan of merger with Staples. In June 1997, the proposed merger was blocked by a preliminary injunction granted by the Federal District Court at the request of the Federal Trade Commission. In July 1997, the Company and Staples announced that the merger agreement had been terminated.

Merger and restructuring costs in 1998 and 1997 consist of the following charges:

(in thousands)	1998	1997
Viking and Staples mergers:		
Costs directly attributable to merger transactions	$ 31,555	$16,094
Asset impairment associated with the closure of identified facilities and the write-off of software applications to be abandoned	41,962	--
Other facility exit costs, principally estimated lease costs subsequent to closing of facilities	18,143	--
Personnel retention and termination costs incurred through December 26, 1998	14,553	--
Other integration costs	1,936	--
	108,149	16,094
Furniture at Work(TM) and Images(TM) closings:		
Asset impairment associated with the closure of stores	3,882	--
Other exit costs, principally estimated lease costs subsequent to closing of stores	7,098	--
	10,980	--
Total	$119,129	$16,094

The fair value of asset impairments was determined based on estimating the net realizable value at the time of the anticipated closure or discontinuation. Estimated proceeds from and costs in connection with disposal of these assets were determined through analysis of historical data and expected outcomes.

As of December 26, 1998, approximately $84.8 million related to merger and restructuring costs is included in accrued expenses on the accompanying consolidated balance sheet. Excluding the after-tax impact of merger and restructuring costs and the effect of the stock split described in Note A, the Company's diluted earnings per share would have been $1.24 in 1998 and $.97 in 1997.

The following is a reconciliation for 1997 and 1996 of amounts previously reported by Office Depot to amounts restated to reflect the merger with Viking on a pooling of interests basis:

(in thousands)	1997	1996
Sales		
Office Depot, as previously reported	$6,717,514	$6,068,598
Viking	1,382,805	1,182,333
As restated	$8,100,319	$7,250,931
Net earnings		
Office Depot, as previously reported	$ 159,676	$ 129,042
Viking	75,185	67,176
As restated	$ 234,861	$ 196,218

No adjustments to the sales, net earnings or net assets of Office Depot or Viking were required to conform the two companies' accounting practices.

In November 1998, the Company increased its ownership position in its operations in France from 50% to 100% by purchasing its joint venture partner's ownership share for $27.7 million. As a result of the purchase, the Company recorded goodwill of $20.2 million.

Note C: Property and Equipment

Property and equipment consists of:

(in thousands)	December 26, 1998	December 27, 1997
Land	$ 81,617	$ 83,848
Buildings	165,650	150,601
Leasehold improvements	491,343	403,258
Furniture, fixtures and equipment	740,076	603,036
	1,478,686	1,240,743
Less accumulated depreciation and amortization	(499,457)	(394,067)
	$ 979,229	$ 846,676

Assets held under capital leases included in property and equipment consists of:

(in thousands)	December 26, 1998	December 27, 1997
Assets, at cost	$ 47,374	$ 40,489
Less accumulated depreciation	(9,786)	(8,696)
	$ 37,588	$ 31,793

Note D: Long-Term Debt Long-term debt consists of the following:

(in thousands)	December 26, 1998	December 27, 1997
Capital lease obligations collateralized by certain buildings and equipment	$ 38,324	$ 31,879
Less current portion	(2,834)	(2,473)
	$ 35,490	$ 29,406

In February 1998, the Company entered into a new credit agreement with a syndicate of banks which provides for a working capital line and letters of credit totaling $300 million. The new credit agreement replaced the Company's previous credit agreement and provides for various borrowing rate options, including a rate based on credit rating and fixed charge coverage ratio factors that currently would result in an interest rate of .18% over LIBOR. The credit facility expires in February 2003 and contains certain restrictive covenants relating to various financial statement ratios.

As of December 26, 1998, the Company had no outstanding borrowings under the credit facility and had outstanding letters of credit totaling $9.2 million.

Future minimum annual lease payments under capital leases together with the present value of these minimum lease payments as of December 26, 1998 are as follows:

(in thousands)	
1999	$ 5,880
2000	5,465
2001	3,657
2002	2,723
2003	3,903
Thereafter	51,126
Total minimum lease payments	72,754
Less amount representing interest at 5.0% to 8.95%	(34,430)
Present value of net minimum lease payments	38,324
Less current portion	(2,834)
Non-current portion	$ 35,490

Note E: Zero Coupon, Convertible Subordinated Notes

On December 11, 1992, the Company issued Liquid Yield Option Notes ("LYONs") with principal amounts totaling $316.3 million to the public at a price totaling $150.8 million. The issue price of each such LYON was $476.74, and the notes require no periodic payments of interest. These LYONs will mature on December 11, 2007 at $1,000 per LYON, representing a yield to maturity, computed on a semi-annual bond equivalent basis, of 5%.

On November 1, 1993, the Company issued LYONs with principal amounts totaling $345.0 million to the public at a price totaling $190.5 million. The issue price of each such LYON was $552.07, and the notes require no periodic payments of interest. These LYONs will mature on November 1, 2008 at $1,000 per LYON, representing a yield to maturity, computed on a semi-annual bond equivalent basis, of 4%.

All LYONs are subordinated to all existing and future senior indebtedness of the Company.

Each LYON is convertible at the option of the holder at any time on or prior to maturity into common stock of the Company at a conversion rate of 29.263 shares per 1992 LYON and 21.234 shares per 1993 LYON. The Company, at the option of the holder, may be required to purchase the LYONs as of December 11, 2002 for the 1992 LYONs and as of November 1, 2000 for the 1993 LYONs, at the issue price plus accrued original issue discount. The Company, at its option, may elect to pay the purchase price on any particular purchase date in cash or common stock, or any combination thereof. The total outstanding amounts of the 1992 and 1993 LYONs as of December 26, 1998, including accrued interest, approximated $201.6 million and $233.6 million, respectively.

In addition, in the event of a change in control of the Company prior to November 1, 2000, the holders of the 1993 LYONs can require the Company to purchase the 1993 LYONs for cash. This option is no longer available to holders of the 1992 LYONs. Beginning on December 11, 1996 for the 1992 LYONs and on November 1, 2000 for the 1993 LYONs, the LYONs are redeemable for cash at any time at the option of the Company in whole or in part at the issue price plus accrued original issue discount through the date of redemption.

As of December 26, 1998, the Company has reserved 16,508,704 shares of unissued common stock for conversion of the zero coupon, convertible subordinated notes.

Note F: Income Taxes

The income tax provision consists of the following:

(in thousands)	1998	1997	1996
Current provision:			
Federal	$ 147,031	$ 90,889	$ 80,141
State	23,975	16,161	10,076
Foreign	22,769	20,146	19,043
Deferred (benefit) provision	(38,244)	9,534	6,605
Total provision for income taxes	$ 155,531	$136,730	$115,865

The tax-effected components of deferred income tax assets and liabilities consist of the following:

(in thousands)	1998	1997
Self-insurance accruals	$17,503	$ 13,956
Inventory	9,910	5,297
Vacation pay and other accrued compensation	10,765	7,673
Reserve for bad debts	6,352	4,172
Reserve for facility closings	5,829	5,467
Merger costs	29,179	--
Other items	20,123	17,021
Deferred tax assets	99,661	53,586
Basis difference in fixed assets	45,462	38,957
Capitalized leases	3,335	3,762
Excess of tax over book amortization	2,385	2,288
Other items	10,516	8,860
Deferred tax liabilities	61,698	53,867
Net deferred tax assets (liabilities)	$37,963	$ (281)

The following is a reconciliation of income taxes at the Federal statutory rate to the provision for income taxes:

(in thousands)	1998	1997	1996
Federal tax computed at the statutory rate	$ 136,054	$ 130,057	$ 109,229
State taxes, net of Federal benefit	14,978	11,477	8,034
Nondeductible goodwill amortization	1,990	1,992	1,993
Nondeductible merger costs	11,044	--	--
Foreign income taxed at rates other than Federal	(10,061)	(6,463)	(1,785)
Other items, net	1,526	(333)	(1,606)

Provision for income taxes	$ 155,531	$ 136,730	$ 115,865

Note G: Commitments and Contingencies

Leases: The Company conducts its operations in various facilities under leases that are classified as operating leases for financial statement purposes. The leases require the Company to pay real estate taxes, common area maintenance and certain other expenses, including, in some instances, contingent rentals based on sales. Lease terms expire between 1999 and 2020. In addition to the base lease term, the Company has various renewal option periods. Also, certain equipment used in the Company's operations is leased under operating leases. Fixed operating lease commitments as of December 26, 1998 are as follows:

(in thousands)	
1999	$ 242,730
2000	218,077
2001	185,507
2002	161,397
2003	147,530
Thereafter	825,027
	1,780,268
Less sublease income	(21,236)
	$ 1,759,032

The above amounts include commitments under leases for 19 stores that had not yet opened as of December 26, 1998. The Company is in the process of opening new stores and CSCs in the ordinary course of business, and leases signed subsequent to December 26, 1998 are not included in the above described commitment amount. Rent expense, including equipment rental, was approximately $252.7 million, $218.4 million and $197.3 million in 1998, 1997 and 1996, respectively. Rent expense was offset in 1998, 1997 and 1996 by sublease income of approximately $4.1 million, $3.0 million and $2.2 million, respectively.

Receivables Sold with Recourse: The Company has two private label credit card programs which are managed by financial services companies. All credit card receivables related to these programs were sold on a recourse basis during 1998, 1997 and 1996. Proceeds to the Company for such receivables sold with recourse were approximately $1.1 billion in 1998 and 1997, and $1.0 billion in 1996. The Company's maximum exposure to off-balance sheet credit risk is represented by the outstanding balance of private label credit card receivables with recourse, which totaled approximately $209.7 million at December 26, 1998.

Impact of the Year 2000 Issue (Unaudited): The Year 2000 ("Y2K") issues arise because of the inability of certain electronic data operating systems to differentiate between the years 1900 and 2000 when processing data. Many systems and programs were written to recognize and process two digits for the year, instead of four.

In recent years, the producers of electronic data operating systems, as well as most other businesses, have generally become aware of Y2K issues and the potential for disruption in the operation of business as a result of systems that are not Y2K compliant. Y2K issues can arise at any point in the Company's operational or financial processes. Most systems and programs developed in the past several years have been designed to be Y2K compliant, whereas many of the older systems and programs are not Y2K compliant and require various changes in order to bring them into compliance.

Most of the Company's current application systems were developed over the past four years and were designed to use four-digit year values. Management believes that these systems are already Y2K compliant. To ensure a smooth transition into the millennium, the Company has established the Year 2000 Project Office led by a Year 2000 Project Team ("Project 2000"). The objective of Project 2000 is to establish standards and guidelines, assist in development and remediation plans, track and report on progress, and answer customer and vendor inquiries regarding its Y2K compliance efforts. Project 2000 consists of four major components: Technology Systems, including (1) Operations and (2) Development; and Non-technology Systems, including (3) Facilities and (4) Merchandising.

Technology Systems: Operations includes the review of data center process automation equipment, software not internally developed or supported by the MIS department, and data/voice networks. The phases of this component are: (1) review all equipment and complete an inventory of all hardware and software, (2) evaluate the readiness of all hardware and software and plan for required upgrades to Y2K compliant versions and (3) correct all non-compliant hardware and software through upgrades certified as Y2K compliant by their vendors. The Company expects to have all phases of this component complete by August 1999.

MIS Development focuses on the proper operation of application software developed or supported in-house. The phases of this component are: (1) assess systems for potential Y2K issues, (2) remediate any non-compliant systems by changing the program code to properly process all dates, (3) test to make sure remediation has not changed the functionality of the application, and place new program code into production, (4) test the accuracy of the output under multiple scenarios and (5) certify that the systems are Y2K compliant. This component is being completed by multiple MIS teams. Although each team is at a different phase in the project, this component, as a whole, is currently on schedule to be substantially completed by the end of the second quarter of 1999. Overall, the two Technology components together are currently approximately 80% complete.

Non-technology Systems: The Facilities component of Project 2000 involves the Company's buildings and transportation. Typical concerns related to buildings include security, environment and telephone systems. Concerns related to transportation include scheduling, communication, security, tracking and maintenance. The phases of this component are: (1) develop an inventory of equipment and services and associated vendors, (2) contact all vendors to verify Y2K compliance of their equipment and services, (3) upgrade systems and equipment to compliant versions, if necessary, (4) test equipment and systems and (5) certify that all such equipment and services are Y2K compliant. The Company has completed phases 1 and 2 of this component and has begun work on phase 3. This component is currently on schedule to be completed by April 1999.

For the Merchandising component of Project 2000, the Company will attempt to ensure that merchandise suppliers are able to meet their delivery commitments. The phases of this component are: (1) develop a supplier survey, (2) request that suppliers confirm Y2K compliance, (3) establish confidence/risk levels by product, (4) develop contingency plans for non-compliant vendors (e.g., alternate product sources, increased inventory levels, etc.) and (5) certify products as Y2K compliant or implement contingency plans. Phase 1 has been completed and phases 2 and 3 are in the process of being completed. The Company will continue to follow up with vendors until they have all responded. Nearly 90% of respondents have plans in place for internal systems compliance and almost 70% have already certified that their products are Y2K compliant. This component is currently on schedule to be completed by April 1999.

The Company's Y2K effort is being undertaken on a worldwide basis to identify the level of Y2K preparedness of the Company's operations in each country. Because of the interdependent nature of the Company's operations with those of its suppliers and customers, the Company could be materially adversely affected if utilities, private businesses or governmental entities with which it does business are not adequately prepared for the year 2000. A reasonably possible worst case scenario resulting from the Company not being fully Y2K compliant by January 1, 2000 might include, among other things, temporary store or CSC closings, delays in the delivery of products, delays in the receipt of supplies, payment and collection errors, and inventory and supply obsolescence. Consequently, the business and the results of operations of the Company could be materially adversely affected by a temporary inability of the Company to conduct its business in the ordinary course for a period of time after January 1, 2000. However, management believes that its Y2K readiness program should significantly reduce any adverse effect from any such disruptions, and the effect on the Company's financial position or the results of its operations is not expected to be material. The Company has not experienced any significant delays in other MIS initiatives as a result of Project 2000.

Costs for hardware and software are capitalized and depreciated over the assets' estimated useful lives. All other costs specifically associated with Project 2000 (e.g., labor, consulting fees, maintenance contracts, etc.) are expensed as incurred. Total costs incurred in 1998 related to Project 2000 were approximately $5 million, most of which were expensed. The Company expects to spend another $7 to $9 million to complete Project 2000, most of which will be expensed as incurred.

The Company's Y2K readiness program is an ongoing process, and the estimates of costs and completion dates for various components of the Y2K readiness program described above are subject to change. The estimates and conclusions herein contain forward-looking statements and are based on management's best estimates of future events. Although the Company expects its systems and facilities to be Y2K compliant by the end of the third quarter of 1999, there is no assurance that this goal will be achieved. Risks to completing the plan include the availability of resources, the Company's ability to identify and correct any potential Y2K issues, and the willingness and ability of suppliers, customers and governmental agencies to bring their systems into Y2K compliance.

Other: The Company is involved in litigation arising in the normal course of its business. In the opinion of management, these matters will not materially affect the financial position or results of operations of the Company.

Note H: Employee Benefit Plans

Long-Term Equity Incentive Plan: The Long-Term Equity Incentive Plan, which was approved effective October 1, 1997, provides for grants of stock options and other incentive awards to certain of the Company's directors, officers and key employees. Pursuant to the merger with Viking, Viking's employee and director stock option plans were terminated. Accordingly, all exercises of outstanding options issued under Viking's prior plans result in issuance of Office Depot common stock.

As of December 26, 1998, the Company had reserved 22,691,710 shares of common stock for issuance to officers and key employees under its Long-Term Equity Incentive Plan. Under this plan, the option price of stock options granted must be equal to or in excess of the market price of the stock on the date of the grant or; in the case of employees who own 10% or more of the Company's outstanding common stock, the minimum price must be 110% of the market price.

Options granted under this plan and all prior stock option plans of Viking to date become exercisable from one to five years after the date of grant, provided that the individual is continuously employed by the Company. All options expire no more than ten years after the date of grant.

Employee Stock Purchase Plans: Office Depot has an Employee Stock Purchase Plan, which permits eligible employees to purchase common stock from the Company at 90% of its fair market value. The maximum aggregate number of shares eligible for purchase under this plan is 1,625,000. Additionally, Viking has three different employee stock purchase plans. These plans allow eligible employees to purchase up to 1,940,000 shares of common stock, at 80-85% of its fair market value.

Long-Term Incentive Stock Plan: Viking has a Long-Term Incentive Stock Plan enabling the Company's Board of Directors to award up to 1,600,000 shares of common stock to key employees. Under this plan, 1,230,000 shares have been issued to date at no cost to key employees, 600,000 of which have been canceled. The fair market value of these awards approximated $10.0 million as of the date of the grants. Common stock issued under this plan is restricted and vests at the end of fifteen years from the grant dates. Compensation expense is recognized over the vesting period.

Retirement Savings Plans: Office Depot has a retirement savings plan, which permits eligible employees to make contributions to the plan on a pretax salary reduction basis in accordance with the provisions of Section 401(k) of the Internal Revenue Code. The Company makes a matching contribution of common stock of 50% of the employee's pretax contribution, up to 3% of the employee's compensation, in any calendar year. The Company may, at its option, make discretionary matching common stock contributions in addition to the normal match. Office Depot also has a deferred compensation plan, which permits eligible employees to make tax-deferred contributions to the plan. The Company makes matching contributions similar to those made under its Office Depot retirement savings plan.

Additionally, Viking has a profit sharing plan which includes a 401(k) plan allowing eligible employees to make pretax contributions. Under the profit sharing plan, the Company makes a matching cash contribution of 25% of the employee's pretax 401(k) contributions, up to 6% of the employee's compensation.

Accounting for Stock-Based Compensation: The Company applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations in accounting for its stock-based compensation plans. The compensation cost that has been charged against income for its employee stock purchase plans, Long-Term Incentive Stock Plan and Long-Term Equity Incentive Plan approximated $2.5 million, $1.0 million and $2.2 million in 1998, 1997 and 1996, respectively. No other compensation costs have been recognized under the Company's stock-based compensation plans. Had compensation cost for the Company's stock-based compensation plans been determined using the fair value method described in SFAS No. 123, "Accounting for Stock-Based Compensation," at the grant dates for awards under these plans, the Company's net earnings and earnings per share would have been reduced to the pro forma amounts presented below:

(in thousands, except per share data)	1998	1997	1996
Net earnings			
As reported	$ 233,196	$ 234,861	$ 196,218
Pro forma	204,859	214,835	183,752
Basic earnings per share			
As reported	$ .95	$ .97	$ .82
Pro forma	.84	.89	.77
Diluted earnings per share			
As reported	$ .91	$ .93	$ .79
Pro forma	.81	.86	.74

The fair value of each stock option grant is established on the date of grant using the Black-Scholes option-pricing model using the following weighted average assumptions for grants in 1998, 1997 and 1996:

- expected volatility of 25% for all three years
- risk-free interest rates of 4.88% for 1998, 5.75% for 1997, and 6.35% for 1996
- expected lives of approximately five years for all three years
- a dividend yield of zero for all three years.

A summary of the status of and the changes in the option plan for each of the three years in the period ended December 26, 1998 is presented below:

	1998		1997		1996	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	19,138,998	$ 16.19	15,631,066	$ 15.53	15,521,557	$ 13.14
Granted	6,150,000	30.73	6,965,069	16.70	3,926,683	20.43
Canceled	(776,812)	20.34	(1,654,071)	20.67	(1,348,542)	19.42
Exercised	(3,599,438)	14.39	(1,803,066)	8.26	(2,468,632)	6.22
Outstanding at end of year	20,912,748	$ 20.63	19,138,998	$ 16.19	15,631,066	$ 15.53

As of December 26, 1998, the weighted average fair values of options granted during 1998, 1997 and 1996 were $10.16, $6.51 and $5.40, respectively.

The following table summarizes information about options outstanding at December 26, 1998:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$0.25--$ 2.93	389,148	3.3	$ 2.06	389,148	$ 2.06
2.94-- 4.41	394,376	1.3	3.70	394,376	3.70
4.42-- 6.63	896,649	1.7	5.69	896,649	5.69
6.64-- 9.96	454,566	2.9	8.05	454,566	8.05
9.97-- 14.95	3,786,433	4.2	13.46	2,569,090	13.25
14.96-- 22.44	6,569,997	6.9	18.23	3,275,548	19.32
22.45-- 33.67	6,976,579	7.1	28.29	2,599,603	26.23
33.68-- 36.25	1,445,000	9.5	36.16	--	--
$ 0.25--$36.25	20,912,748	5.0	$20.63	10,578,980	$16.69

Note I: Capital Stock

Preferred Stock: As of December 26, 1998, there were 1,000,000 shares of $.01 par value preferred stock authorized of which none are issued or outstanding.

Stockholder Rights Plan: Effective September 4, 1996, the Company's Board of Directors adopted a Stockholder Rights Plan (the "Rights Plan"). The Rights Plan provides for the issuance to stockholders of one right for each outstanding share of the Company's common stock. The rights will become exercisable only if a person or Division acquires 20% or more of the Company's outstanding common stock or announces a tender or exchange offer that would result in ownership of 20% or more of the Company's common stock. Each right, should it become exercisable, will entitle the holder to purchase one one-thousandth of a share of Junior Participating Preferred Stock, Series A of the Company at an exercise price of $95.00, subject to adjustment.

In the event of an acquisition, each right will entitle the holder, other than an acquirer, to receive a number of shares of common stock with a market value equal to twice the exercise price of the right. In addition, in the event that the Company is involved in a merger or other business combination wherein the Company is not the surviving corporation, or wherein common stock is changed or exchanged, or in a transaction with any entity in which 50% or more of the Company's assets or earning power is sold, each holder of a right, other than an acquirer, will have the right to receive, at the exercise price of the right, a number of shares of common stock of the acquiring company with a market value equal to twice the exercise price of the right.

The Company's Board of Directors may redeem the rights for $0.01 per right at any time prior to an acquisition.

Stock Split: On February 24, 1999, the Company declared a three-for-two stock split in the form of a 50% stock dividend, payable April 1, 1999. Pro forma earnings per share reflect the impact of the three-for-two stock split on reported amounts. (See Note A).

Note J: Net Earnings Per Share

Basic earnings per share is based upon the weighted average number of shares outstanding during each period. Diluted earnings per share further assumes that the zero coupon, convertible subordinated notes, if dilutive, are converted as of the beginning of the period and that, under the treasury stock method, dilutive stock options are exercised. Net earnings under this assumption have been adjusted for interest on the notes, net of the related income tax effect. Pro forma earnings per share reflect the three-for-two stock split declared on February 24, 1999 and payable April 1, 1999 (See Note A).

The information required to compute basic and diluted net earnings per share is as follows:

(in thousands)	1998	1997	1996
Basic:			
Weighted average number of common shares outstanding	244,710	241,755	239,828
Diluted:			
Net earnings	$233,196	$234,861	$196,218
Interest expense related to convertible notes, net of tax	11,532	11,037	10,580
Adjusted net earnings	$244,728	$245,898	$206,798
Weighted average number of common shares outstanding	244,710	241,755	239,828
Shares issued upon assumed conversion of convertible notes	16,541	16,565	16,565
Shares issued upon assumed exercise of stock options	6,962	4,966	6,177
Shares used in computing diluted net earnings per common share	268,213	263,286	262,570

Options to purchase 6,163,813 shares of common stock at an average exercise price of approximately $31.26 per share were not included in the computation of diluted earnings per share for 1998 because their effect would be anti-dilutive.

Note K: Supplemental Information on Noncash Investing and Financing Activities

The Consolidated Statements of Cash Flows for 1998, 1997 and 1996 do not include the following noncash investing and financing transactions:

(in thousands)	1998	1997	1996
Building and equipment purchased under capital leases	$ 8,935	$24,300	$ 4,805
Conversion of convertible, subordinated debt to common stock	1,204	20	6
Additional paid-in capital related to tax benefit on stock options exercised	11,235	8,165	10,302

Note L: Segment Information

The Company adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," effective for the fiscal year ended December 26, 1998.

The Company has three reportable operating segments: Stores, Business Services and International. These segments were determined based on how management evaluates its business. The following is a summary of significant accounts and balances by segment, reconciling to the Company's totals.

	Sales			Earnings Before Income Taxes		
(in thousands)	1998	1997	1996	1998	1997	1996
Stores	$ 5,128,621	$ 4,716,991	$ 4,470,525	$ 524,575	$ 383,619	$ 328,829
Business Services	2,825,564	2,503,826	2,046,189	182,851	189,940	150,099
International	1,047,472	882,806	737,380	134,260	106,806	85,041
Total reportable segments	9,001,657	8,103,623	7,254,094	841,686	680,365	563,969
Eliminations and other	(3,919)	(3,304)	(3,163)	(452,959)	(308,774)	(251,886)
Total	$ 8,997,738	$ 8,100,319	$ 7,250,931	$ 388,727	$ 371,591	$ 312,083

	Capital Expenditures			Depreciation and Amortization		
(in thousands)	1998	1997	1996	1998	1997	1996
Stores	$159,007	$ 67,541	$133,490	$ 60,858	$ 51,761	$43,980
Business Services	32,581	46,373	37,974	32,171	29,254	23,664
International	10,628	25,963	42,932	16,251	13,760	10,173
Total reportable segments	202,216	139,877	214,396	109,280	94,775	77,817
Other	52,765	25,336	20,093	31,660	24,701	21,301
Total	$254,981	$165,213	$234,489	$140,940	$119,476	$99,118

	Provision for Losses on Accounts Receivable and Inventory			Equity in (Losses) Earnings of Investees, net		
(in thousands)	1998	1997	1996	1998	1997	1996
Stores	$26,037	$27,716	$24,281	$ --	$ --	$ --
Business Services	31,532	39,524	17,836	--	--	--
International	23,701	9,679	7,489	(12,811)	(7,034)	(2,178)
Total reportable segments	81,270	76,919	49,606	(12,811)	(7,034)	(2,178)
Other	--	--	--	--	--	--
Total	$81,270	$76,919	$49,606	$(12,811)	$(7,034)	$(2,178)

	Assets	
(in thousands)	1998	1997
Stores	$1,848,476	$1,797,516
Business Services	859,802	896,991
International	528,212	357,727
Total reportable segments	3,236,490	3,052,234
Other	876,551	468,585
Total	$4,113,041	$3,520,819

A reconciliation of earnings before income taxes reported by reportable segments to earnings before income taxes in the consolidated financial statements is as follows:

(in thousands)	1998	1997	1996
Reportable segments	$ 841,686	$ 680,365	$ 563,969
General and administrative expenses	(330,194)	(272,022)	(222,714)
Amortization of goodwill	(6,174)	(6,146)	(6,147)
Interest, net	2,953	(14,110)	(22,652)
Merger and restructuring costs	(119,129)	(16,094)	--
Inter-segment transactions	(415)	(402)	(373)
Total reported	$ 388,727	$ 371,591	$ 312,083

Total sales by operating segment include inter-segment sales, which are generally recorded at cost to the selling entity. The Company's management evaluates the performance of each segment based on results of operations before income taxes, merger and restructuring costs, goodwill amortization and general and administrative expenses. The accounting policies of the segments are the same as those described in the summary of significant accounting policies (See Note A). Assets not allocated to segments consist primarily of corporate cash balances, tax related accounts, employee benefit plan balances and assets associated with corporate investing and financing transactions.

Office Depot has operations in Australia, Austria, Belgium, Canada, Colombia, France, Germany, Hungary, Ireland, Israel, Italy, Japan, Luxembourg, Mexico, The Netherlands, Poland, Thailand, the United Kingdom and the United States. There is no single geographic area outside of the United States that generates 10% or more of total Company revenues. Summarized geographic information relating to those operations is as follows:

	Sales			Assets	
(in thousands)	1998	1997	1996	1998	1997
United States	$7,761,516	$7,031,498	$6,345,235	$3,634,927	$3,177,698
International	1,236,222	1,068,821	905,696	478,114	343,121
Total	$8,997,738	$8,100,319	$7,250,931	$4,113,041	$3,520,819

Note M: Quarterly Financial Data (Unaudited)

(in thousands, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Fiscal Year Ended December 26, 1998				
Net sales	$2,398,677	$2,068,558	$2,234,900	$2,295,603
Gross profit (a)	630,494	573,649	622,036	687,095
Net earnings	81,094	67,676	15,748	68,678
Net earnings per common share:				
Basic	$ .33	$ .28	$ .06	$ .28
Diluted (c)	.32	.26	.06	.27
Pro forma net earnings per common share:				
Basic (b)	$ .22	$ .18	$ .04	$ .19
Diluted (b) (c)	.21	.17	.04	.18
Fiscal Year Ended December 27, 1997				
Net sales	$2,125,527	$1,858,005	$2,030,549	$2,086,238
Gross profit (a)	544,493	491,854	537,202	563,249
Net earnings	59,535	47,029	61,738	66,559
Net earnings per common share:				
Basic	$ .25	$ .19	$ .26	$ .27
Diluted	.24	.19	.24	.26
Pro forma net earnings per common share:				
Basic (b)	$ .16	$ .13	$ .17	$ .18
Diluted (b)	.16	.13	.16	.17

(a) Gross profit is net of occupancy costs.
(b) Pro forma amounts reflect the stock split described in Note A.
(c) For the third quarter of 1998, the zero coupon, convertible subordinated notes were anti-dilutive and, accordingly, were not included in the diluted earnings per share computation.

EXHIBIT 21.1

LIST OF THE COMPANY'S SUBSIDIARIES

NAME	JURISDICTION OF INCORPORATION
Eastman, Inc.	Delaware
Office Depot, Inc.	Delaware
OD International, Inc.	Delaware
The Office Club, Inc.	California
Office Club Thai Co., Ltd.	Thailand
Office Depot France, S.N.C.	France
Office Depot de Mexico, S.A. de C.V.	Mexico
Office Depot Japan Co. Ltd. KK	Japan
Viking Office Products Pty., Limited	Australia
Viking Office Products (Italia) S.R.L.	Italy
Viking Direkt GesmbH	Austria
Viking Direkt GmbH	Germany
Viking Direct B.V.	Holland
Viking Direct S.A.R.L.	France
Viking Direct Limited	United Kingdom
VOP Ireland Limited	Ireland
Viking Office Products, Inc.	California
Viking Office Products Japan KK	Japan

EXHIBIT 23.1

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statements No. 33-31743, No. 33-62781, No. 33-62801, No. 333-24521, No. 333-45591, No. 333-59603, No. 333-63507, No. 333-68081 and No. 333-69831, of Office Depot, Inc. on Form S-8 of our reports dated February 17, 1999 included and incorporated by reference in the Annual Report on Form 10-K of Office Depot, Inc. for the year ended December 26, 1998.

DELOITTE & TOUCHE LLP

Certified Public Accountants

Miami, Florida
March 19, 1999

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE
FINANCIAL STATEMENTS OF OFFICE DEPOT, INC. FOR THE YEAR ENDED DECEMBER 26, 1998,
AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

YEAR
DEC-26-1998
DEC-28-1997
DEC-26-1998
704,541
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464,051
25,927
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2,780,435
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0
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8,997,738
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23,702
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0
233,196
.95
.91