OFFICE OF STATE TREASURER DENISE L. NAPPIER

NEWS

FOR IMMEDIATE RELEASE
Wednesday, April 25, 2001

CONNECTICUT PENSION FUND URGES OFFICE DEPOT TO MORE CLOSELY LINK EXECUTIVE PAY WITH COMPANY PERFORMANCE

Shareholder Resolution to be proposed at Annual Meeting

The State of Connecticut Retirement Plans & Trust Funds will propose a shareholder resolution at tomorrow's annual meeting of **Office Depot** in Boca Raton, Florida calling for changes in the way the company pays its senior executive officers. The resolution is one of a number of shareholder resolutions filed at U.S. companies across the nation this proxy season urging a closer link between the compensations of top corporate managers and company performance.

State Treasurer Denise L. Nappier, principal fiduciary of the $21 billion Connecticut pension fund, initially contacted Office Depot's management in November 2000, expressing concern about the company's executive compensation policy especially in light of poor stock performance. The shareholder resolution was submitted later that month. The company's stock was trading at around $24 a share during the first half of 1999. The price then dropped precipitously during the summer, closing as low as $9 a share. During 2000 the stock price dropped further – to as low as $5 a share. This week, the stock was trading at about $9 a share.

"The Connecticut pension fund filed a shareholder resolution with Office Depot because our research indicated that the company granted sizable executive stock options at a time when the company's stock under-performed the S&P index and its industry peer group," Treasurer Nappier said. "Our resolution calls on the board of directors to adopt an executive compensation policy that provides for future stock option grants to be performance-based."

The Connecticut pension fund holds 57,300 shares of Office Depot stock worth approximately $500,000. Assistant Treasurer of Policy Meredith Miller will formally introduce the resolution at the shareholders meeting on behalf of the pension fund. The influential Institutional Shareholder Services (ISS), a proxy advisory firm to more that 500 investment institutions, has endorsed the Connecticut proposal.

"ISS believes as a matter of general policy that companies should use performance-based options as one component of a balanced policy of executive compensation. This proposal serves as a backdrop for shareholders to express their desire for Office Depot to move in this direction. In adopting such incentives, management would demonstrate its commitment to promoting shareholder value and a heightened responsiveness to shareholder concerns," said ISS Managing Director Rich Ferlauto.

Contact: **Bernard L. Kavaler**
Director of Communication
(860) 702-3277 FAX (860) 702-3043
BERNARD.KAVALER@PO.STATE.CT.US

SHAREHOLDERS INTENSIFY INTEREST IN EXECUTIVE PAY, PERFORMANCE LINK

According to *Executive Compensation Reports*, 16 percent of the largest U.S. businesses have granted options with performance hurdles, up from seven percent in 1993. And Frederic W. Cook & Co., Inc., notes that 21 of the 250 largest companies in the S&P 500 use premium-priced options.

There is a growing trend for companies to establish this type of stock option program. According to a recent Wall Street Journal article some companies are paying their executives exclusively in premium priced options – not even any salary.

In remarks prepared for the shareholders meeting, Ms. Miller said "stock options are intended to align the interests of management with those of shareholders. However, when option grants reach the hundreds of thousands, a relatively small increase in the share price may permit executives to reap millions of dollars without providing material benefits to shareholders."

"We believe the company can do a better job aligning executive compensation with shareholder return." Ms. Miller continued. "We would like to see at least a significant portion of stock options granted at a premium to market when at the time of the grant. We believe this would create a meaningful incentive for senior executive performance."

OFFICE DEPOT PERFORMANCE DIPPED

Last summer, the Office Depot Board of Directors replaced David I. Fuente as CEO with Bruce Nelson. The company has made a number of strategic moves to reverse the company's standing, but so far the stock price has not recovered.

The stock's performance has been well below the broader market (as measured by the S&P 500) and Office Depot's peer group index (the S&P Retail Store composite index).

- During 1999 shareholders lost 55.7% of the value of their investment, while the S&P 500 gained 21.0% and the S&P Retail Store composite index gained 21.1%.
- During 2000 shareholder return declined an additional 35.2% while the S&P 500 only lost 9.1% and the peer group index lost 15.9%.

During that time executives were rewarded with large grants of stock options.

- In 1998 and 1999 the board awarded mega-grants of 1.5 million stock options each year to the then CEO David I. Fuente.
- The proxy 1999 proxy statement showed the "present date grant value" of the 1999 award to Mr. Fuente was $16,483,350.
- In 2000 current CEO Bruce Nelson received 650,000 stock options (in addition to his $1,000,000 salary).
- The present value of Mr. Nelson's 2000 options were $2,426,000.

For the purposes of the resolution, a stock-option is considered performance-based if it more closely ties top executive compensation to the actual returns received by the company's shareowners. A premium-priced option, where the exercise price is set substantially above the market price on the grant date, is an example of a performance-based award. In contrast, the company currently awards options with the exercise price equal to the market price on the date of grant.

Contact: **Bernard L. Kavaler**
Director of Communication
(860) 702-3277 FAX (860) 702-3043
BERNARD.KAVALER@PO.STATE.CT.US

While the company's management points out that over 85 percent of the company's outstanding stock options are underwater - that is, the options' exercise prices exceed the current market price of Office Depot, the options granted Mr. Nelson in 2000 are not 85% under water. The grants were made at $10.47 (100,000 shares), $7.125 (400,000 shares), and $6.50 (150,000 shares). If the stock price were to return to $15 – still a significant loss for 1999 shareholders, Mr. Nelson's options would be worth almost $5 million.

Ms. Miller acknowledged that "we agree with management that compensation needs to be competitive in order to attract and retain talented executives. We know that bonuses have not been granted to top Office Depot executives in 1999 and 2000 because earnings targets have not been met."

"However, we and other shareholders have seen the actual value of our equity holdings decline precipitously in the past two years, and that decline has been much steeper than that of Office Depot's peer group. We feel that executive compensation has not fully recognized that decline, and we have proposed that Office Depot adopt a compensation policy which more closely aligns top executive compensation to the actual returns received by the company's shareowners through granting premium priced stock options."

CONNECTICUT CORPORATE GOVERNANCE EFFORT HAS SEEN SOME SUCCESS

Treasurer Nappier earlier this year launched her administration's comprehensive program to become active shareholders during the 2001 proxy season and beyond. The program marked Connecticut's return to the arena after a five year absence, and followed the development of proxy voting guidelines by Nappier that were endorsed by the state's Investment Advisory Council. The Treasurer's Office has filed shareholder resolutions and taken action at more than a dozen companies on key corporate governance issues, such as board of director independence and diversity, executive compensation, and global standards for workplace labor and human rights. Among the program's noteworthy early successes:

- **HealthSouth**, a national health care provider, has agreed, at the behest of the Treasurer's Office, to more closely link executive pay and company performance.
- **Norfolk Southern** – a Virginia-based holding company which owns a major freight railroad. – has agreed with the Treasurer to add two new independent board members that will increase the number of outside independent members.
- **Autodesk Inc**. -- which sells design and drafting software and multimedia tools, primarily for the business and professional environment -- has adopted a new board policy that affects executive compensation by restricting the repricing of stock options and a new compensation charter that calls for independence of the compensation committee members and the compensation committee's control over hiring and firing of an outside consultant.
- **Abercrombie & Fitch** and **Jones Apparel Group** have agreed to take actions on global labor standards in response to resolutions co-filed by the Connecticut and New York City pension funds.

"Proper attention to corporate governance matters will enable us to get the best possible financial return on the state pension dollars which our beneficiaries rely on for their future financial security," Nappier said. "A properly constructed and well-run corporate governance program serves pension beneficiaries, and taxpayers, well."

-30-

Contact: **Bernard L. Kavaler**
Director of Communication
(860) 702-3277 FAX (860) 702-3043
BERNARD.KAVALER@PO.STATE.CT.US