2003 Annual Report
Notice of Annual Meeting and Proxy Statement

STAPLES®
that was easy.℠

Company Profile

Staples, Inc. launched the office supplies superstore industry with the opening of its first store in Brighton, Mass., in May 1986. Its goal: to provide small business owners the same low prices on office supplies previously enjoyed only by large corporations. Staples is now a $13.2 billion retailer of office supplies, business services, furniture and technology to consumers and businesses ranging from home-based businesses to Fortune 500 companies in North America and throughout Europe. The company has over 60,000 employees serving customers through more than 1,500 office superstores, mail order catalogs, e-commerce and a contract business.

Financial Highlights

Fiscal Year	**2003(1)**	**2002(2)**	**2001(3)**	**2000*(4)**	**1999**
(dollar amounts in thousands, except per share amounts)					
Statement of Income Data:					
Sales	$13,181,222	$11,596,075	$10,744,373	$10,673,671	$8,936,809
Gross profit	3,622,099	2,943,482	2,570,493	2,576,505	2,215,246
Net income	490,211	446,100	264,970	59,712	314,988
Basic earnings/(loss) per common share(5):					
Staples, Inc. Stock	1.01	0.96	0.40	—	0.42
Staples RD Stock	—	—	0.18	0.16	0.26
Staples.com Stock	—	—	0.01	(0.84)	(0.09)
Diluted earnings/(loss) per common share(5):					
Staples, Inc. Stock	0.99(1)	0.94(2)	0.40	—	0.41
Staples RD Stock	—	—	0.17	0.15	0.26
Staples.com Stock	—	—	0.01	(0.84)	(0.09)
Dividends	—	—	—	—	—
Selected Operating Data (at period end):					
Stores open	1,559	1,488	1,436	1,307	1,129
Balance Sheet Data:					
Working capital	$ 1,355,670	$ 542,150	$ 807,128	$ 644,832	$ 738,547
Total assets	6,503,046	5,721,388	4,093,035	3,983,923	3,846,076
Total long-term debt, less current portion	567,433	732,041	350,225	441,257	500,903
Stockholders' equity	$ 3,662,900	$ 2,658,892	$ 2,054,174	$ 1,749,424	$1,828,813

* Fiscal year 2000 was a 53 week year.

(1) Results of operations for this period reflect a $61.7 million non-cash adjustment for the inclusion of cooperative advertising and other performance based rebates in inventory as required by EITF Issue No. 02-16, "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor" (see Note B to the Annual Report on Form 10-K for the fiscal year ended January 31, 2004, a copy of which is included in this Annual Report to Stockholders). Excluding this adjustment, representing $0.13 per share, earnings per share would have been $1.12.

(2) Results of operations for this period include a tax benefit of $29.0 million related to Staples Communications. In fiscal 2000, the Company recognized an impairment loss related to the goodwill and fixed assets of Staples Communications, which was not recorded as a deduction for tax purposes. In fiscal 2002, the Company received approval from the Internal Revenue Service to take an ordinary deduction for the Company's investment in, and advances to, Staples Communications (see Note J to the Annual Report on Form 10-K for the fiscal year ended January 31, 2004, a copy of which is included in this Annual Report to Stockholders). Excluding this benefit, representing $0.06 per share, earnings per share would have been $0.88.

(3) Results of operations for this period include a store closure charge of $50.1 million ($30.8 million after taxes) related to the closure of 31 underperforming stores (see Note E to the Annual Report on Form 10-K for the fiscal year ended January 31, 2004, a copy of which is included in this Annual Report to Stockholders), a $7.4 million ($4.6 million after taxes) charge to cost of goods sold related to inventory write-downs to net realizable value for the closed stores and $10.7 million ($6.6 million after taxes) in other charges related to workforce reductions and fulfillment and call center closures (see Note D to the Annual Report on Form 10-K for the fiscal year ended January 31, 2004, a copy of which is included in this Annual Report to Stockholders).

(4) Results of operations for this period include $205.8 million of asset impairment and other charges related to the impairment of goodwill and fixed assets associated with Staples Communications and the write-down of investment values in various e-commerce companies. These results also include a $7.3 million ($4.3 million after taxes) store closure credit, reflecting a reduction in the number of stores expected to be closed in connection with the 1998 store closure plan.

(5) From the fourth quarter of fiscal year ending January 29, 2000 through the second quarter of fiscal year ending February 2, 2002, earnings per share is omitted for Staples Inc. as a result of the approval of the Tracking Stock Proposal which changed Staples' capital structure by creating Staples.com Stock and reclassifying Staples, Inc. common stock ("Staples, Inc. Stock") as Staples RD Stock (see Note M to the Annual Report on Form 10-K for the fiscal year ended January 31, 2004, a copy of which is included in this Annual Report to Stockholders). Staples.com's net loss per share has also been retroactively restated to reflect the effect of a recapitalization through a one-for-two reverse stock split approved by the Board on March 7, 2000 and effected on April 5, 2000.

The Company's fiscal year is the 52 or 53 weeks ending the Saturday closest to January 31.

Certain information contained in this Annual Report to Stockholders constitutes forward-looking statements for purposes of the safe harbor provisions of The Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those indicated by such forward-looking statements as a result of risks and uncertainties, including but not limited to: our market is highly competitive and we may not continue to compete successfully; we may be unable to continue to open new stores successfully; our growth may continue to strain operations, which could adversely affect our business and financial results; our operating results may be impacted by changes in the economy; our stock price may fluctuate based on market expectations; our quarterly operating results are subject to significant fluctuation and are impacted by the extent to which sales in new stores result in the loss of sales in existing stores, the mix of products sold, pricing actions of competitors, the level of advertising and promotional expenses and seasonality; our expanding international operations expose us to the unique risks inherent in foreign operations; our debt level and operating lease commitments could impact our ability to obtain future financing and continue our growth strategy; a California wage and hour class action lawsuit; and those other factors discussed in our annual report on Form 10-K for the year ended January 31, 2004, a copy of which is included in this Annual Report to Stockholders, and any subsequent periodic reports filed by us with the SEC. While we may elect to update forward-looking statements at some point in the future, we specifically disclaim any obligation to do so, even if our estimates change.

Letter To Shareholders:

Thanks to the efforts of our associates, 2003 was Staples' best year ever, maintaining our position as the largest office products company in the world. Building on the successful strategies we implemented in 2002 and driving continued momentum in each of our businesses, we delivered record sales, profits and returns in 2003. Sales grew 14% to $13.2 billion, benefiting from a robust 4% comparable store sales increase in our North American Retail business. Our operating margin reached an all time high of 6.8%, and earnings per share after adjustments[1] rose 27% to $1.12 from $0.88 in 2002. Cash flow exceeded our expectations, and we ended the year with a very strong balance sheet anchored by $1.4 billion in cash and short term investments. Recognizing this strong performance, *BusinessWeek* magazine ranked Staples #39 in its 2004 list of the 50 best-performing companies in the S&P 500.

Since Staples founded the office superstore industry in 1986, investors have known us as a growth company. Over the past two years, we have become much more than just a good growth story. We've consistently improved our operating results through an intense focus on execution, we've demonstrated strong capital discipline while investing appropriately in our growing business, and we've managed our working capital much better. As a result, we've begun to generate substantial surplus cash flows, and expect this to continue. We're now at a stage where we're able not only to continue to fund attractive growth, but also to return cash to shareholders. In March of 2004, we announced the initiation of an annual cash dividend payable in May 2004 and a stock repurchase program for up to one billion dollars to be implemented in 2004 and 2005.

How did we transform our business so dramatically? Over the past few years, we've developed and executed a differentiated business model, combining three key strategic changes. First, we increased our focus on small business and home office customers, achieved through changes in our merchandising, marketing, and customer service.

Second, we began to deliver on our new brand promise, "We make buying office products *easy*." Our extensive customer research told us that price and broad selection are important, but not as important as providing an easy shopping experience that saves time and hassle. A key component of our easy brand promise is offering Staples brand products, a meaningful driver of sales and margin improvement in 2003. Staples brand products represented 13% of total company sales at year-end, and we plan to increase that percentage, while improving the quality of the products we offer and focusing on innovation.

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[1] For a reconciliation of these adjusted earnings per share amounts to earnings per share calculated in accordance with generally accepted accounting principles, please refer to footnotes 1 and 2 in the table on the preceding page.

Third, we implemented our business improvement plan, a comprehensive set of initiatives designed to drive profitable sales, boost operating margins and improve asset utilization. More than two years after launching this program, the improvement plan has become part of Staples' DNA. As projects are completed, new ones are added to the list — currently about 30 initiatives are underway — with the ultimate goal of driving return on net assets and differentiating our company.

The excellent results we achieved in 2003 in each of our three businesses prove that executing these three integrated strategies is having a positive impact on our performance:

North American Retail:

North American Retail achieved excellent results in 2003, growing sales 9% compared to 2002 to $7.8 billion. Operating income increased 27% to reach a 6.7% operating margin. We've invested heavily in keeping our strong network of 1,358 stores fresh and appealing for our customers. Since we first launched the differentiated "Dover" store model in 2001, we have implemented it in 180 new stores and 163 remodels. Through 450 mini-remodels completed during 2003, we captured many of the benefits of the improved format with a lower capital investment. To adapt our offering to different market opportunities, we also developed an exciting smaller store format, creating an opportunity to add hundreds of stores in smaller markets. We ended 2003 with seven of these stores open, and expect to add 15 more in 2004. We see ample opportunity to continue opening a variety of retail formats in both new and existing markets, and are heartened by the strong new store productivity we've achieved over the last two years.

We've identified expanding our high margin copy and print business as an important growth platform. To go after this significant market opportunity, we've redesigned our copy centers to make them more convenient for customers as well as visually set them apart from the rest of the store. We also revamped associate training and improved quality standards throughout the chain.

We believe great customer service will differentiate Staples and we've rolled out a series of initiatives designed to make buying office products easy. As a result of these efforts to improve the shopping experience, our customer service metrics reached all time highs in 2003.

With plenty of opportunity remaining to further differentiate our store experience, North American Retail is poised for continued strong top and bottom line performance.

North American Delivery:

Our North American Delivery business, with Staples Business Delivery, Quill and Contract each serving a distinct customer segment, remains our fastest growing, most profitable, and highest return business. Leading the industry in growth and profitability, 2003 sales grew 10% compared to 2002 to $3.7 billion, while operating profit increased 16% to 8.2% of sales. All three business units grew sales through successful customer acquisition strategies and improved service, which in turn drove higher customer retention rates.

Our easy brand promise plays a key role in Delivery, where we've made important changes to differentiate the customer experience. We've made it easier to shop and buy through improved catalogs and websites, and we're driving better customer service as demonstrated by increases in our perfect order metric scores. We're also making progress improving our supply chain to better serve customers.

Growing sales of Staples own brand products is also a big opportunity in our Delivery business. Quill provides us with a useful benchmark, with almost a third of its sales coming from Quill brand products. In 2003, we invested in our sales force, in marketing, and in customer service to accelerate our top line growth and drive margin expansion, and are confident that our North American Delivery business is well positioned to continue to grow and to drive market share gains and profit improvement.

Europe:

Europe, where we now operate more than 200 stores in five countries and a dynamic delivery business in seven countries, is an increasingly important part of both our growth and margin improvement story, representing 12% of total company sales and 7% of our operating profit in 2003. We've exported our "Back to Brighton" strategies to Europe to drive profitable sales and improve operating margins, and began to see the results in 2003. Sales in our European operations increased 54% compared to 2002 to $1.6 billion, and operating income rose to $64 million, or 4% of sales, a dramatic improvement. All businesses were profitable for the year, including German retail, where the team's successful turnaround plan led to profitability for the first time ever. Our European catalog business also improved its profitability. We're very satisfied with our progress in Europe. Our market position today is strong, and we're encouraged by both the sustainable growth prospects and the profit improvement opportunities before us.

Over the course of 2003, we also made solid advances in terms of our commitment to good corporate citizenship. While we've worked hard throughout our company's history to set an example for social responsibility, this year marks the first time we have included a section in this Annual Report to focus on our achievements in the areas of corporate governance, environmental stewardship, making Staples a great place to work, and community outreach. We've made real progress in our journey to better serve the many stakeholders that drive our success. This progress was recently recognized when *Business Ethics* magazine named

Staples #47 on their list of the 100 Best Corporate Citizens of 2004, a significant improvement from our 2003 showing at #87 on the list.

We're proud of what we achieved in 2003, but today we're focused on what will differentiate us going forward. Staples' five primary objectives for 2004 build upon the strategic foundation that drove our success in 2002 and 2003. Our team has pledged to:

- Deliver on our Easy brand promise to create a differentiated customer experience by making buying office products *easy*;
- Drive supply chain performance by improving merchandising, distribution and fulfillment center management;
- Take Staples brand product development to the next level, with greater differentiation, better quality and innovative packaging;
- Drive return on net assets through our continued focus on profitable sales, margin improvement and asset utilization; and
- Develop new growth opportunities and cultivate innovation throughout our company.

Our achievements in 2003 and our high expectations for continued strong performance in the years ahead would be impossible without the dedication of our 60,000 loyal associates. I commend them for their tireless efforts to bring Staples to where we are today and for their commitment to achieving our plans in 2004 and beyond. Our people remain the key to our success, with an incredible focus on executing the basics, on making it easy for our customers, and on driving sustainable improvement in all of our businesses. This team's energy and excitement about Staples' future is truly inspiring. I would also like to thank our customers, our vendor partners, and our shareholders for their continued trust and support.

Ron Sargent

Ron Sargent
President and Chief Executive Officer

STAPLES, INC.
500 Staples Drive
Framingham, Massachusetts 01702

Notice of Annual Meeting of Stockholders to be Held on June 17, 2004

The Annual Meeting of Stockholders of Staples, Inc. will be held at the offices of Hale and Dorr LLP, 60 State Street, Boston, Massachusetts, on June 17, 2004 at 9:30 a.m., local time, to consider and act upon the following matters:

(1) To elect four Class 1 Directors to serve for a three-year term expiring at the 2007 Annual Meeting of Stockholders.

(2) To approve Staples' 2004 Stock Incentive Plan.

(3) To approve Staples' Amended and Restated 1998 Employee Stock Purchase Plan increasing from 8,400,000 to 10,500,000 the number of shares of common stock authorized for issuance under the plan.

(4) To approve Staples' Amended and Restated International Employee Stock Purchase Plan increasing from 250,000 to 850,000 the number of shares of common stock authorized for issuance under the plan.

(5) To ratify the selection by the Audit Committee of Ernst & Young LLP as Staples' independent auditors for the current fiscal year.

(6) To act on four shareholder proposals expected to come before the meeting.

(7) To transact such other business as may properly come before the meeting or any adjournment thereof.

Stockholders of record at the close of business on April 19, 2004 will be entitled to notice of and to vote at the meeting or any adjournment thereof. The stock transfer books will remain open.

By Order of the Board of Directors,

Jack A. VanWoerkom, *Secretary*

Framingham, Massachusetts
May 5, 2004

IT IS IMPORTANT THAT YOUR SHARES BE REPRESENTED AT THE MEETING. THEREFORE, WHETHER OR NOT YOU EXPECT TO ATTEND THE MEETING, PLEASE SUBMIT YOUR PROXY (1) OVER THE INTERNET, (2) BY TELEPHONE OR (3) BY MAIL. FOR SPECIFIC INSTRUCTIONS, PLEASE REFER TO THE QUESTIONS AND ANSWERS BEGINNING ON THE FIRST PAGE OF THIS PROXY STATEMENT AND THE INSTRUCTIONS ON THE ENCLOSED PROXY CARD.

"STREET NAME" HOLDERS WHO PLAN TO ATTEND THE MEETING WILL NEED TO BRING A COPY OF A BROKERAGE STATEMENT REFLECTING STOCK OWNERSHIP IN STAPLES, INC. AS OF THE RECORD DATE.

STAPLES, INC.
500 Staples Drive
Framingham, Massachusetts 01702

PROXY STATEMENT
For the Annual Meeting of Stockholders on June 17, 2004

This proxy statement is furnished in connection with the solicitation of proxies by the Board of Directors of Staples, Inc. ("We", "Staples" or the "Company") for use at the Annual Meeting of Stockholders to be held on June 17, 2004 beginning at 9:30 a.m. at the offices of Hale and Dorr LLP, 60 State Street, Boston, Massachusetts, and at any adjournment or postponement of that meeting. An annual report, consisting of our Annual Report on Form 10-K for the fiscal year ended January 31, 2004 and other information required by the rules of the Securities and Exchange Commission, is being mailed to stockholders, along with these proxy materials, on or about May 5, 2004.

A copy of our Annual Report on Form 10-K for the fiscal year ended January 31, 2004 as filed with the Securities and Exchange Commission, except for exhibits, will be furnished without charge to any stockholder upon written or oral request to Staples, Inc., Attention: Corporate Secretary, 500 Staples Drive, Framingham, MA 01702, telephone: (508) 253-5000.

INFORMATION ABOUT THE ANNUAL MEETING AND VOTING

What is the purpose of the Annual Meeting?

At our Annual Meeting, stockholders will act upon the matters outlined in the accompanying notice of meeting, including the election of Directors, approval of our 2004 Stock Incentive Plan, approval of our Amended and Restated 1998 Employee Stock Purchase Plan and our Amended and Restated International Employee Stock Purchase Plan, ratification of our independent auditors, consideration of four shareholder proposals and consideration of such other business as may properly come before the meeting.

Who is entitled to vote?

Only stockholders of record at the close of business on the record date, April 19, 2004, are entitled to receive notice of the Annual Meeting and to vote their shares of Staples common stock at the meeting, or any postponement or adjournment of the meeting. Holders of Staples common stock are entitled to one vote per share.

Who can attend the meeting?

All stockholders as of the record date, or their duly appointed proxies, may attend the meeting. Please note that if you hold your shares in "street name" (through a broker or other nominee), you will need to bring a copy of a brokerage statement reflecting your stock ownership in Staples as of the record date.

What constitutes a quorum?

The presence at the meeting, in person or by proxy, of the holders of a majority of the shares of Staples common stock outstanding on the record date will constitute a quorum, permitting business to be conducted at the meeting. As of the record date, 498,181,991 shares of Staples common stock were outstanding and entitled to vote. Proxies that are received and marked as withholding authority, abstentions, and broker non-votes (where a broker or nominee does not exercise discretionary authority to vote on a matter) will be included in the calculation of the number of shares considered to be represented at the meeting.

How do I vote?

If you complete, sign and return the accompanying proxy card, it will be voted as you direct. If no choice is specified on a signed proxy card, the persons named as proxies will vote in favor of the matters to be voted upon other than the shareholder proposals, and will vote against all four shareholder proposals.

If the shares you own are held in "street name" by a bank or brokerage firm, your bank or brokerage firm, as the record holder of your shares, is required to vote your shares according to your instructions. Your bank or broker will send you directions on how to vote those shares. Under the rules of the New York Stock Exchange, if you do not give instructions to your bank or brokerage firm, it will still be able to vote your shares with respect to certain "discretionary" items, but will not be allowed to vote your shares with respect to certain "non-discretionary" items. In the case of non-discretionary items, the shares will be treated as "broker non-votes."

If you are a stockholder as of the record date and attend the meeting, you may personally deliver your completed proxy card or vote in person at the meeting.

Can I submit a proxy by the Internet or by telephone?

If you are a registered stockholder (where you hold your stock in your own name), you may submit a proxy by the Internet by following the instructions at http://www.eproxy.com/spls or by telephone by calling 1-800-435-6710. If your shares are held in "street name", you will need to contact your broker or other nominee to determine whether you will be able to submit a proxy by the Internet or by telephone.

Can I change my proxy after I return my proxy card?

Yes. Any proxy may be revoked by a stockholder at any time before it is exercised at the Annual Meeting by delivering to our Corporate Secretary a written notice of revocation or a duly executed proxy bearing a later date, or by voting in person at the meeting.

What is the vote required to approve each matter?

Election of Directors — The affirmative vote of the holders of a plurality of the shares of Staples common stock voting on the matter is required for the election of Directors. A properly executed proxy marked "WITHHOLD AUTHORITY" with respect to the election of one or more Directors, and any broker non-votes, will not be counted as a vote cast on such matter, although they will be counted for purposes of determining whether there is a quorum.

Approval of the 2004 Stock Incentive Plan — The affirmative vote of the holders of a majority of the shares of Staples common stock voting on the matter is required for the approval of the 2004 Stock Incentive Plan. A properly executed proxy marked "ABSTAIN", and any broker non-votes, will not be counted as a vote cast on such matter, although they will be counted for purposes of determining whether there is a quorum.

Approval of the Amended and Restated 1998 Employee Stock Purchase Plan — The affirmative vote of the holders of a majority of the shares of Staples common stock voting on the matter is required for the approval of the Amended and Restated 1998 Employee Stock Purchase Plan. A properly executed proxy marked "ABSTAIN", and any broker non-votes, will not be counted as a vote cast on such matter, although they will be counted for purposes of determining whether there is a quorum.

Approval of the Amended and Restated International Employee Stock Purchase Plan — The affirmative vote of the holders of a majority of the shares of Staples common stock voting on the matter is required for the approval of the Amended and Restated International Employee Stock Purchase Plan. A properly executed proxy marked "ABSTAIN", and any broker non-votes, will not be counted as a vote cast on such matter, although they will be counted for purposes of determining whether there is a quorum.

Independent Auditors — The affirmative vote of the holders of a majority of the shares of Staples common stock voting on the matter is required for the ratification of the selection of Ernst & Young LLP as our independent auditors for the current fiscal year. A properly executed proxy marked "ABSTAIN", and any broker non-votes, will not be counted as a vote cast on such matter, although they will be counted for purposes of determining whether there is a quorum.

Approval of the Shareholder Proposals — The affirmative vote of the holders of a majority of the shares of Staples common stock voting on the matter is required for the approval of each of the shareholder proposals described in this proxy statement. A properly executed proxy marked "ABSTAIN", and any broker non-votes, will not be counted as a vote cast on such matter, although they will be counted for purposes of determining whether there is a quorum.

Are there other matters to be voted on at the meeting?

Other than the matters discussed in this proxy statement, the Board of Directors does not know of any other matters which may come before the meeting. If any other matters are properly presented to the meeting, it is the intention of the persons named in the accompanying proxy card to vote, or otherwise act, in accordance with their best judgment.

THE BOARD OF DIRECTORS ENCOURAGES STOCKHOLDERS TO ATTEND THE MEETING. WHETHER OR NOT YOU PLAN TO ATTEND, YOU ARE URGED TO SUBMIT YOUR PROXY. PROMPT RESPONSE WILL GREATLY FACILITATE ARRANGEMENTS FOR THE MEETING AND YOUR COOPERATION WILL BE APPRECIATED. STOCKHOLDERS WHO ATTEND THE MEETING MAY VOTE THEIR STOCK PERSONALLY EVEN THOUGH THEY HAVE SENT IN THEIR PROXIES.

Other Matters

All costs of solicitation of proxies will be borne by us. We have engaged Mellon Investor Services L.L.C. to assist us with planning and organizational matters, along with certain ministerial services, in connection with the proxy solicitation process at a cost anticipated not to exceed $15,000. In addition to solicitations by mail, our Directors, officers and regular employees, without additional remuneration, may solicit proxies by telephone, electronic communication and personal interviews. Brokers, custodians and fiduciaries will be requested to forward proxy soliciting material to the owners of stock held in their names, and we will reimburse them for their related out-of-pocket expenses.

Stockholders who intend to present stockholder proposals at the 2005 Annual Meeting of Stockholders and desire to include such proposals in our proxy materials relating to that meeting should contact our Corporate Secretary at 500 Staples Drive, Framingham, MA 01702. Such stockholder proposals must be received at our principal corporate offices in Framingham, Massachusetts at the address set forth in the preceding sentence not later than January 5, 2005 and must be in compliance with applicable laws and Rule 14a-8 under the Securities Exchange Act of 1934 in order to be considered for possible inclusion in the proxy statement and form of proxy for that meeting.

If a stockholder wishes to present a proposal at our 2004 Annual Meeting of Stockholders and the proposal is not intended to be included in our proxy statement for such meeting, the stockholder must give advance notice to us by May 15, 2004, in accordance with our By-laws. If a stockholder gives notice of such a proposal after the May 15, 2004 deadline, the stockholder will not be permitted to present the proposal to the stockholders for a vote at the meeting. If a stockholder wishes to present a proposal at our 2005 Annual Meeting of Stockholders and the proposal is not intended to be included in our proxy statement for such meeting, the stockholder must give advance notice to us in accordance with our By-laws, as further described below. If a stockholder gives notice of such a proposal after the applicable deadline, the stockholder will not be permitted to present the proposal to the stockholders for a vote at the meeting. For the 2005 Annual Meeting of Stockholders, our Corporate Secretary generally must receive such a notice at the address noted above not less than 60 nor more than 90 days prior to the 2005 Annual Meeting; provided that, in the event that less than 70 days' notice or prior public disclosure of the date of the meeting is given or made, our By-laws provide that notice by the stockholder must be received not later than the close of business on the 10^{th} day following the date on which such notice of the date of the 2005 Annual Meeting is mailed or such public disclosure is made, whichever occurs first.

A stockholder entitled to vote for the election of directors of the Company may nominate an individual for election to our Board of Directors at a meeting of stockholders provided that the stockholder complies with the notice procedures set forth in our By-laws. Such nominations by stockholders must be made by written notice to our Corporate Secretary, who must generally receive such notice not less than 60 days nor more than 90 days prior to the meeting at which the election of such nominee is to be considered; provided that, in the event that less than 70 days' notice or prior public disclosure of the date of the meeting is given or made, such notice must be received not later than the close of business on the 10^{th} day following the date on which such notice of the date of the meeting is mailed or such public disclosure is made, whichever occurs first. The written notice must also contain the information specified in our By-laws.

As of the date of this proxy statement, the Board of Directors does not know of any other matters which may come before the Annual Meeting. Should any other matter requiring a vote of the stockholders arise and be properly presented at the Annual Meeting, the proxy included with this proxy statement confers upon the persons named in the proxy and designated to vote the shares discretionary authority to vote, or otherwise act, with respect to any such matter, in accordance with their best judgment.

Householding of Annual Meeting Materials

Some banks, brokers and other nominee record holders may be participating in the practice of "householding" proxy statements and annual reports. This means that only one copy of our proxy statement and annual report may have been sent to multiple stockholders in your household. We will promptly deliver a separate copy of the document to you if you write or call our Corporate Secretary at the following address or phone number: 500 Staples Drive, Framingham, Massachusetts 01702, telephone (508) 253-5000. If you want to receive separate copies of the annual report and proxy statement in the future, or if you are receiving multiple copies and would like to receive only one copy for your household, you should contact your bank, broker, or other nominee record holder, or you may contact us at the above address and phone number.

Beneficial Ownership of Common Stock

The following table sets forth the beneficial ownership of our common stock as of April 8, 2004 (i) by each person who is known by us to beneficially own more than 5% of the outstanding shares of our common stock, (ii) by each Director and nominee for Director, (iii) by each of the Senior Executives named in the Summary Compensation Table set forth under the caption "Executive Compensation" below, and (iv) by all current Directors, nominees for Directors and executive officers as a group:

Name of beneficial owner	Number of shares beneficially owned (1)	Shares acquirable within 60 days (2)	Percentage of common stock beneficially owned (3)
5% Stockholders			
FMR Corp.	41,076,165(4)	0	8.24%
82 Devonshire Street			
Boston, MA 02109			
Directors, Nominees for Director and Senior Executives			
Thomas G. Stemberg	2,457,516(5)	3,865,000	1.26%
Ronald L. Sargent	862,041	3,643,435	*
Martin Trust	243,839(6)	113,437	*
Rowland T. Moriarty	186,281(7)	113,437	*
Robert C. Nakasone	175,205(8)	113,437	*
Basil L. Anderson	154,619	437,020	*
Paul F. Walsh	95,245(9)	88,125	*
James L. Moody, Jr.	42,955	105,375	*
George J. Mitchell	33,007	52,500	*
Mary Elizabeth Burton	12,500	90,937	*
Brenda C. Barnes	3,200	6,000	*
Arthur M. Blank	2,400	13,500	*
Richard J. Currie	1,200	6,000	*
Gary L. Crittenden	0	0	*
Joseph S. Vassalluzzo	307,376	1,265,105	*
John J. Mahoney	248,132	1,421,460	*
All current Directors, nominees for Director and executive officers as a group (20 persons)	4,995,595	10,820,694	3.11%

* Less than 1%

(1) Each person has sole investment and voting power with respect to the shares indicated, except as otherwise noted. The inclusion herein of any shares as beneficially owned does not constitute an admission of beneficial ownership. Does not reflect the number of shares issuable upon the exercise of stock options available on April 8, 2004 or within 60 days thereafter.

(2) Reflects the number of shares issuable upon the exercise of stock options available on April 8, 2004 or within 60 days thereafter.

(3) Number of shares deemed outstanding includes 498,207,427 shares of Staples common stock outstanding as of April 8, 2004 and any options for shares that are exercisable by such beneficial owner within 60 days after April 8, 2004.

(4) Fidelity Management & Research Company ("Fidelity"), a wholly owned subsidiary of FMR Corp. ("FMR") and an investment adviser, is the beneficial owner of 39,714,308 shares as a result of acting as investment adviser to various investment companies. Edward C. Johnson 3d, Chairman of FMR ("ECJ"), FMR, through its control of Fidelity, and the Fidelity Funds each has sole power to dispose of the 39,714,308 shares owned by the Fidelity Funds. Neither FMR nor ECJ has sole power to vote or to direct the voting of the shares owned by the Fidelity Funds, which power resides with the Fidelity Funds' Boards of Trustees. Fidelity carries out the voting of the shares under written guidelines established by the Fidelity Funds' Boards of Trustees. Fidelity Management Trust Company ("FMTC"), a wholly owned

subsidiary of FMR and a bank, is the beneficial owner of 1,067,461 shares as a result of its serving as investment manager of the institutional account(s). ECJ and FMR, through its control of FMTC, each has sole dispositive power over the 1,067,461 shares and sole power to vote or to direct the voting of 955,961 of the shares, and no power to vote or to direct the voting of 111,500 of the shares owned by the institutional account(s) described in the immediately preceding sentence. Strategic Advisers, Inc. ("SA"), a wholly owned subsidiary of FMR and an investment adviser, is the beneficial owner of 11,196 shares. Fidelity International Limited ("FIL"), a Bermudan joint stock company and an investment adviser, is the beneficial owner of 283,200 shares. FIL has sole power to vote and sole power to dispose of the 283,200 shares. Formerly a majority-owned subsidiary of Fidelity, FIL currently operates as an entity independent of FMR and Fidelity. A partnership controlled by ECJ and members of his family owns shares of FIL voting stock and ECJ is Chairman of FIL. Members of the ECJ family are the predominant owners of Class B shares of common stock of FMR, representing approximately 49% of the voting power of FMR. ECJ owns 12.0% and Abigail Johnson, a Director of FMR, owns 24.5% of the aggregate outstanding voting stock of FMR. The Johnson family group and all other Class B shareholders have entered into a shareholders' voting agreement under which all Class B shares will be voted in accordance with the majority vote of Class B shares. Accordingly, through their ownership of voting common stock and the execution of the shareholders' voting agreement, members of the Johnson family may be deemed, under the Investment Company Act of 1940, to form a controlling group with respect to FMR. This is based on FMR's Schedule 13G/A filed with the Securities and Exchange Commission on February 17, 2004.

(5) Includes 146,092 shares owned by Thomas G. Stemberg 2002 Trust #2 and 4,947 shares owned by Mr. Stemberg's wife.

(6) Includes 17,083 shares owned by Mr. Trust's wife, 24,136 shares owned by 1999 MTDT Descendants' Trust and 975 shares owned by Trust Family Foundation.

(7) Includes 39,480 shares owned by Mr. Moriarty's children and 55,000 shares owned by Mr. Moriarty's wife.

(8) Includes 164,005 shares owned by Robert C. Nakasone Trust.

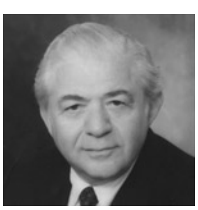
(9) Includes 165 shares held by Paul F. Walsh, IRA.

PROPOSAL 1 — ELECTION OF DIRECTORS

Our Board of Directors is divided into three classes, with members of each class holding office for staggered three-year terms (in all cases subject to the election and qualification of their successors or to the earlier of their death, resignation or removal). The persons named in the enclosed proxy will, upon receipt of a properly executed proxy, vote to elect Arthur M. Blank, Gary L. Crittenden, Martin Trust and Paul F. Walsh as Class 1 Directors for a term expiring at the 2007 Annual Meeting, unless authority to vote for the election of any or all of the nominees is withheld by marking the proxy to that effect. One Class 1 Director position will become vacant as James L. Moody, Jr., one of the current Class 1 Directors, is retiring and will not stand for re-election. The Board has not identified an individual to fill this vacancy at this time. Proxies cannot be voted for a greater number of persons than the number of nominees named. Each of the nominees is currently a Staples Class 1 Director whose term expires at the 2004 Annual Meeting. All of the nominees have indicated their willingness to serve if elected, but if any should be unable or unwilling to stand for election, proxies may be voted for a substitute nominee designated by the Board of Directors.

Set forth below are the names and certain information with respect to each of the nominees to serve as a Director of Staples.

Nominees to Serve as Directors for a Three-Year Term Expiring at the 2007 Annual Meeting (Class 1 Directors)

		Served as a Director Since
	**Arthur M. Blank,** age 61 Chairman, President & Chief Executive Officer of the Atlanta Falcons since February 2002. Mr. Blank has also been Chairman, President and Chief Executive Officer of AMB Group, LLC since February 2001 and Chairman of The Arthur M. Blank Family Foundation since it was founded in 1995. Mr. Blank is a co-founder of The Home Depot, Inc., served as its Co-Chairman of the Board of Directors from December 2000 until his retirement in May 2001 and was a Director of Home Depot from 1978 until May 2001. Mr. Blank served as President and Chief Executive Officer of Home Depot from 1997 to May 2000 and as its President and Chief Operating Officer from 1978 to 1997. Mr. Blank is also a Director of Cox Enterprises, Inc.	August 2001
	**Gary L. Crittenden,** age 50 Chief Financial Officer of American Express Company since June 2000. Mr. Crittenden was Chief Financial Officer of Monsanto Company, a life sciences company, from September 1998 to May 2000. Mr. Crittenden is also a director of TJX Companies.	March 2004
	**Martin Trust,** age 69 President of Brandot (USA), LLC, a holding company engaged in the production of apparel and textile products, since October 2003. Mr. Trust was Senior Advisor to Limited Brands from August 2001 to October 2003. Prior to that, he served as President and Chief Executive Officer of Mast Industries, Inc., a contract manufacturer, importer and wholesaler of women's apparel and wholly-owned subsidiary of Limited Brands, from 1970 to August 2001.	1987

		Served as a Director Since
	**Paul F. Walsh,** age 55 Chairman and Chief Executive Officer of eFunds Corporation, a transaction processing and risk management company, since September 2002. Prior to joining eFunds, Mr. Walsh was Chairman and CEO of Clareon Corporation, a privately held electronic payments provider based in Portland, Maine, from March 2000 to September 2002. From January 1999 to March 2000, Mr. Walsh served as Chairman of iDeal Partners, a private equity firm funded in part by Bank Boston Capital and Berkshire Partners. From February 1995 to September 1998, Mr. Walsh was President and CEO of Wright Express Corporation, an information and financial services company.	1990

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR THE ELECTION OF EACH OF THE NOMINEES AS DIRECTORS.

PROPOSAL 2 — APPROVAL OF STAPLES' 2004 STOCK INCENTIVE PLAN

We are asking our stockholders to vote to approve our 2004 Stock Incentive Plan (the "2004 Plan") that will provide stock compensation to associates, executive management and directors based on level of responsibility, company performance and other factors. The Board of Directors believes that Staples' future success depends, in large part, upon our ability to maintain a competitive position in attracting, retaining and motivating key personnel. Stockholder approval of the 2004 Plan is critical to enabling us to:

1. continue to use equity compensation to attract, retain and motivate talented associates, executive management and directors;
2. align further the interests of associates, executive management and directors with stockholders by continuing our historical commitment to linking associate, executive management and director compensation to our stock's long term performance;
3. strengthen the relationship between long term company performance and senior executive compensation through greater emphasis on performance based equity compensation;
4. shift our mix of long term incentives toward a greater use of restricted stock and a reduced emphasis on the use of stock options, which we believe will enable us to reduce our annual stock usage rate, or run rate, with our run rate in 2005 expected to be reduced from 1.7% to approximately 1.2% of our total shares outstanding; and
5. continue our compensation and governance best practices, including but not limited to prohibitions on evergreen provisions, stock option repricing, discounted stock options, and reload stock options.

In March 2004, our Board of Directors adopted the 2004 Plan, subject to stockholder approval. We are seeking authorization to issue up to 23,000,000 shares of Staples common stock (subject to adjustment in the event of stock splits and other similar events) pursuant to awards granted under the 2004 Plan, representing (i) 18,000,000 new shares, and (ii) 5,000,000 shares currently available to us for issuance under our Amended and Restated 1992 Equity Incentive Plan (the "1992 Plan"). As a result of our shift towards greater use of restricted stock, we expect 23,000,000 shares to be a sufficient number of shares to meet our compensation needs through the end of fiscal 2006. If we obtain stockholder approval of the 2004 Plan, we will not grant any additional options or other awards under any of the 1992 Plan, the Amended and Restated 1990 Director Stock Option Plan (the "1990 Director Plan") or the 1997 United Kingdom Company Share Option Plan (the "UK Plan"); however, all then outstanding options and awards previously granted under those plans will remain in effect.

The 2004 Plan also permits us to reuse shares that were previously awarded as options or restricted stock under the 1992 Plan but are returned to the 1992 Plan for any reason such as termination of options without the underlying shares being issued or, in the case of restricted stock, if such shares are repurchased by Staples. Since this represents reusing previously used shares, this reuse does not increase the dilution caused by the Company's equity incentive plans. Based on our experience, we believe approximately 2,000,000 to 3,000,000 shares per year may become available to us from the 1992 Plan for reuse under the 2004 Plan. The maximum number of shares that could potentially become available to us under the 1992 Plan for reuse under the 2004 Plan is 45,000,000, since that is approximately the aggregate number of shares currently subject to return or repurchase under the 1992 Plan.

Description of the 2004 Plan

The following is a brief summary of the 2004 Plan, a copy of which is attached as Appendix A *to the electronic copy of the filing of this proxy statement with the Securities and Exchange Commission and may be accessed from the Securities and Exchange Commission's Internet home page (www.sec.gov). In addition, a copy of the 2004 Plan may be obtained from our Corporate Secretary. The following summary is qualified in its entirety by reference to the 2004 Plan.*

Types of Awards

The 2004 Plan provides for the grant of non-statutory stock options, restricted stock, restricted stock units, stock appreciation rights, incentive stock options intended to qualify under Section 422 of the Internal Revenue Code of 1986, as amended (the "Code") and other stock-based awards. No more than 50% of the total number of shares of Staples common stock covered by the Plan may be issued pursuant to awards that are not options or stock appreciation rights. No more than 1,150,000 shares in the aggregate of Staples common stock available under the 2004 Plan may be subject to awards made to Directors of Staples who are not also associates of Staples.

Incentive Stock Options and Non-statutory Stock Options. Optionees receive the right to purchase a specified number of shares of Staples common stock at a specified option price and subject to such other terms and conditions as are specified in connection with the option grant. Options may not be granted at an exercise price less than the fair market value of the Staples common stock on the date of grant. Options may not be granted for a term in excess of ten years. Outstanding options may not be amended to provide an exercise price per share which is lower than the then current exercise price per share of such outstanding options. The Board of Directors may not cancel any outstanding options and grant in substitution for such options new options under the 2004 Plan covering the same or a different number of shares of Staples common stock and having an exercise price per share lower than the then current exercise price per share of the cancelled options. The Board of Directors will, however, have the power to amend stock options to convert them into stock appreciation rights and make other amendments to options, provided that the optionee must consent to such action unless the Board of Directors determines that the action would not materially and adversely affect the optionee.

Restricted Stock and Restricted Stock Unit Awards. Restricted stock awards entitle recipients to acquire shares of Staples common stock, subject to the right of Staples to repurchase all or part of such shares from the recipient in the event that the conditions specified in the applicable award are not satisfied prior to the end of the applicable restriction period established for such award. Restricted stock unit awards entitle the recipient to receive shares of Staples common stock to be delivered in the future subject to such terms and conditions on the delivery of the shares as the Board of Directors may determine.

Restricted stock and restricted stock unit awards granted under the 2004 Plan may vest (1) solely on the basis of passage of time, (2) solely based on achievement of specified performance criteria or (3) upon the passage of time, subject to accelerated vesting if specified performance criteria are met. We also refer to restricted stock awards described in clause (3) above as performance accelerated restricted stock awards, or PARS. The Compensation Committee may determine, at the time of grant, that a restricted stock or restricted stock unit award being made to an officer of Staples will vest solely upon achievement of specified performance criteria designed to qualify for deduction under Section 162(m) of the Code. The performance criteria for each restricted stock or restricted stock unit award intended to so qualify for purposes of Section 162(m) of the Code will be based on one or more of the following measures: sales, earnings per share, return on net assets, return on equity, and customer service levels. The Compensation Committee may also determine that special, one-time or extraordinary gains and/or losses or other special, one-time or extraordinary events should or should not be included or considered in the calculation of such measures. In addition, customer service target levels will be based on predetermined tests of customer service levels such as scores on blind test ("mystery") shopping, customer comment card statistics, customer relations statistics (e.g., number of customer complaints), and delivery response levels. The Compensation Committee believes that disclosure of further detail concerning the performance criteria for each plan year may be confidential commercial or business information, the disclosure of which would adversely affect the Company.

Except as noted below, (a) restricted stock and restricted stock units that vest solely on the basis of passage of time may vest no faster than ratably over three years and (b) restricted stock and restricted stock units that vest based on achievement of specified performance criteria or provide for accelerated vesting based upon achievement of specified performance criteria may not vest earlier than the first anniversary of the date of grant. These vesting restrictions do not apply to restricted stock and restricted stock unit awards collectively with respect to up to 5% of the total number of shares of Staples common stock covered by the 2004 Plan (excluding any shares that become available in connection with awards made under the 1992 Plan). In addition, the Board of Directors may make exceptions to the vesting limitations described above in the event of the recipient's death, a change in control of Staples or other extraordinary circumstances specified in the 2004 Plan.

Stock Appreciation Rights. A stock appreciation right, or SAR, is an award entitling the holder on exercise to receive, at the election of the Company, an amount in cash or Staples common stock or a combination thereof determined in whole or in part by reference to appreciation, from and after the date of grant, in the fair market value of a share of Staples common stock. SARs may be based solely on appreciation in the fair market value of Staples common stock or on a comparison of such appreciation with some other measure of market growth such as (but not limited to) appreciation in a recognized market index.

Other Stock-Based Awards. Under the 2004 Plan, the Board of Directors has the right to grant other awards of Staples common stock or awards otherwise based upon Staples common stock or other property, including without limitation rights to purchase shares of Staples common stock, having such terms and conditions as the Board of Directors may determine.

Eligibility to Receive Awards

Our associates, officers, directors, consultants, advisors and other service providers are eligible to be granted awards under the 2004 Plan. The maximum number of shares with respect to which awards may be granted to any participant under the 2004 Plan may not exceed 2,300,000 shares per calendar year.

Stock Available for Awards

As discussed above, awards may be made under the 2004 Plan for up to 23,000,000 shares of common stock. In addition, the 2004 Plan permits us to issue shares that were originally awarded as options or restricted stock under the 1992 Plan but are returned to the 1992 Plan in the event any options or restricted stock awards granted under the 1992 Plan expire, are terminated, surrendered or canceled without having been fully exercised, are forfeited in whole or in part, or result in any Staples common stock not being issued because (1) the option or restricted stock award is settled for cash or (2) shares are used to satisfy the exercise price or a tax withholding obligation. Based on our experience, we believe approximately 2,000,000 to 3,000,000 shares per year may become available to us from the 1992 Plan for future issuance under the 2004 Plan. The 2004 Plan, however, permits us to issue up to an additional 45,000,000 shares that may become available for grant from the 1992 Plan, as discussed above, because the 45,000,000 shares represent the maximum number of shares that could potentially become available to us under the 1992 Plan for issuance under the 2004 Plan.

New Plan Benefits

As of April 8, 2004, approximately 5,658 persons were eligible to receive awards under the 2004 Plan, including our 8 executive officers and 11 non-employee directors. The granting of awards under the 2004 Plan is discretionary, and we cannot now determine the number or type of awards to be granted in the future to any particular person or group.

On April 8, 2004, the last reported sale price of Staples common stock on the NASDAQ National Market was $26.64 per share.

Administration

The 2004 Plan is administered by the Board of Directors. The Board of Directors has the authority to adopt, amend and repeal the administrative rules, guidelines and practices relating to the 2004 Plan and to interpret the provisions of the 2004 Plan. Pursuant to the terms of the 2004 Plan, the Board of Directors has delegated authority under the 2004 Plan to the Compensation Committee of the Board of Directors. The Board of Directors may also delegate authority under the 2004 Plan to one or more officers of Staples, except that the Board of Directors will fix the terms of the awards to be granted by such officers and the maximum number of shares subject to awards that the officers may grant, and no officer will be authorized to grant awards to himself or herself.

Subject to any applicable delegation by the Board of Directors and any applicable limitations contained in the 2004 Plan, the Board of Directors selects the recipients of awards and determines (1) the number of shares of Staples common stock covered by options and the dates upon which such options become exercisable, (2) the exercise price of options (which may not be less than 100% of the fair market value of Staples common stock) (3) the duration of options (which may not exceed 10 years), (4) the terms of stock appreciation rights and the dates or conditions upon which such stock appreciation rights become exercisable, and (5) the number of shares of Staples common stock subject to any restricted stock, restricted stock unit or other stock-based awards and the terms and conditions of such awards, including, if applicable, conditions for repurchase, issue price and repurchase price.

We are required to make appropriate adjustments or substitutions in connection with the 2004 Plan and any outstanding awards to reflect stock splits, stock dividends, recapitalizations, spin-offs and other similar changes in capitalization to the extent the Board of Directors deems such adjustment or substitution to be necessary and appropriate. The 2004 Plan also contains provisions addressing the consequences of any "reorganization event," which is defined as (1) any merger or consolidation of Staples with or into another entity as a result of which all of the Staples common stock is converted into or exchanged for the right to receive cash, securities or other property or (2) any exchange of all of Staples common stock for cash, securities or other property pursuant to a share exchange transaction.

If any award expires or is terminated, surrendered or canceled without having being fully exercised, is forfeited in whole or in part, or results in any Staples common stock not being issued because (1) the award is settled for cash or (2) shares are used to satisfy the exercise price or tax withholding obligation, the unused shares of Staples common stock covered by such award will again be available for grant under the 2004 Plan, subject, however, in the case of incentive stock options, to any limitations under the Code.

Termination or Amendment

No award may be made under the 2004 Plan after the completion of ten years from the date on which the 2004 Plan is approved by our stockholders, but awards previously granted may extend beyond that date. The Board of Directors may at any time amend, suspend or terminate the 2004 Plan, except that no award designated as subject to Section 162(m) of the Code by the Board of Directors after the date of such amendment shall become exercisable, realizable or vested (to the extent such amendment was required to grant such award) unless and until such amendment shall have been approved by our stockholders. In addition, without the approval of our stockholders, no amendment may (i) increase the number of shares authorized under the 2004 Plan, (ii) materially increase the benefits provided under the 2004 Plan, (iii) materially expand the class of participants eligible to participate in the 2004 Plan, (iv) expand the types of awards provided under the 2004 Plan or (v) make any other changes which require stockholder approval under the rules of the NASDAQ National Market. No award may be made that is conditioned on the approval of our stockholders of any amendment to the 2004 Plan.

If the 2004 Plan is approved by stockholders, it will become effective on the date of such approval. If stockholders do not approve the 2004 Plan, the 2004 Plan will not go into effect, and we will not grant any awards under the 2004 Plan. In such event, the Board of Directors will consider whether to adopt alternative arrangements based on its assessment of the needs of Staples.

Federal Income Tax Consequences

The following generally summarizes the United States federal income tax consequences that generally will arise with respect to awards granted under the plan. This summary is based on the tax laws in effect as of the date of this proxy statement. Changes to these laws could alter the tax consequences described below.

Incentive Stock Options. A participant will not have income upon the grant of an incentive stock option. Also, except as described below, a participant will not have income upon exercise of an incentive stock option if the participant has been employed by Staples or 50% or more-owned corporate subsidiary at all times beginning with the option grant date and ending three months before the date the participant exercises the option. If the participant has not been so employed during that time, then the participant will be taxed as described below under "Nonstatutory Stock Options." The exercise of an incentive stock option may subject the participant to the alternative minimum tax.

A participant will have income upon the sale of the stock acquired under an incentive stock option at a profit (if sales proceeds exceed the exercise price). The type of income will depend on when the participant sells the stock. If a participant sells the stock more than two years after the option was granted and more than one year after the option was exercised, then all of the profit will be long-term capital gain. If a participant sells the stock prior to satisfying these waiting periods, then the participant will have engaged in a disqualifying disposition and a portion of the profit will be ordinary income and a portion may be capital gain. This capital gain will be long-term if the participant has held the stock for more than one year and otherwise will be short-term. If a participant sells the stock at a loss (sales proceeds are less than the exercise price), then the loss will be a capital loss. This capital loss will be long-term if the participant held the stock for more than one year and otherwise will be short-term.

Nonstatutory Stock Options. A participant will not have income upon the grant of a nonstatutory stock option. A participant will have compensation income upon the exercise of a nonstatutory stock option equal to the value of the stock on the day the participant exercised the option less the exercise price. Upon sale of the stock, the participant will have capital gain or loss equal to the difference between the sales proceeds and the value of the stock on the day the option was exercised. This capital gain or loss will be long-term if the participant has held the stock for more than one year and otherwise will be short-term.

Restricted Stock. A participant will not have income upon the grant of restricted stock unless an election under Section 83(b) of the Code is made within 30 days of the date of grant. If a timely 83(b) election is made, then a participant will have compensation income equal to the value of the stock less the purchase price. When the stock is sold, the participant will have capital gain or loss equal to the difference between the sales proceeds and the value of the stock on the date of grant. If the participant does not make an 83(b) election, then when the stock vests the participant will have compensation income equal to the value of the stock on the vesting date less the purchase price. When the stock is sold, the participant will have capital gain or loss equal to the sales proceeds less the value of the stock on the vesting date. Any capital gain or loss will be long-term if the participant held the stock for more than one year from the vesting date and otherwise will be short-term.

Restricted Stock Units. A participant will have income from a restricted stock unit equal to the difference of the fair market value of the stock on the date of delivery of the stock less the purchase price. A participant is not permitted to make a Section 83(b) election for a restricted stock unit.

Stock Appreciation Rights and Other Stock-Based Awards. The tax consequences associated with stock appreciation rights and any other stock-based awards granted under the 2004 Plan will vary depending on the specific terms of such award. Among the relevant factors are whether or not the award has a readily ascertainable fair market value, whether or not the award is subject to forfeiture provisions or restrictions on transfer, the nature of the property to be received by the participant under the award and the participant's holding period and tax basis for the award or underlying Staples common stock.

Tax Consequences to Us. There will be no tax consequences to us except that we will be entitled to a deduction when a participant has compensation income. Any such deduction will be subject to the limitations of Section 162(m) of the Code.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR THE APPROVAL OF STAPLES' 2004 STOCK INCENTIVE PLAN.

PROPOSAL 3 — APPROVAL OF STAPLES' AMENDED AND RESTATED 1998 EMPLOYEE STOCK PURCHASE PLAN

In March 2004, our Board of Directors adopted, subject to stockholder approval, the Amended and Restated 1998 Employee Stock Purchase Plan (the "Restated ESPP") to, among other things, increase the total number of shares of Staples common stock authorized for issuance under the 1998 Employee Stock Purchase Plan in effect prior to the adoption of the proposed amendment and restatement (the "Existing ESPP"), from 8,400,000 shares to 10,500,000 shares.

Our Board of Directors adopted the Restated ESPP because it believes that the number of shares currently available under the Existing ESPP is insufficient to satisfy the expected share requirements under the Existing ESPP. Our Board of Directors believes that the continued ability of Staples' associates to purchase shares under the Restated ESPP will be an important element in attracting and retaining associates who are expected to contribute to Staples' growth and success.

As of April 8, 2004, 2,384,554 shares of Staples common stock were available for issuance under the Existing ESPP.

On April 8, 2004, the last reported sale price of Staples common stock on the NASDAQ National Market was $26.64 per share.

Description of the Restated ESPP

The following is a brief summary of the Restated ESPP, a copy of which is attached as Appendix B *to the electronic copy of the filing of this proxy statement with the Securities and Exchange Commission and may be accessed from the Securities and Exchange Commission's Internet home page (www.sec.gov). In addition, a copy of the Restated ESPP may be obtained from our Corporate Secretary. The following summary is qualified in its entirety by reference to the Restated ESPP.*

General. The Restated ESPP is intended to replace and supersede the Existing ESPP. The Restated ESPP is intended to qualify as an "employee stock purchase plan" under Section 423 of the Code. The Restated ESPP permits associates of Staples or any designated subsidiary of Staples to purchase discounted shares of common stock from Staples in a series of one or more offerings. The Restated ESPP is designed to encourage and assist associates of Staples and its designated subsidiaries in acquiring an equity interest in Staples through the purchase of Staples common stock.

Eligibility. With certain limited exceptions in the case of associates who hold a significant amount of stock of Staples or any subsidiary, all associates of Staples, including directors of Staples who are also associates, and all associates of any designated subsidiaries of Staples, are eligible to participate in the Plan, provided that:

- they are customarily employed by Staples or a designated subsidiary for more than 20 hours per week and for more than five months in a calendar year;
- they have been employed by Staples or a designated subsidiary of Staples for at least 90 days prior to participation; and
- they are associates of Staples or a designated subsidiary of Staples on the first day of the applicable offering period.

Participation in the Restated ESPP. Participation in the Restated ESPP is voluntary. As of April 8, 2004, Staples had approximately 47,396 associates (including those employed by designated subsidiaries of Staples) eligible to participate in the Restated ESPP, and 7,288 of such associates participated in the Existing ESPP. Because each associate's participation in the Restated ESPP is purely voluntary, the future benefits under the Restated ESPP are not yet determinable. The following table summarizes the number of shares purchased under the Existing ESPP by designated individuals and groups (including all associates of the directors and executive officers included in the table) since the Existing ESPP's adoption in March 1998:

AMENDED AND RESTATED 1998 EMPLOYEE STOCK PURCHASE PLAN

Name of Individual or Identification of Group	Title/Position	Dollar Value ($) (1)	Number of Shares Purchased
Ronald L. Sargent	President and Chief Executive Officer	227,559	8,542
Thomas G. Stemberg	Non-Executive Chairman and Chairman of the Board	227,559	8,542
John J. Mahoney	Executive Vice President, Chief Administrative Officer and Chief Financial Officer	243,383	9,136
Joseph S. Vassalluzzo	Vice Chairman	87,619	3,289
Basil L. Anderson	Vice Chairman	53,786	2,019
All current executive officers, as a group	[NA]	1,223,389	45,923
All current directors who are not executive officers, as a group	[NA]	0	0
All employees, including all current officers who are not executive officers, as a group	[NA]	159,028,093	5,969,523

(1) Based upon the last sales price per share of Staples common stock ($26.64) on April 8, 2004, as reported on the NASDAQ National Market.

None of the nominees for Class 1 Directors, or any of their associates, has received any shares under the Existing ESPP. No person has received 5% or more of the total number of shares purchased by participants under the Existing ESPP.

Administration; Offering Periods. The Restated ESPP may be administered by the Board of Directors or a committee appointed by the Board. The Compensation Committee has the authority to make rules and regulations for the administration of the Restated ESPP and its interpretations and decisions are final and conclusive. Pursuant to the terms of the Restated ESPP, the Board of Directors has delegated authority under that plan to the Compensation Committee of the Board of Directors. An offering period generally extends for six months; however, the Compensation Committee or the Board of Directors may, in its discretion, choose an offering period of 12 months or less for each offering and choose a different offering period for each offering.

Payment of Purchase Price; Payroll Deductions

An eligible associate may participate in the Restated ESPP by filing with Staples a completed authorization for payroll deduction at least 14 days prior to the applicable offering commencement date authorizing Staples to deduct not more than 10% of his compensation during the offering period. The associate would then be deemed to have been granted an option on the applicable offering commencement date to purchase (1) the largest number of whole shares of Staples common stock that does not exceed the number that is obtained by dividing (A) $12,500 by (B) the fair market value (as determined in accordance with the provisions of the Restated ESPP) of Staples common stock on the applicable offering commencement date, or such other lower number of shares as determined by the Board of Directors or the Compensation Committee prior to the offering commencement date. If the offering is any period other than six months, the $12,500 amount will be adjusted proportionately to reflect the length of the offering period. Under the terms of the Restated ESPP, the option price is an amount equal to 85% of the lesser of the fair market value per share of Staples common stock on the first business day of an offering period or the last business day of such period.

No associate may be granted an option under the Restated ESPP if, immediately after the grant, the associate would own stock and/or hold outstanding options to purchase stock possessing 5% or more of the total voting power or value of all classes of stock of Staples or any of its subsidiaries. In addition, no associate may be granted an option under the Restated ESPP which would give the associate the right to purchase stock under all of the stock purchase plans of Staples and its subsidiaries at a rate that exceeds $25,000 of the fair market value of such stock (determined at the time the option is granted) for each calendar year in which the option is outstanding at any time.

Merger. The Restated ESPP contains provisions addressing the consequences of a merger or consolidation of Staples or a sale of all or substantially all of Staples' assets.

Termination or Amendment. The Board of Directors may at any time modify, amend or terminate the Restated ESPP in any respect, except where such modification or amendment would require approval by Staples' stockholders under Section 423 of the Code, in which case it may not be effected without such approval, and in no event may an amendment be made which would cause the Restated ESPP to fail to comply with Section 423 of the Code.

Federal Income Tax Consequences

The following generally summarizes the United States federal income tax consequences that will arise with respect to participation in the Restated ESPP and with respect to the sale of Staples common stock acquired under the Restated ESPP. This summary is based on the tax laws in effect as of the date of this proxy statement. Changes to these laws could alter the tax consequences described below.

Tax Consequences to Participants. A participant will not have income upon enrolling in the plan or upon purchasing stock at the end of an offering.

A participant may have both compensation income and a capital gain or loss upon the sale of stock that was acquired under the plan. The amount of each type of income and loss will depend on when the participant sells the stock.

If the participant sells the stock more than two years after the commencement of the offering during which the stock was purchased and more than one year after the date that the participant purchased the stock at a profit (the sales proceeds exceed the purchase price), then the participant will have compensation income equal to the lesser of:

- 15% of the value of the stock on the day the offering commenced; and
- the participant's profit

Any excess profit will be long-term capital gain. If the participant sells the stock at a loss (if sales proceeds are less than the purchase price) after satisfying these waiting periods, then the loss will be a long-term capital loss.

If the participant sells the stock prior to satisfying these waiting periods, then he or she will have engaged in a disqualifying disposition. Upon a disqualifying disposition, the participant will have compensation income equal to the value of the stock on the day he or she purchased the stock less the purchase price. The participant also will have a capital gain or loss equal to the difference between the sales proceeds and the value of the stock on the day he or she purchased the stock. This capital gain or loss will be long-term if the participant has held the stock for more than one year and otherwise will be short-term.

Tax Consequences to Staples. There will be no tax consequences to Staples except that we will be entitled to a deduction when a participant has compensation income upon a disqualifying disposition. Any such deduction will be subject to the limitations of Section 162(m) of the Code.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR THE APPROVAL OF STAPLES' AMENDED AND RESTATED 1998 EMPLOYEE STOCK PURCHASE PLAN.

PROPOSAL 4 — APPROVAL OF STAPLES' AMENDED AND RESTATED INTERNATIONAL EMPLOYEE STOCK PURCHASE PLAN

In March 2004, our Board of Directors adopted, subject to stockholder approval, the Amended and Restated International Employee Stock Purchase Plan (the "Restated IESPP") to, among other things, increase the total number of shares of Staples common stock authorized for issuance under the International Employee Stock Purchase Plan in effect prior to the adoption of the proposed amendment and restatement (the "Existing IESPP"), from 250,000 shares to 850,000 shares.

Our Board of Directors adopted the Restated IESPP because it believes that the number of shares currently available under the Existing IESPP is insufficient to satisfy the expected share requirements thereunder. Our Board of Directors believes that the continued ability of associates of Staples' non-U.S. subsidiaries to purchase shares under the Restated IESPP will be an important element in attracting and retaining associates who are expected to contribute to Staples' growth and success.

As of April 8, 2004, 111,174 shares of Staples common stock were available for issuance under the Existing IESPP.

On April 8, 2004, the last reported sale price of Staples common stock on the NASDAQ National Market was $26.64 per share.

Description of the Restated IESPP

The following is a brief summary of the Restated IESPP, a copy of which is attached as Appendix C *to the electronic copy of the filing of this proxy statement with the Securities and Exchange Commission and may be accessed from the Securities and Exchange Commission's Internet home page (www.sec.gov). In addition, a copy of the Restated IESPP may be obtained from our Corporate Secretary. The following summary is qualified in its entirety by reference to the Restated IESPP.*

General. The Restated IESPP is intended to replace and supersede the Existing IESPP. The Restated IESPP is designed to encourage and assist associates of Qualified Subsidiaries (as defined below) in acquiring an equity interest in Staples through the purchase of Staples common stock. As proposed, the Restated IESPP would operate in much the same way as the Restated ESPP, which is also being presented to our stockholders for approval, so that there is as much parity as possible in the plans offered to associates of Staples and those of its subsidiaries located outside of the United States. The Restated IESPP permits associates of any non-U.S. subsidiary of Staples as of July 1, 2004, and of any other subsidiary designated by the Board of Directors or the Compensation Committee of Staples (each, a "Qualified Subsidiary"), including any director of Staples who is an associate of a Qualified Subsidiary, to purchase shares of common stock from Staples in a series of one or more offerings.

Eligibility. With certain limited exceptions in the case of associates who hold a significant amount of stock of Staples or any subsidiary, all associates of Qualified Subsidiaries, including directors of Staples who are also associates of any Qualified Subsidiaries, are eligible to participate in the Restated IESPP, provided that:

- they have been employed by the Qualified Subsidiary for at least 90 days prior to participation;
- they are associates of the Qualified Subsidiary on the first day of the applicable offering period; and
- they meet any other requirements imposed by the Board of Directors or the Compensation Committee.

Participation in the Restated IESPP. Participation in the Restated IESPP is voluntary. As of April 8, 2004, Qualified Subsidiaries had approximately 4,005 associates eligible to participate in the Restated IESPP and 218 of such associates participated in the Existing IESPP. Because each associate's participation in the Restated IESPP is purely voluntary, the future benefits under the Restated IESPP are not yet determinable. The following table summarizes the number of shares purchased under the Existing IESPP by designated individuals and groups (including all associates of the directors and executive officers included in the table) since the Existing IESPP's adoption in March 2000:

Amended and Restated International Employee Stock Purchase Plan

Name of Individual or Identification of Group	Title/Position	Dollar Value ($)	Number of Shares Purchased
Ronald L. Sargent	President and Chief Executive Officer	0	0
Thomas G. Stemberg	Non-Executive Chairman and Chairman of the Board	0	0
John J. Mahoney	Executive Vice President, Chief Administrative Officer and Chief Financial Officer	0	0
Joseph S. Vassalluzzo	Vice Chairman	0	0
Basil L. Anderson	Vice Chairman	0	0
All current executive officers, as a group	[NA]	0	0
All current directors who are not executive officers, as a group	[NA]	0	0
All employees, including all current officers who are not executive officers, as a group	[NA]	3,698,325	138,826

(1) Based upon the last sales price per share of Staples common stock ($26.64) on April 8, 2004, as reported on the NASDAQ National Market.

None of the nominees for Class 1 Directors, or any of their associates, has received any shares under the Existing IESPP. No person has received 5% or more of the total number of shares purchased by participants under the Existing IESPP.

Administration; Offering Periods. The Restated IESPP may be administered by the Board of Directors or a committee appointed by the Board. The Compensation Committee or the Board of Directors has the authority to make rules and regulations for the administration of the Restated IESPP and its interpretations and decisions are final and conclusive. Pursuant to the terms of the Restated IESPP, the Board of Directors has delegated authority under that plan to the Compensation Committee of the Board of Directors to administer certain aspects of that plan. An offering period generally extends for six months; however, the Compensation Committee or the Board of Directors may, in its discretion, choose an offering period of 12 months or less for each offering, choose a different offering period for each offering and begin additional offering periods to allow participation by associates of new Qualified Subsidiaries after an offering period has commenced. The Compensation Committee or the Board of Directors may, in its discretion, discontinue any offering at any time, either temporarily or permanently.

Payment of Purchase Price; Payroll Deductions

An eligible associate may participate in the Restated IESPP by enrolling, in such manner and at such time approved by the Board of Directors or the Compensation Committee, prior to the applicable offering commencement date authorizing a payroll deduction of not more than 10% of his compensation during the offering period. The associate would then be deemed to have been granted an option on the applicable offering commencement date to purchase (1) the largest number of whole shares of Staples common stock that does not exceed the number that is obtained by dividing (A) $12,500 by (B) the fair market value (as determined in accordance with the provisions of the Restated IESPP) of Staples common stock on the applicable offering commencement date, or (2) such other lower number of shares as determined by the Board of Directors or the Compensation Committee prior to the offering commencement date. If the offering is any period other than six months, the $12,500 amount will be adjusted proportionately to reflect the length of the offering. Under the terms of the Restated IESPP, the option price is an amount equal to 85% of the lesser of the fair market value per share of Staples common stock on the first business day of an offering period or the last business day of such period. The Board of Directors or the Compensation Committee may permit direct contributions by associates instead of payroll deductions if it determines such action to be advisable, and on such terms as it deems advisable.

No associate may be granted an option under the Restated IESPP if, immediately after the grant, the associate would own stock and/or hold outstanding options to purchase stock possessing 5% or more of the total voting power or value of all classes of stock of Staples or any of its subsidiaries. In addition, no associate may be granted an option under the Restated IESPP which would give the associate the right to purchase stock under all of the stock purchase plans of Staples and its subsidiaries at a rate that exceeds $25,000 of the fair market value of such stock (determined at the time the option is granted) for each calendar year in which the option is outstanding at any time. Options granted under the Restated IESPP during an offering to all officers and directors of Staples may not equal or exceed 50% of the total options granted during such offering.

Merger. The Restated IESPP contains provisions addressing the consequences of a merger or consolidation of Staples or a sale of all or substantially all of Staples' assets.

Termination or Amendment. The Board of Directors may at any time modify, amend or terminate the Restated Plan in any respect.

Certain Tax Consequences For Non-U.S. Participants

The following is a general discussion of certain material U.S. federal tax consequences to a non-U.S. person who receives and exercises options to purchase shares of Staples common stock under the Restated IESPP, and who disposes of Staples common stock following such exercise. Each non-U.S. participant in the Restated IESPP should consult a tax advisor regarding the U.S. federal, state, local, estate, gift and all non-U.S. tax consequences of participating in the Restated IESPP. This discussion does not consider, among other things, U.S. state and local or non-U.S. tax consequences. This summary is based on the tax laws in effect as of the date of this proxy statement. Changes to these laws could alter the tax consequences described below, possibly with retroactive effect.

As used in this discussion, the term non-U.S. participant means an individual participant in the Restated IESPP who is not, for U.S. federal income tax purposes, a citizen or resident of the United States. As used in this discussion, the term non-U.S. holder means an individual beneficial owner of Staples common stock who is not, for U.S. federal income tax purposes, a citizen or resident of the United States.

An individual may generally be treated as a resident of the United States in any calendar year for U.S. federal income tax purposes, instead of as a nonresident, if, among other things, such individual is physically present in the United States on at least 31 days in that calendar year and for an aggregate of at least 183 days during the three-year period ending on December 31 of that calendar year, counting all of the days physically present in the United Sates in the current year, one-third of the days present in the immediately preceding year and one-sixth of the days present in the second preceding year. Residents are taxed for U.S. federal income tax purposes as if they were U.S. citizens.

Receipt and Exercise of Option to Purchase Staples Common Stock. A non-U.S. participant generally will not be subject to any U.S. federal income tax or withholding tax upon the receipt of an option to purchase Staples common stock under the Restated IESPP. A non-U.S. participant generally will not be subject to any U.S. federal income tax or withholding tax upon the exercise of an option to purchase Staples common stock under the Restated IESPP.

Gain on Disposition of Staples Common Stock. A non-U.S. holder generally will not be subject to any U.S. federal income tax or withholding tax on any gain recognized on a sale or other disposition of Staples common stock, whether or not such disposition is deemed to be a "disqualifying disposition", unless, among other things: (i) the gain is effectively connected with the non-U.S. holder's conduct of a trade or business in the United States and, in the event that an income tax treaty applies, is also attributable to a fixed base maintained by the non-U.S. holder in the United States; (ii) the non-U.S. holder is an individual who is present in the United States for 183 or more days in the taxable year of the disposition and certain other requirements are met; or (iii) the holder is subject to tax pursuant to U.S. federal income tax provisions applicable to certain U.S. expatriates.

U.S. Estate Tax Consequences. Staples common stock that is owned or is treated as owned by a non-U.S. holder at the time of death or was the subject of certain lifetime transfers by that individual will be included in that individual's gross estate for U.S. federal estate tax purposes, unless an applicable estate tax treaty provides otherwise.

Tax Consequences to Staples. There will be no U.S. federal income tax consequences to Staples in connection with transactions relating to the Restated IESPP, except that Staples may be entitled to a deduction when a participant has compensation income upon a disqualifying disposition. Any such deduction will be subject to the limitations of Section 162(m) of the Code.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR THE APPROVAL OF STAPLES' AMENDED AND RESTATED INTERNATIONAL EMPLOYEE STOCK PURCHASE PLAN.

PROPOSAL 5 — RATIFICATION OF SELECTION OF INDEPENDENT AUDITORS

The Audit Committee of the Board of Directors has selected the firm of Ernst & Young LLP as our independent auditors for the current fiscal year. Ernst & Young LLP has served as our independent auditors since our inception. Although stockholder approval of the Audit Committee's selection of Ernst & Young LLP is not required by law, the Board of Directors believes that it is advisable to give stockholders an opportunity to ratify this selection. If this proposal is not approved at the Annual Meeting, the Audit Committee may reconsider its selection.

Representatives of Ernst & Young LLP are expected to be present at the Annual Meeting. They will have the opportunity to make a statement if they desire to do so and will also be available to respond to appropriate questions from stockholders.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR THE RATIFICATION OF ERNST & YOUNG LLP AS THE COMPANY'S INDEPENDENT AUDITORS FOR THE CURRENT FISCAL YEAR.

PROPOSALS 6, 7, 8 AND 9 — SHAREHOLDER PROPOSALS

The Company has been advised that the following four non-binding shareholder proposals will be presented at the Annual Meeting. The proposals will be voted on at the Annual Meeting if the proponent, or a qualified representative, is present at the meeting and submits the proposal for a vote, and the proposals and the supporting statements appear as received by us. Following each shareholder proposal is our statement in opposition. We will provide promptly to stockholders the name, address and number of shares of voting securities held by the proponent upon receiving an oral or written request.

FOR THE REASONS SET FORTH BELOW IN THE BOARD'S STATEMENTS IN OPPOSITION TO THE SHAREHOLDER PROPOSALS, THE BOARD OF DIRECTORS RECOMMENDS A VOTE AGAINST EACH OF PROPOSALS 6, 7, 8 AND 9.

PROPOSAL 6 — SHAREHOLDER PROPOSAL ON SHAREHOLDER RIGHTS PLANS

Since shareholder proposals 6 and 7 are substantially similar, we have provided a consolidated statement in opposition to proposals 6 and 7 under proposal 7.

Shareholder Proposal

RESOLVED, That the shareholders of Staples, Inc. (hereinafter "the Company") request the Board of Directors to redeem the shareholder rights plan that was adopted in 1994 unless such plan is approved by a majority vote of shareholders to be held as soon as may be practicable.

Supporting Statement

In 1994 the Company's Board of Directors adopted a shareholder rights plan, commonly known as a "poison pill", without shareholder approval. This plan is an anti-takeover device that can adversely affect shareholder value by discouraging takeovers that could be beneficial to shareholders.

Poison pills, according to the book "Power and Accountability" by Nell Minow and Robert Monks: "amount to major de facto shifts of voting rights away from shareholders to management on matters pertaining to the sale of the corporation. They give target boards of directors absolute veto power over any proposed business combination, no matter how beneficial it might be for the shareholders."

Thus it is no surprise that the Shareholder Bill of Rights adopted by the Council of Institutional Investors, whose members represent nearly $2 trillion in benefit fund assets, calls for poison pills to be approved by shareholders before they take effect.

At a minimum, the shareholders of our Company should have the right to vote on the necessity of adopting such a powerful anti-takeover weapon. Therefore, your support for this proposal is respectfully sought.

PROPOSAL 7 — SHAREHOLDER PROPOSAL ON SHAREHOLDER INPUT ON POISON PILLS

Shareholder Proposal

RESOLVED: Shareholders request that our Directors submit the adoption, maintenance or extension of any poison pill to a shareholder vote as a separate ballot item at the earliest next shareholder election. Additionally once adopted any dilution or removal of this proposal is requested to be submitted to a shareholder vote as a separate ballot item at the earliest next shareholder election.

This topic also won an overall 60% yes-vote at 79 companies in 2003. I do not see how our Directors could object to this proposal because it gives our Directors the flexibility to ignore our shareholder input if our Directors seriously believe they have a good reason.

The Council of Institutional Investors *www.cii.org* formally recommends adoption of this proposal topic.

John Chevedden, 2215 Nelson Ave., No. 205, Redondo Beach, Calif. 90278 submitted this proposal.

Pills Entrench Current Management

Poison pills entrench the current management, even when it's doing a poor job. Pills water down shareholders' votes and deprive them of a meaningful voice in corporate affairs.

From "Take on the Street" by Arthur Levitt, SEC Chairman, 1993-2001

Poison Pill Negative

The key negative of poison pills is that pills can preserve management deadwood.

Source: *Moringstar.com*

The Potential of a Tender Offer Can Motivate Our Directors

Hectoring directors to act more independently is a poor substitute for the bracing possibility that shareholders could sell the company out from under its present management.

Source: *Wall Street Journal*, Feb. 24, 2003

Diluted Stock

An anti-democratic management scheme [poison pill] to flood the market with diluted stock is not a reason that a tender offer for our stock should fail.

Source: *The Motley Fool*

Like a Dictator

Poison pills are like a dictator who says, "Give up more of your freedom and I'll take care of you."

T.J. Dermot Dunphy, CEO of Sealed Air (NYSE) for 25 years

A response by our directors, which could still allow our directors to give a poison pill with no shareholder vote, is not a substitute for this proposal.

Director Confidence in their Oversight

I believe that a Board of Directors, which supports this proposal topic, is sending a powerful signal of confidence in its own oversight skill and strategy.

Board Statement in Opposition

The following statement in opposition is provided in response to Proposals 6 and 7 above.

The Company adopted a stockholder rights plan in 1994, which is the type of plan often referred to as a "poison pill." The stockholder rights plan expired in February of this year, and the Company has no present intention to adopt another stockholder rights plan. Circumstances could arise in the future, however, where the adoption of such a plan could be an important tool for protecting the interests of our stockholders.

Although we believe a hostile takeover of Staples is unlikely, if these proposals were implemented, the Board of Directors would not have the flexibility to consider meaningfully a stockholder rights plan in response to a hostile bid. We believe our Board of Directors is in the best position to negotiate on behalf of all stockholders, evaluate the fairness and adequacy of any potential offer and reject inadequate offers, thereby seeking a higher price from a third party if there is to be a sale of the Company and maximizing stockholder value. Proposal 6 as framed would make the adoption of a future stockholder rights plan by the Board of Directors contingent upon stockholder approval of such stockholder rights plan at the "earliest next stockholder election." A hostile bidder could choose to make its offer well in advance of the next scheduled annual meeting of stockholders at which directors are to be elected, which would provide a significant timing advantage to that hostile bidder. The requirement to obtain stockholder approval in the manner described in Proposal 5 could deny the Board of Directors the speed and flexibility it would need to address an unsolicited acquisition for control or potentially coercive takeover tactics. Without the protection of a stockholder rights plan, stockholders would be at a disadvantage because their Board of Directors would lack a valuable tool for evaluating and responding to any potential offer.

The Board of Directors believes that merger and acquisition activity over the last ten years shows that a stockholder rights plan neither prevents unsolicited offers from occurring nor prevents companies from being acquired, but rather helps boards to obtain prices from offerors that are fair and adequate to stockholders. Empirical data suggests that premiums paid to acquire target companies with a stockholder rights plan are higher than premiums paid for target companies that do not have a stockholder rights plan. A 1997 Georgeson & Company study of takeover premiums during the period from 1992 to 1996 estimated that premiums paid to acquire target companies with a stockholder rights plan were, on average, eight percentage points higher than premiums paid for target companies that did not have a stockholder rights plan, regardless of whether the takeover was friendly or hostile. The Georgeson & Company study concluded that the presence of a stockholder rights plan did not increase the likelihood of the defeat of a hostile takeover bid or the withdrawal of a friendly bid and that a stockholder rights plan did not reduce the likelihood that a company would become a takeover target.

The existence of a stockholder rights plan does not diminish the fiduciary duties of the Board of Directors. The Board of Director's fiduciary duty requires that it seek to ensure that any proposed business combination or acquisition is in the best interests of stockholders. A stockholder rights plan provides a means for the Board of Directors to fulfill its fiduciary duty by encouraging a bidder to negotiate with the Board of Directors and by giving the Board of Directors a greater amount of time to evaluate carefully and thoroughly an acquisition proposal, which strengthens the Board of Director's bargaining power with the bidder. A prospective acquirer seeking to persuade the Board of Directors to redeem the rights may propose a higher takeover price, make an offer for all shares rather than a partial offer, or offer better takeover terms than would be proposed if no stockholder rights plan were in place.

The Board of Directors believes that the Company's and its stockholders' interests are best served by preserving the Board of Director's discretion regarding the adoption, maintenance or extension of a stockholder rights plan. By recommending a vote against the proposals, the Board of Directors has not decided that a stockholder rights plan should be adopted by the Company. A stockholder rights plan would be adopted by the Board of Directors only after careful and deliberate consideration of all relevant facts and circumstances existing at such time. Adoption of the proposals would limit the Board of Director's ability to adopt, maintain or extend a stockholder rights plan even if such action was in the best interests of our stockholders.

ACCORDINGLY, THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE AGAINST PROPOSALS 6 AND 7.

PROPOSAL 8 — SHAREHOLDER PROPOSAL ON COMMONSENSE EXECUTIVE COMPENSATION

Shareholder Proposal

Resolved, that the shareholders of Staples, Inc. ("Company") request that the Company's Board of Directors and its Executive Compensation Committee replace the current system of compensation for senior executives with the following "Commonsense Executive Compensation" program including the following features:

(1) Salary — The chief executive officer's salary should be targeted at the mean of salaries paid at peer group companies, not to exceed $1,000,000 annually. No senior executive should be paid more than the CEO.

(2) Annual Bonus — The annual bonus paid to senior executives should be based on well-defined quantitative (financial) and qualitative (non-financial) performance measures. The maximum level of annual bonus should be a percentage of the executive's salary level, capped at 100% of salary.

(3) Long-Term Equity Compensation — Long-term equity compensation to senior executives should be in the form of restricted shares, not stock options. The restricted share program should utilize justifiable performance criteria and challenging performance benchmarks. It should contain a vesting requirement of at least three years. Executives should be required to hold all shares awarded under the program for the duration of their employment. The value of the restricted share grant should not exceed $1,000,000 on the date of grant.

(4) Severance — The maximum severance payment to a senior executive should be no more than one year's salary and bonus.

(5) Disclosure — Key components of the executive compensation plan should be outlined in the Compensation Committee's report to shareholders, with variances from the Commonsense program explained in detail.

The Commonsense compensation program should be implemented in a manner that does not violate any existing employment agreement or equity compensation plans.

Supporting Statement

We believe that compensation paid to senior executives at most companies, including ours, is excessive, unjustified, and contrary to the interests of the Company, its shareholders, and other important corporate constituents. CEO pay has been described as a "wasteland that has not been reformed." (Institutional Shareholder Services senior vice-president, *Wall Street Journal*, "Executive Pay Keeps Rising, Despite Outcry," October 3, 2003). As of 2002, the CEO-worker pay gap of 282-to-1 was nearly seven times as large as the 1982 ratio of 42-to-1 according to the United for a Fair Economy's Tenth Annual CEO Compensation Survey ("Executive Excess 2003 — CEO's Win, Workers and Taxpayers Lose.")

We believe that it is long past time for shareholders to be proactive and provide companies clear input on the parameters of what they consider to be reasonable and fair executive compensation. We believe that executive compensation should be designed to promote the creation of long-term corporate value. The Commonsense executive compensation principles seek to focus senior executives, not on quarterly performance numbers, but on long-term corporate value growth, which should benefit all the important constituents of the Company. We challenge our Company's leadership to embrace the ideas embodied in the Commonsense proposal, which still offers executives the opportunity to build personal long-term wealth but only when they generate long-term corporate value.

Board Statement in Opposition

Staples' executive compensation program is designed to align executive compensation with the interests of Staples' stockholders and to promote the creation of long-term corporate value. In addition, we believe that Staples' existing compensation program affords the Board of Directors and the Compensation Committee the appropriate degree of flexibility in shaping executive compensation packages to respond to changes in conditions and to take into account individual circumstances.

Staples' executive compensation program already incorporates a number of features described in the proposal. First, the base salaries and cash bonuses for Staples' executive officers are targeted at the median of the market relative to the pay practices of a peer group of publicly traded companies in the retail industry. Second, the Staples Executive Officer Incentive Plan provides for the payment of a range of bonuses to executive officers based on pre-established objectives relating to company-wide earnings per share, return on net assets and customer service goals. A more detailed description of this plan (which was approved by Staples stockholders last year), including the types of quantitative and qualitative criteria considered by the Compensation Committee, was included in Staples' 2003 proxy statement. Pursuant to this plan, fiscal 2003 cash bonuses were conditioned on the achievement of certain stated thresholds and minimum levels relating to the foregoing criteria. The Compensation Committee currently intends to limit bonus awards under this plan to 200% of an executive's target award.

Third, total direct compensation of executive officers is highly leveraged with equity, representing up to 80% of targeted total direct compensation. Staples is in the process of restructuring the equity component of its executive compensation program. Under the existing program, Staples grants stock options and issues performance accelerated restricted stock, or PARS, to its executives to further encourage retention and to motivate executives to build long-term value for Staples stockholders. PARS initially vest five years from the first day of the fiscal year during which the shares are issued, subject to acceleration after two years upon achievement of pre-determined earnings per share growth for specified fiscal years. Until the PARS vest, they may not generally be sold or transferred by the executive. Beginning in fiscal 2005, equity-based awards to senior executives will rely more heavily on restricted stock grants and less heavily on stock option grants relative to the existing program. In addition, a portion of the restricted stock awarded to senior executives will be pure performance based restricted stock. Restricted stock that vests solely on the passage of time may vest no faster than ratably over three years. We believe that the stock options and restricted stock described above in and of themselves help to align the interests of Staples executives with those of Staples stockholders and that rigid stock ownership requirements are neither necessary nor desirable.

Under the Board approved Compensation Committee Charter, the Compensation Committee (which is composed entirely of independent directors), or a majority of independent directors, is required to review and approve, or recommend for approval by the Board, the compensation of Staples' CEO and other executive officers. Decisions regarding executive compensation are made only after careful research and deliberation and, in the past, the Compensation Committee has retained a national compensation consulting firm for advice on these matters.

The Board of Directors and the Compensation Committee believe it is important to preserve the flexibility of Staples' compensation program so that we can achieve the appropriate combination of the different forms of compensation and can adjust such components to respond to changing conditions and to take into account individual circumstances. In choosing the appropriate compensation arrangement for Staples' executives, the Board of Directors and the Compensation Committee must consider a variety of factors, such as established company-wide goals and/or business unit goals, tax consequences of various awards, competitive practices of peer retail companies and prevailing pay rates. Staples' current executive compensation program allows the Board of Directors and the Compensation Committee to design executive compensation packages that reflect these and other relevant factors.

In contrast, the proposal seeks to limit the flexibility of the Board of Directors and the Compensation Committee by arbitrarily capping salary, annual bonus opportunity, long-term equity awards and severance payments for executives and imposing rigid stock ownership requirements. The imposition of such restrictions would be inconsistent with Staples high risk-high reward philosophy. Furthermore, we believe that these limitations would place Staples at a significant competitive disadvantage in recruiting and retaining talented executives, and, therefore, would not serve the best interests of our stockholders.

ACCORDINGLY, THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE AGAINST PROPOSAL 8.

PROPOSAL 9 — SHAREHOLDER PROPOSAL ON AUDITOR INDEPENDENCE

Shareholder Proposal

Resolved, that the shareholders of Staples, Inc. ("Company") request that the Board of Directors and its Audit Committee adopt a policy stating that the public accounting firm retained by our Company to audit the Company's financial statements will perform only "audit" and "audit-related" work for the Company and not perform services generating "tax fees" and "all other fees" as categorized under U.S. Securities and Exchange Commission ("SEC") regulations.

Supporting Statement

The issue of auditor independence has been a major concern for investors and the markets since the demise of Enron. In response to numerous incidences of accounting fraud that shook the foundations of the corporate financial auditing and reporting system, both Congress and the SEC have responded with important reforms. However, we believe that more needs to be done to limit the potential impairment of auditor independence.

The Sarbanes-Oxley Act ("Sarbanes-Oxley") was a strong effort to deal with various aspects of the auditor independence issue. Sarbanes-Oxley enhances the role of board audit committees in retaining and monitoring audit firms, while limiting the types of non-audit services that audit firms are permitted to perform for audit clients. The SEC followed-up with enhanced reporting requirements (Release No. 33-8183, May 6, 2003) that provide investors better insight into the range of services beyond audit services for which an audit firm is being utilized. The following categories of service fees must be reported: (1) Audit Fees; (2) Audit-Related Fees; (3) Tax Fees, and (4) All Other Fees.

We believe important steps have been taken to protect auditor independence, but we also believe more needs to be done. The Congress and the SEC have acted. Now we think it is important that shareholders use the enhanced disclosure to protect the integrity of the financial reporting system.

Fee disclosures indicate that our Company paid the firm retained to audit the Company's financial statements more for non-audit services than for the audit work. Specifically, our Company paid more in combined fees for "audit-related," "tax" and "all other" work performed by the audit firm than it did for the "audit" work performed by the firm. We believe this imbalance is unhealthy and a potential threat to auditor independence at our Company. Further, when this imbalance occurs we believe it is time for the Board's Audit Committee to adopt a policy that addresses the issue.

Our resolution presents a straightforward and effective response: The Board and the Audit Committee should adopt a policy that limits the public accounting firm retained to audit the Company's financial statements to performing only "audit" and "audit-related" work. We believe that limiting the audit to providing only audit and audit-related services would be another positive step in protecting auditor independence.

We urge your support for this reasonable measure to advance auditor independence.

Board Statement in Opposition

The Company takes the integrity of its financial statement auditing process seriously. The Company complies with all applicable laws, rules and regulations relating to auditor independence. The Company's Board of Directors and fully independent Audit Committee believe that the laws, rules and regulations relating to auditor independence, as well as our Audit Committee's internal oversight procedures, sufficiently protect the integrity of the auditing process and assure the independence of the Company's outside auditors. In addition, preserving the Audit Committee's ability to retain non-audit services from our outside auditor in certain circumstances may lead to valuable benefits for the Company.

The SEC's rules relating to auditor independence reflect three guiding principles. These principles provide that the Company's relationship with its auditor or the provision of services cannot: (1) result in the auditor auditing his or her own work, (2) result in the auditor performing management functions, or (3) place the auditor in a position of acting as an advocate for the client. The Sarbanes-Oxley Act of 2002 prohibits the provision of certain non-audit services to an audit client where those services present a high degree of risk of conflicts of interest. Specifically, Sarbanes-Oxley prohibits an outside auditor from providing the following non-audit services: bookkeeping; financial information system design and implementation; appraisal or valuation services, fairness opinions or contribution in kind reports; actuarial services; internal audit outsourcing services; management functions or human resources; broker-dealer, investment advisor or investment banking services; legal services; and non-audit expert services. It is important to note that Sarbanes-Oxley specifically permits an outside auditor to perform most tax services for an audit client. Moreover, the SEC recently confirmed its long-standing position that an accounting firm can provide tax services to its audit clients without impairing the firm's independence (Release 33-8183, January 28, 2003).

Sarbanes-Oxley further requires that an audit committee, comprised only of independent directors, pre-approve all audit and "permitted non-audit" services provided by the Company's outside auditor, subject to a *de minimis* exception for permitted non-audit services, thereafter approved by the Audit Committee. In order to maintain the independence of the Company's outside auditor, the Audit Committee has a policy of pre-approving all audit and non-audit services. The rules recently adopted by the SEC require the Company to disclose for the two most recent years, in its annual report and proxy statement, fees paid to the outside auditor for: (1) audit services, (2) audit related services, (3) tax services, and (4) other services. Additionally, the Company must describe, in qualitative terms, the types of non-audit services provided under the three non-audit services categories. As disclosed elsewhere in this proxy statement, during fiscal 2002 and 2003, Ernst & Young LLP provided a variety of tax services to the Company, and the majority of the fees for tax services related to tax compliance. During each of those years, the Audit Committee approved all such non-audit services prior to management engaging the auditor for that purpose, and the Company did not pay Ernst & Young LLP any fees for other services. As disclosed in the Report of the Audit Committee for each of those years, the Audit Committee determined that Ernst & Young LLP's provision of audit-related and tax services is compatible with maintaining Ernst & Young LLP's independence. Also, we should note that in 2002 we began the process of selecting tax service providers on a project-by-project basis so that we could identify and choose the provider that is best suited to perform the requested services.

We believe that prohibiting the outside auditor from providing certain permitted non-audit services would result in inefficiencies and increased costs to the Company. Conversely, consulting with the independent auditor in connection with certain non-audit related matters of which it has knowledge by virtue of its audit work can produce significant cost and time savings. Moreover, as the SEC noted, the provision of some permitted non-audit services by an outside auditor may improve audit quality. The Company believes that many tax services are more efficiently conducted by the Company's outside auditors because of the significant overlap between tax and audit work.

The Company complies with all applicable laws, rules and regulations relating to auditor independence. The Company's current practices should provide investors with assurance that the Company's outside auditor will remain independent from the Company. Prohibiting our Audit Committee, comprised solely of independent directors, from exercising its business judgment and engaging auditors to perform permitted non-audit services when it is cost and time efficient and otherwise prudent to do so, is unnecessary to achieve the proponent's stated goal of assuring auditor independence and is not in the best interests of our stockholders.

ACCORDINGLY, THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE AGAINST PROPOSAL 9.

CORPORATE GOVERNANCE

We have, since our founding, sought to follow best practices in corporate governance in a manner that is in the best interests of our business and stockholders. You can find our current corporate governance principles, including our Corporate Governance Guidelines, Committee Charters and Code of Ethics, on our public web site at www.staples.com/about. We are in compliance with the corporate governance requirements imposed by the Sarbanes-Oxley Act, SEC and NASDAQ. We will continue to modify our policies and practices to meet ongoing developments in this area. We have discussed many features of our corporate governance principles in other sections of this Proxy Statement. Some of the highlights are:

- **Director and Committee Independence.** A substantial portion (10 of 14) of our Board is independent, all members of our Audit, Compensation and Nominating and Corporate Governance Committees are independent Directors, and none of our committee members receives compensation from us other than for service on the Board or its committees. For this purpose, Directors are "independent" if they (1) meet the "independence" definition of NASDAQ, and (2) in the Board's judgment, do not have a relationship with the Company that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director.

- **Audit Committee.** The Audit Committee is directly responsible for appointing, compensating, evaluating and, when necessary, terminating our independent auditors, and our independent auditors report directly to the Committee. Our Board has determined that we have at least one "audit committee financial expert" under the rules of the SEC. The Committee's prior approval is required for all audit services and non-audit services (other than de minimis non-audit services as defined by the Sarbanes-Oxley Act) to be provided by our independent auditors. In addition, the Committee has caused the Company to adopt policies prohibiting (i) executive officers from retaining our independent auditors to provide personal tax or other services, and (ii) us, without first obtaining the Committee's approval, from filling an officer level position in the finance department with a person who was previously employed by our auditors.

- **Committee Authority.** Each of the Audit, Compensation and Nominating and Corporate Governance Committees has the authority to retain independent advisors and consultants, with all fees and expenses to be paid by us.

- **Lead Director and Required Meetings of Independent Directors.** We have a Lead Director, currently James L. Moody, Jr., who is independent and is responsible for assuring that at least two meetings of independent Directors are held each year, facilitating communications between other independent directors and the Chairperson of the Board and Chief Executive Officer, chairing the annual performance review of the Chief Executive Officer, and consulting with the Chairperson of the Board and Chief Executive Officer on matters relating to corporate governance and Board performance. The Lead Director is elected by our independent Directors, upon the recommendation of the Nominating and Corporate Governance Committee. Upon Mr. Moody's retirement and Martin Trust's reelection as a Director at the Annual Meeting, Mr. Trust will become our Lead Director.

- **Whistleblower Procedures.** The Audit Committee has established procedures for the treatment of complaints regarding accounting, internal accounting controls or auditing matters, including procedures for confidential and anonymous submission by our associates of concerns regarding questionable accounting, internal accounting controls or auditing matters.

- **Disclosure Committee.** We have a disclosure committee composed of members of management to assist us in fulfilling our obligations to maintain adequate disclosure controls and procedures and to coordinate and oversee the process of preparing our periodic securities filings.

- **Executive Loans.** We have adopted a policy prohibiting us from lending money to executive officers and Directors for personal purposes.

You are invited to visit our web site at www.staples.com/about for more details regarding our corporate governance practices.

Directors of Staples

Set forth below are the names and certain information with respect to each of our current Directors (other than the nominees).

Directors Serving a Term Expiring at the 2005 Annual Meeting (Class 2 Directors)

		Served as a Director Since
	**Brenda C. Barnes,** age 50 A former adjunct professor at Kellogg Graduate School of Business and North Central College from January 2002 to April 2002. Ms. Barnes was President of Starwood Hotels & Resorts, Inc. from November 1999 to March 2000. Prior to that, she served as President & CEO of Pepsi-Cola North America from 1996 to February 1998. Ms. Barnes is also a Director of Avon Products, Inc., New York Times Company, Sears, Roebuck & Co. and PepsiAmericas, Inc.	June 2002
	**Mary Elizabeth Burton,** age 52 Chief Executive Officer of BB Capital, Inc., a retail advisory and management services company, since July 1992. Ms. Burton was Chief Executive Officer of the Cosmetic Center, Inc., a chain of 250 specialty retail stores, from June 1998 to April 1999. Prior to that, she served as Chief Executive Officer of PIP Printing from July 1991 to July 1992, and as Chief Executive Officer of Supercuts, Inc. from September 1987 to June 1991. She is also a Director of The Sports Authority, Inc., Rent-A-Center, Inc., Zale Corporation and Aeropostale, Inc.	1993
	**Richard J. Currie,** age 66 Chairman of the Board of BCE Inc., a communications company, since April 2002. Mr. Currie was President and a Director of George Weston Limited, a food processor and retailer, from June 1996 to May 2002. Mr. Currie is also a Director of CAE Inc.	June 2002
	**Rowland T. Moriarty,** age 57 Chairman and Chief Executive Officer of Cubex Corporation, a consulting company, since 1981. Dr. Moriarty was a professor at Harvard Business School from 1982 to 1992. He is also a Director of Trammell Crow Company and the Chairman and a Director of Charles River Associates, Inc.	1986

Directors Serving a Term Expiring at the 2006 Annual Meeting (Class 3 Directors)

		Served as a Director Since
	**Basil L. Anderson,** age 59 A Vice Chairman of Staples since September 2001. Prior to joining Staples, Mr. Anderson served as Executive Vice President—Finance and Chief Financial Officer of Campbell Soup Company from April 1996 to April 2000. Prior to joining Campbell Soup, Mr. Anderson was with Scott Paper Company where he served in a variety of capacities beginning in 1975, including Vice President and Chief Financial Officer from February 1993 to December 1995. Mr. Anderson is also a Director of Hasbro, Inc., Charles River Associates, Inc., Becton, Dickinson and Company and Moody's Corporation.	1997
	**George J. Mitchell,** age 70 Partner at the law firm of Piper Rudnick since October 2002, when Piper Rudnick merged with Verner, Liipfert, Bernhard, McPherson and Hand where Senator Mitchell had been Special Counsel from 1995 to October 2002. Appointed to the United States Senate in 1980, Senator Mitchell served until he left the Senate in 1995 as Majority Leader, a position he had held since January 1989. Senator Mitchell is also a Director of The Walt Disney Company, FedEx Corporation and Starwood Hotels & Resorts, Inc.	1998
	**Robert C. Nakasone,** age 56 Chief Executive Officer of NAK Enterprises, L.L.C., an investment and consulting company, since January 2000. Prior to that, he served as Chief Executive Officer of Toys "R" Us, Inc., a retail store chain, from February 1998 to September 1999. Previously, Mr. Nakasone served in other positions with Toys "R" Us, including President and Chief Operating Officer from January 1994 to February 1998 and Vice Chairman and President of Worldwide Toy Stores from January 1989 to January 1994. Mr. Nakasone is also a Director of eFunds Corporation.	1986
	**Ronald L. Sargent**, age 48 President and Chief Executive Officer of Staples since February 2002. Prior to that, he served in various capacities since joining Staples in March 1989, including President and Chief Operating Officer of Staples from November 1998 to February 2002, President-North American Operations from October 1997 to November 1998, and President-Staples Contract & Commercial from June 1994 to October 1997. Mr. Sargent is also a Director of Yankee Candle Corporation, Aramark Corporation and Mattel, Inc.	December 1999

		Served as a Director Since
	**Thomas G. Stemberg,** age 55 Chairman of the Board of Directors of Staples since February 1988, and since February 2004, a part-time associate and Non-Executive Chairman. From February 2002 to January 2004, Mr. Stemberg served as an executive officer of Staples with the title of Chairman. Mr. Stemberg founded Staples and was Chief Executive Officer of Staples from January 1986 to February 2002. Mr. Stemberg is also a Director of PETsMART, Inc., Polycom, Inc., CarMax, Inc. and The NASDAQ Stock Market, Inc.	1986

Our Chairman of the Board of Directors and executive officers are elected annually by the Board of Directors and serve at the discretion of the Board. No family relationships exist between any of our executive officers, Directors or nominees for Director.

Mr. Walsh was the Chief Executive Officer of Clareon Corporation, a privately held electronic payments provider, from March 2000 to September 2002. In October 2002, to facilitate its acquisition by Fleet Boston Corp., Clareon Corporation filed for Chapter 11 bankruptcy protection. Ms. Burton was the Chief Executive Officer of Cosmetic Center, Inc., a chain of specialty retail stores, from June 1998 to April 1999. In May 1999, Cosmetic Center, Inc. filed for Chapter 11 bankruptcy protection.

Board and Committee Meetings

The Board of Directors met four times during the fiscal year ended January 31, 2004. During fiscal 2003, each incumbent Director attended at least 75% of the aggregate of the total number of Board meetings held during the period for which he or she has been a Director and the total number of meetings of committees of the Board on which he or she then served.

The Company's Directors' Corporate Governance Guidelines provide that Directors are encouraged to attend the annual meeting of stockholders. Seven Directors attended the 2003 annual meeting of stockholders.

The Board of Directors has four standing committees: the Audit Committee, the Compensation Committee, the Nominating and Corporate Governance Committee and the Executive Committee. All of the members of the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee are independent Directors within the current NASDAQ definition of "independence" and the definition that will become applicable to the Company on the date of the Annual Meeting. All of the members of the Audit Committee comply with the independence requirements contemplated by Rule 10A-3 under the Exchange Act. Each of the committees has the authority to retain independent advisors and consultants, with all fees and expenses to be paid by us. The Board-approved charters of each of the Board committees can be found at www.staples.com/about.

Committee membership as of April 8, 2004 was as follows:

Audit Committee

Paul F. Walsh, Chairman
Mary Elizabeth Burton
Gary Crittenden

Compensation Committee

Richard J. Currie, Chairman
Brenda C. Barnes
Arthur M. Blank

Nominating and Corporate Governance Committee

Robert C. Nakasone, Chairman
James L. Moody, Jr.
Rowland T. Moriarty
Martin Trust

Executive Committee

Thomas G. Stemberg, Chairman
James L. Moody, Jr.
Robert C. Nakasone
Ronald L. Sargent

Upon Mr. Moody's retirement at the Annual Meeting, Mr. Trust will become the Lead Director and Messrs. Moriarty and Trust will join the Executive Committee.

Audit Committee

The Audit Committee provides the opportunity for direct contact between our independent auditors and the Board. The Committee assists the Board in overseeing our compliance with legal and regulatory requirements; the integrity of our financial statements; the independent auditor's qualifications and independence; and the performance of our internal audit function and the independent auditors through receipt and consideration of certain reports from the independent auditors. In addition, the Committee discusses the Company's risk management policies and reviews and discusses with management and the independent auditors the Company's annual and quarterly financial statements and related disclosures. The Committee is directly responsible for appointing, compensating, evaluating and, when necessary, terminating our independent auditors, and our independent auditors report directly to the Committee. The Committee has established procedures for the treatment of complaints regarding accounting, internal accounting controls or auditing matters, including procedures for confidential and anonymous submission by our associates of concerns regarding questionable accounting, internal accounting controls or auditing matters. In addition, in 2002, our management, in conjunction with the Committee, created a disclosure committee, composed of members of management, to assist us in fulfilling our obligations to maintain adequate disclosure controls and procedures and to coordinate and oversee the process of preparing our periodic securities filings. The Committee meets independently with the independent auditors, management and the internal auditors. Our Board has determined that Gary L. Crittenden is an "audit committee financial expert" under the rules of the SEC. The Committee met four times in person during the fiscal year ended January 31, 2004.

Compensation Committee

The Compensation Committee's responsibilities include setting the compensation levels of directors and executive officers, including the Chief Executive Officer (subject to ratification by the Board of Directors), reviewing and providing recommendations to the Board regarding compensation programs, administering our equity incentive, stock purchase and other employee benefit plans and authorizing option and restricted stock grants under our stock incentive plans. The Committee met four times in person and once by telephone during the fiscal year ended January 31, 2004.

Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee's responsibilities include providing recommendations to the Board regarding nominees for Director, membership on the Board committees, and succession matters for the Chief Executive Officer. An additional function of the Committee is to develop and recommend to the Board the Corporate Governance Guidelines and to assist the Board in complying with them. The Committee also oversees the evaluation of the Board and the Chief Executive Officer, reviews and resolves conflict of interest situations, reviews and approves related party transactions and, if necessary, other than with respect to executive officers and Directors, grants waivers to our Code of Ethics. Our Corporate Governance Guidelines and Code of Ethics can be found at www.staples.com/about. The Committee met four times in person and once by telephone during the fiscal year ended January 31, 2004.

Executive Committee

The Executive Committee of the Board of Directors is authorized, with certain exceptions, to exercise all of the powers of the Board in the management and affairs of Staples. It is intended that the Committee shall take action only when reasonably necessary to expedite our interests between regularly scheduled Board meetings. A quorum can only be established by the presence of both a majority of the members of the Committee and two non-management members of the Committee. The Committee did not meet during the fiscal year ended January 31, 2004.

Director Candidates

The process followed by the Nominating and Corporate Governance Committee to identify and evaluate director candidates includes requests to Board members and others for recommendations, meetings from time to time to evaluate biographical information and background material relating to potential candidates and interviews of selected candidates by members of the Committee and the Board.

In considering whether to recommend any particular candidate for inclusion in the Board's slate of recommended Director nominees, the Nominating and Corporate Governance Committee will apply the criteria set forth in the Company's Director's Corporate Governance Guidelines. These criteria include diversity, age and skills such as understanding of the retail industry, the office products market, finance, accounting, marketing, technology, international business and other knowledge needed on the Board. The principal qualification of a Director is the ability to act effectively on behalf of all of the stockholders. The Committee does not assign specific weights to particular criteria, and no particular criterion is a prerequisite for each prospective nominee. The Company believes that the backgrounds and qualifications of its directors, considered as a group, should provide a mix of experience, knowledge and abilities that will allow the Board to fulfill its responsibilities.

Stockholders may recommend individuals to the Nominating and Corporate Governance Committee for consideration as potential director candidates by submitting the candidates' names, together with appropriate biographical information and background materials and a statement as to whether the stockholder or group of stockholders making the recommendation has beneficially owned more than 5% of the Company's common stock for at least a year as of the date such recommendation is made to the Nominating and Corporate Governance Committee, c/o Corporate Secretary, Staples, Inc., 500 Staples Drive, Framingham, MA 01702. Assuming that appropriate biographical and background material has been provided on a timely basis, the Committee will evaluate stockholder recommended candidates by following substantially the same process, and applying substantially the same criteria, as it follows for candidates submitted by others.

Stockholders also have the right under the Company's By-Laws to directly nominate director candidates, without any action or recommendation on the part of the Nominating and Corporate Governance Committee or the Board, by following the procedures set forth under "*Other Matters.*"

At the Annual Meeting, stockholders will be asked to consider the election of Gary L. Crittenden who has been nominated for election as a Director for the first time. Mr. Crittenden was originally proposed to the Nominating and Corporate Governance Committee by a non-management Director, and the Board determined to include him among its nominees.

Communicating with the Independent Directors

The Board will give appropriate attention to written communications that are submitted by stockholders, and will respond if and as appropriate. Absent unusual circumstances or as contemplated by the committee charters, the Chairman of the Board (if an independent Director), or the Lead Director (if one is appointed), or otherwise the Chairman of the Nominating and Governance Committee, with the advice and assistance of the Company's General Counsel, is primarily responsible for monitoring communications from stockholders and other interested parties and for providing copies or summaries of such communications to the other Directors as he or she considers appropriate.

Under procedures approved by a majority of our independent Directors, communications are forwarded to all Directors if they relate to important substantive matters and include suggestions or comments that the Chairman of the Board (if an independent Director), or the Lead Director (if one is appointed), or otherwise the Chairman of the Nominating and Governance Committee, considers to be important for the Directors to know. In general, communications relating to corporate governance and long-term corporate strategy are more likely to be forwarded than communications relating to ordinary business affairs, personal grievances and matters as to which the Company tends to receive repetitive or duplicative communications. In addition, as provided by our Corporate Governance Guidelines, if a meeting is held between a major stockholder (including institutional investors) and a representative of the independent Directors, the Lead Director will serve, subject to availability, as such representative of the independent Directors.

Stockholders who wish to send communications on any topic to the Board should address such communications to The Board of Directors, c/o Corporate Secretary, Staples, Inc., 500 Staples Drive, Framingham, MA 01702.

Director Compensation

Our non-employee directors ("Outside Directors") are compensated through a combination of an annual cash payment and annual equity grants based on meeting attendance. Outside Directors receive $50,000 for their service on the Board and are reimbursed for expenses incurred in attending meetings of the Directors. Senator Mitchell provides consulting services to us in return for an additional annual fee of $75,000. During the fiscal year ended January 31, 2004, we paid these fees to Senator Mitchell in the form of Staples common stock, the receipt of which he elected to defer.

The Amended and Restated 1990 Director Stock Option Plan (the "Amended and Restated Director Plan") authorizes Staples to grant non-qualified stock options and make awards of restricted stock to Outside Directors. Under the Amended and Restated Director Plan, each Outside Director automatically receives, upon his or her initial election as a member of the Board of Directors, a grant of options to purchase 15,000 shares of Staples common stock. In addition, on the date of the first regularly scheduled Board of Directors meeting following the end of each fiscal year, each Outside Director automatically receives a grant of options to purchase 3,000 shares of Staples common stock for each regularly scheduled meeting day of the Board of Directors that such Outside Director attended during the previous 12 months, up to a maximum of 15,000 shares of Staples common stock.

In addition, on the date that Performance Accelerated Restricted Stock ("PARS") for any year is awarded to our executive officers, (1) each Outside Director is granted 400 shares of restricted Staples common stock for each regularly scheduled meeting day of the Board of Directors attended by such Director in the previous fiscal year (up to a maximum of 2,000 shares of restricted stock), (2) the Lead Director is granted 200 shares of restricted Staples common stock for each regularly scheduled meeting day of the Board of Directors attended by the Lead Director in the previous fiscal year (up to a maximum of 1,000 shares of restricted stock), and (3) the Chairman of each of the Audit, Compensation, and Nominating and Corporate Governance Committees of the Board of Directors are each granted 200 shares of restricted Staples common stock for each regularly scheduled committee meeting day attended by such Director in the previous fiscal year (up to a maximum of 800 shares of restricted stock for each position).

With respect to the fiscal year ended January 31, 2004, and in accordance with the Amended and Restated Director Plan, on March 2, 2004, each of Ms. Barnes, Ms. Burton and Messrs. Currie, Mitchell, Moody, Moriarty, Nakasone, Trust and Walsh was granted an option to purchase 15,000 shares of Staples common stock and Mr. Blank was granted an option to purchase 9,000 shares of Staples common stock. Each option to purchase Staples common stock was granted at an exercise price of $27.33 per share. Pursuant to the Amended and Restated Director Plan, or the 2004 Stock Incentive Plan, if approved, on the date during fiscal year 2004 that the PARS are awarded to our executive officers, or potentially shortly after our Annual Meeting if stockholders approve the 2004 Stock Incentive Plan, the following will be awarded: Mr. Moody will be awarded 3,800 shares of restricted Staples common stock; Messrs. Trust and Walsh will each be awarded 2,800 shares of restricted Staples common stock; Ms. Burton, Ms. Barnes and Messrs. Currie, Mitchell, Moriarty and Nakasone will each be awarded 2,000 shares of restricted Staples common stock; and Mr. Blank will be awarded 1,200 shares of restricted Staples common stock.

All stock options granted under the Amended and Restated Director Plan are granted at an exercise price equal to the fair market value of Staples common stock on the date of grant. Options to purchase Staples common stock generally become exercisable on a cumulative basis over four years in four equal annual installments, commencing on the first anniversary of the date of grant.

The recipients of restricted stock under the Amended and Restated Director Plan are granted shares of Staples common stock (which may be issued on a deferred basis) that vest five years from the first day of the fiscal year during which the shares are granted. Should the recipient cease to be a Director, Staples may at its option repurchase any unvested shares at a price equal to their original purchase price (if any). Except as otherwise determined by the Board of Directors, all shares of restricted stock issued under the Amended and Restated Director Plan will be issued without the payment of any cash purchase price by the recipient.

If our stockholders approve the 2004 Stock Incentive Plan, the Amended and Restated Director Plan will be terminated, and we will no longer issue equity to our Outside Directors through our Amended and Restated Director Plan. We will instead award equity to our Outside Directors exclusively through the 2004 Stock Incentive Plan. The equity awards that our Outside Directors will have earned but not yet received under the Amended and Restated Director Plan will be issued under the 2004 Stock Incentive Plan, and the Company is considering awarding such equity to the Outside Directors shortly after our Annual Meeting instead of at the later dates specified in the Amended and Restated Director Plan. We are currently reviewing the level and timing of the compensation we pay our Outside Directors, and as of the date of this proxy statement, we intend to award our Outside Directors, for service during fiscal 2004, the same type and approximate amount of equity awards they would have received under the Amended and Restated Director Plan.

Report of the Audit Committee of the Board of Directors

The Audit Committee of the Company's Board of Directors is composed of three members and acts under a written charter first adopted and approved by the Board of Directors on March 16, 1995 and most recently amended on March 2, 2004, a copy of which is attached as Appendix D to this proxy statement. The members of the Audit Committee are independent Directors, as defined by its charter and the rules of the SEC and NASDAQ.

The Audit Committee oversees the Company's financial reporting process on behalf of the Board of Directors. Management has the primary responsibility for the financial statements and the reporting process, including the systems of internal controls. In fulfilling its oversight responsibilities, the Audit Committee reviewed and discussed the audited financial statements in the Annual Report on Form 10-K for the fiscal year ended January 31, 2004 with management, which review included a discussion of the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments, and the clarity of disclosures in the financial statements.

The Audit Committee reviewed and discussed with Ernst & Young LLP, the Company's independent auditors, who are responsible for expressing an opinion on the conformity of those audited financial statements with generally accepted accounting principles, their judgments as to the quality, not just the acceptability, of the Company's accounting principles and such other matters as are required to be discussed with the Audit Committee under generally accepted auditing standards, including Statement on Auditing Standards 61 (Communication with Audit Committees). The independent auditors also provided the Audit Committee with the written disclosures and the letter required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees). The Audit Committee discussed with the independent auditors the auditors' independence from management and the Company, including the matters in the written disclosures required by the Independence Standards Board, and considered the compatibility of non-audit related services provided to the Company by Ernst & Young LLP with the auditors' independence.

The Audit Committee discussed with the Company's internal and independent auditors the overall scope and plans for their respective audits. The Audit Committee meets with the internal and independent auditors, with and without management present, to discuss the results of their examinations, their evaluations of the Company's internal controls, and the overall quality of the Company's financial reporting.

In reliance on the reviews and discussions referred to above, the Audit Committee recommended to the Company's Board of Directors, and the Board approved, that the Company's audited financial statements be included in the Annual Report on Form 10-K for the year ended January 31, 2004 for filing with the SEC.

Audit Committee:

Paul F. Walsh, Chairman
Brenda C. Barnes
Mary Elizabeth Burton

Independent Auditor's Fees

Audit Fees

Ernst & Young LLP billed Staples an aggregate of approximately $1.9 million and $1.6 million in fiscal years 2003 and 2002, respectively, for professional services rendered in connection with the Company's annual audit, statutory filings and registration statements.

Audit-Related Fees

Ernst & Young LLP billed Staples an aggregate of approximately $61,000 and $178,000 in fiscal years 2003 and 2002, respectively, for services related to assistance with internal control reporting, acquisition due diligence, employee benefit plan audits, accounting consultation and compliance with regulatory requirements.

Tax Fees

Ernst & Young LLP billed Staples an aggregate of approximately $5.5 million and $9.1 million in fiscal years 2003 and 2002, respectively, for services related to tax compliance, tax planning and tax advice. For fiscal years 2003 and 2002, $3.3 million and $6.8 million, respectively, of these fees related to tax compliance.

All Other Fees

Ernst & Young LLP did not bill Staples in fiscal years 2003 or 2002 for services other than those described above.

Pre-Approval Policy and Procedures

The Audit Committee has adopted policies and procedures relating to the approval of all audit and non-audit services that are to be performed by the Company's independent auditor. This policy provides that the Company will not engage its independent auditor to render audit or non-audit services unless the service is specifically approved in advance by the Audit Committee. All services provided to the Company by Ernst & Young LLP in each of fiscal years 2003 and 2002 were approved in accordance with this policy.

Certain Relationships and Related Transactions

We have retained the services of the law firm Piper Rudnick, of which Senator Mitchell is a partner. The Nominating and Corporate Governance Committee of the Board of Directors reviewed and approved this relationship. See "Director Compensation" regarding Senator Mitchell's consulting agreement with us.

We have a policy that prohibits personal loans to executive officers and Directors and requires transactions and loans, if any, between us and our affiliates to be on terms no less favorable to us than could be obtained from unrelated third parties.

EXECUTIVE COMPENSATION

The following table sets forth certain information concerning the compensation for each of the last three fiscal years of our Chief Executive Officer and the four other most highly compensated executive officers of Staples during the fiscal year ended January 31, 2004 (the "Senior Executives").

SUMMARY COMPENSATION TABLE

		Annual Compensation			Long Term Compensation		All Other
Name and Principal Position	**Fiscal Year**	**Salary ($)**	**Bonus ($) (1)**	**Other Annual Compensation ($) (2)**	**Restricted Stock Awards ($) (3)**	**Common Stock Options (#)**	**Compensation ($) (4)**
Ronald L. Sargent	2003	1,000,000	1,354,666	—	10,502,000(5)	350,000	35,557(6)
President & Chief	2002	852,500	1,034,797	—	1,354,900(7)	375,000	35,195(6)
Executive Officer	2001	714,667	134,505	—	2,388,750(8)	1,025,000	30,198(6)
Thomas G. Stemberg (9)	2003	1,000,000	1,354,666	77,995(10)	7,870,000(11)	350,000	47,213(12)
Non-Executive Chairman &	2002	852,500	1,034,797	115,423(10)	7,363,900(13)	350,000	55,227(12)
Chairman of the Board	2001	728,533	182,198	—	1,365,000(14)	350,000	47,015(12)
John J. Mahoney	2003	544,399	442,687	—	1,172,700(15)	100,000	25,979(16)
Exec. Vice President &	2002	513,750	373,368	—	609,705(15)	100,000	29,836(16)
Chief Administrative Officer	2001	498,633	74,831	—	614,250(15)	100,000	27,579(16)
Joseph S. Vassalluzzo	2003	537,158	436,742		1,172,700(17)	100,000	17,742(18)
Vice Chairman	2002	518,333	376,741	—	609,705(17)	100,000	22,281(18)
	2001	498,633	74,831	—	614,250(17)	100,000	20,696(18)
Basil L. Anderson	2003	468,154	380,637	—	1,042,400(20)	120,000	12,399(21)
Vice Chairman	2002	470,708	410,704	183,589(19)	566,348(22)	129,000(23)	7,619(21)
	2001	215,250	31,504	219,009(19)	720,720(24)	477,500(25)	—

(1) Represents amounts paid under Staples' Executive Officer Incentive Plan for the relevant fiscal year.

(2) In accordance with the rules of the SEC, other compensation in the form of perquisites and other personal benefits has been omitted for certain Senior Executives because the aggregate amount of such perquisites and other personal benefits constituted less than the lesser of $50,000 or 10% of the total annual salary and bonus for the Senior Executive for each year shown.

(3) In March 2004, we announced that we will pay an annual cash dividend on our common stock. We will pay this dividend on the restricted stock grants reported in this column. See "Performance Accelerated Restricted Stock Awards."

(4) The split dollar insurance program payments represent an actuarial equivalent benefit to the Senior Executive from payment of annual premiums by us. Our matching contributions under our 401(k) and Supplemental Executive Retirement Plans are made in the form of Staples common stock that vests on an annual basis over five years and becomes fully vested for all past and future matching contributions after five years of employment with us. With the exception of Mr. Anderson, all of the Senior Executives have been employed by us for more than five years. All distributions to participants under these plans are paid in cash. See "Securities Authorized for Issuance under Equity Compensation Plans — Supplemental Executive Retirement Plan".

(5) Reflects an award of 100,000 shares of PARS to Mr. Sargent at a per share value of $26.06 and an award of 300,000 shares of restricted stock at a per share value of $26.32. As of January 31, 2004, these restricted shares owned by Mr. Sargent had a combined total value of $10,644,000. As of January 31, 2004, the aggregate value of the 650,000 shares of unvested restricted stock held by Mr. Sargent had a total value of $17,296,500. See "Performance Accelerated Restricted Stock Awards."

(6) Reflects $11,197, $15,680 and $14,898 for split dollar insurance premiums we paid in 2003, 2002 and 2001, respectively. Also reflects $24,360, $19,515 and $15,300 that we contributed on a matching basis pursuant to the terms of our 401(k) and Supplemental Executive Retirement Plans for 2003, 2002 and 2001, respectively.

(7) Reflects an award of 100,000 shares of PARS to Mr. Sargent at a per share value of $13.549. As of January 31, 2004, these restricted shares owned by Mr. Sargent had a total value of $2,661,000. See "Performance Accelerated Restricted Stock Awards."

(8) Reflects an award of 175,000 shares of PARS to Mr. Sargent at a per share value of $13.65. As of January 31, 2004, these restricted shares owned by Mr. Sargent had a total value of $4,656,750. See "Performance Accelerated Restricted Stock Awards."

(9) During fiscal year 2003, Mr. Stemberg served as an executive officer of Staples with the title of Chairman.

(10) Represents amounts paid in fiscal year 2003 for tax preparation for tax year 2003 and represents amounts paid in fiscal year 2002 for tax preparation for tax years 2001 and 2002.

(11) Reflects an award of 100,000 shares of PARS to Mr. Stemberg at a per share value of $26.06 and an award of 200,000 shares of restricted stock at a per share value of $26.32. As of January 31, 2004, these restricted shares owned by Mr. Stemberg had a combined total value of $7,983,000. As of January 31, 2004, the aggregate value of the 900,000 shares of unvested restricted stock held by Mr. Stemberg had a total value of $23,949,000. See "Performance Accelerated Restricted Stock Awards."

(12) Reflects $25,373, $35,533 and $29,978 for split dollar insurance premiums we paid in 2003, 2002 and 2001, respectively. Also reflects $21,840, $19,694 and $17,037 that we contributed on a matching basis pursuant to the terms of our 401(k) and Supplemental Executive Retirement Plans for 2003, 2002 and 2001, respectively.

(13) Reflects an award of 300,000 shares of PARS to Mr. Stemberg at a per share value of $20.03 and an award of 100,000 shares of PARS to Mr. Stemberg at a per share value of $13.549. As of January 31, 2004, these restricted shares owned by Mr. Stemberg had a combined total value of $10,644,000. See "Performance Accelerated Restricted Stock Awards."

(14) Reflects an award of 100,000 shares of PARS to Mr. Stemberg at a per share value of $13.65. As of January 31, 2004, these restricted shares owned by Mr. Stemberg had a total value of $2,661,000. See "Performance Accelerated Restricted Stock Awards."

(15) Reflects an award of 45,000 shares of PARS to Mr. Mahoney in each year at a per share value of $26.06 for the 2003 grant, $13.549 for the 2002 grant, $13.65 for the 2001 grant. As of January 31, 2004, each year's grant had a total value of $1,197,450. As of January 31, 2004, the aggregate value of the 180,000 shares of unvested restricted stock held by Mr. Mahoney had a total value of $4,789,800. See "Performance Accelerated Restricted Stock Awards."

(16) Reflects $11,708, $16,396 and $15,795 for split dollar insurance premiums we paid in 2003, 2002 and 2001, respectively. Also reflects $14,271, $13,440 and $11,784 that we contributed on a matching basis pursuant to the terms of our 401(k) and Supplemental Executive Retirement Plans for 2003, 2002 and 2001, respectively.

(17) Reflects an award of 45,000 shares of PARS to Mr. Vassalluzzo in each year at a per share value of $26.06 for the 2003 grant, $13.549 for the 2002 grant and $13.65 for the 2001 grant. As of January 31, 2004, each year's grant had a total value of $1,197,450. As of January 31, 2004, the aggregate value of the 180,000 shares of unvested restricted stock held by Mr. Vassalluzzo had a total value of $4,789,800. See "Performance Accelerated Restricted Stock Awards."

(18) Reflects $12,997, $18,206 and $17,750 for split dollar insurance premiums we paid in 2003, 2002 and 2001, respectively. Also reflects $4,745, $4,075 and $2,946 that we contributed on a matching basis pursuant to the terms of our 401(k) and Supplemental Executive Retirement Plans for 2003, 2002 and 2001, respectively.

(19) Represents amounts paid in connection with Mr. Anderson's relocation from Pennsylvania to Massachusetts.

(20) Reflects an award of 40,000 shares of PARS to Mr. Anderson at a per share value of $26.06. As of January 31, 2004, these restricted shares owned by Mr. Anderson had a total value of $1,064,400. As of January 31, 2004, the aggregate value of the 139,800 shares of unvested restricted stock held by Mr. Anderson had a total value of $3,720,078. See "Performance Accelerated Restricted Stock Awards."

(21) Reflects $5,397 and $7,619 for split dollar insurance premiums we paid in 2003 and 2002, respectively. Also reflects $7,002 that we contributed on a matching basis pursuant to the terms of our 401(k) and Supplemental Executive Retirement Plans for 2003.

(22) Reflects an award of 41,800 shares of PARS to Mr. Anderson at a per share value of $13.549. 1,800 of these shares were granted to Mr. Anderson for service as an Outside Director in fiscal year 2001 prior to becoming an executive officer of the Company. As of January 31, 2004, these restricted shares owned by Mr. Anderson had a total value of $1,112,298. See "Performance Accelerated Restricted Stock Awards."

(23) 9,000 of these shares were granted to Mr. Anderson for service as an Outside Director in fiscal year 2001 prior to becoming an executive officer of the Company.

(24) Reflects an award of 52,800 shares of PARS to Mr. Anderson at a per share value of $13.65. 2,800 of these shares were granted to Mr. Anderson for service as an Outside Director in fiscal year 2000. As of January 31, 2004, these restricted shares owned by Mr. Anderson had a total value of $1,405,008. See "Performance Accelerated Restricted Stock Awards."

(25) 15,000 of these shares were granted to Mr. Anderson for service as an Outside Director in fiscal year 2000.

Performance Accelerated Restricted Stock ("PARS") Awards

In order to maintain our high risk-high reward philosophy, the Compensation Committee adopted, as part of the Amended and Restated 1992 Equity Incentive Plan, a PARS plan (the "Plan") for certain key executives. Under the Plan, shares of Staples common stock are granted to executives in consideration for services. The shares are "restricted" in that they may not be sold or transferred by the executive, other than for limited estate planning purposes, until they "vest." PARS vest after five years subject to accelerated vesting in years two, three or four if we achieve certain compound annual earnings per share growth. Our PARS issued in fiscal 2003 will vest in full in April 2008, subject to full acceleration upon achievement of certain pre-determined earnings growth targets over the 2004 to 2006 fiscal years. Our PARS issued in fiscal 2002 vest in full in May 2004 as a result of us achieving our earnings target for fiscal 2003. Our PARS that were issued in fiscal 2001 vested in full in May 2003 as a result of us achieving our earnings target for fiscal 2002. Our PARS that were issued in fiscal 1999 vested in full in February 2004. Earnings growth targets are determined by the Compensation Committee each year for grants under the Plan. Once the PARS have vested, they become "unrestricted" and may be freely sold or transferred. The PARS are forfeited if the executive's employment with us terminates prior to vesting except in extraordinary circumstances which include, without limitation, death or disability of the executive; a merger, consolidation, sale, reorganization or change in control of the Company; or any other nonrecurring significant event affecting us, the executive or the Plan.

Option Grants

The following table sets forth certain information concerning grants of stock options during the fiscal year ended January 31, 2004 for each of the Senior Executives.

OPTION GRANTS IN LAST FISCAL YEAR

	Individual Grants				Grant Date Value
Name	Number of Securities Underlying Options Granted (1)	Percent of Total Options Granted to Employees in Fiscal Year	Exercise Price per Share (2)	Expiration Date	Grant Date Present Value (3)
Ronald L. Sargent	350,000	3.61%	$18.35	7/01/2013	$2,604,000
Thomas G. Stemberg	350,000	3.61%	$18.35	7/01/2013	$2,604,000
John J. Mahoney	100,000	1.03%	$18.35	7/01/2013	$ 744,000
Joseph S. Vassalluzzo	100,000	1.03%	$18.35	7/01/2013	$ 744,000
Basil L. Anderson	120,000	1.24%	$18.35	7/01/2013	$ 892,800

(1) Each of the options granted vests over a four-year period as follows: 25% of such shares will vest one year after the date of grant (July 1, 2003) and the remaining 75% of such shares will vest in equal monthly installments (2.083% per month) over the following 36 months, provided that the optionee continues to be employed by us on such dates. The exercisability of the options is accelerated under certain circumstances. See "Employment Contracts, Termination of Employment and Change-in-Control Agreements with Senior Executives."

(2) The exercise price is equal to the fair market value per share of Staples common stock on the date of grant.

(3) The estimated present values at grant date have been calculated using a Black-Scholes option pricing model, based upon the following assumptions: a five-year expected life of option; a dividend yield of 0.0%; expected volatility of 43%; and a risk-free interest rate of 2.514%, representing the interest rate on a U.S. Government zero-coupon bond on the date of grant, with a maturity corresponding to the expected life of the option.

Option Exercises and Holdings

The following table sets forth certain information concerning the exercise of stock options during the fiscal year ended January 31, 2004 by each of the Senior Executives and the number and value of unexercised options held by each of the Senior Executives on January 31, 2004.

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR-END OPTION VALUES

Name	Number of Shares of Common Stock Acquired On Exercise	Value Realized (1)	Number of Securities Underlying Unexercised Options at Fiscal Year-End Exercisable/Unexercisable	Value of Unexercised In-The-Money Options at Fiscal Year-End (2) Exercisable/Unexercisable
Ronald L. Sargent	257,813	$4,787,286	3,439,009/1,130,991	$30,025,500/$10,861,948
Thomas G. Stemberg	982,002(3)	$9,274,180	3,769,167/209,375	$26,504,036/$2,482,867
John J. Mahoney	156,898	$2,484,383	1,371,742/241,772	$13,287,062/$2,432,643
Joseph S. Vassalluzzo	300,000	$4,833,058	1,206,012/255,314	$10,931,867/$2,595,269
Basil L. Anderson	0	$ 0	378,416/405,084	$4,756,483/$4,566,182

(1) Represents the difference between the exercise price and the fair market value of the Staples common stock on the date of exercise.

(2) Based on the fair market value of Staples common stock on January 31, 2004 ($26.61 per share), less the option exercise price.

(3) 710,000 of these shares were acquired as a result of exercising options through a Rule 10b5-1(c) plan.

Securities Authorized for Issuance under Equity Compensation Plans

The following table provides information about the securities authorized for issuance under our equity compensation plans as of January 31, 2004. Our equity compensation plans consist of the 1987 Stock Option Plan, the Amended and Restated 1990 Director Stock Option Plan, the Amended and Restated 1992 Equity Incentive Plan, the 1998 Employee Stock Purchase Plan, the International Employee Stock Purchase Plan, the 1997 United Kingdom Company Share Option Plan, the 1997 United Kingdom Savings Related Share Option Plan and the Supplemental Executive Retirement Plan.

EQUITY COMPENSATION PLAN INFORMATION

Plan category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (excluding securities reflected in column (a))(1) (c)
Equity compensation plans approved by securityholders	49,400,066(2)	$17.22	7,298,510(3)
Equity compensation plans not approved by securityholders	562,511(4)	$18.27	1,419,740(5)
Total	50,525,088		8,718,250

(1) In addition to being available for future issuance upon exercise of options that may be granted after January 31, 2004, 1,367,731 shares under the Amended and Restated 1992 Equity Incentive Plan may instead be issued in the form of restricted stock, including PARS, and 455,889 shares under the Amended and Restated 1990 Director Stock Option Plan may instead be issued in the form of restricted stock, including restricted stock deferred units.

(2) Issued pursuant to our 1987 Stock Option Plan, Amended and Restated 1990 Director Stock Option Plan, and Amended and Restated 1992 Equity Incentive Plan.

(3) Includes 2,384,554 shares issuable under our 1998 Employee Stock Purchase Plan, of which 351,136 shares are issuable in connection with the current offering period that ends on June 25, 2004, assuming that our associates enroll to the same extent they did during the offering period that ended on December 26, 2003 and based on a fair market value of $26.78 per share for Staples common stock on January 2, 2004 (the first business day of the current offering period). In the event the fair market value of Staples common stock is less than $26.78 per share on June 25, 2004, additional shares will be issued by us.

(4) Issued pursuant to our 1997 United Kingdom Company Share Option Plan.

(5) Includes 1,104,613 shares issuable under our 1997 United Kingdom Savings Related Share Option Plan, of which 56,247 shares are issuable in connection with the current outstanding options assuming associates elect to use all of their savings under that Plan to purchase Staples common stock. Includes 111,174 shares issuable under our International Employee Stock Purchase Plan, of which 14,757 shares are issuable in connection with the current offering period that ends on June 25, 2004, assuming that our associates enroll to the same extent they did during the offering period that ended on December 26, 2003 and based on a fair market value of $26.78 per share for Staples common stock on January 2, 2004 (the first business day of the current offering period). In the event the fair market value of Staples common stock is less than $26.78 per share on June 25, 2004, additional shares will be issued by us.

At the end of fiscal year 2003, we had in effect the following equity compensation plans that did not require stockholder approval:

1997 United Kingdom Company Share Option Plan

In August 1997, the Board of Directors adopted the 1997 United Kingdom Company Share Option Plan (the "UK Option Plan"), pursuant to which stock options for up to 1,125,000 shares of Staples common stock may be granted to our associates and our subsidiaries' associates, other than executive officers and directors. We use the UK Option Plan to compensate associates working in our United Kingdom businesses. Associates working in our United Kingdom businesses are also eligible to receive options under our stockholder-approved Amended and Restated 1992 Equity Incentive Plan. In the event our stockholders approve the 2004 Stock Incentive Plan at the Annual Meeting, we will no longer issue equity out of the UK Option Plan. We filed the UK Option Plan with the SEC as an exhibit to our Annual Report on Form 10-K for the fiscal year ended January 31, 1998.

The UK Option Plan was designed to be approved by the United Kingdom's Department of Inland Revenue so that associates could avoid income tax on the difference between the exercise price of the option and fair market value of Staples common stock at the option's exercise date. The Department of Inland Revenue approved the UK Option Plan on January 29, 1998. Participants in the UK Option Plan may be granted, in the aggregate over the life of the UK Option Plan, up to 30,000 British pounds of tax-advantaged options. Eligible associates may receive additional non-tax advantaged options under the UK Option Plan.

The UK Option Plan is administered by our Board of Directors. The Board of Directors is authorized to adopt, amend and repeal the administrative rules, guidelines and practices relating to the UK Option Plan and to interpret the provisions of the UK Option Plan. The Board of Directors may amend, suspend or terminate the UK Option Plan at any time. The Board of Directors has delegated to the Compensation Committee authority to administer certain aspects of the UK Option Plan.

The Board of Directors or the Compensation Committee selects the recipients of options under the UK Option Plan and determines (i) the number of shares of Staples common stock covered by such options, (ii) the dates upon which such options become exercisable (which is typically 25% on the first anniversary of the date of grant and 2.083% monthly thereafter (iii) the exercise price of options (which may not be less than the fair market value of Staples common stock on the date of grant), and (iv) the duration of the options (which may not exceed 10 years). With respect to options granted within the 30,000 British pound limit, preferential tax treatment generally may only be obtained on the exercise of the option if the option is exercised after the third and before the tenth anniversary of the date of grant and more than three years after the previous exercise of an option which has received preferential tax treatment.

If any option granted under the UK Option Plan expires or is terminated, surrendered, canceled or forfeited, the unused shares of common stock covered by such option will again be available for grant under the plan. No option may be granted under the UK Option Plan after August 25, 2007, but awards previously granted may extend beyond that date.

Our Board of Directors is required to make appropriate adjustments in connection with the UK Option Plan and any outstanding options under the UK Option Plan to reflect stock splits, stock dividends, recapitalizations, spin-offs and other similar changes in capitalization. The UK Option Plan also contains provisions relating to the disposition of options in the event of a merger, consolidation, sale of all or substantially all of the assets, or liquidation of the Company.

As of January 31, 2004, approximately 185 associates were eligible to participate in the UK Option Plan.

1997 United Kingdom Savings Related Share Option Plan

In August 1997, the Board of Directors adopted the 1997 United Kingdom Savings Related Share Option Plan (the "UK Savings Plan"), pursuant to which an aggregate of 1,125,000 shares of common stock may be issued to eligible United Kingdom associates of the Company and its subsidiaries. The UK Savings Plan is designed to encourage eligible associates to save money and purchase shares of Staples common stock at a discounted price. We filed the UK Savings Plan with the SEC as an exhibit to our Annual Report on Form 10-K for the fiscal year ended February 1, 2003.

Each associate of our United Kingdom businesses, including an officer or director who is also an associate, is eligible to participate in the UK Savings Plan, provided he or she (i) has been employed by us or any eligible subsidiary for at least 90 continuous days on the invitation date, and (ii) is designated by the Board of Directors as an eligible associate.

The UK Savings Plan, which is implemented through invitations, provides eligible United Kingdom associates with the opportunity to make monthly deductions from their pay of between 5 British pounds and 250 British pounds over a three-year period for investment in an interest bearing tax-free account. The associates' savings are used to purchase options to purchase common stock at a discounted price equal to 15% less than the fair market value of Staples common stock on the invitation date. At the end of the three-year period, associates have six months to decide whether to withdraw their savings and guaranteed bonus in cash, purchase Staples common stock at the discounted price, or buy some common stock at the discounted price and keep some of the cash accumulation.

The UK Savings Plan is administered by our Board of Directors and the Compensation Committee of the Board of Directors. The Board of Directors and the Compensation Committee have the authority to make rules and regulations for the administration of the UK Savings Plan. Pursuant to the terms of the UK Savings Plan, the Board of Directors has appointed the Compensation Committee to administer certain aspects of the UK Savings Plan. The Board of Directors may at any time amend or terminate the UK Savings Plan as long as the amendment or termination does not prejudice the rights of any participant without the prior consent of such participant. The UK Savings Plan contains provisions relating to the disposition of options in the event of change in control, reconstruction and winding up of the Company.

As of January 31, 2004, approximately 2,400 associates were eligible to participate in the UK Savings Plan, under which options cannot be granted after August 2007. The purchase of shares under the UK Savings Plan is discretionary, and we cannot now determine the number of shares to be purchased in the future by any particular person or group.

International Employee Stock Purchase Plan

In March 2000, the Board of Directors adopted the International Employee Stock Purchase Plan (the "Existing IESPP"), pursuant to which an aggregate of 250,000 shares of Staples common stock may be issued to eligible associates of any non-U.S., non-Canadian subsidiary and any other subsidiary designated by the Board of Directors or the Compensation Committee (each, a "Qualified Subsidiary"). The Existing IESPP, which is implemented through offerings, each approximately six months in length (the Board of Directors may specify a shorter period, or a longer period of twelve months or less), provides eligible associates with the opportunity to purchase shares of Staples common stock at a discounted price. As described in Proposal 4 earlier in this proxy statement, we have asked our stockholders to approve the Amended and Restated International Employee Stock Purchase Plan to, among other things, increase the total number of shares of Staples common stock that may be issued under the plan from 250,000 shares to 850,000 shares. We filed the Existing IESPP with the SEC as an exhibit to our Annual Report on Form 10-K for the fiscal year ended February 1, 2003.

Each associate of a Qualified Subsidiary, including a director who is also an associate, is eligible to participate in the Existing IESPP, provided he or she (i) is employed by any Qualified Subsidiary on the applicable offering commencement date, and (ii) has been employed by us or any Qualified Subsidiary for at least three months prior to enrolling in the Existing IESPP. An associate may elect to have up to a maximum of 10% withheld from his or her annual base pay for purposes of purchasing shares under the Existing IESPP, subject to certain limitations on the maximum number of shares that may be purchased. The price at which shares may be purchased during each offering will be the lower of (i) 85% of the fair market value of Staples common stock on the date that the offering commences or (ii) 85% of the fair market value of Staples common stock on the date that the offering terminates.

The Existing IESPP is administered by the Board of Directors of the Company and the Compensation Committee of the Board of Directors. The Board of Directors and the Compensation Committee have the authority to make rules and regulations for the administration of the Existing IESPP. Pursuant to the terms of the Existing IESPP, the Board of Directors has appointed the Compensation Committee to administer certain aspects of the Existing IESPP. The Board of Directors may at any time terminate or amend the Existing IESPP. The Existing IESPP contains provisions relating to the disposition of options in the event of certain mergers, acquisitions and other extraordinary corporate transactions involving the Company.

As of January 31, 2004, approximately 4,533 associates were eligible to participate in the Existing IESPP. The purchase of shares under the Existing IESPP is discretionary, and we cannot now determine the number of shares to be purchased in the future by any particular person or group.

Supplemental Executive Retirement Plan

In August 1997, the Board of Directors adopted the Supplemental Executive Retirement Plan (as amended and restated the, "SERP") to complement our 401(k) Plan. The SERP permits key executives to save for their retirement beyond what they would have been restricted to under the 401(k) Plan. Under the SERP, we may issue up to 225,000 shares of Staples common stock.

Investment elections for the SERP are substantially similar to the investment elections available under the 401(k) Plan. We match 25% of the first 6% of pay that eligible associates contribute to the combined 401(k) Plan and SERP. We may also make an additional discretionary matching contribution to the 401(k) Plan and SERP based on an associate's contributions to the SERP. Our matching contributions are made in the form of Staples common stock and vest ratably based on length of service so that they vest on an annual basis over five years, with all future matching contributions being 100% vested after five years of service. All distributions to SERP participants are paid in cash.

The SERP is administered by the Committee on Employee Benefit Plans. This committee has the general authority to control and manage the operation and administration of the SERP, and the committee's powers and duties include the ability to adopt the rules and regulations necessary for the performance of its duties under the SERP, to decide all questions arising under the SERP, and to amend, suspend or terminate the SERP at any time.

As of January 31, 2004, approximately 411 associates were eligible to participate in the SERP.

Employment, Termination of Employment and Change-in-Control Agreements with Senior Executives

We have entered into Severance Benefit Agreements (the "Severance Agreements") with each of Messrs. Anderson, Mahoney, Sargent and Vassalluzzo. Under the Severance Agreements, following termination of employment by us without cause (or "constructive discharge" as provided in the Severance Agreements), Mr. Sargent would be entitled to continuation of salary and other benefits for 18 months and Messrs. Anderson, Mahoney and Vassalluzzo would be entitled to continuation of salary and other benefits for 12 months. Each executive named above would receive such benefits for an additional period of six months if such termination occurred within two years following a "change in control" of Staples (as defined in the Severance Agreements). A change in control of Staples would also result in a partial acceleration of the exercisability of outstanding options held by the executives named above (and all of our associates), and a discharge without cause (or resignation for good reason) within one year after a change in control results in the acceleration in full of all options and PARS held by the executives (and all of our associates). In the event Mr. Mahoney is terminated without cause within one year after a change of control, we have guaranteed him that the sum of all severance payments to be paid to him plus the total gain realized and realizable upon the sale and/or exercise of his PARS and/or options would equal at least $2,000,000.

Effective as of February 3, 2002, we entered into an employment agreement with Mr. Stemberg, pursuant to which Mr. Stemberg agreed to remain with us on a full-time basis as an executive officer with the title of Chairman for an initial period of up to two years, and thereafter would assume, for an additional two-year period beginning on February 1, 2004 and ending on February 1, 2006, a part-time position as a non-executive officer with the title of Non-Executive Chairman. We amended this agreement on January 26, 2004, and the employment agreement, as amended, is described below.

Under the agreement, as amended, Mr. Stemberg agreed not to compete with us until February 1, 2010. We agreed to: (1) pay Mr. Stemberg an annual salary and bonus at a level equal to that paid to the Chief Executive Officer during the first two years and at a level equal to 75% of that paid to the Chief Executive Officer during the following two years, and (2) during years five and six, pay Mr. Stemberg an annual amount equal to his base salary at the end of the first four years and the average of the three most recent annual bonuses paid to him.

During fiscal years 2002 and 2003, we granted stock incentive awards to Mr. Stemberg at a level equal to those granted to our Chief Executive Officer, with (1) such options scheduled to vest by the earlier of a change in control (as defined in the agreement) or the end of fiscal year 2005, (2) the 100,000 PARS granted in October 2002 to vest upon the earlier of (a) a change in control of Staples or (b) February 1, 2005 (with respect to 34,000 PARS) and February 1, 2006 (with respect to the remaining 66,000 PARS), and (3) the 100,000 PARS awarded in December 2003 to vest upon the earlier of a change in control of Staples or February 1, 2006. In 2002, we also granted to Mr. Stemberg an incentive award consisting of 300,000 shares of restricted common stock, of which 167,000 shares vested on March 1, 2004 and the remaining 133,000 shares will vest upon the earlier of a change in control or February 1, 2005. In addition, we agreed to grant him (1) 200,000 shares of restricted common stock on January 26, 2004, 75,000 shares of restricted common stock on December 15, 2004 and 75,000 shares of restricted common stock on December 15, 2005, with such shares vesting on the earlier of a change in control or February 1, 2006, (2) options for 262,500 shares of common stock on July 1, 2004 to vest on the earlier of January 17, 2005 or a change in control of Staples and (3) options for 262,500 shares of common stock on July 1, 2005 to vest on the earlier of February 1, 2006 or a change in control of Staples.

Compensation Committee Report on Executive Compensation

Our executive compensation program is administered by the Compensation Committee which during fiscal year 2003 was composed of Messrs. Trust, Blank and Currie. Our executive compensation program is designed to retain and reward executives who are responsible for leading us in achieving our business objectives. All decisions by the Committee relating to the compensation of our executive officers are reviewed and ratified by the full Board. In 2002 and 2003, the Committee retained a national compensation consulting firm, reporting to the Committee, to provide advice to the Committee. This report is submitted by the Committee and addresses our compensation policies for fiscal 2003 and thereafter as they affected the Chief Executive Officer and our other executive officers.

Compensation Philosophy

The objectives of the executive compensation program are to (i) align compensation with business objectives, individual performance and the interests of Staples' stockholders, (ii) motivate and reward high levels of performance, (iii) recognize and reward the achievement of Company and/or business unit goals, and (iv) enable Staples to attract, retain and reward executive officers who contribute to the long-term success of Staples.

The Committee's executive compensation philosophy is that a significant portion of executive compensation should be tied directly to the performance of Staples as a whole. Our compensation philosophy reflects our practice of leveraging equity and aligning executive compensation with the interests of our stockholders. Accordingly, more emphasis is placed on Total Direct Compensation (base salary, cash bonus and long-term stock incentives) instead of each of the separate components. The executive compensation philosophy is as follows:

- Base salary and cash bonuses are targeted at the median of the market.
- Total Direct Compensation is highly leveraged with equity and is targeted to deliver above the median of the market, based on performance.

Status of the Executive Compensation Program

The Committee targeted Total Direct Compensation (base salary, cash bonus and long-term stock incentives) to fall above the median relative to the pay practices of a peer group of publicly traded companies in the retail industry (including companies in the Standard & Poor's Retail Composite Index contained in the stock performance graph contained in this Proxy Statement). The Committee seeks to provide its executives with "at risk" opportunities for compensation in addition to base salary through performance-based cash bonuses, stock options and Performance Accelerated Restricted Stock ("PARS"). The Committee also believes that bonus awards tied to achievement of pre-approved performance goals serve as an influential motivator to its executives and help to align the executives' interests with those of the stockholders of Staples. The Committee also continues to believe that a substantial portion of the compensation of Staples' executives should be linked through Staples' stock option and PARS program to the success of Staples' stock in the marketplace. Stock options and PARS further align the interests of management and stockholders, build stockholder wealth and assist in the retention of valued executives. Accordingly, Total Direct Compensation of executive officers is highly leveraged with equity comprising up to 80% of targeted Total Direct Compensation.

- **Base Salaries:** Base salaries for the executive officers are generally at the median of comparable positions in the retail peer group.
- **Cash Bonus**: Each of Staples' executive officers was eligible to participate in Staples' Executive Officer Incentive Plan in fiscal 2003 (the "Bonus Plan"). The Bonus Plan provided for the payment of a range of cash bonuses to executive officers based on pre-established objectives relating to company-wide earnings per share, return on net assets, and customer service goals. For an executive officer to be eligible to receive any cash bonus under the plan, a minimum earnings per share threshold had to be achieved. In addition, the return on net assets and customer service criteria had minimum levels that had to be achieved before any payment related to these specific criteria could be made.

  The earnings per share, return on net assets and customer service goals for the Bonus Plan were determined by the Committee at the beginning of fiscal 2003. The Committee established target bonus payouts for executives in an attempt to bring the cash portion of total annual compensation (base salary plus target bonus) to approximately the median of the cash compensation paid to the retail peer group.

  For fiscal 2003, Staples exceeded the 100% target for earnings per share, return on net assets and customer service.
- **Long-Term Stock Incentives**: Long-term stock incentives are provided in the form of stock options and PARS. In addition to base salary and bonuses, Staples' executives are annually granted performance-based long-term incentives represented by stock options and PARS. The intent of these awards is to further encourage retention and promote

identity of interest with Staples' stockholders. The Committee also considers the fact that in the business environment in which Staples competes for executives, stock options are an important part of executive compensation. PARS in particular are intended to maintain Staples high risk/high reward philosophy. The continued future success of Staples is dependent on its ability to attract and retain key executives. Accordingly, the Committee considers data about the level of stock options and restricted stock awarded in companies in its competitive business group and in the competitive labor market in which Staples competes for executive talent.

Annual stock option and PARS awards were made to executive officers in July 2003 and December 2003, respectively, the same time that stock option and PARS awards were made to all other eligible associates. In granting these options and PARS, the Committee considered the contributions and area of responsibility of each executive. The options and PARS vest on the same terms as options and PARS granted to other eligible associates.

Mr. Sargent, Staples' Chief Executive Officer, is eligible to participate in the same executive compensation program available to other Staples executives, and his Total Direct Compensation, including compensation derived from the bonus plan and the stock option/PARS program, was set by the Committee in accordance with the same criteria. Mr. Sargent's annual salary was increased in January 2003 from $730,000 to $1,000,000 in line with the median base salaries of chief executive officers in the retail peer group. As a result of the Company exceeding its targets under the Bonus Plan, Mr. Sargent was paid a bonus of $1,354,666 in fiscal 2003, placing his total cash compensation for that year above the median of the retail peer group. In fiscal 2003, the Committee granted Mr. Sargent options to purchase 350,000 shares of Staples common stock and 100,000 PARS under the options/PARS program. These grants were valued and based on the same factors the Committee considered in establishing the size of other executive stock option grants and PARS awards. Using the Black-Scholes valuation for options, Total Direct Compensation paid by the Company to Mr. Sargent in fiscal 2003 placed him above the median of the retail peer group. In January 2004, the Committee approved a restricted stock grant of 300,000 shares to Mr. Sargent, which will vest fully in January 2007. In awarding this grant, it was the Committee's intention to recognize Mr. Sargent's contributions to the Company since assuming the role of Chief Executive Officer and to increase the retentive value of his equity compensation.

Tax Considerations

Under Section 162(m) of the Internal Revenue Code of 1986, as amended, certain executive compensation in excess of $1 million paid to a public company's chief executive officer and four other most highly-paid executives is not deductible for federal income tax purposes unless the executive compensation is awarded under a performance-based plan approved by the stockholders. The Committee intends to structure the bonus plan for executive officers to comply with Section 162(m) and has previously adopted such a performance based plan, the Executive Officer Incentive Plan, which was approved by stockholders at the 2003 Annual Stockholders Meeting.

The Company's stock option plans are performance based and, accordingly, are intended to comply with the exceptions to the limitations under Section 162(m). Finally, while the Company's PARS program has a significant performance component, it cannot be qualified under Section 162(m) without compromising valuable executive incentives which the Committee believes outweigh any tax benefit to the Company.

Compensation Committee:

Martin Trust, Chairman
Arthur M. Blank
Richard J. Currie

Compensation Committee Interlocks and Insider Participation

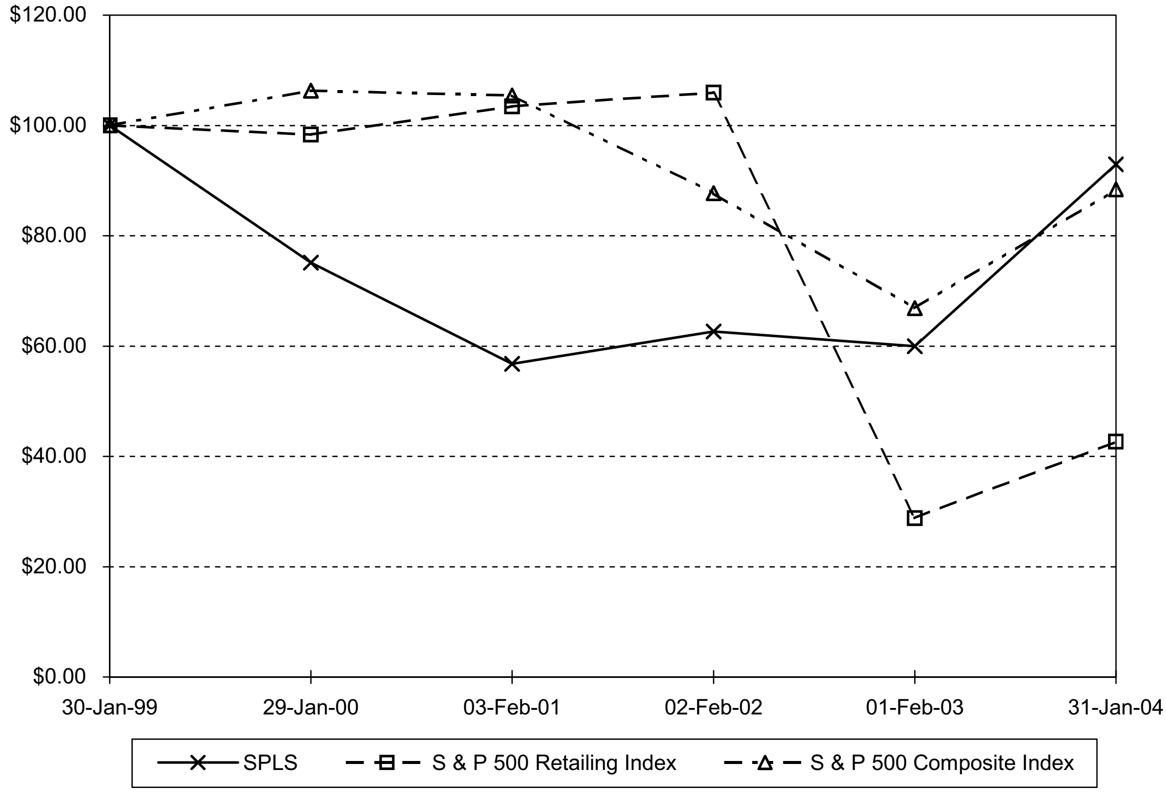
The Compensation Committee was entirely comprised of independent Directors during fiscal year 2003. Messrs. Blank, Currie and Trust served on the Compensation Committee for the entire fiscal year ended January 31, 2004 and were the only members of the Compensation Committee during fiscal 2003. None of our executive officers has served as a director or member of the compensation committee (or other committee serving an equivalent function) of any other entity whose executive officers served as a Director or member of our Compensation Committee.

Section 16(a) Beneficial Ownership Reporting Compliance

Based solely on our review of copies of reports filed by the Directors and the executive officers required to file such reports pursuant to Section 16(a) under the Securities and Exchange Act of 1934, we believe that all of our Directors and executive officers complied with the reporting requirements of Section 16(a) of the Securities and Exchange Act of 1934, with the following exceptions: the exercise and sale of 2,500 shares on March 31, 2003 pursuant to Ms. Burton's Rule 10b5-1(c) Plan, which were reported on April 7, 2003; the exercise and sale of 50,000 shares on April 1, 2003 pursuant to Mr. Stemberg's Rule 10b5-1(c) Plan, which were reported on April 7, 2003; the sales on May 12, 2003 to Staples of 8,950 shares by Mr. Doody, 15,187 shares by Mr. Mahoney, 59,062 shares by Mr. Sargent, 1,687 shares by Mr. VanWoerkom and 15,187 shares by Mr. Vassalluzzo, in each case, to satisfy the withholding tax liability associated with the vesting of the fiscal 2001 PARS, all of which sales were reported on June 6, 2003; the sale on May 12, 2003 to Staples of 33,750 shares by Mr. Stemberg to satisfy the withholding tax liability associated with the vesting of the fiscal 2001 PARS, which was reported on June 9, 2003; the grants on July 1, 2003 of 120,000 shares to Mr. Anderson, 50,000 shares to Mr. Doody, 100,000 shares to Mr. Mahoney, 12,000 shares to Mr. Nachbor, 50,000 shares to Mr. Parneros, 20,000 shares to Mr. VanWoerkom and 100,000 shares to Mr. Vassalluzzo, all of which were reported on July 25, 2003; the grants on July 1, 2003 of 350,000 shares each to Messrs. Sargent and Stemberg, which were reported on July 24, 2003; the purchases of 750 shares by Mr. Trust and 975 shares by the Trust Family Foundation on September 19, 2003, which were reported on October 27, 2003; and the transfer of 17,083 shares from the Diane Trust 2003 Irrevocable Trust to Diane Trust on January 29, 2004, which was reported on February 10, 2004.

STOCK PERFORMANCE GRAPH

The following graph compares the cumulative total stockholder return on Staples common stock between January 30, 1999 and January 31, 2004 (the end of fiscal 2003) with the cumulative total return of (1) Standard & Poor's 500 Composite Index and (2) the Standard & Poor's 500 Retailing Index, which was formerly called the Standard & Poor's Retail Store Composite Index. This graph assumes the investment of $100.00 on January 30, 1999 in Staples common stock, the Standard & Poor's 500 Composite Index and the Standard & Poor's 500 Retailing Index, and assumes dividends are reinvested. Measurement points are January 29, 2000, February 3, 2001, February 2, 2002, February 1, 2003 and January 31, 2004 (Staples' last five fiscal year ends).



	30-Jan-99	29-Jan-00	03-Feb-01	02-Feb-02	01-Feb-03	31-Jan-04
SPLS	$100.00	$ 75.10	$ 56.76	$ 62.63	$59.97	$92.94
S&P 500 Retailing Index	$100.00	$ 98.33	$103.43	$105.94	$28.77	$42.68
S&P 500 Composite Index	$100.00	$106.29	$105.46	$ 87.70	$66.87	$88.39

FORM 10-K

United States
Securities and Exchange Commission

Washington, D.C. 20549

☒ Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

or

☐ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended
January 31, 2004

Commission File Number
0-17586

STAPLES, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State of Incorporation)

04-2896127
(I.R.S. Employer Identification No.)

Five Hundred Staples Drive, Framingham, Massachusetts 01702
(Address of principal executive offices and zip code)

508-253-5000
(Registrant's telephone number, including area code)

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

Securities registered pursuant to Section 12(g) of the Act:
Staples Common Stock, par value $0.0006 per share
(Title of class)

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 ☒ 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. ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes ☒ No ☐

The aggregate market value of the voting stock held by non-affiliates of the registrant, based on the last sale price of Staples' common stock on August 1, 2003, as reported by Nasdaq, was approximately $9.9 billion. In determining the market value of non-affiliate voting stock, shares of Staples' common stock beneficially owned by each executive officer and director have been excluded. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The registrant had 499,339,381 shares of Staples' common stock, par value $.0006, outstanding as of March 2, 2004.

Documents Incorporated By Reference

Listed below is the document incorporated by reference and the part of the Form 10-K into which the document is incorporated:

Portions of the Proxy Statement for the 2004 Annual Meeting of Stockholders	Part III

PART I

Item 1. Business

Staples

Staples, Inc. and subsidiaries ("We", "Staples" or "the Company") pioneered the office products superstore concept and is a leading office products distributor. We opened the first office products superstore in Brighton, Massachusetts in 1986 to serve the needs of small businesses. The office products industry has experienced significant growth since 1986 as the industry has expanded to include a variety of retailers, dealers and distributors, including other high-volume office supply chains.

We operate three business segments: North American Retail, North American Delivery and European Operations. Our North American Retail segment consists of U.S. and Canadian business units that, at the end of fiscal 2003, sold office products and services through 1,358 retail stores. Our North American Delivery segment consists of U.S. and Canadian business units that sell and deliver office products and services directly to customers. Our European Operations segment consists of our business units that, at the end of fiscal 2003, sold office products and services through 201 retail stores in the United Kingdom, Germany, the Netherlands, Portugal, and Belgium and sell and deliver office products and services directly to customers throughout the United Kingdom, Germany, France, Belgium, Spain, Italy and Sweden. Additional information regarding our operating segments is presented in Management's Discussion and Analysis of Financial Condition and Results of Operations contained in this Annual Report on Form 10-K, and financial information regarding these segments is provided in Note N in the Notes to Consolidated Financial Statements contained in this Annual Report on Form 10-K.

Business Strategy

We view the office products market as a large, diversified market for office supplies and services, business machines, computers and related products, and office furniture. We estimate the segment of the overall market we target to be approximately $160 billion in North America and approximately $65 billion in Europe. Although there are no clear demarcations among customer groups, we target four principal end-user groups: power users (customers spending over $500 per year in office products excluding computers and furniture; primarily home-based businesses, home offices and teachers); small businesses and organizations with up to 50 office workers; medium-size businesses and organizations with between 50 and 500 office workers; and large businesses and organizations with more than 500 office workers. We effectively reach each sector of the office products market through three sales channels designed to be convenient to the needs of our customers: retail stores, catalog and internet. Our ability to address all four major end-user groups increases and diversifies our available market opportunities; increases awareness of the Staples name among customers in all four end-user groups, who often shop across multiple sales channels; and allows us to enjoy a number of important economies of scale, such as increased buying power, enhanced efficiencies in distribution and advertising, and improved capacity to leverage general and administrative functions.

Our strategy is to differentiate ourselves from our competition through a combination of our Back to Brighton plan, announced in 2001, and our new "Easy" brand promise. The three main elements of Back to Brighton are driving profitable sales growth, improving profit margins and increasing asset productivity. Back to Brighton has brought a renewed focus to the more profitable small business customers and power users, versus less profitable casual consumers, through changes in merchandise mix, marketing and customer service. We improved our merchandise mix with an increase in products directed at small business customers and power users and a decrease in products directed at casual consumers. We realigned our marketing efforts to focus on small business customers and power users with an increased emphasis on direct mail and customer loyalty programs and with less emphasis on circulars. To improve our customer service, we expanded our training of sales associates, added labor hours to certain store departments and changed our associate bonus plan. Back to Brighton continues to drive our performance and shape our strategy. In 2003, we launched our new brand promise, "We make buying office products easy," in response to customer research which showed this to be an effective way to differentiate us from our competitors. We implemented initiatives in both retail and delivery to improve the customer experience, infused the new brand personality in all of our marketing vehicles and stores, actively promoted our new advertising tagline "that was easy" and increased the quality and value of our Staples brand products. This addition to our core strategy reflects our commitment to making it easy for our customers to shop, both in terms of shopping experience and product offering.

North American Retail

Our North American Retail segment, consisting of 1,358 stores throughout the United States and Canada at the end of fiscal 2003, generated the majority of our sales and profits during fiscal 2003. Our North American retail stores are located in 46 states, the District of Columbia and 10 Canadian provinces in both major metropolitan markets and smaller markets. Our retail operations focus on serving the needs of small businesses and power users.

Our strategy for our North American superstores focuses on several key objectives: offer an easy-to-shop store environment with quality products that are in-stock and easy to find, with fast checkout and courteous, helpful and knowledgeable sales associates; provide superior value to our customers through a combination of everyday low prices, a broad selection of products, convenient store locations and hassle-free returns; and reduce operating costs to the lowest level consistent with providing quality merchandise and service.

As part of our strategy of delivering on our new "Easy" brand promise, we focus on several key categories for which our customers rely on us to be an authority, such as ink and toner, paper, business machines and copy and print services. For instance, to make it easier to shop for printer cartridges, we expanded our cartridge offering and made them more accessible to our customers. We also placed cartridges, paper and cables next to business machines to make it easier to buy these related products.

We have many other initiatives intended to make shopping easy for our customers. Related items are typically grouped together for customer convenience. Associates in our stores are available to consult on purchases, particularly in our furniture, business machines and technology sections, where customers often need assistance in decision making. We also offer our retail customers the ability to make purchases on-line through in-store internet access points to acquire products that are not available in our stores. Customers can pay for these purchases at the register or through our internet access points and have the product delivered to their home or business.

During 2001, we introduced a redesigned layout of our stores called the "Dover" format. This design was created to improve the appeal of the store to the customer and to open up the interior of the store to give the customer a better view of our vast array of products. In addition, in fiscal 2002, we reduced the size of our new stores to 20,000 square feet from our previous 24,000 square foot store format. At January 31, 2004, we had 343 Dover stores in North America. We continue to improve our Dover store format through our focus on refinements in product placement, store design and adjacencies. In addition, we completed 450 more limited store remodels to benefit from some of the features of Dover at a much lower cost.

As part of our growth strategy in 2003, we opened five stores in a smaller format. These stores are 14,600 square feet in size and are designed to address smaller markets that we enter as well as smaller areas of potential in existing markets. We plan to open the majority of our stores in North America in the Dover format with some stores in smaller markets opening in the smaller format. We have also focused on improving under-performing stores in our retail portfolio. In 2003, we began redesigning some of the stores in our under-performing markets. These stores carry less inventory and benefit from a new labor model. We redesigned 21 stores in this format in 2003, and we plan on redesigning approximately 65 additional stores in 2004.

Our growth strategy is to expand our store base in a prudent fashion to produce strong sales and yield high returns on our investments. We believe that our network of stores and delivery businesses in various metropolitan markets enhances our profitability by allowing us to leverage marketing costs, distribution expense and supervision costs. In determining where to open new retail stores and actively market our catalog, we evaluate the concentration of small- and medium-sized businesses and organizations, the number of home offices, household income levels, the availability of quality real estate locations, competition and other factors. While most of our retail stores have been located in conventional strip shopping centers, we have also successfully converted non-retail properties to Staples stores. Although we often lease second-use properties, we have also entered into ground leases where we plan to build a store or arrange to have landlords construct freestanding buildings to our specifications. In addition, we have on numerous occasions acquired lease rights from prior tenants. We believe that this flexibility in selecting sites will assist us in securing additional locations in the challenging real estate markets in which we operate.

We plan to open approximately 95 new stores in North America in 2004, compared to 67 new stores in 2003 and 72 new stores in 2002. The growth program for fiscal 2004 will continue to focus primarily on existing markets as well as expansion into new markets where we see opportunities.

North American Delivery

Our North American Delivery segment is comprised of three business units: "Staples Business Delivery," "Quill Corporation," and our contract stationer businesses, operating under the names "Staples National Advantage" and "Staples Business Advantage."

Staples Business Delivery: Our Staples Business Delivery operations combine the efforts of our direct mail catalog business, operating since 1990, and our *Staples.com* web site and Canadian Internet sites. Staples Business Delivery is designed to reach small businesses, home offices and power users seeking the convenience of free next business day delivery for orders over $50. Our Internet sites provide complete, on-site transaction processing for the purchase of over 70,000 office products and services. Delivery orders are shipped from our delivery fulfillment centers and are distributed through dedicated delivery hubs. In some markets, we also deliver products directly from our retail stores. We market Staples Business Delivery through direct mail catalogs, a telesales group focused on generating new accounts and penetrating existing accounts, and Internet and other broad-based media advertising.

Quill Corporation: Founded in 1956 and acquired by Staples in May 1998, Quill is a direct mail catalog business with a targeted approach to servicing the business product needs of more than one million small- and medium-sized businesses in the United States. Quill also sells office products using the Internet channel through *Quill.com*. To attract and retain its customers, Quill offers outstanding customer service, superior Quill brand products and special services. In July 2002, we acquired Medical Arts Press, Inc., or MAP, a leading direct marketer of specialized printed office products and practice-related supplies to medical offices, and established MAP as an operating division of Quill. Our acquisition of MAP provides us with an opportunity to sell traditional office products to MAP's customer base and expand Quill's and Staples' product offerings.

Staples National Advantage and Staples Business Advantage: Our contract stationer operations focus primarily on serving the needs of medium-sized to large businesses that often require more service than is provided by a traditional retail or mail order business. Through our contract sales force, we offer customized pricing, payment terms, usage reporting, the stocking of certain proprietary items and full service account management. Our contract stationer business is divided into two segments. Staples National Advantage is a nationwide contract stationer business selling to large multi-regional businesses. Staples Business Advantage primarily sells to medium-sized and large regional companies and has the flexibility to handle smaller accounts. We initially established the contract stationer business through acquisitions, and more recently have entered certain metropolitan markets through the expanded sales and distribution capabilities of Staples Business Advantage. *StaplesLink.com*, which offers the highest level of procurement functionality available on our web sites, meets the online procurement needs of our contract stationer customers.

Our strategies for North American Delivery focus on customer service and customer acquisition and retention to grow our delivery business and increase its profitability. We continue to focus on improving our perfect order metric, which measures the number of orders that we ship without error, and we implemented our easy returns policy in 2003, which provides customers with a more flexible and simple returns process. We are also working to enhance our distribution capabilities, opening new fulfillment centers and increasing the number of multi-channel fulfillment centers to enhance our ability to deliver overnight to more markets. We continue to expand our sales force as we increase our market share and drive penetration of existing customers. We have provided better training and improved the tools and offerings of our sales force to help increase customer retention. We also worked to reduce the number of small orders and increase the percentage of orders placed electronically.

European Operations

As of January 31, 2004, we operated 201 retail stores in Europe. This includes 93 Staples stores in the United Kingdom, 53 Staples stores in Germany, 40 Office Centre stores in the Netherlands, 14 Staples Office Centre stores in Portugal and one Office Center store in Belgium. The Office Centre stores in the Netherlands and Belgium are different from a typical Staples store in that they generally have a business-oriented membership format similar in concept to many U.S. warehouse clubs. In fiscal 2003, we opened 17 stores in Europe, and we plan to open approximately 20 new stores in fiscal 2004. Our European Operations segment also includes delivery businesses operating under the Staples name in the United Kingdom and Germany and, as a result of recent acquisitions, a variety of brand names, including JPG and Bernard in France and Belgium, Sistemas Kalamazoo in Spain, Neat Ideas in the United Kingdom, MondOffice in Italy and Kontorslagret in Sweden. These recent acquisitions provided us with access to the fast growing office products mail order market in France, Belgium, Spain, Italy and Sweden and strengthened our position in the United Kingdom.

Europe represents an important opportunity for us. We believe that Europe is the second largest office products market in the world and relies more than North America on the delivery channel as opposed to the retail channel. Our retail business has experienced strong revenue growth and improved profitability over the last several years despite economic and regulatory challenges and a difficult real estate market. With our recent acquisitions in the delivery channel and our existing delivery business, we believe that we are well positioned for success as a multi-channel distributor of office products in Europe. To achieve this potential, we have made a number of changes to our European organization. For instance, our operations in Europe now have decentralized marketing and merchandising functions to respond better to the needs of the local markets. We have also established a European buying group to ensure that we get the benefit of our size as well as to share best practices and synergies across Europe, consistent with strategies being executed in our North American businesses.

Merchandising

We sell a wide variety of office supplies and services, business machines, computers and related products, and office furniture. While our buying and merchandising staff uses integrated computer systems to perform centrally the vast majority of our merchandise planning and product purchasing, some of our business units, particularly Quill, our Canadian operations and our multiple European businesses, leverage our global buying and merchandising staff along with their own staff to meet their more localized buying and merchandising needs.

We have approximately 8,000 stock keeping units (SKUs) stocked in each of our typical North American retail stores and approximately 15,000 SKUs stocked in our North American Delivery fulfillment centers. We also offer approximately 70,000 SKUs to our customers through the Internet, including Internet access points in our North American retail stores. In order to minimize unit costs and selling prices, we sell most products in multi-unit packages. The pack sizes are designed to be large enough to be cost effective without being burdensome to our small business customers.

Our product offering includes approximately 1,000 Staples brand products, which are primarily in consumables categories. In fiscal 2002, we expanded our Staples brand products program and de-emphasized controlled brands. As part of this effort, in 2003, we focused more on quality and value and plan to redesign our packaging in 2004. Staples brand products generally offer better gross margins than national brands and provide high quality and better value to our customers.

We also offer an array of services, including high-speed, color and self-service copying, other printing services, faxing and pack and ship services. The $15 billion copy and print market is highly fragmented, and we believe we have a significant opportunity to gain share in this market. We have focused on building customer awareness of our offerings in this area, increasing the training of our copy center associates and improving the quality in our copy and print centers.

The following table shows our sales by each major product line as a percentage of total sales for the periods indicated:

	Fiscal Year Ended		
	January 31, 2004	**February 1, 2003**	**February 2, 2002**
Office supplies and services	41.5%	41.7%	40.8%
Business machines and related products	30.3%	30.5%	29.8%
Computers and related products	21.0%	20.9%	22.3%
Office furniture	7.2%	6.9%	7.1%
	100.0%	100.0%	100.0%

We select our vendors based upon quality, price, delivery reliability and, where appropriate, customer brand recognition for all of our sales channels. As a result of the volume we purchase and our centralized distribution facilities, we are able to obtain favorable pricing from our vendors. In addition, in fiscal 2002, we began to use reverse on-line auctions, an Internet-based bidding process, to achieve savings through lower costs from our vendors on many of the items we use to operate our business and on some of the products we sell. We purchase products from several hundred vendors worldwide, and we believe that competitive sources of supply are available to us for substantially all of the products we carry.

Our strategy is to tailor our product mix to meet the needs of customers by regularly evaluating sales and profit performance for each of our SKUs. In connection with our Back to Brighton strategy, we reevaluated our retail product assortment to refocus on the more profitable small business customers and power users. This began with a SKU rationalization process aimed at maximizing our product assortment value by eliminating many of our low margin or slow moving, consumer-oriented SKUs. In 2003, as part of our merchandising strategy, we focused on portfolio management, the process by which we allocate our resources to various merchandise categories based on our growth objectives and roles for those categories. This process is a key strategy to drive sustainable growth and profitability.

Supply Chain

We operate centrally located distribution and fulfillment centers across North America to service the majority of the replenishment and delivery requirements for our U.S. retail and North American delivery operations. Most products are shipped from our suppliers to the distribution and fulfillment centers for reshipment to our stores and delivery to our customers through our delivery hubs. As of January 31, 2004, four distribution centers, located in California, Connecticut, Indiana and Maryland, supported our U.S. retail operations, and 30 distribution centers supported our North American delivery operations. Of our 30 North American delivery fulfillment centers, nine locations service more than one of our delivery businesses and three of the nine locations support all of our delivery businesses. We plan to expand our multi-business capabilities into one additional location in fiscal 2004.

We believe our distribution centers provide us with significant labor and merchandise cost savings by centralizing receiving and handling functions and by enabling us to purchase in full truckloads from suppliers. We also believe that the reduction in the number of purchase orders and invoices processed results in significant administrative cost savings. Our centralized purchasing and distribution systems also permit our store associates to spend more time on customer service and store presentation. Since our distribution centers maintain backup inventory, our in-store inventory requirements are reduced, and we operate smaller gross square footage stores than would otherwise be required. A smaller store size reduces our rental costs and provides us with greater opportunity to locate stores more closely to our target customers.

We continually work with our vendors to improve our business relationships. We developed a web site for our vendors, "StaplesPartners.com," which provides suppliers with access to important supplier information, including supplier metrics, purchase order data, sales and inventory data, EDI information and transportation routing information. This web site has improved the speed and accuracy of information, reduced our communication costs and improved our suppliers' understanding of doing business with us.

Over the last several years, we have made incremental improvements in our supply chain that did not require significant changes to our processes. In fiscal 2003, we began to implement a comprehensive program to improve our supply chain performance as we looked to develop integrated systems and improve our processes across all functions. The main objectives of the plan include improving our demand creation and inventory management processes and optimizing our distribution network.

Our key goal is to improve our supply chain reliability and inventory in-stock. We expect the program to benefit sales, operating margins, and inventory turns. We plan to increase sales through higher levels of merchandise in-stock, store execution and selling. We expect to reduce inventory and increase inventory turns by improving product ordering, strengthening collaboration with our vendors, and increasing the amount of merchandise that flows through our supply chain without being stored in our distribution centers. We also intend to expand operating margins by decreasing distribution costs and improving sell-through on promotional goods.

Marketing

We pursue a variety of marketing strategies to attract and retain target customers. These strategies include broad-based media advertising such as television, radio, newspaper circulars, print and Internet advertising, as well as catalogs, e-mail marketing, a loyalty program and a sophisticated direct marketing system. In addition, we market to larger companies through a combination of direct mail catalogs, customized catalogs and a field sales force. We change our level of marketing spending as well as the mix of media employed depending upon market, customer value, competition and cost factors. This flexible approach allows us to optimize the effectiveness and efficiency of our marketing expenditures.

With the implementation of our Back to Brighton strategy, we realigned our retail and Small Business Delivery marketing efforts to focus on our core customers: small businesses and power users. Our marketing strategies emphasize our strong brand and leverage all of our retail and delivery vehicles to send a consistent message to our core customers. In addition, we focused more on targeted direct marketing and on our customer loyalty program and lessened our emphasis on circulars.

In 2003, we began to shift our marketing message to reflect our brand promise that Staples makes buying office products easy. We have redesigned the look and feel of our advertising vehicles to reflect our new brand promise and are consistently communicating the brand across all channels and customer touch points, including our signage, television commercials, catalogs, web sites, circulars, direct marketing and store uniforms.

We also have a naming rights agreement with L.A. Arena Company, LLC, which owns the Staples Center, a state of the art sports and entertainment complex in downtown Los Angeles, which opened in 1999. This agreement provides us with marketing, promotional and signage rights; Staples sponsored community-based programs; and various amenities in the Staples Center through 2019.

Associates and Training

We place great importance on recruiting, training and providing the proper incentives for quality personnel. We recruit actively on college campuses and also hire talented individuals with experience in successful retail operations. Additionally, current associates are rewarded for recruiting new associates.

We consider customer relations and our associates' knowledge of office products and office related capital goods to be significant to our marketing approach and our ability to maintain customer satisfaction. Associates are trained in a number of areas, including, where appropriate, sales techniques, management skills and product knowledge. We have continued to make an investment in computer-based, multi-media training programs to upgrade associates' selling skills and improve customer service at our retail stores and delivery operations. Much of the training we provide targets sales of capital goods such as fax machines, copiers, furniture and computers. Store management trainees advance through the store management structure by taking on assignments in different areas as they are promoted. Store and call center associates prepare for new assignments through Staples and third party designed training modules, written manuals, video instruction and self-testing.

As of January 31, 2004, Staples employed 31,101 full-time and 29,532 part-time associates.

Competition

We compete with a variety of retailers, dealers and distributors in the highly competitive office products market. Our target customers have historically been serviced by traditional office products dealers. We believe we have competed favorably against these dealers in the past because we generally offer lower prices and a broader product selection. We compete in most of our geographic markets with other high-volume office supply chains, including Office Depot and OfficeMax, that are similar in concept to us in terms of pricing strategy and product selection, as well as mass merchants such as Wal-Mart, warehouse clubs, computer and electronics superstores such as Best Buy, and other discount retailers. In addition, both our retail stores and delivery operations compete with numerous mail order firms, contract stationer businesses, electronic commerce distributors, direct manufacturers and local dealers.

We believe we are able to compete favorably against other high-volume office supply chains, mass merchandisers and other retailers, dealers and distributors because of several factors: our focus on the business customer and power user; courteous, helpful and knowledgable associates serving customers; wide assortment of office supplies that are in-stock and easy to find; fast checkout; easy to use web sites; reliability and speed of order shipment; convenient store locations; hassle-free returns and fair prices. Many of our competitors have increased their presence in our markets in recent years. Some of our current and potential competitors in the office products industry are larger than we are and have substantially greater financial resources. No assurance can be given that such increased competition will not have an adverse effect on our business.

Trademarks

In connection with our North American Retail business, we have registered the marks "Staples" and "Staples The Office Superstore" in the Principal Register of the United States Patent and Trademark Office, and the marks "Staples the Office Superstore" and "Staples" in Canada. In connection with our North American Delivery businesses, we have registered the marks "Staples.com," "Staples National Advantage," "Staples Business Advantage," "StaplesLink.com," "Quill," "Quill.com," "Medical Arts Press," "HMI," and "SmileMakers" on the Principal Register of the United States Patent and Trademark Office. In connection with our European Operations, we have registered the mark "Staples" in many foreign jurisdictions, including, but not limited to, the United Kingdom, Germany, the Netherlands, Portugal and Belgium, and the mark “Office Centre” in many foreign jurisdictions, including, but not limited to, the Netherlands, Portugal and Belgium. As a result of our 2002 acquisition of the multiple European mail order businesses, we also have registered the mark “Bernard” in multiple foreign jurisdictions, including, but not limited to, France and Belgium; the mark “JPG” in many foreign jurisdictions, including, but not limited to, France and Belgium; the mark “Neat Ideas” in many foreign jurisdictions, including, but not limited to, the United Kingdom; the mark “Sistemas Kalamazoo” in Spain; and the mark “MondOffice” in Italy.

We maintain a web site with the address www.staples.com. We are not including the information contained on our web site as a part of, or incorporating it by reference into, this Annual Report on Form 10-K. We make available free of charge through our web site our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and amendments to these reports, as soon as reasonably practicable after we electronically file such material with, or furnish such material to, the Securities and Exchange Commission.

We were organized in 1985 and are incorporated in Delaware.

EXECUTIVE OFFICERS OF THE REGISTRANT

Our executive officers, their respective ages and positions as of March 1, 2004 and a description of their business experience is set forth below. There are no family relationships among any of the executive officers named below.

Basil L. Anderson, age 58

Mr. Anderson has served as a Vice Chairman since September 2001 and as a Director since 1997. Prior to joining Staples, Mr. Anderson served as Executive Vice President—Finance and Chief Financial Officer of Campbell Soup Company from April 1996 to April 2000. Prior to joining Campbell Soup, Mr. Anderson was with Scott Paper Company where he served in a variety of capacities beginning in 1975, including Vice President and Chief Financial Officer from February 1993 to December 1995.

Joseph G. Doody, age 51

Mr. Doody has served as President-Staples North American Delivery since March 2002. Prior to that he served as President-Staples Contract & Commercial from November 1998 to March 2002. Prior to joining Staples, Mr. Doody was Vice President of Sutherland Group, a call center outsourcing company, from January 1998 to November 1998. Prior to that, Mr. Doody served at Eastman Kodak for over 20 years in positions of increasing responsibility, ending with President of North American Office Imaging.

John J. Mahoney, age 52

Mr. Mahoney has served as Executive Vice President, Chief Administrative Officer and Chief Financial Officer since October 1997. Prior to that, he was Executive Vice President and Chief Financial Officer from September 1996 to October 1997. Prior to joining Staples, Mr. Mahoney was a partner with Ernst & Young LLP, where he served in various capacities in its accounting and auditing groups from 1975 to 1996.

Michael A. Miles, age 42

Mr. Miles has served as Chief Operating Officer since September 2003. Prior to joining Staples, Mr. Miles was Chief Operating Officer, Pizza Hut for Yum! Brands, Inc. from January 2000 to August 2003. Prior to that, Mr. Miles served as Senior Vice President of Concept Development & Franchise, Pizza Hut for Yum! Brands, Inc. from October 1996 to December 1999.

Jeffrey E. Nachbor, age 39

Mr. Nachbor has served as Senior Vice President, Corporate Controller since April 2003. Prior to joining Staples, Mr. Nachbor was the Vice President of Finance of Victoria’s Secret Direct, a Division of Limited Brands, Inc., from December 2000 to April 2003. Prior to that, he served as Vice President of Financial Planning and Analysis for Limited Brands, Inc. from February 2000 to December 2000. From January 1997 to February 2000, Mr. Nachbor was Senior Director of Finance for Yum! Brands, Inc.

Demos Parneros, age 41

Mr. Parneros has served as President—U.S. Stores since April 2002. Prior to that, he served in various capacities since joining Staples in October 1987, including Senior Vice President of Operations from March 1999 to March 2002 and Vice President of Operations from September 1996 to February 1999.

Ronald L. Sargent, age 48

Mr. Sargent has served as President and Chief Executive Officer since February 2002 and as a Director since 1999. Prior to that, he served in various capacities since joining Staples in March 1989, including President and Chief Operating Officer of Staples from November 1998 to February 2002, President-North American Operations from October 1997 to November 1998, and President-Staples Contract & Commercial from June 1994 to October 1997.

Thomas G. Stemberg, age 55

Mr. Stemberg has served as Chairman of the Board of Directors since February 1988, and since February 2004, Mr. Stemberg has been a part-time associate and served as non-executive Chairman. From February 2002 to January 2004, Mr. Stemberg served as an executive officer of Staples with the title of Chairman. Mr. Stemberg founded Staples and was Chief Executive Officer of Staples from January 1986 to February 2002.

Jack A. VanWoerkom, age 50

Mr. VanWoerkom has served as Executive Vice President, General Counsel and Secretary since March 2003. Prior to that, he was Senior Vice President, General Counsel and Secretary from March 1999 to March 2003. Prior to joining Staples, Mr. VanWoerkom served as General Counsel of Teradyne, Inc. from January 1998 to March 1999. From January 1994 to June 1997, Mr. VanWoerkom was Chief Legal Counsel, Vice President of Development and Managing Director of Europe for A.W. Chesterton.

Joseph S. Vassalluzzo, age 55

Mr. Vassalluzzo has served as a Vice Chairman since December 1999. Prior to that, he served in various capacities since joining Staples in September 1989, including President, Realty and Development from October 1997 to December 1999, President—Staples Realty from September 1996 to October 1997, Executive Vice President—Growth and Development from November 1993 to September 1996, and Executive Vice President—Growth and Support Services from April 1993 to November 1993.

Item 2. Properties

As of January 31, 2004, we operated a total of 1,559 superstores in 46 states, the District of Columbia, 10 provinces in Canada, 10 regions in the United Kingdom, 8 regions in Germany, and one in each of the Netherlands, Portugal and Belgium. As of that same date, Staples also operated 43 distribution and fulfillment centers. The following table sets forth the locations of our facilities as of January 31, 2004.

RETAIL STORES

Country/State/Province/Region	Number of Stores
United States	
Alabama	12
Arizona	26
Arkansas	4
California	167
Colorado	4
Connecticut	34
Delaware	7
Florida	50
Georgia	34
Idaho	7
Iowa	12
Illinois	15
Indiana	27
Kansas	3
Kentucky	9
Maine	11
Maryland	37
Massachusetts	50
Michigan	31
Minnesota	2
Mississippi	2
Missouri	9
Montana	6
Nebraska	4
Nevada	1
New Hampshire	20
New Jersey	64
New Mexico	7
New York	107
North Carolina	38
North Dakota	2
Ohio	49
Oklahoma	16
Oregon	17
Pennsylvania	81
Rhode Island	10
South Carolina	15
South Dakota	1
Tennessee	18
Texas	32
Utah	10
Vermont	7
Virginia	31
Washington	27
Washington DC	3
West Virginia	5
Wisconsin	10
	1,134
Canada	
Alberta	24
British Columbia	30
Manitoba	6
New Brunswick	6
Newfoundland	3
Nova Scotia	9
Ontario	84
Quebec	54
Saskatchewan	6
Prince Edward Island	2
	224

Country/State/Province/Region	Number of Stores
United Kingdom	
Anglia	6
Borders	1
Central	21
Granada	11
HTV	8
London	14
Meridien	13
Tyne-Tees	3
West Country	5
Yorkshire	11
	93

Country/State/Province/Region	Number of Stores
Germany	
Baden-Wurttemberg	3
Bayern	3
Bremen	2
Hamburg	9
Hessen	6
Niedersachsen	9
Nordrhein-Westfalen	18
Schleswig-Holstein	3
	53

Country/State/Province/Region	Number of Stores
Netherlands	40
Portugal	14
Belgium	1

DISTRIBUTION AND FULFILLMENT CENTERS

Country/State/Province/Region	Number of Centers
United States	
California	4
Colorado	1
Connecticut	2
Florida	3
Georgia	2
Illinois	2
Indiana	1
Kansas	1
Maryland	1
Massachusetts	1
Minnesota	1
New Jersey	1
New York	2
United States (cont.)	
North Carolina	1
Ohio	1
Oregon	1
Pennsylvania	2
South Carolina	1
Texas	2
	30
Canada	
Alberta	1
British Columbia	1
Ontario	2
	4

Country/State/Province/Region	Number of Centers
United Kingdom	
Pensnett	1
Daventry	1
Doncaster	1
	3
France	
Survilliers	1
Tourcoing	1
	2
Belgium—Tongeren	1
Italy—Castelletto Cervo	1
Spain—Lezama	1
Sweden—Norrkoping	1

Most of the existing facilities are leased by us with initial lease terms expiring on dates between 2004 and 2025. In most instances, we have renewal options at increased rents. Leases for 176 of the existing stores provide for contingent rent based upon sales.

Our Framingham, Massachusetts corporate office is owned by us and consists of approximately 650,000 square feet.

Item 3. Legal Proceedings

We are not a party to nor are any of our properties subject to any material pending legal proceedings other than routine litigation incidental to our business.

Item 4. Submission of Matters to a Vote of Security Holders

No matter was submitted to a vote of our security holders during the fourth quarter of fiscal 2003.

PART II

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

Our common stock is traded on the NASDAQ National Market under the symbol "SPLS".

At March 2, 2004, the number of holders of record of our common stock was 7,677.

The following table sets forth for the periods indicated the high and low sales prices per share of our common stock on the NASDAQ National Market, as reported by NASDAQ.

	High	Low
Fiscal Year Ended January 31, 2004		
First Quarter	$20.25	$15.73
Second Quarter	21.02	17.87
Third Quarter	27.22	18.76
Fourth Quarter	27.87	24.50

	High	Low
Fiscal Year Ended February 1, 2003		
First Quarter	$22.45	$16.01
Second Quarter	22.15	13.88
Third Quarter	17.35	11.68
Fourth Quarter	19.80	14.73

While we will continue to retain earnings for use in the operation and expansion of our business, we have also decided to increase stockholder returns by initiating an annual cash dividend in 2004. The first cash dividend will be $0.20 per outstanding share of our common stock, with such dividend payable on May 17, 2004 to all stockholders of record on April 26, 2004. Previously, we have never paid a cash dividend on our common stock. Our annual dividend payment plan is permitted under our revolving credit agreement, which only restricts the payment of dividends in the event we are in default under the agreement or such payout would cause a default under the agreement. While it is our intention to pay annual cash dividends in years following 2004, any decision to pay future cash dividends will be made by our Board of Directors and will depend upon our earnings, financial condition and other factors.

Item 6. Selected Financial Data

The information required by this Item is attached as *Appendix A.*

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

The information required by this Item is attached as part of *Appendix B.*

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

The information required by this Item is attached as part of *Appendix B.*

Item 8. Financial Statements and Supplementary Data

The information required by this Item is attached as *Appendix C.*

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

Not applicable.

Item 9A. Controls and Procedures

The Company's management, with the participation of the Company's chief executive officer and chief financial officer, evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act) as of January 31, 2004. Based on this evaluation, the Company's chief executive officer and chief financial officer concluded that, as of January 31, 2004, the Company's disclosure controls and procedures were (1) designed to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to the Company's chief executive officer and chief financial officer by others within those entities, particularly during the period in which this report was being prepared and (2) effective, in that they provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

No change in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended January 31, 2004 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART III

Certain information required by Part III is omitted from this Annual Report on Form 10-K and incorporated herein by reference to the definitive proxy statement with respect to our 2004 Annual Meeting of Stockholders (the "Proxy Statement"), which we will file with the Securities and Exchange Commission not later than 120 days after the end of the fiscal year covered by this Report.

Item 10. Directors and Executive Officers of the Registrant

Certain information required by this Item is contained under the heading "Executive Officers of the Registrant" in Part I of this Annual Report on Form 10-K. Other information required by this Item will appear under the headings "Proposal 1—Election of Directors" and "Corporate Governance—Directors of Staples" in our Proxy Statement, which sections are incorporated herein by reference.

The information required by this Item pursuant to Item 405 of Regulation S-K will appear under the heading "Executive Compensation—Section 16(a) Beneficial Ownership Reporting Compliance" in our Proxy Statement, which section is incorporated herein by reference.

Information required by this Item pursuant to Item 401(h) and 401(i) of Regulation S-K relating to an audit committee financial expert and identification of the Audit Committee of our Board of Directors will appear under the heading "Corporate Governance" in our Proxy Statement, which section is incorporated herein by reference.

We have adopted a written code of ethics that applies to our principal executive officer, principal financial officer, and principal accounting officer or controller, or persons performing similar functions. Our code of ethics, which also applies to our directors and all of our officers and employees, can be found on our web site, which is located at www.staples.com. We intend to make all required disclosures concerning any amendments to, or waivers from, our code of ethics on our web site.

Item 11. Executive Compensation

The information required by this Item will appear under the heading "Executive Compensation" and "Corporate Governance—Director Compensation" in our Proxy Statement, which sections are incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item will appear under the headings "Beneficial Ownership of Common Stock" and "Executive Compensation—Securities Authorized for Issuance Under Equity Compensation Plans" in our Proxy Statement, which sections are incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

The information required by this Item will appear under the heading "Corporate Governance—Certain Relationships and Related Transactions" in our Proxy Statement, which section is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information required by this Item will appear under the heading "Corporate Governance—Independent Auditor's Fees" in our Proxy Statement, which section is incorporated herein by reference.

Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a) Index to Consolidated Financial Statements.

1. *Financial Statements.* The following financial statements and schedules of Staples, Inc. are included as *Appendix C* of this Report:

    - Consolidated Balance Sheets—January 31, 2004 and February 1, 2003.

- Consolidated Statements of Income—Fiscal years ended January 31, 2004, February 1, 2003, and February 2, 2002.
- Consolidated Statements of Stockholders' Equity—Fiscal years ended January 31, 2004, February 1, 2003, and February 2, 2002.
- Consolidated Statements of Cash Flows—Fiscal years ended January 31, 2004, February 1, 2003, and February 2, 2002.
- Notes to Consolidated Financial Statements.

2. *Financial Statement Schedules.* All schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission other than the ones listed above are not required under the related instructions or are not applicable, and, therefore, have been omitted.

3. *Exhibits.* The exhibits which are filed with this report or which are incorporated herein by reference are set forth in the Exhibit Index on page D-1.

(b) Reports on Form 8-K.

On November 18, 2003, we furnished a Current Report on Form 8-K under Item 12 (Results of Operations and Financial Condition) containing a press release announcing our financial results for the fiscal quarter ended November 1, 2003.

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 March 2, 2004.

STAPLES, INC.

By: /s/ RONALD L. SARGENT

Ronald L. Sargent,
President and Chief Executive Officer
(Principal 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 and in the capacities indicated on March 2, 2004.

Signature	Capacity
/s/ RONALD L. SARGENT Ronald L. Sargent	President, Chief Executive Officer and Director (Principal Executive Officer)
/s/ THOMAS G. STEMBERG Thomas G. Stemberg	Chairman of the Board
/s/ BASIL L. ANDERSON Basil L. Anderson	Director and Vice Chairman
/s/ BRENDA C. BARNES Brenda C. Barnes	Director
/s/ ARTHUR M. BLANK Arthur M. Blank	Director
/s/ MARY ELIZABETH BURTON Mary Elizabeth Burton	Director
/s/ GARY L. CRITTENDEN Gary L. Crittenden	Director
/s/ RICHARD J. CURRIE Richard J. Currie	Director
/s/ GEORGE J. MITCHELL George J. Mitchell	Director

Signature	**Capacity**
/s/ JAMES L. MOODY, JR. James L. Moody, Jr.	Director
/s/ ROWLAND T. MORIARTY Rowland T. Moriarty	Director
/s/ ROBERT C. NAKASONE Robert C. Nakasone	Director
/s/ MARTIN TRUST Martin Trust	Director
/s/ PAUL F. WALSH Paul F. Walsh	Director
/s/ JOHN J. MAHONEY John J. Mahoney	Executive Vice President, Chief Administrative Officer and Chief Financial Officer (Principal Financial Officer)
/s/ JEFFREY E. NACHBOR Jeffrey E. Nachbor	Senior Vice President and Corporate Controller (Principal Accounting Officer)

STAPLES, INC. AND SUBSIDIARIES

FINANCIAL HIGHLIGHTS
(Dollar Amounts in Thousands, Except Per Share Amounts)

	Fiscal Year Ended				
	January 31, 2004(1) (52 weeks)	February 1, 2003(2) (52 weeks)	February 2, 2002(3) (52 weeks)	February 3, 2001(4) (53 weeks)	January 29, 2000 (52 weeks)
Statement of Income Data:					
Sales	$13,181,222	$11,596,075	$10,744,373	$10,673,671	$8,936,809
Gross profit	3,622,099	2,943,482	2,570,493	2,576,505	2,215,246
Net income	490,211	446,100	264,970	59,712	314,988
Basic earnings/(loss) per common share(5):					
Staples, Inc. Stock	1.01	0.96	0.40	—	0.42
Staples RD Stock	—	—	0.18	0.16	0.26
Staples.com Stock	—	—	0.01	(0.84)	(0.09)
Diluted earnings/(loss) per common share(5):					
Staples, Inc. Stock	0.99	0.94	0.40	—	0.41
Staples RD Stock	—	—	0.17	0.15	0.26
Staples.com Stock	—	—	0.01	(0.84)	(0.09)
Dividends	—	—	—	—	—
Selected Operating Data (at period end):					
Stores open	1,559	1,488	1,436	1,307	1,129
Balance Sheet Data:					
Working capital	$ 1,355,670	$ 542,150	$ 807,128	$ 644,832	$ 738,547
Total assets	6,503,046	5,721,388	4,093,035	3,983,923	3,846,076
Total long-term debt, less current portion	567,433	732,041	350,225	441,257	500,903
Stockholders' equity	$ 3,662,900	$ 2,658,892	$ 2,054,174	$ 1,749,424	$1,828,813

(1) Results of operations for this period reflect a $61.7 million non-cash adjustment for the inclusion of cooperative advertising and other performance based rebates in inventory as required by EITF Issue No. 02-16, "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor" (see Note B).

(2) Results of operations for this period include a tax benefit of $29.0 million related to Staples Communications. In fiscal 2000, the Company recognized an impairment loss related to the goodwill and fixed assets of Staples Communications, which was not recorded as a deduction for tax purposes. In fiscal 2002, the Company received approval from the Internal Revenue Service to take an ordinary deduction for the Company's investment in, and advances to, Staples Communications (see Note J).

(3) Results of operations for this period include a store closure charge of $50.1 million ($30.8 million after taxes) related to the closure of 31 underperforming stores (see Note E), a $7.4 million ($4.6 million after taxes) charge to cost of goods sold related to inventory write-downs to net realizable value for the closed stores and $10.7 million ($6.6 million after taxes) in other charges related to workforce reductions and fulfillment and call center closures (see Note D).

(4) Results of operations for this period include $205.8 million of asset impairment and other charges related to the impairment of goodwill and fixed assets associated with Staples Communications and the write-down of investment values in various e-commerce companies. These results also include a $7.3 million ($4.3 million after taxes) store closure credit, reflecting a reduction in the number of stores expected to be closed in connection with the 1998 store closure plan.

(5) From the fourth quarter of fiscal year ending January 29, 2000 through the second quarter of fiscal year ending February 2, 2002, earnings per share is omitted for Staples Inc. as a result of the approval of the Tracking Stock Proposal which changed Staples' capital structure by creating Staples.com Stock and reclassifying Staples, Inc. common stock ("Staples, Inc. Stock") as Staples RD Stock (see Note M). Staples.com's net loss per share has also been retroactively restated to reflect the effect of a recapitalization through a one-for-two reverse stock split approved by the Board on March 7, 2000 and effected on April 5, 2000.

The Company's fiscal year is the 52 or 53 weeks ending the Saturday closest to January 31.

STAPLES, INC. AND SUBSIDIARIES
Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

Our business is comprised of three segments: North American Retail, North American Delivery and European Operations. Our North American Retail segment consists of the U.S. and Canadian business units that operate office supply stores. The North American Delivery segment consists of the U.S. and Canadian business units that sell and deliver office products and services directly to customers, and includes Staples Business Delivery, Quill, and our contract stationer operations (Staples National Advantage and Staples Business Advantage). The European Operations segment consists of operating units that operate office supply stores in the United Kingdom, Germany, the Netherlands, Portugal and Belgium and that sell and deliver office products and services directly to customers throughout the United Kingdom, Germany, France, Belgium, Spain, Italy and Sweden. Our fiscal years ended January 31, 2004 ("fiscal 2003" or "2003"), February 1, 2003 ("fiscal 2002" or "2002") and February 2, 2002 ("fiscal 2001" or "2001") each contained 52 weeks.

In November 2002, the Emerging Issues Task Force reached consensus on Issue No. 02-16, "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor" ("Issue 02-16"). Issue 02-16 addresses the accounting for vendor consideration received by a customer and is effective for new arrangements, or modifications of existing arrangements, entered into after December 31, 2002. Under this consensus, there is a presumption that amounts received from vendors should be considered a reduction of inventory cost unless certain restrictive conditions are met. Under previous accounting guidance, we accounted for all non-performance based volume rebates as a reduction of inventory cost and all cooperative advertising and other performance based rebates as a reduction of marketing expense or cost of goods sold, as appropriate, in the period the expense was incurred. Beginning with contracts entered into in January 2003, we adopted a policy to treat all vendor consideration as a reduction of inventory cost rather than as an offset to the related expense because the administrative cost of tracking the actual related expenses, to determine whether we meet the restrictive conditions required by Issue 02-16, would exceed the benefit. To record the impact of including cooperative advertising and other performance based rebates in inventory at the end of the first quarter of 2003, we recorded an aggregate, non-cash adjustment of $98.0 million ($61.7 million net of taxes) as an increase to cost of goods sold and occupancy costs, or $0.13 per diluted share. This adjustment reflected all of our outstanding vendor contracts, as substantially all contracts were either entered into or amended in the first quarter of 2003. In addition, the new accounting method resulted in reporting $246.6 million of our cooperative advertising rebates earned in 2003 as cost of goods sold and occupancy costs, whereas these amounts would have been reported as a reduction of operating and selling expenses under previous accounting guidance. In accordance with this consensus, prior periods have not been restated to reclassify amounts recorded as a reduction of operating and selling expenses to cost of goods sold and occupancy costs.

We acquired two businesses during fiscal 2002 ("the 2002 acquisitions"). On October 18, 2002, we acquired multiple European mail order businesses, which sell and deliver office products and services under a variety of brand names, including JPG and Bernard in France and Belgium, Sistemas Kalamazoo in Spain, Neat Ideas in the United Kingdom and MondOffice in Italy ("European mail order acquisition"). The European mail order acquisition is reported as part of European Operations for segment reporting. On July 17, 2002, we acquired Medical Arts Press, Inc. ("MAP"), a leading direct marketer of specialized printed office products and practice-related supplies to medical offices. MAP is an operating division of Quill and is included in North American Delivery for segment reporting.

From November, 1999 through August, 2001, our certificate of incorporation included two series of common stock, Staples.com common stock ("Staples.com Stock") and Staples Retail and Delivery common stock ("Staples RD Stock"). On August 27, 2001, our stockholders approved a proposal to amend our certificate of incorporation to effect a recapitalization by reclassifying each share of Staples.com Stock into 0.4396 shares of Staples common stock and by reclassifying each share of Staples RD Stock into one share of Staples common stock (the "Recapitalization"). The Recapitalization had no effect on our overall financial position or results of operations.

Forward Looking Statements

This Annual Report on Form 10-K and, in particular, this management discussion and analysis contain or incorporate a number of forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and

Section 21E of the Securities Exchange Act of 1934. These forward-looking statements are based on current expectations, estimates, forecasts and projections about the industry and markets in which we operate and management's beliefs and assumptions. Any statements contained herein (including without limitation statements to the effect that Staples or its management "believes", "expects", "anticipates", "plans" and similar expressions) that are not statements of historical fact should be considered forward-looking statements and should be read in conjunction with our consolidated financial statements and notes to consolidated financial statements included in this report. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. There are a number of important factors that could cause our actual results to differ materially from those indicated by such forward-looking statements. These factors include, without limitation, those set forth below under the heading "Cautionary Statements." We do not intend to update publicly any forward-looking statements whether as a result of new information, future events or otherwise.

Results of Operations

We have provided below a summary of our operating results at the consolidated level, followed by an overview of our segment performance. Our discussion includes our results presented on the basis required by accounting principles generally accepted in the United States ("GAAP"), a pro forma basis reflecting the retroactive application of Issue 02-16 (see Note B to Consolidated Financial Statements) as of February 3, 2001 and an adjusted basis to reflect accounting changes and non-recurring items. Management uses net income adjusted for accounting changes and non-recurring items, among other measures, to evaluate operating performance. We have incorporated this information into the discussion below because we believe it is a meaningful measure of our normalized operating performance and will assist you in understanding our results of operations on a comparative basis and in recognizing underlying trends. This adjusted information supplements, and is not intended to represent a measure of performance in accordance with, disclosures required by GAAP.

Consolidated Performance:

Net income for 2003 was $490.2 million or $0.99 per diluted share compared to $446.1 million or $0.94 per diluted share in 2002 and $265.0 million or $0.57 per diluted share in 2001. Fiscal 2003 results include a $61.7 million adjustment, net of taxes, related to the change in accounting for vendor consideration required by Issue 02-16. Our results for fiscal 2002 included the impact of a $29.0 million non-recurring tax benefit (see discussion below and Note J to the Consolidated Financial Statements). Our results for fiscal 2001 included the impact of a $42.0 million charge, net of taxes, for non-recurring items, which consisted of $4.6 million to cost of goods sold for an inventory write-down to net realizable value for store closures, $30.8 million related to store closures and $6.6 million related to workforce reductions and distribution and call center closures (see discussion below and Notes D and E to the Consolidated Financial Statements). On a pro forma basis to reflect the retroactive application of Issue 02-16, net income for 2003 was $551.9 million or $1.12 per diluted share. Excluding the tax benefit, net income for 2002 was $417.1 million or $0.88 per diluted share, and excluding the impact of the non-recurring item for store and facility closures and severance, net income for 2001 was $306.9 million or $0.66 per diluted share. On a pro forma basis in 2003 and excluding the items noted, net income grew 32% for fiscal 2003 and 36% for fiscal 2002.

We achieved our positive 2003 results by continuing to execute on our Back to Brighton strategy of driving profitable sales growth, improving profit margins and increasing asset productivity. Our performance reflects continued focus on customer service, expense management, supply chain improvement and our improved product mix directed at more profitable small business customers and power users.

During fiscal 2003, we also focused on creating a differentiated customer experience by launching numerous initiatives under our new brand promise to make buying office products easy. We implemented initiatives in both retail and delivery to improve the customer experience, infused the new brand personality in all of our marketing vehicles and stores and actively promoted our new advertising tag line, "that was easy". A big part of our brand promise and a key driver of our sales and margin plan is offering high quality, high value Staples brand products that we believe will differentiate us from our competition.

We strive to maintain a balance between investing for our long-term success and delivering strong current earnings growth. During 2002 and 2003, we chose to make significant investments to drive sustainable revenue growth by investing in productivity improvements and better processes in such areas as store labor, marketing and supply chain. Our goal is to identify and develop new growth opportunities, such as expanding our copy center business, changing our approach to new market entry and adding stores to existing markets with new store formats. We have also implemented a better process to evaluate new ventures that will help us to expand or launch new product categories to drive sales.

We expect additional operating margin improvement to continue in fiscal 2004. As of the date of this filing, we anticipate sales growth in fiscal 2004 to be approximately 10%. This sales growth implies low single digit North American retail comparable store sales. We expect earnings per share growth of 20% for fiscal 2004. As with all forward looking statements made in this Annual Report on Form 10-K, we do not intend to update publicly any of the forward-looking statements in this paragraph.

Sales: Sales increased 13.7% in fiscal 2003, to $13.18 billion, versus sales of $11.60 billion in fiscal 2002. Sales in fiscal 2002 increased 7.9% compared to sales of $10.74 billion in fiscal 2001. Excluding the non-comparable sales from our 2002 acquisitions of $446 million in 2003 and $239 million in 2002, sales increased 9.8% in 2003 and 5.7% in 2002. Comparable sales for our North American retail locations increased 4% in 2003 and 1% in 2002 and comparable sales for our European retail locations were flat in 2003 and 2002. We operated 1,559 stores as of January 31, 2004 compared to 1,488 stores as of February 1, 2003 and 1,436 stores as of February 2, 2002. This includes 84 stores opened and 13 stores closed during 2003 and 86 stores opened and 34 stores closed during 2002. North American Delivery sales increased 10.4% in 2003 and 12.7% in 2002. Excluding non-comparable sales of $85.5 million in 2003 and $100.5 million in 2002 for MAP, sales increased 7.8% in 2003 and 9.3% in 2002. European Delivery sales increased 197% in 2003 and 286% in 2002. Excluding non-comparable sales of $360.6 million in 2003 and $138.7 million in 2002 for our European mail order acquisition, sales increased 17.7% in 2003 and 20.5% in 2002. The increase in total sales also reflects the positive impact of foreign currency rates of $338 million in 2003 and $54 million in 2002.

Our strong sales growth in 2003 reflects solid execution in key categories, including ink and toner, paper, business machines and our copy center business. Our sales increase was also driven by the performance of furniture, which benefited from improvements in layout, in-store selling and delivery service, and high growth technology categories, including networking, memory and digital cameras, which were positively impacted by product presentation and in-store execution. This growth was also fueled by strong sales during our back-to-school season and our back-to-business selling season in January. Additionally, our sales growth in both 2003 and 2002 reflects the continued positive results of our contract sales force expansion efforts, our cross-channel marketing among our catalogs, web sites and retail stores and increases in both customer acquisition and retention rates in our delivery business. Sales in 2002 were favorably impacted by strong sales in our core office product categories, partially offset by weakness in our technology and furniture categories.

Gross Profit: Gross profit as a percentage of sales was 27.5% for fiscal 2003, 25.4% for fiscal 2002 and 23.9% for fiscal 2001. On a pro forma basis to reflect the retroactive application of Issue 02-16, gross profit was 28.2% for fiscal 2003, 27.5% for fiscal 2002 and 26.2% for fiscal 2001. The increase in the pro forma gross profit rate for both 2003 and 2002 was due in part to the impact of the 2002 acquisitions, which have significantly higher gross margins as a percentage of sales than our other businesses. The 2003 increase also reflects leveraging of rent and occupancy expenses, improvements in shrink, our improved product mix directed at more profitable small business customers and power users, our continued focus on higher margin Staples brand products, and better buying as a result of our procurement initiatives. The increase in the gross profit rate for 2002 was primarily due to a shift in sales mix toward higher margin consumable categories.

Operating and Selling Expenses: Operating and selling expenses, which consist of payroll, advertising and other operating expenses, were 17.3% of sales for fiscal 2003, 15.5% of sales for fiscal 2002 and 15.4% of sales for fiscal 2001. On a pro forma basis to reflect the reclassification of cooperative advertising rebates under Issue 02-16, operating expenses were 17.6% of sales for fiscal 2002 and 17.7% for fiscal 2001. The decrease in pro forma operating and selling expenses in fiscal 2003 reflects more efficient investment in marketing across all business units, our focus on expense management and leveraging of fixed expenses on higher sales. This decrease was partially offset by investments in customer service and the impact of the 2002 acquisitions, which have higher marketing costs as a percentage of sales than our other businesses. The 2002 results reflect increased investments in our sales force at Quill and Staples Business Delivery, as well as the impact of the 2002 acquisitions. Our ability to effectively leverage operating expenses offset these increases in 2002.

Pre-opening expenses: Pre-opening expenses relating to new store openings, consisting primarily of salaries, supplies, marketing and distribution costs, are expensed by us as incurred and therefore fluctuate from period to period depending on the timing and number of new store openings. Pre-opening expenses were $9.6 million for the 84 stores opened in fiscal 2003, $8.7 million for the 86 stores opened in fiscal 2002 and $13.7 million for the 136 stores opened in fiscal 2001.

General and Administrative: General and administrative expenses as a percentage of sales were 4.0% for fiscal 2003, 3.9% for fiscal 2002, and 3.5% for fiscal 2001. The slight increase in general and administrative expenses as a percentage of sales in 2003 reflects our investments in supply chain and procurement initiatives, offset by our ability to increase sales without proportionately increasing overhead expenses. The increase in general and administrative expenses as a percentage of sales in 2002 primarily reflects an increase in management's variable compensation as a result of improved performance.

Amortization of Intangibles: Amortization of intangibles was $8.0 million in fiscal 2003 and $2.1 million in fiscal 2002, reflecting the amortization of customer-related intangible assets and noncompetition agreements associated with our European mail order and MAP acquisitions in fiscal 2002. Prior to fiscal 2002, we had no amortizable intangible assets.

Amortization of Goodwill: Amortization of goodwill was zero in fiscal 2003 and 2002 and $6.6 million in fiscal 2001. The elimination of amortization of goodwill subsequent to 2001 was due to our adoption of Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets" ("SFAS No. 142"), which requires that goodwill and intangible assets that have indefinite lives be tested at least annually for impairment, rather than amortized. Accordingly, we ceased amortizing all goodwill on February 3, 2002.

Asset Impairment and Other Charges: In January 2002, we recognized charges totaling $10.7 million, comprised of $6.8 million of severance related to the elimination of positions in our corporate office, certain call centers and distribution centers and $3.9 million for net lease obligations and asset write-offs related to the closure of a fulfillment center, two call centers and a delivery office in our North American Delivery segment. At January 31, 2004, we had $0.8 million remaining in accrued expenses and other current liabilities for future net lease obligations.

Store Closure Charge: In January 2002, we committed to a plan to close 31 underperforming stores and recorded a charge of $50.1 million related to these closings. This charge included $31.5 million for net lease obligations, $12.5 million for asset write-offs, $5.5 million in fees and other expenses related to the store closures and $0.6 million in severance. All of the store closures were completed by the end of the first quarter of fiscal 2002. At January 31, 2004, we had $20.3 million remaining in accrued expenses and other current liabilities related to future net lease obligations.

Interest and Other Expense, Net: Net interest and other expense totaled $20.2 million in fiscal 2003, $20.6 million in fiscal 2002 and $27.2 million in fiscal 2001. Interest and other expense relates primarily to interest on existing borrowings. The decrease in interest expense in fiscal 2003 and 2002 reflects a decrease in interest rates as well as a decrease in borrowings during both fiscal years. During the first half of fiscal 2002, borrowings decreased due to an increase in cash generated from operations. This was partially offset by increased borrowings in the second half of 2002 for our two acquisitions; a portion of these borrowings was repaid in the first half of fiscal 2003.

Income Taxes: Our effective tax rate was 37.0% for fiscal 2003, 32.6% for fiscal 2002 and 38.5% for fiscal 2001. In fiscal 2000, we recognized impairment losses related to the goodwill and fixed assets of Staples Communications. Due to the uncertainty concerning the ultimate deductibility of the losses, no corresponding tax benefit was recognized in fiscal year 2000. During fiscal 2001, we sold our Staples Communications business and applied for a pre-filing agreement with the Internal Revenue Service regarding deductibility of our investment in, and advances to, Staples Communications. In fiscal 2002, the Internal Revenue Service agreed to allow, as an ordinary deduction, our investment in, and advances to, Staples Communications. Accordingly, our income tax expense in 2002 includes a $29.0 million tax benefit attributable to the Staples Communications losses; excluding this tax benefit, our effective tax rate was 37.0% in 2002, which is consistent with the effective tax rate for 2003. The decrease in our effective tax rate from 2001 to 2002 is primarily due to an increase in international activity, which is generally taxed at lower rates.

Segment Performance:

The following tables provide a summary of our sales and business unit income by reportable segment and store activity for the last three fiscal years (see reconciliation of business unit income to income before income taxes in Note N to the Consolidated Financial Statements):

	(Amounts in thousands)			2003	2002	2001
Sales	**2003**	**2002**	**2001**	**Increase From Prior Year**	**Increase From Prior Year**	**Increase From Prior Year**
North American Retail	$ 7,841,346	$ 7,166,105	$ 6,914,219	9.4%	3.6%	(1.2)%
North American Delivery	3,740,969	3,389,625	3,008,618	10.4%	12.7%	8.2%
European Operations	1,598,907	1,040,345	796,356	53.7%	30.6%	11.1%
Total Reportable Segments	$13,181,222	$11,596,075	$10,719,193	13.7%	8.2%	2.1%
Divested Businesses	—	—	25,180	0.0%	(100.0)%	(85.6)%
Consolidated Staples	$13,181,222	$11,596,075	$10,744,373	13.7%	7.9%	0.7%

	(Amounts in thousands)			2003	2002	2001
Business Unit Income	**2003**	**2002**	**2001**	**% of Sales**	**% of Sales**	**% of Sales**
North American Retail	$ 523,612	$ 413,895	$ 321,364	6.7%	5.8%	4.6%
North American Delivery	308,305	265,055	205,630	8.2%	7.8%	6.8%
European Operations	64,346	3,722	(6,584)	4.0%	0.4%	(0.8)%
Total Reportable Segments	$ 896,263	$ 682,672	$ 520,410	6.8%	5.9%	4.9%
Divested Businesses	—	—	(1,537)	—	—	(6.1)%
Consolidated Staples	$ 896,263	$ 682,672	$ 518,873	6.8%	5.9%	4.8%

Store Activity		**Open at Beginning of Period**	**Stores Opened**	**Stores Closed**	**Open at End of Period**
2001	North American Retail	1,148	117	4	1,261
2001	European Operations	159	19	3	175
2001	Total	1,307	136	7	1,436
2002	North American Retail	1,261	72	33	1,300
2002	European Operations	175	14	1	188
2002	Total	1,436	86	34	1,488
2003	North American Retail	1,300	67	9	1,358
2003	European Operations	188	17	4	201
2003	Total	1,488	84	13	1,559

North American Retail: Sales increased 9.4% in fiscal 2003 and 3.6% in fiscal 2002. Comparable store sales in North America increased 4% in 2003 and 1% in 2002. Our growth in fiscal 2003 primarily reflects our comparable store sales growth, as well as non-comparable store sales for stores opened in 2002 and the net addition of 58 stores during fiscal 2003. The increase in sales also includes the positive impact of Canadian exchange rates to the U.S. dollar of $169 million. Our strong sales growth reflects solid execution in key categories, including ink and toner, paper, business machines and our copy center business. Our sales increase was also driven by the performance of furniture, which benefited from improvements in layout, in-store selling and delivery service, and high growth technology categories, including networking, memory and digital cameras, which were positively impacted by product presentation and in-store execution. This growth was fueled by strong sales during our back-to-school season and our back-to-business selling season in January. Our sales increase in fiscal 2002 primarily reflects non-comparable store sales for stores opened in 2001 and the net addition of 39 stores in 2002. Additionally, sales in 2002 were favorably impacted by strong sales in our core office product categories that were partially offset by weakness in our technology and furniture categories.

Business unit income as a percentage of sales increased to 6.7% in 2003 from 5.8% for 2002 and 4.6% for 2001. The increase in business unit income during 2003 primarily reflects our focus on expense management, leveraging of rent and occupancy and other fixed expenses on higher sales and improvements in shrink. The increase also reflects our improved product mix and more focused marketing spend directed at more profitable small business customers and power users, our continued focus on higher margin Staples brand products, and better buying as a result of our procurement initiatives. We also benefited from the positive impact of exchange rates. This increase was partially offset by investments in customer service as part of our Back to Brighton strategy. The strong improvement in our bottom line, despite only modest sales growth in fiscal 2002, reflected the impact of our Back to Brighton strategy which shifted our customer mix to more profitable small business customers and power users and emphasized multiple customer service initiatives, including expanding our training of store associates, adding labor hours to certain departments and changing our bonus plan. Going forward, we will continue to focus on our "Easy" brand promise, customer service, supply chain improvements and our Staples brand products, as we believe that these are key to our success and that we have only begun to benefit from these initiatives. Our goal is to identify and develop new growth opportunities, such as expanding our copy center business, changing our approach to new market entry and adding stores to existing markets with new store formats.

North American Delivery: Sales increased 10.4% in fiscal 2003 and 12.7% in fiscal 2002. Excluding non-comparable sales from the acquisition of MAP, sales increased 7.8% in fiscal 2003 and 9.3% in fiscal 2002. The sales growth in both years reflects the positive results of our contract sales force expansion efforts, our cross-channel marketing among our catalogs, web sites and retail stores and increases in both customer acquisition and retention rates in our delivery business. We continue to focus and improve on our customer service metrics and to expand geographically with new multi-channel fulfillment centers. Business unit income as a percentage of sales increased to 8.2% for 2003 from 7.8% for 2002 and 6.8% for 2001. The increases in both fiscal 2003 and 2002 reflect an increase in the number of orders placed electronically, an increase in average order size, continued productivity in our operations and fewer problem orders. Additionally, our fiscal 2003 results reflect leveraging of marketing costs and fixed expenses on higher sales. Our fiscal 2002 results also reflected the expansion of our sales force. We believe our most significant opportunity to improve operating margins is in the Staples Business Delivery division. In addition, we expect to continue to increase our customer acquisition and retention rates in all of our delivery businesses.

European Operations: Sales increased 53.7% in fiscal 2003 and 30.6% in fiscal 2002. Excluding non-comparable sales from our European mail order acquisition, sales increased 19.0% in fiscal 2003 and 13.2% in fiscal 2002. Comparable store sales in Europe were flat in 2003 and 2002. The sales increase in both years includes the positive impact of an increase in European exchange rates against the U.S. dollar of $151 million in 2003 and $59 million in 2002. The sales growth also reflects non-comparable store sales for stores opened in the prior year, the net addition of 13 stores during both fiscal 2003 and 2002 and increased sales in our delivery businesses. Business unit income increased $60.6 million in fiscal 2003 and $10.3 million in fiscal 2002. Excluding the non-comparable results of our European mail order acquisition, business unit income increased $29.8 million in 2003 and decreased $5.4 million in 2002. The improvement in 2003 primarily reflects the turnaround in our German retail business and the positive impact of our integration process on our existing delivery business. We also benefited from the positive impact of exchange rates. The improvement in 2003 was achieved despite a challenging economic environment. Our 2002 results reflect the difficult economic environment and $14.7 million of expenses relating to integration costs associated with our European mail order acquisition, six store closures in Germany and severance relating to reorganizations of our European corporate functions. We expect to see continued improved performance in our European Operations segment in fiscal 2004 due to our focus on Back to Brighton business improvement strategies in Europe as well as continued benefits from synergies in our European delivery business.

Divested Business: Sales for Divested Businesses represents the sales for Staples Communications which was sold on April 3, 2001.

Critical Accounting Policies

Our financial statements are based on the application of significant accounting policies, many of which require management to make significant estimates and assumptions (see Note A to the Consolidated Financial Statements). We believe that the following are some of the more critical judgment areas in the application of our accounting policies that currently affect our financial condition and results of operations.

Inventory: We record inventory at the lower of weighted-average cost or market value. We reserve for obsolescence based on the difference between the weighted-average cost of the inventory and the estimated market value based on assumptions of future demand and market conditions. If actual market conditions are less favorable than those projected by management, additional reserves may be required.

Purchase and advertising rebates: We earn rebates from our vendors, which are based on various quantitative contract terms that can be complex and subject to interpretation. Amounts expected to be received from vendors relating to the purchase of merchandise inventories and reimbursement of incremental costs, such as advertising, are recognized as a reduction of inventory cost and realized as part of cost of goods sold as the merchandise is sold. Several controls are in place, including direct confirmation with vendors, that we believe allow us to ensure that these amounts are recorded in accordance with the terms of the contracts. Should vendors reach different judgments regarding the terms of these contracts, they may seek to recover amounts from us.

Impairment of Long-Lived Assets: We review our long-lived assets for impairment when indicators of impairment are present and the undiscounted cash flow estimated to be generated by those assets is less than the assets' carrying amount. Our policy is to evaluate long-lived assets for impairment at a store level for retail operations and an operating unit level for our other operations. Our retail stores typically take three years to achieve their full profit potential. If actual market conditions are less favorable than management's projections, future write-offs may be necessary.

Impairment of Goodwill and Indefinite Lived Intangible Assets: As a result of our adoption of Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets" ("SFAS No. 142") in fiscal 2002, we annually review goodwill and other intangible assets that have indefinite lives for impairment and when events or changes in circumstances indicate the carrying value of these assets might exceed their current fair values. We determine fair value using discounted cash flow analysis, which requires us to make certain assumptions and estimates regarding industry economic factors and future profitability of acquired businesses. It is our policy to conduct impairment testing based on our most current business plans, which reflect changes we anticipate in the economy and the industry. If actual results are not consistent with our assumptions and judgments, we could be exposed to a material impairment charge.

Deferred Taxes: We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. We have considered estimated future taxable income and ongoing tax planning strategies in assessing the amount needed for the valuation allowance. If actual results differ unfavorably from those estimates used, we may not be able to realize all or part of our net deferred tax assets and additional valuation allowances may be required.

New Accounting Pronouncements

In January 2003, the Financial Accounting Standards Board (FASB) issued FASB Interpretation 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51" (Interpretation 46). In December 2003, the FASB issued a revision to Interpretation 46 to make certain technical corrections and address certain implementation issues that had arisen. Interpretation 46, as revised, provides a new framework for identifying variable interest entities (VIEs) and determining when a company should include the assets, liabilities, noncontrolling interests and results of activities of a VIE in its consolidated financial statements. Interpretation 46 was effective immediately for VIEs created after January 31, 2003. The provisions of Interpretation 46, as revised, were adopted as of January 31, 2004. The adoption of this Interpretation had no impact on our overall financial position and results of operations.

In April 2003, the FASB issued Statement No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." This Statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities." The provisions of this Statement are effective for us for all derivatives and hedging activity entered into after June 30, 2003. The adoption of this Statement had no impact on our overall financial position and results of operations.

In May 2003, the FASB issued Statement No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. The provisions of this Statement are effective for financial instruments entered into or modified after May 31, 2003. The adoption of this Statement had no impact on our overall financial position and results of operations.

In July 2003, the Emerging Issues Task Force discussed Issue No. 03-10 "Application of Issue No. 02-16 by Resellers to Sales Incentives Offered to Consumers by Manufacturers" ("Issue 03-10"). Issue 03-10 addresses the accounting for consideration received by a reseller from a vendor that is a reimbursement by the vendor for honoring the vendor's sales incentives offered directly to consumers (e.g. coupons). The Task Force reached a consensus in November 2003 that all vendor consideration received in the form of sales incentives should be recorded as a reduction of cost of goods sold when recognized in the reseller's financial statements, rather than an offset to the reduced sales price, if certain restrictive conditions are not met. This consensus is effective for us with new arrangements, including modifications to existing arrangements, that are entered into as of the beginning of fiscal 2004. The impact of this consensus on fiscal 2003 results will be restated with pro forma disclosure of the impact on periods prior to fiscal 2003. We are in the process of evaluating the impact of adopting Issue 03-10 in fiscal 2004. The adoption of this consensus would result in a reclassification of incentives between sales and cost of goods sold, with no net impact on our results of operations.

Liquidity and Capital Resources

Cash Flows

Cash provided by operations increased to $1.02 billion in fiscal 2003, from $914.4 million in fiscal 2002 and $770.9 million in fiscal 2001. As a result of the application of Issue 02-16, pro forma net income and deferred income taxes increased and merchandise inventories decreased in 2003, resulting in no aggregate impact on cash flows from operations. The increase in cash flow from operations in fiscal 2003 is primarily due to the increase in pro forma net income as well as continued improvements in working capital achieved through our focus on driving asset productivity. Inventory reductions, excluding the $98 million decrease in inventory relating to the application of Issue 02-16, drove our working capital improvements in fiscal 2003 and reflect the early results of our supply chain initiatives as well as benefits from transitioning additional vendors to consignment based agreements. For fiscal 2002, the improvement in cash provided by operations primarily reflects an increase in net income as well as a decrease in our net deferred income taxes.

Cash used in investing activities was $1.11 billion in fiscal 2003, compared to $1.54 billion in fiscal 2002 and $315.7 million in fiscal 2001. The change in investing activities each year reflects the 2002 acquisitions (See Note C to the Consolidated Financial Statements), as well as increases in the purchase of short-term investments. This activity was partially offset by lower capital expenditures in our existing businesses, primarily reflecting reductions in the number of stores opened from 136 stores in fiscal 2001, to 86 in fiscal 2002, to 84 in fiscal 2003.

Cash provided by financing activities was $35.3 million in fiscal 2003, compared to $714.1 million in fiscal 2002 and a use of $318.7 million in fiscal 2001. The decrease in 2003 is primarily due to the early repayment of our $325 million 364-Day Term Loan Agreement on May 2, 2003 (see Note G to the Consolidated Financial Statements) and the repayment of the outstanding balance due under our receivables securitization agreement on December 29, 2003, offset by $253.0 million of net proceeds received from our issuance of 13,800,000 shares of common stock in a public offering on June 4, 2003 (see Note L to the Consolidated Financial Statements) and $121.5 million received in connection with the exercise of stock options. The increase in 2002 is primarily due to the proceeds received from the September 2002 $325 million offering of senior notes and the October 2002 $325 million 364-Day Term Loan Agreement.

Sources of Liquidity

We utilize cash generated from operations, short-term investments and our main revolving credit facility to cover seasonal fluctuations in cash flows and to support our various growth initiatives. When necessary, we have traditionally supplemented this with debt or equity offerings.

We had $2.09 billion in total cash, short-term investments and funds available through credit agreements at January 31, 2004, which consisted of $700.8 million of available credit, $457.5 million of cash and cash equivalents and $934.3 million of short-term investments. During fiscal 2003, we also issued letters of credit in the ordinary course of business to satisfy certain vendor contracts. At January 31, 2004, we had $54.9 million of open letters of credit, which were a reduction of the available borrowings under our revolving credit facility. We finance the majority of our stores and certain equipment with operating leases.

A table, as of January 31, 2004, of balances available under credit agreements, debt outstanding and principal payments due on our outstanding debt, operating lease obligations and purchase obligations is presented below (amounts in thousands):

			Payments Due By Period			
Contractual Obligations	**Available Credit**	**Total Outstanding Obligations**	**Less than 1 Year**	**1—3 Years**	**3—5 Years**	**More than 5 Years**
Revolving Credit Facility effective through June 2006	$545,100	$ —	$ —	$ —	$ —	$ —
Euro Notes due November 2004	—	186,240	186,240	—	—	—
Senior Notes due August 2007	—	200,000	—	—	200,000	—
Notes due October 2012	—	325,000	—	—	—	325,000
Uncommitted lines of credit	70,000	—	—	—	—	—
Other lines of credit	85,669	3,191	3,191	—	—	—
Capital leases and other notes payable	—	12,791	719	5,334	2,761	3,977
Total Debt Obligations	$700,769	$ 727,222	$190,150	$ 5,334	$ 202,761	$ 328,977
Operating leases	$ —	$4,594,958	$504,964	$936,272	$ 817,082	$2,336,640
Purchase obligations(1)	$ —	$ 246,057	$241,057	$ —	$ —	$ —
Total	$700,769	$5,568,237	$936,171	$941,606	$1,019,843	$2,665,617

(1) Reflects an estimate of the termination payments, including any applicable penalties, we would have been obligated to pay if we had terminated all of our purchase commitments on January 31, 2004. Many of our purchase commitments are cancelable by us without payment, and we have excluded such commitments, along with all associate employment and intercompany commitments.

On June 21, 2002, we entered into a revolving credit facility (the ''Credit Facility'') with a syndicate of banks, which provides for a maximum borrowing of $600 million. The Credit Facility terminates in June 2006. Borrowings made pursuant to the Credit Facility bear interest at the lower of (a) the higher of the lead bank's prime rate or the federal funds rate plus 0.50%, (b) the Eurodollar rate plus a percentage spread based upon certain defined ratios, or (c) a competitive bid rate. The Credit Facility contains financial covenants that require that we maintain a minimum fixed charge coverage ratio of 1.5 and a maximum adjusted debt to total capital ratio of 0.75 and an affirmative covenant that requires us to maintain at least $275 million of consolidated EBIT (as defined in the Credit Facility) for our subsidiaries that guarantee the Credit Facility. The Credit Facility contains restrictive covenants, and if we are in breach of a restrictive covenant, our ability to borrow funds under this agreement may be limited. As of January 31, 2004, no borrowings were outstanding under the Credit Facility, but our available credit is reduced by $54.9 million of letters of credit that were issued under the facility.

On September 30, 2002, we completed an offering of $325 million principal amount of 7.375% senior notes due October 2012 (the "Notes"). The Notes were sold in a private placement to qualified institutional investors pursuant to Rule 144A and Regulation S of the Securities Act of 1933, as amended. We used the net proceeds to finance a portion of the purchase price of the European mail order acquisition. On March 28, 2003, Staples completed an exchange offer pursuant to which the holders of these notes exchanged them for publicly tradable notes.

On October 4, 2002, we entered into a $325 million 364-Day Term Loan Agreement (the "Term Loan") with a group of commercial banks, with Fleet National Bank acting as agent. We used the Term Loan to finance a portion of the purchase price of the European mail order acquisition. The Term Loan was repaid in its entirety on May 2, 2003.

On June 4, 2003, we issued and sold 13,800,000 shares of our common stock in a public offering for a purchase price of $18.89 per share, including 1,800,000 shares related to an over-allotment option that was granted to the underwriters. Upon closing, we received net proceeds of $253.0 million. The offering proceeds were used for working capital and general corporate purposes.

Prior to December 2003 we utilized a 364-day accounts receivable securitization agreement for the purpose of providing us with additional low cost short-term working capital funding that enabled us to reduce our borrowings under our revolving credit facility. On December 29, 2003, we terminated the receivable securitization agreement and all related obligations.

We expect that our cash generated from operations, together with our current cash, short-term investments and funds available under our Credit Facility, will be sufficient to fund our planned store openings and other recurring operating cash needs for at least the next twelve months.

Uses of Capital

We expect to open approximately 115 new stores during fiscal 2004. We estimate that our cash requirements, including leasehold improvements and fixtures, net inventory and pre opening expense, will be approximately $1.3 million for each new store. We also plan to continue to make investments in information systems and distribution centers to improve operational efficiencies and customer service. We currently plan to spend approximately $325 million on capital expenditures during fiscal 2004. We may also expend additional funds to purchase lease rights from tenants occupying retail space that is suitable for a Staples store.

We may also use capital to engage in strategic acquisitions. Throughout our history, we have primarily grown organically, and we do not expect this to change. We do not rely on acquisitions to achieve our target growth plans, and we anticipate that future acquisitions will be small and aligned with our existing businesses. We plan to exercise the same discipline for acquisitions as we use for other investments, thereby only pursuing acquisitions that earn a return above our internal return on net assets hurdle rate within a two or three year time frame. We do not expect this strategy to result in large acquisitions and anticipate that future acquisition activity will be financed from our operating cash flow.

We believe that we will need to spend approximately $325 million a year on capital expenditures for the next few years to fund organic growth. The combination of capital spending in this range and an acquisition strategy that is not projected to require significant amounts of capital means that we will likely generate operating cash flow in excess of our expected needs, thereby strengthening our credit profile. As a result of this improvement, we have decided to increase stockholder returns by initiating an annual cash dividend. The first cash dividend will be $0.20 per outstanding share of our common stock, with such dividend payable on May 17, 2004 to stockholders of record on April 26, 2004. While it is our intention to pay annual cash dividends in years following 2004, any decision to pay future cash dividends will be made by our Board of Directors and will depend upon our earnings, financial condition and other factors. We also implemented a share repurchase program under which we are authorized to purchase up to $1.0 billion of Staples common stock during fiscal years 2004 and 2005.

Inflation and Seasonality

While neither inflation nor deflation has had, nor do we expect it to have, a material impact upon operating results, there can be no assurance that our business will not be affected by inflation or deflation in the future. We believe that our business is somewhat seasonal, with sales and profitability slightly lower during the first and second quarters of our fiscal year.

Cautionary Statements

This annual report on Form 10-K includes or incorporates forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. You can identify these forward-looking statements by the use of the words "believes", "anticipates", "plans", "expects", "may", "will", "would", "intends", "estimates" and other similar expressions, whether in the negative or affirmative. We cannot guarantee that we actually will achieve the plans, intentions or expectations disclosed in the forward looking statements made. We have included important factors in the cautionary statements below that we believe could cause actual results to differ materially from the forward-looking statements contained herein. The forward-looking statements do not reflect the potential impact of any future acquisitions, mergers or dispositions. We do not assume any obligation to update any forward-looking statements contained herein.

Our market is highly competitive and we may not continue to compete successfully. We compete in a highly competitive marketplace with a variety of retailers, dealers and distributors. In most of our geographic markets, we compete with other high-volume office supply chains such as Office Depot and OfficeMax that are similar in concept to us in terms of pricing strategy and product selections, as well as mass merchants such as Wal-Mart, warehouse clubs, computer and electronic superstores such as Best Buy, and other discount retailers. In addition, both our retail stores and delivery operations compete with numerous mail order firms, contract stationer businesses, electronic commerce distributors and direct manufacturers. Many of our competitors have increased their presence in our markets in recent years. Some of our current and potential competitors in the office products industry are larger than we are and have substantially greater financial resources. It is possible that increased competition or improved performance by our competitors may reduce our market share, may reduce our profit margin, and may adversely affect our business and financial performance in other ways.

We may be unable to continue to open new stores successfully. An important part of our business plan is to increase our number of stores. We opened 84 stores during fiscal 2003 and currently plan to open approximately 115 new stores in fiscal 2004. For our growth strategy to be successful, we must identify and lease favorable store sites, hire and train associates and adapt management and operational systems to meet the needs of our expanded operations. These tasks may be difficult to accomplish successfully. If we are unable to open new stores as quickly as planned, our future sales and profits could be materially adversely affected. Even if we succeed in opening new stores, these new stores may not achieve the same sales or profit levels as our existing stores. Also, our expansion strategy includes opening new stores in markets where we already have a presence so we can take advantage of economies of scale in marketing, distribution and supervision costs. However, these new stores may result in the loss of sales in existing stores in nearby areas.

Our growth may continue to strain operations, which could adversely affect our business and financial results. Our business has grown dramatically over the past several years through organic growth and through the acquisition of Medical Arts Press, Inc. and the European mail order businesses. Accordingly, sales, number of stores, number of countries in which we conduct business and number of associates have grown. This growth has placed significant demands on management and operational systems. If we are not successful in upgrading our operational and financial systems, expanding our management team and increasing and effectively managing our associate base, this growth is likely to result in operational inefficiencies and ineffective management of the business and associates, which will in turn adversely affect our business and financial performance.

Our operating results may be impacted by changes in the economy. Our operating results are directly impacted by the health of the North American and European economies. Current economic conditions may adversely affect our business and our results of operations.

Our stock price may fluctuate based on market expectations. The public trading of our stock is based in large part on market expectations that our business will continue to grow and that we will achieve certain levels of net income. If the securities analysts that regularly follow our stock lower their rating or lower their projections for future growth and financial performance, the market price of our stock is likely to drop significantly. In addition, if our quarterly financial performance does not meet the expectations of securities analysts, our stock price would likely decline. The decrease in the stock price may be disproportionate to the shortfall in our financial performance.

Our quarterly operating results are subject to significant fluctuation. Our operating results have fluctuated from quarter to quarter in the past, and we expect that they will continue to do so in the future. Our earnings may not continue to grow at rates similar to the growth rates achieved in recent years and may fall short of either a prior fiscal period or investors' expectations. Factors that could cause these quarterly fluctuations include the following: the extent to which sales in new stores result in the loss of sales in existing stores; the mix of products sold; pricing actions of competitors; the level of advertising and promotional expenses; and seasonality, primarily because the sales and profitability of our stores are typically slightly lower in the first and second quarter of the fiscal year than in other quarters. Most of our operating expenses, such as rent expense, advertising expense and employee salaries, do not vary directly with the amount of sales and are difficult to adjust in the short term. As a result, if sales in a particular quarter are below expectations for that quarter, we may not proportionately reduce operating expenses for that quarter, and therefore this sales shortfall would have a disproportionate effect on our net income for the quarter.

Our expanding International operations expose us to the unique risks inherent in foreign operations. In addition to our recently expanding operations in Europe, we have a significant presence in Canada through The Business Depot Ltd. We may also seek to expand further into other international markets in the future. Our foreign operations encounter risks similar to those faced by our U.S. operations, as well as risks inherent in foreign operations, such as local customs, competitive conditions and foreign currency fluctuations. Further, our recent European mail order acquisition has increased our exposure to these foreign operating risks, which could have an adverse impact on our European income and worldwide profitability.

Our debt level and operating lease commitments could impact our ability to obtain future financing and continue our growth strategy. Our consolidated outstanding debt at January 31, 2004 was $727.2 million. Our future minimum lease commitments due for retail store and support facilities and equipment leases under non-cancelable operating leases were $4.59 billion at January 31, 2004. Our consolidated debt and operating lease obligations may have the effect generally of restricting our flexibility in responding to changing market conditions and could make us more vulnerable in the event of a downturn in our business. In addition, our level of indebtedness may have other important consequences, including: restricting our growth; making it more difficult for us to satisfy our obligations; limiting our ability to borrow additional amounts for working capital, capital expenditures, debt service requirements, future acquisitions or other corporate purposes; and limiting our ability to use operating cash flow in other areas of our business. In such a situation, additional funds may not be available on satisfactory terms when needed, or at all, whether in the next twelve to eighteen months or thereafter.

California wage and hour class action lawsuit. Various class action lawsuits have been brought against us for alleged violations of what is known as California's "wage and hour" law. The plaintiffs have alleged that we improperly classified both general and assistant store managers as exempt under the California wage and hour law, making such managers ineligible for overtime wages. The plaintiffs are seeking to require us to pay overtime wages to the putative class for the period from as early as 1995 to the present. This litigation is in the discovery stage. While it is too early in the litigation for us to predict the outcome of the litigation, we believe the litigation will not have a material adverse effect on us.

Quantitative and Qualitative Disclosures about Market Risks

We are exposed to market risk from changes in interest rates and foreign exchange rates. We have a risk management control process to monitor our interest rate and foreign exchange risks. The risk management process uses analytical techniques, including market value, sensitivity analysis, and value at risk estimates.

As more fully described in the notes to the consolidated financial statements, we use interest rate swap agreements to modify fixed rate obligations to variable rate obligations, thereby adjusting the interest rates to current market rates and ensuring that the debt instruments are always reflected at fair value. While our variable rate debt obligations, approximately $714.4 million at January 31, 2004, expose us to the risk of rising interest rates, management does not believe that the potential exposure is material to our overall financial performance or results of operations. Based on January 31, 2004 borrowing levels, a 1.0% increase or decrease in current market interest rates would have the effect of causing a $7.1 million additional pre-tax charge or credit to our statement of operations than otherwise would occur if interest rates remain unchanged.

As more fully described in the notes to the consolidated financial statements, we are exposed to foreign exchange risks through subsidiaries in Canada, the United Kingdom, Germany, the Netherlands, Portugal, France, Belgium, Spain, Italy and Sweden. We have entered into currency swaps in Canadian dollars and issued Euro denominated notes in order to hedge a portion of our foreign exchange risk related to our net investments in foreign subsidiaries and specific economic transactions. Any increase or decrease in the fair value of our currency exchange rate sensitive derivative instruments would be offset by a corresponding decrease or increase in the fair value of the hedged underlying asset, liability or cash flow.

We account for our interest rate and currency swap agreements using hedge accounting treatment as the derivatives have been determined to be highly effective in achieving offsetting changes in fair value of the hedged items. Under this method of accounting, at January 31, 2004, we have recorded a $19.4 million asset representing gross unrealized gains on two of our derivatives and a $19.3 million liability representing a gross unrealized loss on another derivative. During fiscal 2001, we terminated an interest swap agreement resulting in a realized gain of $18.0 million which is being amortized into income through August 2007, the remaining term of the original agreement. We do not enter into derivative agreements for trading purposes.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Auditors

Board of Directors and Shareholders
Staples, Inc.

We have audited the accompanying consolidated balance sheets of Staples, Inc. and subsidiaries as of January 31, 2004 and February 1, 2003, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended January 31, 2004. 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 auditing standards generally accepted in the United States. 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Staples, Inc. and subsidiaries at January 31, 2004 and February 1, 2003, and the consolidated results of their operations and their cash flows for each of the three years in the period ended January 31, 2004, in conformity with accounting principles generally accepted in the United States.

As discussed in Note B to the consolidated financial statements, in fiscal year 2003, the Company changed its method of accounting for cash consideration received from vendors to conform with Emerging Issues Task Force Issue No. 02-16, "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor." In addition, as discussed in Note A to the consolidated financial statements, effective February 3, 2002, the Company adopted Statement of Financial Accounting Standards No. 142, "Accounting for Goodwill and Other Intangible Assets."

/s/ Ernst & Young LLP
Ernst & Young LLP

Boston, Massachusetts
March 2, 2004

STAPLES, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(Dollar Amounts in Thousands, Except Share Data)

	January 31, 2004	February 1, 2003
ASSETS		
Current assets:		
Cash and cash equivalents	$ 457,465	$ 495,889
Short-term investments	934,275	100,175
Receivables, net	410,330	364,419
Merchandise inventories, net	1,465,989	1,555,205
Deferred income taxes	96,247	96,229
Prepaid expenses and other current assets	114,598	105,559
Total current assets	3,478,904	2,717,476
Property and equipment:		
Land and buildings	601,063	524,730
Leasehold improvements	692,837	621,713
Equipment	1,045,605	951,439
Furniture and fixtures	533,104	472,935
Total property and equipment	2,872,609	2,570,817
Less accumulated depreciation and amortization	1,367,308	1,123,065
Net property and equipment	1,505,301	1,447,752
Lease acquisition costs, net of accumulated amortization	44,227	51,450
Intangible assets, net of accumulated amortization	209,541	216,391
Goodwill	1,202,007	1,207,824
Other assets	63,066	80,495
Total assets	$6,503,046	$5,721,388
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$1,110,631	$1,092,172
Accrued expenses and other current liabilities	822,453	755,483
Debt maturing within one year	190,150	327,671
Total current liabilities	2,123,234	2,175,326
Long-term debt	567,433	732,041
Deferred tax liability	7,563	50,267
Other long-term obligations	141,916	104,862
Stockholders' equity:		
Preferred stock, $.01 par value, 5,000,000 shares authorized; no shares issued	—	—
Common stock, $.0006 par value, 2,100,000,000 shares authorized; issued 527,121,843 shares at January 31, 2004 and 500,831,408 at February 1, 2003	316	299
Additional paid-in capital	1,933,379	1,484,833
Cumulative foreign currency translation adjustments	81,002	11,481
Retained earnings	2,209,302	1,719,091
Less: treasury stock at cost, 27,927,347 shares at January 31, 2004 and 27,724,578 shares at February 1, 2003	(561,099)	(556,812)
Total stockholders' equity	3,662,900	2,658,892
Total liabilities and stockholders' equity	$6,503,046	$5,721,388

See notes to consolidated financial statements.

STAPLES, INC. AND SUBSIDIARIES

Consolidated Statements of Income

(Dollar Amounts in Thousands, Except Share Data)

	Fiscal Year Ended		
	January 31, 2004	February 1, 2003	February 2, 2002
Sales	$13,181,222	$11,596,075	$10,744,373
Cost of goods sold and occupancy costs	9,559,123	8,652,593	8,173,880
Gross profit	3,622,099	2,943,482	2,570,493
Operating and other expenses:			
Operating and selling	2,282,092	1,795,428	1,651,846
Pre-opening	9,639	8,746	13,685
General and administrative	524,094	454,501	379,505
Amortization of intangibles	7,986	2,135	—
Amortization of goodwill	—	—	6,584
Asset impairment and other charges	—	—	10,717
Store closure charge	—	—	50,092
Interest and other expense, net	20,176	20,609	27,219
Total operating and other expenses	2,843,987	2,281,419	2,139,648
Income before income taxes	778,112	662,063	430,845
Income tax expense	287,901	215,963	165,875
Net income	$ 490,211	$ 446,100	$ 264,970
Net income attributed to:			
Staples, Inc. Stock	$ 490,211	$ 446,100	$ 185,110
Staples RD Stock	—	—	79,740
Staples.com Stock	—	—	120
	$ 490,211	$ 446,100	$ 264,970
Basic earnings per common share			
Staples, Inc. Stock	$ 1.01	$ 0.96	$ 0.40
Staples RD Stock	$ —	$ —	$ 0.18
Staples.com Stock	$ —	$ —	$ 0.01
Diluted earnings per common share			
Staples, Inc. Stock	$ 0.99	$ 0.94	$ 0.40
Staples RD Stock	$ —	$ —	$ 0.17
Staples.com Stock	$ —	$ —	$ 0.01

See notes to consolidated financial statements.

STAPLES, INC. AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity
(Dollar Amounts in Thousands)
For the Fiscal Years Ended January 31, 2004, February 1, 2003 and February 2, 2002

		Common						
	Staples, Inc. Stock	Staples RD Stock	Staples.com Stock	Additional Paid-In Capital	Cumulative Translation Adjustments	Retained Earnings	Treasury Stock	Comprehensive Income
Balances at February 3, 2001	$ —	$ 285	$ 8	$1,285,719	$(14,354)	$1,008,021	$(530,255)	
Recapitalization of tracking stock	289	(285)	(8)	4	—	—	—	—
Issuance of common stock for stock options exercised	4	—	—	38,722	—	—	—	—
Tax benefit on exercise of options	—	—	—	14,339	—	—	—	—
Contribution of common stock to Employees' 401(K) Savings Plan	—	—	—	6,478	—	—	—	—
Sale of common stock under Employee Stock Purchase Plan	2	—	—	14,823	—	—	—	—
Issuance of Performance Accelerated Restricted Stock	—	—	—	3,580	—	—	—	—
Translation adjustments	—	—	—	—	(12,775)	—	—	(12,775)
Reissuance of Treasury Stock	—	—	—	59	—	—	21	—
Net income for the year	—	—	—	—	—	264,970	—	264,970
Purchase of treasury shares	—	—	—	—	—	—	(26,104)	—
Other	—	—	—	631	—	—	—	—
Balances at February 2, 2002	$295	$ —	$ —	$1,364,355	$(27,129)	$1,272,991	$(556,338)	$252,195
Issuance of common stock for stock options exercised	4	—	—	56,350	—	—	—	—
Tax benefit on exercise of options	—	—	—	21,722	—	—	—	—
Contribution of common stock to Employees' 401(K) Savings Plan	—	—	—	7,977	—	—	—	—
Sale of common stock under Employee Stock Purchase Plan	—	—	—	14,881	—	—	—	—
Issuance of Performance Accelerated Restricted Stock	—	—	—	18,861	—	—	—	—
Translation adjustments	—	—	—	—	38,610	—	—	38,610
Reissuance of Treasury Stock	—	—	—	54	—	—	18	—
Net income for the year	—	—	—	—	—	446,100	—	446,100
Purchase of treasury shares	—	—	—	—	—	—	(492)	—
Other	—	—	—	633	—	—	—	—
Balances at February 1, 2003	$299	$ —	$ —	$1,484,833	$ 11,481	$1,719,091	$(556,812)	$484,710
Equity Offering	8	—	—	252,964	—	—	—	—
Issuance of common stock for stock options exercised	8	—	—	121,545	—	—	—	—
Tax benefit on exercise of options	—	—	—	30,613	—	—	—	—
Contribution of common stock to Employees' 401(K) Savings Plan	—	—	—	9,136	—	—	—	—
Sale of common stock under Employee Stock Purchase Plan	1	—	—	16,169	—	—	—	—
Issuance of Performance Accelerated Restricted Stock	—	—	—	18,389	—	—	—	—
Translation adjustments	—	—	—	—	69,521	—	—	69,521
Reissuance of Treasury Stock	—	—	—	97	—	—	28	—
Net income for the year	—	—	—	—	—	490,211	—	490,211
Purchase of treasury shares	—	—	—	—	—	—	(4,315)	—
Other	—	—	—	(367)	—	—	—	—
Balances at January 31, 2004	$316	$ —	$ —	$1,933,379	$ 81,002	$2,209,302	$(561,099)	$559,732

See notes to consolidated financial statements.

STAPLES, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(Dollar Amounts in Thousands)

	Fiscal Year Ended		
	January 31, 2004	February 1, 2003	February 2, 2002
Operating activities:			
Net income	$ 490,211	$ 446,100	$ 264,970
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	282,811	267,209	248,965
Asset impairment and other charges	—	—	10,717
Store closure charge	—	—	50,092
Deferred income taxes (benefit) expense	(13,725)	226	(80,370)
Other	36,434	35,767	19,278
Change in assets and liabilities, net of companies acquired:			
(Increase) decrease in receivables	(4,218)	62,460	1,855
Decrease (increase) in merchandise inventories	147,130	(15,781)	148,687
Increase in prepaid expenses and other assets	(34)	(3,574)	(684)
(Decrease) increase in accounts payable	(27,266)	49,396	(23,614)
Increase in accrued expenses and other current liabilities	95,549	63,630	118,052
Increase in other long-term obligations	12,840	8,917	12,960
Net cash provided by operating activities	1,019,732	914,350	770,908
Investing activities:			
Acquisition of property and equipment	(277,793)	(264,692)	(340,118)
Acquisition of businesses, net of cash acquired	(2,910)	(1,171,187)	—
Proceeds from sales and maturities of short-term investments	—	—	25,535
Purchase of short-term investments	(834,100)	(100,175)	—
Proceeds from sales and maturities of long-term investments	—	—	1,654
Purchase of long-term investments	—	—	(250)
Acquisition of lease rights	—	(347)	(2,568)
Net cash used in investing activities	(1,114,803)	(1,536,401)	(315,747)
Financing activities:			
Proceeds from sale of capital stock	389,793	78,895	53,549
Proceeds from borrowings	—	730,897	522,110
Payments on borrowings	(325,235)	(95,235)	(800,194)
Repayments under receivables securitization agreement	(25,000)	—	(86,109)
Termination of interest rate swap agreement	—	—	18,027
Purchase of treasury stock	(4,287)	(474)	(26,083)
Net cash provided by (used in) financing activities	35,271	714,083	(318,700)
Effect of exchange rate changes on cash	21,376	9,033	(5,197)
Net (decrease) increase in cash and cash equivalents	(38,424)	101,065	131,264
Cash and cash equivalents at beginning of period	495,889	394,824	263,560
Cash and cash equivalents at end of period	$ 457,465	$ 495,889	$ 394,824

See notes to consolidated financial statements.

NOTE A Summary of Significant Accounting Policies

Nature of Operations: Staples, Inc. and subsidiaries ("Staples" or "the Company") pioneered the office products superstore concept and is a leading office products distributor. Staples operates three business segments: North American Retail, North American Delivery and European Operations. The Company's North American Retail segment consists of the U.S. and Canadian business units that operate office supply stores. The North American Delivery segment consists of the U.S. and Canadian business units that sell and deliver office products and services directly to customers, and includes Staples Business Delivery, Quill and the Company's contract operations (Staples National Advantage and Staples Business Advantage). The European Operations segment consists of operating units that operate office supply stores in the United Kingdom, Germany, the Netherlands, Portugal and Belgium and that sell and deliver office products and services directly to customers throughout the United Kingdom, Germany, France, Belgium, Spain, Italy and Sweden.

Basis of Presentation: The consolidated financial statements include the accounts of Staples, Inc. and its wholly owned subsidiaries. All intercompany accounts and transactions are eliminated in consolidation.

Fiscal Year: Staples' fiscal year is the 52 or 53 weeks ending on the Saturday closest to January 31. Fiscal year 2003, 2002 and 2001 consisted of the 52 weeks ended January 31, 2004, February 1, 2003 and February 2, 2002, respectively.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management of Staples to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash Equivalents: Staples considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Short-term Investments: Short-term investments, which primarily consist of market auction rate preferred stock and debt securities, are classified as "available for sale" under the provisions of SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Accordingly, the short-term investments are reported at fair value, with any related unrealized gains and losses included as a separate component of stockholders' equity, net of applicable taxes. Realized gains and losses and interest and dividends are included in interest and other expense, net.

Receivables: Receivables include trade receivables financed under regular commercial credit terms and other non-trade receivables. Trade receivables were $305.3 million at January 31, 2004 and $256.6 million at February 1, 2003. The balance at February 1, 2003 was net of accounts receivable securitized of $25.0 million. Concentrations of credit risk with respect to trade receivables are limited due to Staples' large number of customers and their dispersion across many industries and geographic regions. Other non-trade receivables were $105.0 million at January 31, 2004 and $107.8 million at February 1, 2003 and consisted primarily of amounts due from vendors under various incentive and promotional programs.

In fiscal year 2000, Staples entered into a receivables securitization agreement under which it sold, through special purpose entities which were fully consolidated in Staples' financial statements, participating interests in non-interest bearing accounts receivable of Quill and the contract stationer business at a discount to an unrelated third party financier who purchased and received an ownership interest in these receivables. The transfers qualified for sales treatment under SFAS 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." When the Company sold receivables under the receivables securitization agreement, the discount from the face amount of accounts receivable sold approximated the cost that Staples, selling to third party purchasers, would incur if it were to issue commercial paper backed by these accounts receivable. The discount was accounted for as a loss on the sale of receivables and was included in interest and other expense in the Consolidated Statements of Income. This discount totaled $0.6 million in fiscal year 2003 and $1.0 million in fiscal year 2002.

The utilized balance under the receivables securitization agreement, $25.0 million at February 1, 2003, was not included in debt on the Consolidated Balance Sheets but rather reflected as a reduction of receivables. The receivables securitization program was terminated on December 29, 2003, and therefore, no receivables were sold subsequent to this date. As a result of renegotiating the termination provision, the third party financier sold its interest in the outstanding

NOTE A Summary of Significant Accounting Policies (Continued)

receivables, which represented $25.0 million, back to one of the special purpose entities. The remaining receivable balance is reflected in net receivables on the consolidated balance sheet as of January 31, 2004.

Merchandise Inventories: Merchandise inventories are valued at the lower of weighted-average cost or market value.

Private Label Credit Card: Staples offers a private label credit card which is managed by a financial services company. Under the terms of the agreement, Staples is obligated to pay fees which approximate the financial institution's cost of processing and collecting the receivables, which are non-recourse to Staples.

Property and Equipment: Property and equipment are recorded at cost. Expenditures for normal maintenance and repairs are charged to expense as incurred. Depreciation and amortization, which includes the amortization of assets recorded under capital lease obligations, are provided using the straight-line method over the estimated useful lives of the assets or the terms of the respective leases. The useful lives of depreciable assets are estimated to be: 40 years for buildings; the lesser of 10-15 years or term of lease for leasehold improvements; 3-10 years for furniture and fixtures; and 3-10 years for equipment, which includes computer equipment and software with estimated useful lives of 3-5 years.

Lease Acquisition Costs: Lease acquisition costs are recorded at cost and amortized using the straight-line method over the respective lease terms, including option renewal periods if renewal of the lease is probable, which range from 5 to 40 years. Accumulated amortization at January 31, 2004 and February 1, 2003 totaled $54.3 million and $46.8 million, respectively.

Goodwill and Intangible Assets: The Company adopted Statement of Financial Accounting Standards No. 142, "Accounting for Goodwill and Other Intangible Assets" ("SFAS No. 142"), on February 3, 2002. SFAS No. 142 requires that goodwill and intangible assets that have indefinite lives not be amortized but, instead, tested at least annually for impairment. Accordingly, the Company ceased amortization of all goodwill on February 3, 2002. Management uses a discounted cash flow analysis which requires that certain assumptions and estimates be made regarding industry economic factors and future profitability of acquired businesses to assess the need for an impairment charge. The Company has elected the fourth quarter to complete its annual goodwill impairment test. In addition, annual impairment tests for indefinite lived intangible assets are also performed in the fourth quarter. As a result of the fourth quarter impairment analyses, management has determined that no impairment charges are required. Goodwill arising from business acquisitions was previously amortized on a straight-line basis over periods ranging from 20 to 40 years.

The changes in the carrying amount of goodwill during the year ended January 31, 2004 are as follows (in thousands):

	Goodwill, net At February 1, 2003	2003 Additions	Purchase Price Adjustments	Goodwill, net At January 31, 2004
North American Retail	$ 37,109	$ —	$ —	$ 37,109
North American Delivery	389,279	—	(535)	388,744
European Operations	781,436	1,961	(7,243)	776,154
Consolidated	$1,207,824	$1,961	$(7,778)	$1,202,007

A reconciliation of reported net earnings to the amounts adjusted for the exclusion of goodwill amortization follows (in thousands):

	2003	2002	2001
Reported net earnings	$490,211	$446,100	$264,970
Add: Goodwill amortization, net of tax	—	—	6,003
Adjusted net earnings	$490,211	$446,100	$270,973

NOTE A Summary of Significant Accounting Policies (Continued)

Excluding goodwill amortization, pro forma earnings per share would have increased $0.01 per share for fiscal 2001.

Intangible assets not subject to amortization, which include registered trademarks and trade names, were $144.1 million at January 31, 2004 and February 1, 2003; intangible assets subject to amortization, which include customer related intangible assets and non-competition agreements, were $76.8 million at January 31, 2004 and $75.6 million at February 1, 2003. Accumulated amortization for intangible assets subject to amortization was $11.4 million at January 31, 2004 and $3.4 million at February 1, 2003.

Impairment of Long-Lived Assets: Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144") requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. Staples' policy is to evaluate long-lived assets for impairment at a store level for retail operations and an operating unit level for Staples' other operations.

Fair Value of Financial Instruments: Pursuant to Statement of Financial Accounting Standards No. 107, "Disclosure About Fair Value of Financial Instruments" ("SFAS No. 107"), Staples has estimated the fair value of its financial instruments using the following methods and assumptions: the carrying amounts of cash and cash equivalents, short-term investments, receivables and accounts payable approximate fair value because of their short-term nature and the carrying amounts of Staples' debt approximates fair value because of the Company's use of derivative instruments that qualify for hedge accounting.

Revenue Recognition: Revenue is recognized at the point of sale for the Company's retail operations and at the time of shipment for its delivery sales. Sales of extended service plans are administered by an unrelated third party. The unrelated third party is the legal obligor in most states and accordingly bears all performance obligations and risk of loss related to the service plans sold in such states. In such states, Staples recognizes a net commission revenue at the time of sale for the service plans. In certain states where Staples is the legal obligor, the revenues and direct expenses associated with the sale are deferred and recognized over the life of the service contract, which is typically one to five years.

Advertising: Staples expenses the production costs of advertising the first time the advertising takes place, except for the cost of direct-response advertising, which is capitalized and amortized over its expected period of future benefits. Direct-response advertising consists primarily of catalog production costs. Direct catalog production costs included in prepaid and other assets totaled $29.6 million at January 31, 2004 and $22.7 million at February 1, 2003. Total advertising and marketing expense was $612.1 million, $559.8 million, and $556.7 million for fiscal years 2003, 2002 and 2001, respectively.

Pre-opening Costs: Pre-opening costs, which consist primarily of salaries, supplies, marketing and distribution costs, are charged to expense as incurred.

Stock Option Plans: Staples accounts for its stock-based plans under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25") and provides pro forma disclosures of the compensation expense determined under the fair value provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123") as amended by Statement of Financial Accounting Standards No. 148 "Accounting for Stock-Based Compensation—Transition and Disclosure" ("SFAS No. 148"). Under APB No. 25, since the exercise price of Staples' employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized.

Pro forma information regarding net income and earnings per share is required by SFAS No. 148, which also requires that the information be determined as if Staples had accounted for its employee stock options granted subsequent to January 28, 1995 under the fair value method of that Statement. The fair value for these options was

NOTE A Summary of Significant Accounting Policies (Continued)

estimated at the date of grant using a Black-Scholes option-pricing model with the following weighted-average assumptions:

	2003	2002	2001
Risk free interest rate	2.6%	3.1%	4.5%
Expected dividend yield	0%	0%	0%
Expected stock volatility	43%	45%	37%
Expected life of options	5.0 years	5.0 years	4.0 years

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. For purposes of SFAS No. 148's disclosure requirements, the amended and restated Employee Stock Purchase Plan is considered a compensatory plan. The expense was calculated based on the fair value of the employees' purchase rights. Staples' pro forma information follows (in thousands, except for per share information):

	Fiscal Year Ended January 31, 2004 Staples, Inc.	Fiscal Year Ended February 1, 2003 Staples, Inc.
Net income as reported	$490,211	$446,100
Stock based compensation excluded from reported net income	40,000	33,316
Pro forma net income	$450,211	$412,784
Pro forma basic earnings per common share	$ 0.93	$ 0.88
Pro forma diluted earnings per common share	$ 0.91	$ 0.87

	26 Weeks Ended February 2, 2002	26 Weeks Ended August 4, 2001	
	Staples, Inc.	Staples RD	Staples.com
Net income as reported	$185,110	$79,740	$ 120
Stock based compensation excluded from reported net income	19,500	24,035	565
Pro forma net income (loss)	$165,610	$55,705	$ (445)
Pro forma basic earnings (loss) per common share	$ 0.36	$ 0.12	$(0.06)
Pro forma diluted earnings (loss) per common share	$ 0.36	$ 0.12	$(0.06)

The weighted-average fair values of options granted during fiscal years 2003, 2002 and 2001 were $7.27, $6.84 and $5.32, respectively.

Foreign Currency Translation: The assets and liabilities of Staples' foreign subsidiaries are translated into U.S. dollars at current exchange rates as of the balance sheet date, and revenues and expenses are translated at average monthly exchange rates. The resulting translation adjustments, and the net exchange gains and losses resulting from the translation of investments in Staples' foreign subsidiaries, are recorded as a separate component of stockholders' equity.

Derivative Instruments and Hedging Activities: The Company recognizes all derivative financial instruments in the consolidated financial statements at fair value regardless of the purpose or intent for holding the instrument. Changes in the fair value of derivative financial instruments that qualify for hedge accounting are recorded in stockholders' equity as a component of comprehensive income or as an adjustment to the carrying value of the hedged item. Changes in fair values of derivatives not qualifying for hedge accounting are reported in earnings.

New Accounting Pronouncements: In January 2003, the Financial Accounting Standards Board (FASB) issued FASB Interpretation 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51" (Interpretation 46). In December 2003, the FASB issued a revision to Interpretation 46 to make certain technical corrections and address certain implementation issues that had arisen. Interpretation 46, as revised, provides a new framework for identifying variable interest entities (VIEs) and determining when a company should include the assets, liabilities,

NOTE A Summary of Significant Accounting Policies (Continued)

noncontrolling interests and results of activities of a VIE in its consolidated financial statements. Interpretation 46 was effective immediately for VIEs created after January 31, 2003. The provisions of Interpretation 46, as revised, were adopted as of January 31, 2004. The adoption of this Interpretation had no impact on the Company's overall financial position and results of operations.

In April 2003, the FASB issued Statement No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." This Statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities." The provisions of this Statement are effective for the Company for all derivatives and hedging activity entered into after June 30, 2003. The adoption of this Statement had no impact on the Company's overall financial position and results of operations.

In May 2003, the FASB issued Statement No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. The provisions of this Statement are effective for financial instruments entered into or modified after May 31, 2003. The adoption of this Statement had no impact on the Company's overall financial position and results of operations.

In July 2003, the Emerging Issues Task Force discussed Issue No. 03-10 "Application of Issue No. 02-16 by Resellers to Sales Incentives Offered to Consumers by Manufacturers" ("Issue 03-10"). Issue 03-10 addresses the accounting for consideration received by a reseller from a vendor that is a reimbursement by the vendor for honoring the vendor's sales incentives offered directly to consumers (e.g. coupons). The Task Force reached a consensus in November 2003 that all vendor consideration received in the form of sales incentives should be recorded as a reduction of cost of goods sold when recognized in the reseller's financial statements, rather than an offset to the reduced sales price, if certain restrictive conditions are not met. This consensus is effective for the Company with new arrangements, including modifications to existing arrangements, that are entered into as of the beginning of fiscal 2004. The impact of this consensus on fiscal 2003 results will be restated with pro forma disclosure of the impact on periods prior to fiscal 2003. Management is in the process of evaluating the impact of adopting Issue 03-10 for fiscal 2004. The adoption of this consensus would result in a reclassification of incentives between sales and cost of goods sold, with no net impact on the Company's results of operations.

Reclassifications: Certain previously reported amounts have been reclassified to conform with the current period presentation.

NOTE B Change in Accounting Principle

In November 2002, the Emerging Issues Task Force reached consensus on Issue No. 02-16, "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor" ("Issue 02-16"). Issue 02-16 addresses the accounting for vendor consideration received by a customer and is effective for new arrangements, or modifications of existing arrangements, entered into after December 31, 2002. Under this consensus, there is a presumption that amounts received from vendors should be considered a reduction of inventory cost unless certain restrictive conditions are met. Under previous accounting guidance, we accounted for all non-performance based volume rebates as a reduction of inventory cost and all cooperative advertising and other performance based rebates as a reduction of marketing expense or cost of goods sold, as appropriate, in the period the expense was incurred. Beginning with contracts entered into in January 2003, we adopted a policy to treat all vendor consideration as a reduction of inventory cost rather than as an offset to the related expense because the administrative cost of tracking the actual related expenses, to determine whether we meet the restrictive conditions required by Issue 02-16, would exceed the benefit.

To record the impact of including cooperative advertising and other performance based rebates in inventory at the end of the first quarter of 2003, we recorded an aggregate, non-cash adjustment of $98.0 million ($61.7 million net of taxes) as an increase to cost of goods sold and occupancy costs, or $0.13 per diluted share. This adjustment reflected all of our outstanding vendor contracts, as substantially all contracts were either entered into or amended in the first quarter

NOTE B Change in Accounting Principle (Continued)

of 2003. In addition, the new accounting method resulted in reporting $246.6 million of the Company's cooperative advertising rebates earned in 2003 as cost of goods sold and occupancy costs, whereas these amounts would have been reported as a reduction of operating and selling expenses under previous accounting guidance. In accordance with this consensus, prior periods have not been restated to reclassify amounts recorded as a reduction of operating and selling expenses to cost of goods sold and occupancy costs.

The following summarizes the as reported and pro forma results for 2003, 2002 and 2001, assuming the retroactive application of this accounting principle as of February 3, 2001 (in thousands, except per share data):

	As Reported 52 Weeks Ended		
	January 31, 2004	February 1, 2003	February 2, 2002
Sales	$13,181,222	$11,596,075	$10,744,373
Cost of goods sold and occupancy costs	9,559,123	8,652,593	8,173,880
Gross profit	3,622,099	2,943,482	2,570,493
Operating and other expenses:			
Operating and selling	2,282,092	1,795,428	1,651,846
Other expenses	561,895	485,991	487,802
Total operating and other expenses	2,843,987	2,281,419	2,139,648
Income before income taxes	778,112	662,063	430,845
Income tax expense	287,901	215,963	165,875
Net income	$ 490,211	$ 446,100	$ 264,970
Earnings per share:			
Basic			
Staples, Inc. Stock	$ 1.01	$ 0.96	$ 0.40
Staples RD Stock	—	—	$ 0.18
Staples.com Stock	—	—	$ 0.01
Diluted			
Staples, Inc. Stock	$ .99	$ 0.94	$ 0.40
Staples RD Stock	—	—	$ 0.17
Staples.com Stock	—	—	$ 0.01

NOTE B Change in Accounting Principle (Continued)

	Pro Forma 52 Weeks Ended		
	January 31, 2004	February 1, 2003	February 2, 2002
Sales	$13,181,222	$11,596,075	$10,744,373
Cost of goods sold and occupancy costs	9,461,148	8,409,533	7,924,157
Gross profit	3,720,074	3,186,542	2,820,216
Operating and other expenses:			
Operating and selling	2,282,092	2,038,488	1,901,569
Other expenses	561,895	485,991	487,802
Total operating and other expenses	2,843,987	2,524,479	2,389,371
Income before income taxes	876,087	662,063	430,845
Income tax expense	324,152	215,963	165,875
Pro forma net income	$ 551,935	$ 446,100	$ 264,970
Pro forma earnings per share:			
Basic			
Staples, Inc. Stock	$ 1.14	$ 0.96	$ 0.40
Staples RD Stock	—	—	$ 0.18
Staples.com Stock	—	—	$ 0.01
Diluted			
Staples, Inc. Stock	$ 1.12	$ 0.94	$ 0.40
Staples RD Stock	—	—	$ 0.17
Staples.com Stock	—	—	$ 0.01

NOTE C Business Acquisitions

In accordance with SFAS No. 141 “Business Combinations,” Staples records acquisitions under the purchase method of accounting. Accordingly, the purchase price is allocated to the tangible assets and liabilities and intangible assets acquired, based on their estimated fair values. The excess purchase price over the fair value is recorded as goodwill. Under SFAS No. 142, goodwill and purchased intangibles with indefinite lives are not amortized but will be reviewed for impairment annually, or more frequently, if impairment indicators arise. Purchased intangibles with definite lives are amortized over their respective useful lives.

European Mail Order Businesses:

On October 18, 2002, Staples acquired the European mail order businesses of Guilbert SA, a subsidiary of Pinault Printemps Redoute SA (the “European mail order acquisition”). The aggregate cash purchase price of 806 million Euros (approximately $788 million as of the acquisition date), net of cash acquired of $5.0 million and net of capital leases assumed of $12.9 million, was funded by the proceeds from the September 2002 offering of senior notes, the October 2002 364-Day Term Loan Agreement (see Note G) and cash from operations. The results of the businesses acquired have been included in the consolidated financial statements since that date. The acquired companies are reported as part of the European Operations segment for segment reporting. The European mail order acquisition allowed Staples to enter the fast-growing office supplies mail order market in France, Italy, Spain and Belgium and strengthened its mail order presence in the United Kingdom. The acquired European mail order businesses consist of leading direct mail office products sellers to small businesses in Europe operating under different brands in five countries: JPG and Bernard in France and Belgium, Sistemas Kalamazoo in Spain, Neat Ideas in the United Kingdom and MondOffice in Italy.

NOTE C Business Acquisitions (Continued)

In connection with the European mail order acquisition, Staples recorded $845.2 million of goodwill and intangible assets, net of fiscal 2003 purchase price adjustments, which were assigned to our European Operations segment. Staples also accrued for merger-related and integration costs of approximately $11.8 million, which consisted primarily of transaction related costs. As of January 31, 2004, approximately $10.1 million of payments have been charged against this accrual and $1.7 million remains accrued for these merger-related and integration costs.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition, including net purchase price adjustments of $7.2 million, which reduced goodwill, in 2003 (in thousands):

	As of October 18, 2002
Current assets	$104,180
Property and equipment	42,156
Other assets	2,331
Intangible assets	211,820
Goodwill	633,361
Total assets acquired	993,848
Current liabilities	116,040
Long-term debt	12,669
Deferred tax liability	72,027
Other long-term liabilities	7,423
Total liabilities assumed	208,159
Net assets acquired	$785,689

Of the $211.8 million of acquired intangible assets, $138.2 million was assigned to registered trademarks and trade names which have indefinite lives and are not subject to amortization and $73.6 million was assigned to customer-related intangible assets and noncompetition agreements that will be amortized over their useful lives (ranging from 3 to 13 years).

Medical Arts Press:

On July 17, 2002, Staples acquired 100 percent of the outstanding shares of Medical Arts Press, Inc. ("MAP") for an aggregate purchase price of $383.2 million, net of cash acquired. The purchase price consisted entirely of cash and cash equivalents. The results of MAP have been included in the consolidated financial statements since that date. MAP is an operating division of Quill and is included in North American Delivery for segment reporting. MAP is a leading direct marketer of specialized printed office products and practice-related supplies to medical offices. The acquisition of MAP provides an opportunity to sell traditional office products to MAP's customer base and expand Quill's and Staples' product offerings.

In connection with this acquisition, Staples recorded $349.5 million of goodwill and intangible assets, net of fiscal 2003 purchase price adjustments, which were assigned to our North American Delivery segment. Staples also accrued for merger-related and integration costs of approximately $7.0 million. As of January 31, 2004, approximately $2.5 million of payments have been charged against this accrual and approximately $4.5 million remains accrued for these merger-related and integration costs.

In connection with the acquisition of MAP, the Company recorded $6.5 million of acquired intangible assets. Of this total, $5.9 million was assigned to trade names and trademarks which have indefinite lives and are not subject to amortization and $0.6 million was assigned to customer-related intangible assets that will be amortized over 10 years.

Pro forma results of operations assuming the European mail order acquisition and the MAP acquisition occurred as of the beginning of fiscal 2002 have not been presented, as the inclusion of the results of operations for the acquired businesses would not have produced a material impact on the reported sales, net income or earnings per share of the Company.

NOTE D Asset Impairment and Other Charges

During fiscal 2001, Staples committed to a plan related to workforce reductions and distribution and call center closures. As a result, the Company recognized charges totaling $10.7 million, comprised of $6.8 million of severance related to the elimination of positions in Staples' corporate offices and certain call centers and distribution centers and $3.9 million for net lease obligations and asset write-offs related to the closure of a fulfillment center, two call centers and a delivery office in the Company's North American Delivery segment. As of January 31, 2004, $0.8 million remains accrued for this charge.

NOTE E Store Closure Charge

During fiscal 2001, Staples committed to a plan to close 31 underperforming stores and recorded a charge of $50.1 million related to these closings. This charge included $31.5 million for net lease obligations, $12.5 million for asset write-offs, $5.5 million for fees and other expenses and $0.6 million for severance related to the store closures. All of the store closures were completed during the first quarter of fiscal 2002. Management believes that the remaining accruals will be entirely utilized by 2009. The following is a rollforward of the 2001 store closure charges (in thousands):

	Balance at February 2, 2002	Charges Utilized in 2002	Balance at February 1, 2003	Charges Utilized in 2003	Balance at January 31, 2004
Lease terminations	$31,543	$(7,090)	$24,453	$(8,064)	$16,389
Severance	621	(621)	—	—	—
Legal and settlement costs	5,484	(879)	4,605	(733)	3,872
	$37,648	$(8,590)	$29,058	$(8,797)	$20,261
Asset write-offs	12,444				
	$50,092				

NOTE F Accrued Expenses and Other Current Liabilities

The major components of accrued liabilities are as follows (in thousands):

	January 31, 2004	February 1, 2003
Taxes	$207,070	$189,590
Employee related	222,949	182,451
Acquisition and store closure reserves	58,128	85,673
Advertising and marketing	58,023	48,557
Other	276,283	249,212
Total	$822,453	$755,483

NOTE G Debt and Credit Agreements

The major components of debt outstanding are as follows (in thousands):

	January 31, 2004	February 1, 2003
Notes due October 2012 (see below)	$325,000	$ 325,000
Senior Notes due August 2007 (see below)	200,000	200,000
Euro Notes due November 2004 (see below)	186,240	162,225
Lines of credit (see "Credit Agreements" below)	3,191	—
364-Day Term Loan (see "Credit Agreements" below)	—	325,000
Capital lease obligations and other notes payable in monthly installments with effective interest rates from 2% to 5%; collateralized by the related equipment	12,791	14,892
	727,222	1,027,117
Deferred gain on settlement of interest rate swap and fair value adjustments on hedged debt	30,361	32,595
Less current portion	(190,150)	(327,671)
Net long-term debt	$567,433	$ 732,041
Debt maturing within one year consists of the following (in thousands):		
364-Day Term Loan (see "Credit Agreements" below)	$ —	$ 325,000
Euro Notes due November 2004 (see below)	186,240	—
Current portion of long-term debt	3,910	2,671
Total debt maturing within one year	$190,150	$ 327,671

Aggregate annual maturities of long-term debt and capital lease obligations are as follows (in thousands):

Fiscal Year:	Total
2004	$190,150
2005	3,583
2006	1,751
2007	201,578
2008	1,183
Thereafter	328,977
	$727,222

Future minimum lease payments under capital leases of $10.5 million, excluding $1.3 million of interest, are included in aggregate annual maturities shown above. In addition to capital leases assumed through acquisitions, Staples entered into new capital lease agreements totaling $1.0 million, $0.9 million and $3.7 million during fiscal years 2003, 2002 and 2001, respectively.

Interest paid by Staples totaled $32.5 million, $17.8 million and $32.8 million for fiscal years 2003, 2002 and 2001, respectively. Capitalized interest totaled $0.1 million in fiscal year 2003, there was no capitalized interest in fiscal year 2002 and capitalized interest totaled $1.0 million in fiscal year 2001.

Senior Notes: Staples issued $200 million of senior notes (the "Senior Notes") on August 12, 1997, with a fixed interest rate of 7.125% payable semi-annually on February 15 and August 15 of each year commencing on February 15, 1998. The Senior Notes are due August 15, 2007. Staples has entered into interest rate swaps to turn the Senior Notes into variable rate obligations (see Note H).

Notes: On September 30, 2002, Staples completed an offering of $325 million principal amount of 7.375% senior notes due October 2012 (the "Notes"). The Notes were sold in a private placement to qualified institutional investors

NOTE G Debt and Credit Agreements (Continued)

pursuant to Rule 144A and Regulation S of the Securities Act of 1933, as amended. Net proceeds to the Company were approximately $319.7 million. The Company used the net proceeds to finance a portion of the European mail order acquisition. Staples has entered into an interest rate swap to turn the Notes into variable rate obligations (see Note H). On March 28, 2003, Staples completed an exchange offer pursuant to which the holders of these notes exchanged them for publicly tradable notes.

Credit Agreements: On June 21, 2002, Staples entered into a revolving credit facility (the "Credit Facility") with a syndicate of banks, which provides for a maximum borrowing of $600 million. The Credit Facility terminates in June 2006. Borrowings made pursuant to the Credit Facility bear interest at the lower of (a) the higher of the lead bank's prime rate or the federal funds rate plus 0.50%, (b) the Eurodollar rate plus a percentage spread based upon certain defined ratios, or (c) a competitive bid rate. The Credit Facility contains financial covenants that require Staples to maintain a minimum fixed charge coverage ratio of 1.5 and a maximum adjusted debt to total capital ratio of 0.75 and an affirmative covenant that requires Staples to maintain at least $275 million of consolidated EBIT (as defined in the Credit Facility) for the Company's subsidiaries that guarantee the Credit Facility. As of January 31, 2004, no borrowings were outstanding under the Credit Facility, but $54.9 million of letters of credit were issued under the facility.

On October 4, 2002, the Company entered into a $325 million 364-Day Term Loan Agreement (the "Term Loan") with a group of commercial banks. The Company used the Term Loan to finance a portion of the purchase price of the European mail order acquisition. The Term Loan was repaid in its entirety on May 2, 2003.

Staples has available $70.0 million in uncommitted, short-term bank credit lines, of which no borrowings were outstanding as of January 31, 2004. In addition, Staples' European operations have a total of $81.3 million in available lines of credit, of which $3.2 million was outstanding as of January 31, 2004, and Staples' Canadian operations have a $7.5 million line of credit, which had no outstanding balance at January 31, 2004.

Euro Notes: Staples issued notes in the aggregate principal amount of 150 million Euros on November 15, 1999 (the "Euro Notes"). These notes bear interest at a rate of 5.875% per annum and are due on November 15, 2004. These notes have been designated as a foreign currency hedge on the Company's net investments in Euro denominated subsidiaries and gains or losses are recorded in the cumulative translation adjustment line in Stockholders' Equity. A foreign currency gain of $30.2 million, less $12.7 million in taxes, has been recorded in the cumulative translation adjustment line at January 31, 2004. Staples has entered into interest rate swaps to turn the Euro Notes into variable rate obligations (see Note H).

Floating Rate Notes: On May 24, 2000, Staples issued notes in the aggregate principal amount of $175 million. These notes came due on November 26, 2001 and were repaid in full on this date.

NOTE H Derivative Instruments and Hedging Activities

Staples uses interest rate swaps to turn fixed rate debt into variable rate debt and currency swaps to fix the cash flows associated with debt denominated in a foreign currency and to hedge a portion of the value of Staples' net investment in Canadian dollar denominated subsidiaries. These derivatives qualify for hedge accounting treatment as the derivatives have been highly effective in achieving offsetting changes in fair value of the hedged items.

Interest Rate Swaps: During fiscal year 1999, Staples entered into interest rate swaps, for an aggregate notional amount of $200 million, to turn Staples' fixed rate Senior Notes into a variable rate obligation. On October 23, 2001, Staples terminated these interest rate swaps which were originally scheduled to terminate on August 15, 2007. Upon termination of the swaps, Staples realized a gain of $18.0 million, which is being amortized over the remaining term of the underlying hedged debt instrument, as an adjustment to interest expense. Simultaneous to the termination of these interest rate swaps, Staples entered into another $200 million of interest rate swaps whereby Staples is entitled to receive semi-annual interest payments at a fixed rate of 7.125% and is obligated to make semi-annual interest payments at a floating rate based on the LIBOR. These swap agreements, scheduled to terminate on August 15, 2007, are designated as fair value hedges of the Senior Notes and the differential to be paid or received on the interest rate swap agreement is

NOTE H Derivative Instruments and Hedging Activities (Continued)

accrued and recognized as an adjustment to interest expense over the life of the agreement. At January 31, 2004, the new interest rate swap agreements had a fair value gain of $13.8 million, which was included in other assets.

On November 15, 1999, Staples entered into an interest rate swap, for an aggregate notional amount of 150 million Euros, designed to turn Staples' fixed rate Euro Notes, issued on that same day, into a variable rate obligation. The swap agreement, scheduled to terminate on November 15, 2004, is designated as a fair value hedge of the Euro Notes. Under the interest rate swap agreement, Staples is entitled to receive annual interest payments at a fixed rate of approximately 5.875% and is required to make quarterly interest payments at a floating rate of the one month EURIBOR plus 1.1175%. The interest rate swap agreement is being accounted for as a fair value hedge and the differential to be paid or received on the interest rate swap agreement is accrued and recognized as an adjustment to interest expense over the life of the agreement. At January 31, 2004, the interest rate swap agreement had a fair value gain of $4.7 million, which was included in other assets.

On January 10, 2003, Staples entered into an interest rate swap, for an aggregate notional amount of $325 million, designed to convert Staples' Notes into a variable rate obligation. The swap agreement, scheduled to terminate on October 1, 2012, is designated as a fair value hedge of the Notes. Under the interest rate swap agreement, Staples is entitled to receive semi-annual interest payments at a fixed rate of 7.375% and is required to make semi-annual interest payments at a floating rate equal to the 6 month LIBOR plus 3.088%. The interest rate swap agreement is being accounted for as a fair value hedge and the differential to be paid or received on the interest rate swap agreement is accrued and recognized as an adjustment to interest expense over the life of the agreement. At January 31, 2004, the interest rate swap agreement had a fair value gain of $0.9 million, which was included in other assets.

Foreign Currency Swaps: During fiscal year 2000, Staples entered into a currency swap, for an aggregate notional amount of $200 million. Upon maturity of the agreement, scheduled for August 15, 2007, or earlier termination thereof, Staples is entitled to receive $200 million and is obligated to pay 298 million in Canadian dollars. Staples is also entitled to receive semi-annual payments on $200 million at a fixed rate of 7.125% and is obligated to make semi-annual interest payments on 298 million Canadian dollars at a fixed rate of 6.445%. This swap has been designated as a foreign currency hedge on Staples' net investment in Canadian dollar denominated subsidiaries and gains or losses will be recorded in the cumulative translation adjustment line in stockholders' equity. At January 31, 2004, the currency swap had a fair value loss of $19.3 million, which was included in other long-term obligations. The corresponding foreign currency loss of $19.3 million, less $8.1 million in taxes, has been recorded in the cumulative translation adjustment line at January 31, 2004.

In September 2002, Staples entered into a currency swap, for an aggregate notional amount of 120 million Canadian dollars. This swap was designated as a foreign currency hedge of a short-term intercompany loan with a Canadian dollar denominated subsidiary. Upon maturity of this agreement, which occurred in two stages in 2003, Staples was obligated to pay a total of $75.3 million and receive a total of 120 million Canadian dollars. Prior to maturity, gains and losses on this foreign currency hedge were recorded to interest and other expense over the life of the agreement, which offset the gains and losses of the underlying hedged item.

In November 2002, Staples entered into a currency swap, for an aggregate notional amount of 30 million Canadian dollars. This swap was designated as a foreign currency hedge of a short-term intercompany loan with a Canadian dollar denominated subsidiary. Upon maturity of the agreement, which was in February 2003, Staples paid $18.9 million and received 30 million Canadian dollars. Prior to maturity, gains and losses on this foreign currency hedge were recorded to interest and other expense over the life of the agreement, which offset the gains and losses of the underlying hedged item.

NOTE I Commitments and Contingencies

Staples leases certain retail and support facilities under long-term noncancellable lease agreements. Most lease agreements contain renewal options and rent escalation clauses and, in some cases, allow termination within a certain number of years with notice and a fixed payment. Certain agreements provide for contingent rental payments based on sales.

NOTE I Commitments and Contingencies (Continued)

Other long-term obligations at January 31, 2004 include $90.0 million relating to future rent escalation clauses and lease incentives under certain existing store operating lease arrangements. These rent expenses are recognized on a straight-line basis over the respective terms of the leases. Future minimum lease commitments due for retail and support facilities (including lease commitments for 6 retail stores not yet opened at January 31, 2004) and equipment leases under noncancellable operating leases are as follows (in thousands):

Fiscal Year:	Total
2004	$ 504,964
2005	484,560
2006	451,712
2007	421,610
2008	395,472
Thereafter	2,336,640
	$4,594,958

Rent expense approximated $480.0 million, $445.2 million, and $419.8 million for fiscal years 2003, 2002 and 2001, respectively.

As of January 31, 2004, Staples had purchase obligations of $246.1 million, representing payments, including any applicable penalties, the Company would have been obligated to pay if it had terminated all of its purchase commitments on January 31, 2004. If all such purchase obligations were terminated on January 31, 2004, this amount would be required to be paid in fiscal 2004.

Import letters of credit are issued by Staples during the ordinary course of business through major financial institutions as required by certain vendor contracts. As of January 31, 2004, Staples had open letters of credit totaling $24.3 million.

The Company is involved from time to time in litigation arising from the operation of its business. The Company does not believe that any such litigation, either alone or in the aggregate, will have a material adverse effect on the Company's financial position or results of operations.

NOTE J Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The approximate tax effect of the significant components of Staples' deferred tax assets and liabilities are as follows (in thousands):

	January 31, 2004	February 1, 2003
Deferred Tax Assets:		
Deferred rent	$ 32,816	$ 29,466
Capitalized vendor money	30,933	—
Foreign tax credit carryforwards	35,511	33,808
Net operating loss carryforwards	10,576	28,517
Insurance	6,215	24,153
Employee benefits	20,737	22,410
Merger related charges	7,501	15,636
Store closure charge	13,468	20,596
Capital loss/asset write-downs	20,982	20,982
Unrealized loss on hedge instruments	20,788	—
Other—net	36,572	40,182
Total Deferred Tax Assets	236,099	235,750
Total Valuation Allowance	(45,987)	(68,813)
Net Deferred Tax Assets	190,112	166,937
Deferred Tax Liabilities:		
Depreciation	(22,663)	(33,408)
Intangibles	(70,279)	(72,944)
Unrealized gain on hedge instruments	—	(6,843)
Other—net	(8,486)	(7,780)
Total Deferred Tax Liabilities	(101,428)	(120,975)
Net Deferred Tax Assets	$ 88,684	$ 45,962

The gross deferred tax asset from tax loss carryforwards of $10.6 million represents approximately $166.1 million of net operating loss carryforwards, $7.3 million of which will expire in 2007 if not utilized. The remainder has an indefinite carryforward period. Of the total foreign tax credit carryforwards of $35.5 million, $22.3 million will expire in 2006 and $13.2 million will expire in 2007 if not utilized. The deferred tax asset from capital loss/asset write-down includes approximately $5.6 million, $14.0 million, and $8.6 million of capital loss carryforward that expire in 2006, 2007, and 2008, respectively. The deferred tax assets for these carryforwards have been partially reserved against due to the uncertainty of their realization. The decrease in the valuation allowance during the year is primarily attributable to the expiration of tax operating loss carryforwards.

For financial reporting purposes, income before income taxes includes the following components (in thousands):

	Fiscal Year Ended		
	January 31, 2004	February 1, 2003	February 2, 2002
Pretax income:			
United States	$648,179	$586,085	$366,918
Foreign	129,933	75,978	63,927
	$778,112	$662,063	$430,845

NOTE J Income Taxes (Continued)

The provision for income taxes consists of the following (in thousands):

	Fiscal Year Ended		
	January 31, 2004	February 1, 2003	February 2, 2002
Current tax expense:			
Federal	$225,704	$155,421	$205,876
State	32,243	22,203	12,593
Foreign	43,679	38,113	27,776
Deferred tax (benefit) expense	(13,725)	226	(80,370)
Total income tax expense	$287,901	$215,963	$165,875

A reconciliation of the federal statutory tax rate to Staples' effective tax rate on historical net income is as follows:

	Fiscal Year Ended		
	January 31, 2004	February 1, 2003	February 2, 2002
Federal statutory rate	35.0%	35.0%	35.0%
State effective rate, net of federal benefit	2.7	2.2	1.9
Effect of Foreign Taxes	(1.0)	0.1	0.9
Goodwill	—	—	0.5
Impaired assets	—	(4.4)	—
Other	0.3	(0.3)	0.2
Effective tax rate	37.0%	32.6%	38.5%

The effective rate in any year is impacted by the geographic mix of earnings. The fiscal 2002 rate of 32.6% reflects the tax benefit of the asset impairment charge recognized in fiscal 2000 for Staples Communications.

The tax impact of the unrealized gain or loss on instruments designated as hedges of net investments in foreign subsidiaries is reported in the cumulative translation adjustment line in stockholders' equity.

The Company operates in multiple jurisdictions and could be subject to audit in these jurisdictions. These audits can involve complex issues that may require an extended period of time to resolve and may cover multiple years. In the Company's opinion, an adequate provision for income taxes has been made for all years subject to audit.

Income tax payments were $282 million, $189 million and $169 million during fiscal years ended January 31, 2004, February 1, 2003 and February 2, 2002, respectively.

Undistributed earnings of the Company's foreign subsidiaries amounted to approximately $216.4 million as of January 31, 2004. The Company has not provided any additional federal or state income taxes or foreign withholding taxes on the undistributed earnings as such earnings have been indefinitely reinvested in the business. The determination of the amount of the unrecognized deferred tax liability related to the undistributed earnings is not practicable because of the complexities associated with its hypothetical calculation.

NOTE K Employee Benefit Plans

Employee Stock Purchase Plan

The amended and restated 1998 Employee Stock Purchase Plan authorizes a total of up to 8.4 million shares of common stock to be sold to participating employees. Participating employees may purchase shares of common stock at 85% of its fair market value at the beginning or end of an offering period, whichever is lower, through payroll deductions in an amount not to exceed 10% of an employee's annual base compensation.

NOTE K Employee Benefit Plans (Continued)

Stock Award Plans

Under Staples' 1992 Equity Incentive Plan, as amended and restated, Staples may use up to 124 million shares of common stock to grant to management and key employees incentive and nonqualified options and restricted stock, including Performance Accelerated Restricted Stock ("PARS"). As of February 27, 1997, Staples' 1987 Stock Option Plan (the "1987 Plan") expired; however, unexercised options under this plan remain outstanding. Options outstanding under these plans have an exercise price equal to the fair market value of the common stock on the date of grant. Some options outstanding are exercisable at various percentages of the total shares subject to the option starting one year after the grant, while other options are exercisable in their entirety three to five years after the grant date. All options expire ten years after the grant date, subject to earlier termination in the event of employment termination.

Under Staples' 1990 Director Stock Option Plan, as amended and restated, Staples may use up to 3.4 million shares of common stock to grant options and restricted stock to non-employee directors. The exercise price of options granted is equal to the fair market value of Staples common stock on the date of grant. Options become exercisable in equal annual installments over four years and expire ten years from the date of grant, subject to earlier termination in the event the optionee ceases to serve as a director.

Stock Options

Information with respect to Staples' stock options granted under the above plans is as follows:

	Number of Shares	Weighted Average Exercise Price Per Share
Outstanding at February 3, 2001	51,770,602	$14.60
Granted	9,911,870	13.70
Exercised	(4,717,535)	6.80
Canceled	(5,702,358)	17.96
Outstanding at February 2, 2002	51,262,579	$15.35
Granted	9,968,929	14.76
Exercised	(6,319,366)	7.63
Canceled	(3,236,626)	17.32
Outstanding at February 1, 2003	51,675,516	$16.20
Granted	9,883,290	15.86
Exercised	(9,276,692)	10.86
Canceled	(2,319,537)	17.90
Outstanding at January 31, 2004	49,962,577	$17.23

NOTE K Employee Benefit Plans (Continued)

The following table summarizes information concerning currently outstanding and exercisable options for Staples common stock:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 0.00 - $12.10	5,658,133	3.39	$ 8.93	5,639,941	$ 8.92
$12.11 - $14.62	7,967,861	7.08	$14.19	5,026,799	$14.14
$14.69 - $15.37	5,970,922	6.56	$15.17	4,799,886	$15.18
$15.38 - $15.94	6,869,768	8.47	$15.91	2,390,909	$15.92
$15.99 - $17.40	1,171,694	7.72	$17.20	541,103	$17.24
$17.60 - $18.35	8,718,110	9.38	$18.34	526,261	$18.27
$18.67 - $20.00	1,137,208	7.87	$19.65	491,311	$19.65
$20.03 - $20.08	6,711,284	4.43	$20.08	6,692,835	$20.08
$20.19 - $30.94	5,704,327	5.85	$27.80	5,003,308	$28.31
$31.63 - $33.56	53,270	5.14	$33.48	53,270	$33.48
$ 0.00 - $33.56	49,962,577	6.73	$17.23	31,165,623	$17.29

The number of exercisable shares was 31.2 million shares of Staples Stock at January 31, 2004, 31.3 million shares of Staples Stock at February 1, 2003, and 27.1 million shares of Staples Stock at February 2, 2002.

Restricted Stock

On January 26, 2004, the Company issued 930,000 shares of restricted stock with a weighted average fair market value of $26.32 per share. The shares are restricted in that they are not transferable (i.e., they may not be sold) until they vest, with 730,000 of these shares vesting on January 26, 2007 and 200,000 of these shares vesting on February 1, 2006. On December 8, 2003, the Company issued 21,400 shares of restricted stock with a weighted average fair market value of $26.06 per share. The shares are restricted in that they are not transferable until they vest at the end of 60 months. On July 3, 2003, the Company issued 60,000 shares of restricted stock with a weighted average fair market value of $18.66 per share. The shares are restricted in that they are not transferable until they vest at the end of three years. Subject to limited exceptions, if the employees who received the restricted stock leave Staples prior to the vesting date for any reason, shares of restricted stock will be forfeited and returned to Staples. In connection with the issuance of restricted stock in fiscal 2003, Staples included $0.9 million in compensation expense.

On February 3, 2002, the Company issued 300,000 shares of restricted stock with a weighted average fair market value of $17.93 per share. The shares are restricted in that they are not transferable (i.e., they may not be sold) until they vest. 167,000 shares vested on March 1, 2004, and the remaining 133,000 shares will vest on the earlier of February 1, 2005 or a change in control of the Company. Subject to limited exceptions, if the employee who received the restricted stock leaves Staples prior to the vesting date for any reason, shares of restricted stock will be forfeited and returned to Staples. In connection with the issuance of the restricted stock, Staples included $2.7 million in compensation expense in each of fiscal years 2003 and 2002.

Performance Accelerated Restricted Stock ("PARS")

PARS are shares of Staples common stock granted under the Company's Equity Incentive Plan and Director Stock Option Plan to employees and non-employee directors without cost to the employee or director. The shares, however, are restricted in that they are not transferable (i.e., they may not be sold) by the employee or director until they vest, generally after the end of five years. Such vesting date may accelerate if Staples achieves certain compound annual earnings per share growth over a certain number of interim years. Subject to limited exceptions, if the employee leaves

NOTE K Employee Benefit Plans (Continued)

Staples, or the director ceases to serve as a director of Staples, prior to the vesting date for any reason, PARS will be forfeited by the employee or director, as the case may be, and will be returned to Staples. Once PARS have vested, they become unrestricted and may be transferred and sold.

As of January 31, 2004, Staples had 771,000 and 687,000 PARS that were issued during fiscal years 2003 and 2002, respectively. PARS issued in fiscal year 2003 have a weighted-average fair market value of $26.06 and initially vest on April 1, 2008 or will accelerate on April 1, 2005, 2006 or 2007. PARS issued in fiscal year 2002 have a weighted-average fair market value of $13.74 and will vest on May 1, 2004 as a result of Staples achieving its target earnings per share growth for the fiscal year ended January 31, 2004. PARS issued in fiscal year 2000 have a weighted-average fair market value of $14.35 and will vest on February 1, 2005. PARS issued in fiscal year 1999 have a weighted average fair market value of $21.40 and vested on February 1, 2004.

In connection with the issuance of PARS, Staples included $15.1 million, $16.2 million and $3.6 million in compensation expense for fiscal years 2003, 2002 and 2001, respectively.

Employees' 401(k) Savings Plan

Under Staples' Employees' 401(k) Savings Plan (the "401(k) Plan") and Supplemental Executive Retirement Plan (the "SERP Plan"), Staples may contribute up to a total of 2.5 million shares of common stock to these plans. The 401(k) Plan is available to all United States based employees of Staples who meet minimum age and length of service requirements. Company contributions are based upon a matching formula applied to employee contributions with additional contributions made at the discretion of the Board. The SERP Plan, which is similar in many respects to the 401(k) Plan, is available to certain Company executives, whose contributions to the 401(k) Plan are limited, and allows such executives to supplement their contributions to the 401(k) Plan by making pre-tax contributions to the SERP Plan.

In connection with these plans, Staples included approximately $8.5 million, $6.1 million and $6.0 million in expense for fiscal years 2003, 2002 and 2001.

NOTE L Stockholders' Equity

From November 1999 through August 27, 2001, the Company's Certificate of Incorporation included two series of common stock, one designated as Staples.com common stock ("Staples.com Stock") and intended to track the performance of Staples.com, the Company's e-commerce business, and the other designated as Staples Retail and Delivery common stock ("Staples RD Stock") and intended to track the performance of Staples Retail and Delivery ("Staples RD"), which consisted of all of the Company's non internet businesses and a retained interest in Staples.com. On August 27, 2001, the Company's stockholders approved a proposal to amend the Company's Certificate of Incorporation to effect a recapitalization by reclassifying each share of Staples.com Stock into 0.4396 shares of Staples common stock ("Staples, Inc. Stock") and by reclassifying each share of Staples RD Stock into one share of Staples, Inc. Stock (the "Recapitalization").

Staples repurchased approximately $17.7 million of Staples, Inc. Stock during fiscal year 2001.

On June 4, 2003, the Company issued and sold 13,800,000 shares of its common stock in a public offering for a purchase price of $18.89 per share, including 1,800,000 shares related to an over-allotment option that was granted to the underwriters. Upon closing, the Company received net proceeds of $253.0 million. The offering proceeds were used for working capital and general corporate purposes.

At January 31, 2004, 58.9 million shares of common stock were reserved for issuance under Staples' equity incentive, 401(k), employee stock purchase and director stock option plans.

NOTE M Computation of Earnings per Common Share

Subsequent to the Recapitalization in August 2001, the Company calculates earnings per share for a single class of stock, Staples, Inc. Stock. Accordingly, earnings per share has been presented for Staples, Inc. Stock for the fiscal years ended January 31, 2004 and February 1, 2003 and the six months ended February 2, 2002. Prior to the Recapitalization,

NOTE M Computation of Earnings per Common Share (Continued)

the Company had calculated earnings per share under the two class method for Staples RD Stock and Staples.com Stock. Therefore, earnings per share has been presented for Staples RD Stock and Staples.com Stock for the six months ended August 4, 2001 (in thousands, except per share data):

	Fiscal Year Ended January 31, 2004 Staples, Inc.	Fiscal Year Ended February 1, 2003 Staples, Inc.
Numerator:		
Net income	$490,211	$446,100
Denominator:		
Weighted-average common shares outstanding	483,966	466,768
Effect of dilutive securities:		
Employee stock options and restricted stock	9,525	5,927
Weighted-average shares assuming dilution	493,491	472,695
Basic earnings per common share	$ 1.01	$ 0.96
Diluted earnings per common share	$ 0.99	$ 0.94

	26 Weeks Ended February 2, 2002	26 Weeks Ended August 4, 2001	
	Staples, Inc.	Staples RD	Staples.com
Numerator:			
Net income	$185,110	$79,740	$ 120
Denominator:			
Weighted-average common shares outstanding	460,362	455,399	7,980
Effect of dilutive securities:			
Employee stock options and restricted stock	6,129	5,980	1,839
Weighted-average shares assuming dilution	466,491	461,379	9,819
Basic earnings per common share	$ 0.40	$ 0.18	$0.01
Diluted earnings per common share	$ 0.40	$ 0.17	$0.01

Options to purchase shares of common stock are excluded from the calculation of diluted earnings per share when their inclusion would have an anti-dilutive effect on the calculation. Options to purchase 3.7 million shares of Staples, Inc. stock were excluded from the calculation of diluted earnings per share for the fiscal year ended January 31, 2004; options to purchase 15.6 million shares of Staples, Inc. Stock were excluded from the calculation of diluted earnings per share for the fiscal year ended February 1, 2003; options to purchase 17.5 million shares of Staples, Inc. Stock were excluded from the calculation of diluted earnings per share for the twenty-six weeks ended February 2, 2002; and options to purchase 15.8 million shares of Staples RD Stock and 3.7 million shares of Staples.com Stock were excluded from the calculation of diluted earnings per share for the twenty-six weeks ended August 4, 2001.

NOTE N Segment Reporting

Staples has three reportable segments: North American Retail, North American Delivery, and European Operations. Staples' North American Retail segment consists of the U.S and Canadian business units that operate office supply stores. The North American Delivery segment consists of the U.S. and Canadian business units that sell and deliver office products and services directly to customers, and includes Staples Business Delivery, Quill and Staples' contract stationer operations (Staples National Advantage and Staples Business Advantage). The European Operations segment consists of operating units that operate office supply stores in the United Kingdom, Germany, the Netherlands, Portugal and Belgium and that sell and deliver office products and services directly to customers throughout the United Kingdom, France, Belgium, Spain, Italy, Germany and Sweden.

Staples evaluates performance and allocates resources based on profit or loss from operations before interest and income taxes, the impact of changes in accounting principles and other charges ("business unit income/(loss)"). The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies. Intersegment sales and transfers are recorded at Staples' cost; therefore, there is no intercompany profit or loss recognized on these transactions.

Staples' North American Retail and North American Delivery segments are managed separately because the way they market products is different, the classes of customers they service may be different, and the distribution methods used to deliver products to customers is different. The European Operations are considered a separate reportable segment because of the significant difference in the operating environment from the North American operations.

The following is a summary of significant accounts and balances by reportable segment for fiscal years 2003, 2002 and 2001 (in thousands):

	Year Ended January 31, 2004	Year Ended February 1, 2003	Year Ended February 2, 2002
Sales:			
North American Retail	$ 7,841,346	$ 7,166,105	$ 6,914,219
North American Delivery	3,740,969	3,389,625	3,008,618
European Operations	1,598,907	1,040,345	796,356
Total	$13,181,222	$11,596,075	$10,719,193
Divested Businesses	—	—	25,180
Consolidated	$13,181,222	$11,596,075	$10,744,373
Business Unit Income/(Loss):			
North American Retail	$ 523,612	$ 413,895	$ 321,364(1)
North American Delivery	308,305	265,055	205,630
European Operations	64,346	3,722	(6,584)
Total	$ 896,263	$ 682,672	$ 520,410
Divested Businesses	—	—	(1,537)
Consolidated	$ 896,263	$ 682,672	$ 518,873
Depreciation & Amortization:			
North American Retail	$ 188,030	$ 184,270	$ 172,612
North American Delivery	54,631	55,673	51,946
European Operations	40,150	27,266	24,407
Total	$ 282,811	$ 267,209	$ 248,965
Divested Businesses	—	—	—
Consolidated	$ 282,811	$ 267,209	$ 248,965
Capital Expenditures:			
North American Retail	$ 149,500	$ 179,856	$ 218,504
North American Delivery	78,449	38,170	75,246
European Operations	49,844	46,666	46,368
Total	$ 277,793	$ 264,692	$ 340,118
Divested Businesses	—	—	—
Consolidated	$ 277,793	$ 264,692	$ 340,118

(1) Includes a $7.4 million charge for the write-down of inventory at 31 stores closed in the first quarter of 2002.

NOTE N Segment Reporting (Continued)

The following is a reconciliation of business unit income to income before income taxes for fiscal years ended 2003, 2002 and 2001 (in thousands):

	Year Ended January 31, 2004	Year Ended February 1, 2003	Year Ended February 2, 2002
Total business unit income	$896,263	$682,672	$518,873
Asset impairment and other charges	—	—	(10,717)
Store closure charge	—	—	(50,092)
Interest and other expense, net	(20,176)	(20,609)	(27,219)
Impact of change in accounting principle	(97,975)	—	—
Income before income taxes	$778,112	$662,063	$430,845

	January 31, 2004	February 1, 2003
Assets:		
North American Retail	$3,169,210	$2,835,460
North American Delivery	1,523,361	1,239,886
European Operations	1,845,359	1,662,604
Total	6,537,930	5,737,950
Elimination of intercompany receivables	(34,884)	(16,562)
Total consolidated assets	$6,503,046	$5,721,388

	January 31, 2004	February 1, 2003
Long-lived Assets:		
North America	$1,699,788	$1,699,859
Europe	1,261,288	1,223,558
Consolidated Total	$2,961,076	$2,923,417

NOTE O Guarantor Subsidiaries

Under the terms of the Company's Senior Notes and Notes, certain subsidiaries guarantee repayment of the debt. The Senior Notes and the Notes are fully and unconditionally guaranteed on an unsecured, joint and several basis by Staples the Office Superstore, Inc. and certain of its subsidiaries, Staples the Office Superstore East, Inc. and Staples Contract & Commercial, Inc., all of which are wholly owned subsidiaries of Staples (the "Guarantor Subsidiaries"). The term of guarantees is equivalent to the term of the related debt. The following condensed consolidating financial data is presented for the holders of the Senior Notes and the Notes and illustrates the composition of Staples, Inc. (the "Parent Company"), Guarantor Subsidiaries, and non-guarantor subsidiaries as of January 31, 2004 and February 1, 2003 and for the fiscal years ended January 31, 2004, February 1, 2003 and February 2, 2002. The non-guarantor subsidiaries represent more than an inconsequential portion of the consolidated assets and revenues of Staples.

Investments in subsidiaries are accounted for by the Parent Company on the equity method for purposes of the supplemental consolidating presentation. Earnings of subsidiaries are, therefore, reflected in the Parent Company's investment accounts and earnings. The principal elimination entries eliminate the Parent Company's investment in subsidiaries and intercompany balances and transactions.

NOTE O Guarantor Subsidiaries (Continued)

CONDENSED CONSOLIDATING BALANCE SHEET
As of January 31, 2004
(in thousands)

	Staples, Inc. (Parent Co.)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash and cash equivalents	$ 111,274	$ 55,507	$ 290,684	$ —	$ 457,465
Short-term investments	924,275	—	10,000	—	934,275
Merchandise inventories	—	944,243	521,746	—	1,465,989
Other current assets	101,546	201,922	317,707	—	621,175
Total current assets	1,137,095	1,201,672	1,140,137	—	3,478,904
Net property, equipment and other assets	177,275	908,578	736,282	—	1,822,135
Goodwill, net of amortization	140,570	45,777	1,015,660	—	1,202,007
Investment in affiliates and intercompany, net	578,236	2,013,603	937,925	(3,529,764)	—
Total assets	$2,033,176	$4,169,630	$3,830,004	$(3,529,764)	$6,503,046
Total current liabilities	$ 442,310	$ 967,343	$ 713,581	$ —	$2,123,234
Total long-term liabilities	(13,169)	598,563	131,518	—	716,912
Total stockholders' equity	1,604,035	2,603,724	2,984,905	(3,529,764)	3,662,900
Total liabilities and stockholders' equity	$2,033,176	$4,169,630	$3,830,004	$(3,529,764)	$6,503,046

CONDENSED CONSOLIDATING BALANCE SHEET
As of February 1, 2003
(in thousands)

	Staples, Inc. (Parent Co.)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash and cash equivalents	$ 290,400	$ 57,519	$ 147,970	$ —	$ 495,889
Short-term investments	100,175	—	—	—	100,175
Merchandise inventories	483	1,082,069	472,653	—	1,555,205
Other current assets	109,058	87,289	369,860	—	566,207
Total current assets	500,116	1,226,877	990,483	—	2,717,476
Net property, equipment and other assets	211,342	917,155	667,591	—	1,796,088
Goodwill, net of amortization	138,609	45,777	1,023,438	—	1,207,824
Investment in affiliates and intercompany, net	921,612	1,771,951	(446,144)	(2,247,419)	—
Total assets	$1,771,679	$3,961,760	$2,235,368	$(2,247,419)	$5,721,388
Total current liabilities	$ 416,734	$1,091,799	$ 666,793	$ —	$2,175,326
Total long-term liabilities	243,174	597,795	46,201	—	887,170
Total stockholders' equity	1,111,771	2,272,166	1,522,374	(2,247,419)	2,658,892
Total liabilities and stockholders' equity	$1,771,679	$3,961,760	$2,235,368	$(2,247,419)	$5,721,388

NOTE O Guarantor Subsidiaries (Continued)

CONDENSED CONSOLIDATING STATEMENT OF INCOME
For the year ended January 31, 2004
(in thousands)

	Staples, Inc. (Parent Co.)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidated
Sales	$ —	$8,930,727	$4,250,495	$13,181,222
Cost of goods sold and occupancy costs	1,309	6,553,425	3,004,389	9,559,123
Gross profit	(1,309)	2,377,302	1,246,106	3,622,099
Operating and other expenses	16,296	1,889,275	938,416	2,843,987
Income before income taxes	(17,605)	488,027	307,690	778,112
Income tax expense	—	185,984	101,917	287,901
Net income (loss)	$(17,605)	$ 302,043	$ 205,773	$ 490,211

CONDENSED CONSOLIDATING STATEMENT OF INCOME
For the year ended February 1, 2003
(in thousands)

	Staples, Inc. (Parent Co.)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidated
Sales	$ —	$8,267,822	$3,328,253	$11,596,075
Cost of goods sold and occupancy costs	1,054	6,215,784	2,435,755	8,652,593
Gross profit	(1,054)	2,052,038	892,498	2,943,482
Operating and other expenses	22,972	1,609,334	649,113	2,281,419
Income before income taxes	(24,026)	442,704	243,385	662,063
Income tax expense	—	131,349	84,614	215,963
Net income (loss)	$(24,026)	$ 311,355	$ 158,771	$ 446,100

CONDENSED CONSOLIDATING STATEMENT OF INCOME
For the year ended February 2, 2002
(in thousands)

	Staples, Inc. (Parent Co.)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidated
Sales	$ —	$7,882,153	$2,862,220	$10,744,373
Cost of goods sold and occupancy costs	702	6,032,625	2,140,553	8,173,880
Gross profit	(702)	1,849,528	721,667	2,570,493
Operating and other expenses	23,050	1,582,170	534,428	2,139,648
Income before income taxes	(23,752)	267,358	187,239	430,845
Income tax expense	—	106,901	58,974	165,875
Net income (loss)	$(23,752)	$ 160,457	$ 128,265	$ 264,970

NOTE O Guarantor Subsidiaries (Continued)

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
For the year ended January 31, 2004
(in thousands)

	Staples, Inc. (Parent Co.)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidated
Net cash provided by operating activities	$601,508	$204,795	$213,429	$1,019,732
Investing activities:				
Acquisition of property, equipment and lease rights	(21,092)	(177,520)	(79,181)	(277,793)
Acquisition of businesses, net of cash acquired	—	—	(2,910)	(2,910)
Purchase of short-term investments	(824,100)	—	(10,000)	(834,100)
Cash used in investing activities	(845,192)	(177,520)	(92,091)	(1,114,803)
Financing activities:				
Payments on borrowings	(325,235)	(25,000)	—	(350,235)
Proceeds from borrowings and other	389,793	(4,287)	—	385,506
Cash provided by (used in) financing activities	64,558	(29,287)	—	35,271
Effect of exchange rate changes on cash	—	—	21,376	21,376
Net (decrease) increase in cash	(179,126)	(2,012)	142 714	(38,424)
Cash and cash equivalents at beginning of period	290,400	57,519	147,970	495,889
Cash and cash equivalents at end of period	$111,274	$ 55,507	$290,684	$ 457,465

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
For the year ended February 1, 2003
(in thousands)

	Staples, Inc. (Parent Co.)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidated
Net cash provided by operating activities	$ 654,968	$161,288	$ 98,094	$ 914,350
Investing activities:				
Acquisition of property, equipment and lease rights	(17,609)	(157,104)	(90,326)	(265,039)
Acquisition of businesses, net of cash acquired	(1,171,187)	—	—	(1,171,187)
Purchase of short-term investments	(100,175)	—	—	(100,175)
Cash used in investing activities	(1,288,971)	(157,104)	(90,326)	(1,536,401)
Financing activities:				
Payments on borrowings	(20,235)	(75,000)	—	(95,235)
Proceeds from borrowings and other	718,296	74,526	16,496	809,318
Cash provided by (used in) financing activities	698,061	(474)	16,496	714,083
Effect of exchange rate changes on cash	—	—	9,033	9,033
Net increase in cash	64,058	3,710	33,297	101,065
Cash and cash equivalents at beginning of period	226,342	53,809	114,673	394,824
Cash and cash equivalents at end of period	$ 290,400	$ 57,519	$147,970	$ 495,889

NOTE O Guarantor Subsidiaries (Continued)

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
For the year ended February 2, 2002
(in thousands)

	Staples, Inc. (Parent Co.)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidated
Net cash provided by operating activities	$ 310,570	$ 286,135	$ 174,203	$ 770,908
Investing activities:				
Acquisition of property, equipment and lease rights	(37,548)	(189,888)	(115,250)	(342,686)
Other	26,939	—	—	26,939
Cash used in investing activities	(10,609)	(189,888)	(115,250)	(315,747)
Financing activities:				
Payments on borrowings	(784,471)	(86,109)	(15,723)	(886,303)
Proceeds from borrowings and other	568,027	(8,384)	7,960	567,603
Cash used in financing activities	(216,444)	(94,493)	(7,763)	(318,700)
Effect of exchange rate changes on cash	—	—	(5,197)	(5,197)
Net increase in cash	83,517	1,754	45,993	131,264
Cash and cash equivalents at beginning of period	142,825	52,055	68,680	263,560
Cash and cash equivalents at end of period	$ 226,342	$ 53,809	$ 114,673	$ 394,824

NOTE P Quarterly Summary (Unaudited)

	(In thousands, except per share amounts)			
	First Quarter(1)	Second Quarter	Third Quarter	Fourth Quarter
Fiscal Year Ended January 31, 2004				
Sales	$3,146,757	$2,868,527	$3,484,784	$3,681,155
Gross Profit	742,833	787,039	987,667	1,104,559
Net income	24,756	87,792	165,774	211,888
Basic earnings per common share	$ 0.05	$ 0.18	$ 0.34	$ 0.43
Diluted earnings per share	$ 0.05	$ 0.18	$ 0.33	$ 0.42
	First Quarter(2)	Second Quarter(3)	Third Quarter(3)	Fourth Quarter(3)
Fiscal Year Ended February 1, 2003				
Sales	$2,744,766	$2,426,475	$3,089,725	$3,335,109
Gross Profit	659,918	597,962	802,814	882,788
Net income	93,869	59,555	128,018	164,658
Basic earnings per common share	$ 0.20	$ 0.13	$ 0.27	$ 0.35
Diluted earnings per share	$ 0.20	$ 0.13	$ 0.27	$ 0.35

(1) Results of operations for this period reflect a $61.7 million non-cash adjustment for the inclusion of cooperative advertising and other performance based rebates in inventory as required by Issue 02-16 (see Note B).

(2) Results of operations for this period include a tax benefit of $29.0 million related to Staples Communications. In fiscal 2000, the Company recognized an impairment loss related to the goodwill and fixed assets of Staples Communications, which was not recorded as a deduction for tax purposes. In 2002, the Company received approval from the Internal Revenue Service to take an ordinary deduction for the Company's investment in, and advances to, Staples Communication (see Note J).

(3) Results of operations for this period include the results of Medical Arts Press since its acquisition on July 17, 2002 and the result of the European mail order businesses since their acquisition on October 18, 2002 (see Note C).

EXHIBIT INDEX

EXHIBIT		DESCRIPTION OF EXHIBIT
2.1 (4)	—	Sale and Purchase Agreement, dated as of August 21, 2002, by and between the Company and Guilbert, SA.
3.1 (2)	—	Second Restated Certificate of Incorporation of the Company
3.2 (7)	—	Amended and Restated By-laws of the Company
4.1 (13)	—	Indenture, dated as of August 12, 1997, for the $200,000,000 7.125% Senior Notes due August 15, 2007, between the Company and The Chase Manhattan Bank
4.2 (11)	—	First Supplemental Indenture (Senior Notes), entered into as of January 15, 1998, to Indenture, dated as of August 12, 1997, by and among the Company, the Guarantor Subsidiaries and Marine Midland Bank
4.3 +	—	Second Supplemental Indenture (Senior Notes), entered into as of October 27, 2000, to Indenture, dated as of August 12, 1997, by and among the Company, the Guarantor Subsidiaries, the Initial Guarantor Subsidiaries and the Chase Manhattan Bank
4.4 (10)	—	Indenture, dated as of November 15, 1999, for the 150,000,000 Euro 5.875% Notes due November 15, 2004, by and among the Company, the Guarantor Subsidiaries and the Chase Manhattan Bank
4.5 +	—	First Supplemental Indenture (Euro Notes), entered into as of October 27, 2000, to Indenture, dated as of November 15, 1999, by and among the Company, the Guarantor Subsidiaries, the Initial Guarantor Subsidiaries and the Chase Manhattan Bank
4.6 (3)	—	Indenture, dated September 30, 2002, for the 7.375% Senior Notes due 2012, by and among the Company, the Guarantor Subsidiaries and HSBC Bank USA
10.1 (2)*	—	Amended and Restated 1990 Director Stock Option Plan
10.2 (6)*	—	Amended and Restated 1992 Equity Incentive Plan
10.3 (12)*	—	1997 United Kingdom Company Share Option Scheme
10.4 (2)*	—	Executive Officer Incentive Plan
10.5 (2)*	—	1997 UK Savings Related Share Option Scheme
10.6 (2)*	—	International Employee Stock Purchase Plan
10.7 (2)*	—	Employment Agreement, dated as of February 3, 2002, by and between the Company and Thomas G. Stemberg
10.8 *+	—	First Amendment to Employment Agreement, dated January 26, 2004, by and between the Company and Thomas G. Stemberg
10.9 (2)*	—	Offer Letter, dated August 13, 2001, by and between the Company and Basil L. Anderson
10.10(1)*	—	Offer Letter, dated July 30, 2003, by and between the Company and Mike A. Miles
10.11(2)*	—	Severance Benefits Agreement, dated September 9, 1996, by and between the Company and John J. Mahoney
10.12(2)*	—	Agreement to Extend Term of Severance Benefits Agreement, dated October 14, 2000, by and between the Company and John J. Mahoney
10.13(5)	—	Revolving Credit Agreement, dated as of June 21, 2002, by and among the Company, Fleet National Bank and the banks named therein
10.14+	—	Amendment No. 1, dated as of May 22, 2003, to the Revolving Credit Agreement, dated as of June 21, 2002, by and among the Company, Fleet National Bank and the banks named therein
10.15+	—	Amendment No. 2, dated as of December 22, 2003, to the Revolving Credit Agreement, dated as of June 21, 2002, by and among the Company, Fleet National Bank and the banks named therein
10.16(3)	—	364 Day Term Loan Agreement, dated as of October 4, 2002, by and among the Company, the lenders named therein and Fleet National Bank, as agent
10.17(8)	—	Receivables Purchase Agreement, dated as of October 27, 2000, by and among Lincolnshire Funding, LLC, the Company, Corporate Receivables Corporation and Citicorp North America, Inc.
10.18+	—	Termination Agreement, dated December 29, 2003, by and among CRC Funding, LLC, Citibank, N.A., LloydsTSB Bank plc, Citicorp North America, Inc., Lincolnshire Funding, LLC and the Company
10.19(9)*	—	Form of Agreement Not To Compete signed by executive officers of the Company

EXHIBIT		DESCRIPTION OF EXHIBIT
10.20(15)*	—	Form of Proprietary and Confidential Information Agreement signed by executive officers of the Company
10.21(14)*	—	Form of Severance Benefits Agreement signed by executive officers of the Company
14.1 +	—	Code of Ethics of the Company
21.1 +	—	Subsidiaries of the Company
23.1 +	—	Consent of Ernst & Young LLP, Independent Auditors
31.1 +	—	Principal Executive Officer—Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2 +	—	Principal Financial Officer—Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1 +	—	Principal Executive Officer—Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2 +	—	Principal Financial Officer—Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(1) Incorporated by reference from the Quarterly Report on Form 10-Q for the Quarter ended November 1, 2003 (File No. 0-17586).

(2) Incorporated by reference from the Form 10-K for the fiscal year ended February 1, 2003 (File No. 0-17586).

(3) Incorporated by reference from the Form 8-K filed on October 8, 2002 (File No. 0-17586).

(4) Incorporated by reference from the Form 8-K filed on August 22, 2002 (File No. 0-17586).

(5) Incorporated by reference from the Quarterly Report on Form 10-Q for the quarter ended August 3, 2002 (File No. 0-17586).

(6) Incorporated by reference from the Proxy Statement filed on April 6, 2001 (File No. 0-17586).

(7) Incorporated by reference from the Form 10-K for the fiscal year ended February 3, 2001 (File No. 0-17586).

(8) Incorporated by reference from the Quarterly Report on Form 10-Q for the quarter ended October 28, 2000 (File No. 0-17586).

(9) Incorporated by reference from the Form 10-K for the fiscal year ended January 29, 2000 (File No. 0-17586).

(10) Incorporated by reference from the Quarterly Report on Form 10-Q for the quarter ended October 30, 1999 (File No. 0-17586).

(11) Incorporated by reference from the Quarterly Report on Form 10-Q for the quarter ended May 2, 1998 (File No. 0-17586).

(12) Incorporated by reference from the Annual Report on Form 10-K for the fiscal year ended January 31, 1998 (File No. 0-17586).

(13) Incorporated by reference from the Registration Statement on Form S-3 (File No. 333-31249).

(14) Incorporated by reference from the Annual Report on Form 10-K for the fiscal year ended February 3, 1996 (File No. 0-17586).

(15) Incorporated by reference from the Quarterly Report on Form 10-Q for the quarter ended April 29, 1995 (File No. 0-17586).

* A management contract or compensatory plan or arrangement required to be filed as an exhibit to this Form pursuant to Item 15(c) of Form 10-K.

\+ Filed herewith.

CORPORATE SOCIAL RESPONSIBILITY REPORT

As the pioneer of an industry, Staples is conscious of its responsibilities as a good corporate citizen. Throughout the past 18 years, we have been working toward building a business that is socially responsible. Our commitment is not new; however, this is the first annual report to shareholders on our accomplishments and progress in four key areas, including the environment, corporate governance, making Staples a great place to work and community outreach. We are proud of the contributions we have already made and will continue to focus on socially responsible business practices.

ENVIRONMENT

Environmental stewardship has been part of Staples' business practices for more than a decade. These practices include offering recycled content products, recycling corrugated and paper used across our business operations and implementing energy-efficient measures in our stores and distribution facilities.

In November 2002, Staples issued an industry-first environmental paper procurement policy, which formalized our commitment to protect forest resources and strengthened our long-standing commitment to reduce environmental impacts throughout our business. Staples' company-wide commitment to protect natural resources covers four major areas, or cornerstones: the purchase and promotion of products containing post-consumer recycled materials; recycling initiatives; energy conservation and renewable power procurement; and educational initiatives for customers and associates.

Purchase and Promotion of Products Containing Post-consumer Recycled Material

Staples offers for sale more than 2,100 items containing recycled material, ranging from copy paper to notebooks to remanufactured ink jet cartridges. Staples has increased the average post-consumer content across all paper products offered for sale from 18.7% in November 2002 to 26.6% in November 2003, progressing toward our goal of 30%. Protecting forest resources is a key objective within our environmental paper procurement policy. Staples is actively engaged with environmental non-government organizations and our suppliers to identify endangered forests with high conservation value.

Recycling Initiatives

Staples continues to make it easy for customers to recycle every day. We offer recycling for ink and toner cartridges, cellphones, PDAs, pagers, chargers and rechargeable batteries at all our stores. We collaborate with electronics recycler Collective Good Inc., donating a portion of program proceeds to the Sierra Club. Throughout our business operations, Staples recycles paper, cardboard, pallets, store fixtures, fluorescent lamps and plastic. Staples recycled more than 27,000 tons of paper and cardboard and 300,000 lamps as part of reducing our overall environmental impact in 2003. Staples is also involved in developing solutions for the growing problem of electronics waste, and we are a "Plug-in to e-Cycling" partner with the U.S. EPA.

Energy Conservation and Renewable Power Procurement

Staples is committed to reducing our overall energy consumption, purchasing more power from renewable sources such as wind and landfill gas, and reducing the greenhouse gas emissions from our business operations. Staples has invested in green technologies, incorporating them into the design of new stores and distribution centers. To increase our use of renewable power, Staples is a member of the Green Power Market Development Group, facilitated through the World Resources Institute, which works to develop markets in affordable renewable power. In 2003, Staples increased its renewable power use from less than 2% to an industry-leading 10% of its total annual U.S. electricity consumption. In addition, we are performing internal greenhouse gas assessments for our facilities and truck fleet operations to develop action plans to reduce the impact of activities associated with climate change.

Environmental Education for Customers and Associates

Staples sponsored America Recycles Day for the third consecutive year in 2003 to raise awareness of protecting natural resources through recycling and buying recycled products. As part of this effort, Staples collaborated with the Boys & Girls Clubs of America's Torch Clubs on their National Service Project. The project included collecting and recycling cell phones and teaching Torch Club members about the importance of recycling. Staples continues to improve the content of environmental information on our web site and promote environmental stewardship through in-store signage and events in our home office and stores. In addition, Staples helps our customers operate their businesses more sustainably by offering recycled content products, making recycling easy and providing information about environmental stewardship.

CORPORATE GOVERNANCE

Staples is committed to best practices in corporate governance. In 2003, we established a corporate governance section on our web site. This section of Staples.com includes policies such as our Code of Ethics, Corporate Governance Guidelines and By-laws, and provides information about our board of directors and its committees.

Over the past year, we took steps to reinforce our core values and commitment to maintaining an ethical culture for everyone at Staples, including associates, executive officers and directors. We updated, translated, and implemented our Code of Ethics in every country where we do business. We also established new whistleblower reporting options to enable associates around the world to raise ethical questions or concerns openly or anonymously, without fear of retaliation.

We formalized internal controls and procedures, including establishing a cross-functional Disclosure Committee to ensure that we design, establish, maintain, review and evaluate Staples' disclosure controls and procedures. We adopted procedures to strengthen the CEO and CFO certification processes, including the creation of a sub-certification process for the operating and financial heads of each business unit.

In Q3 2002, Staples began filing its quarterly and annual reports with the SEC concurrent with our earnings announcements. This accelerated schedule allows transparent access to our financials for our shareholders, customers and associates. We believe our compliance, accessibility and transparency make Staples best-in-class in corporate governance.

Staples is a validated member of Customs Trade Partnership Against Terrorism (C-TPAT). We partnered with Customs & Border Protection to develop a more secure border environment, by focusing on the physical security of the production and transportation elements of the supply chain process within a framework consistent with Customs' recommendations to help prevent terrorism. Staples, one of 30 companies to volunteer in the validation process, became validated by Customs and Border Protection in May 2003.

A GREAT PLACE TO WORK

In 2003, Staples' 60,000 talented associates provided the skills, ideas and dedication that drove our success. Our comprehensive benefits, career opportunities, commitment to diversity and a safe work environment make Staples a great place to work.

Staples associates benefit from broad-based equity incentive programs that extend to store management. All associates benefit from the ability to participate in Staples Employee Stock Purchase Program. In 2003, we completed the rollout of a performance-based bonus program for our store associates. This program rewards store associates as a team for their performance in driving excellent customer service and profitable sales. Since we began to roll out the program, turnover at our retail stores has been significantly reduced.

Additionally, Staples offers many opportunities for associates who want to build their careers. Staples University offers world-class training opportunities to all associates, including classroom, computer-based and satellite training. In 2003, nearly 60% of all management openings were filled with internal candidates.

Diversity and inclusion are not programs at Staples, but part of our culture. Respecting and drawing upon our differences is our way of doing business. It ensures an innovative, productive work environment where every associate can develop and contribute. In 2003, Staples allocated significant resources to diverse college hiring initiatives, resulting in 60% diverse new hires and 52% female new hires. We also incorporate diversity content into Staples University programs that serve our associates. This focus was recognized by *DiversityInc Magazine,* which named Staples as one of the top ten companies for recruitment and retention of diverse associates.

Keeping our associates safe is also a top company priority. We began 2003 with aggressive goals to reduce work-related accidents and to build a safety culture. We implemented several new safety programs to create awareness and introduced incentives to reduce accidents. Our new safety programs helped us reduce accidents by 30% in our U.S. retail distribution centers and 17% in our U.S. stores.

COMMUNITY OUTREACH

Staples Foundation for Learning, Inc.

Staples is proud of its involvement in communities nationwide, in support of education and youth charities. Staples launched Staples Foundation for Learning™ in August of 2002. Staples Foundation for Learning provides funding that supports job skills and educational opportunities for all people, with a special emphasis on disadvantaged youth. Staples is intensely committed to teaching, training and inspiring young people from all walks of life and diverse backgrounds.

Boys & Girls Clubs of America

Staples Foundation for Learning is a national supporter of Boys & Girls Clubs of America, an organization that provides a safe and structured environment for children after school. In 2003, Staples Foundation for Learning increased its support of Boys & Girls Clubs of America through a three-year, $2.5 million commitment to the Torch Clubs program. In addition to helping build character and leadership skills in pre-teens, Torch Clubs promote positive self-esteem and personal growth, reinforce academic achievement and encourage children to develop into conscientious citizens.

Supplies for School Kids

Supplies for School Kids™ is our annual Back to School program in Staples' retail locations nationwide to help prepare disadvantaged children for the school year. During the months of July, August, and September, customers can purchase a bundle of school supplies for local Boys & Girls Club members at a significantly reduced price. This program builds upon the partnership between Staples and Boys & Girls Clubs of America by providing additional tools and resources for children to be successful in school and beyond.

Recycle for Education

Staples donates $1 to local education for every eligible ink and laser cartridge that customers recycle at any of our U.S. stores. The funds generated are awarded to public schools and foundations in each state to benefit teachers in their classrooms.

Board of Directors

Basil L. Anderson
Vice Chairman, Staples

Brenda C. Barnes ○
Former Adjunct Professor at Kellogg Graduate School of Business and North Central College

Arthur M. Blank ○
Chairman, President and Chief Executive Officer of the Atlanta Falcons

Mary Elizabeth Burton ●
Chief Executive Officer, BB Capital, Inc.

Gary L. Crittenden ●
Chief Financial Officer, American Express Company

Richard J. Currie ○
Chairman of the Board of BCE, Inc.

George J. Mitchell
Partner at the law firm of Piper Rudnick

James L. Moody, Jr. ◊ △
Retired Chairman of the Board of Hannaford Bros. Co. Retiring June 2004

Rowland T. Moriarty △
Chairman and Chief Executive Officer of Cubex Corporation

Robert C. Nakasone ◊ △
Chief Executive Officer of NAK Enterprises L.L.C.

Ronald L. Sargent ◊
President and Chief Executive Officer of Staples, Inc.

Thomas G. Stemberg ◊
Chairman of the Board of Staples, Inc.

Martin Trust △
President of Brandot (USA), LLC

Paul F. Walsh ●
Chairman and Chief Executive Officer of eFunds Corporation

Board Committee Legend
- ● Audit
- ○ Compensation
- ◊ Executive
- △ Nominating and Governance

Directors Emeritus

W. Lawrence Heisey
Leo Kahn
David G. Lubrano

Management Team

Basil L. Anderson
Vice Chairman

Mark S. Bacon
Senior Vice President, Operations, Northeast

Jay G. Baitler
Executive Vice President, Contract Sales

John K. Barton
Executive Vice President, Staples Realty and Development

Larry R. Belcaster
Senior Vice President, Engineering, Construction and Facilities

Jane E. Biering
Senior Vice President, Staples Business Expo

John F. Burke
Senior Vice President, Business Solutions Centers

Kristin A. Campbell
Senior Vice President, Assistant General Counsel

Joseph G. Doody
President, North American Delivery

Jevin S. Eagle
Senior Vice President, Staples Brands

Scott J. Floeck
Senior Vice President, Chief Information Officer

Paul J. Gaffney
Executive Vice President, Supply Chain

Robert A. George
Senior Vice President, General Merchandise Manager, Supplies

Shira D. Goodman
Executive Vice President, Marketing

Thomas W. Heisroth
Senior Vice President, Sales, Staples National Advantage

Patrick A. Hickey
Senior Vice President, Finance, U.S. Stores

Kevin J. Holian
Senior Vice President, Supply Chain Management and Merchandise Systems

Susan S. Hoyt
Executive Vice President, Human Resources

Christine T. Komola
Senior Vice President, General Merchandising Manager, Office Furniture and Wholesalers

Andrew B. Lewis
Senior Vice President, Operations, Midwest

Brian T. Light
Executive Vice President, Staples Business Delivery

John J. Mahoney
Executive Vice President and Chief Administrative Officer

Steven F. Mastrogiacomo
Senior Vice President, Merchandise Planning and Inventory Management

Steven E. Matyas
President, The Business Depot Ltd. - Canada

Robert K. Mayerson
Senior Vice President, Finance and Treasurer

Michael A. Miles
Chief Operating Officer

Stephen A. Mongeau
Senior Vice President, Sales, Staples Business Advantage

Lawrence J. Morse
President, Quill

Jeffrey E. Nachbor
Senior Vice President, Corporate Controller

Richard A. Neff
Senior Vice President, U.S. Retail, West

Otis C. Pannell
Senior Vice President, Operations, NJ, PA, Southeast

Demos Parneros
President, U.S. Retail

Salvatore Perri
President, Staples European Catalog

David N. Perron
Executive Vice President, Merchandise and Supply Chain

Felix T. Petrilli
Senior Vice President, Operations, Quill

Donald F. Ralph
Senior Vice President, Logistics

Donna S. Rosenberg
Senior Vice President, Pricing and Merchandising Administration

Ronald L. Sargent
President and Chief Executive Officer

Peter Scala
Senior Vice President, General Merchandising Manager, Office Technology

Bernard I. Schachter
Senior Vice President, Property Management

Judith E. Shapiro
Senior Vice President, Corporate Advertising

Thomas G. Stemberg
Non-executive Chairman

William D. Swanson
Senior Vice President, General Manager, Medical Arts Press

Theo VanBrandenburg
President, European Retail

Jack A. VanWoerkom
Executive Vice President, General Counsel and Corporate Secretary

Joseph S. Vassalluzzo
Vice Chairman

Corporate Information

Corporate Offices
Staples, Inc.
500 Staples Drive
Framingham, MA 01702
Telephone: 508-253-5000
Internet address: www.staples.com

Transfer Agent and Registrar

Mellon Investor Services is the Transfer Agent and Registrar for the Staples, Inc. common stock and maintains shareholder accounting records. Please contact the Transfer Agent directly concerning changes in address, name or ownership, lost certificates and to consolidate multiple accounts. When corresponding with the Transfer Agent, shareholders should reference the exact name(s) in which the Staples stock is registered as well as the certificate number.

Mellon Investor Services

85 Challenger Road
Ridgefield Park, NJ 07660
Telephone: 888-875-9002 or 201-329-8660
For Hearing Impaired: 800-231-5469
Internet address: www.melloninvestor.com

Financial Information

To request financial documents such as this Annual Report which contains our Form 10-K for the fiscal year ended January 31, 2004, as filed with the Securities and Exchange Commission, please visit our web site www.staples.com, call our toll-free investor hotline 800-INV-SPL1 (800-468-7751), or send a written request to the attention of Investor Relations at our corporate address.

Investor Relations

Investor inquiries may be directed to:
Laurel Lefebvre, Vice President, Investor Relations
Telephone: 800-468-7751
Email: investor@staples.com

General Information

Members of the media and others seeking general information about Staples should contact the Corporate Communications Department. Telephone: 508-253-8530

Independent Auditors

Ernst & Young LLP
200 Clarendon Street
Boston, MA 02116

Annual Meeting

The Annual Meeting of Stockholders of Staples, Inc. will be held on June 17, 2004 at 9:30 am, Eastern Standard Time, at Hale and Dorr LLP, 60 State Street, Boston, MA.

Price Range of Common Stock

Staples, Inc, common stock is traded on the NASDAQ National Market under the symbol "SPLS."

As of January 31, 2004, the number of holders of record of the Staples, Inc. common stock was 7,807.

The following table sets forth for the periods indicated the high and low sale prices per share of Staples, Inc. common stock on the NASDAQ National Market, as reported by NASDAQ.

Fiscal Year Ended January 31, 2004	High	Low
First Quarter	$20.25	$15.73
Second Quarter	$21.02	$17.87
Third Quarter	$27.22	$18.76
Fourth Quarter	$27.87	$24.50

Fiscal Year Ended February 1, 2003	High	Low
First Quarter	$22.45	$16.01
Second Quarter	$22.15	$13.88
Third Quarter	$17.35	$11.68
Fourth Quarter	$19.80	$14.73

Dividend Policy

While Staples will continue to retain earnings for use in the operation and expansion of its business, Staples has also decided to increase stockholder returns by initiating an annual cash dividend in 2004. The first cash dividend will be $0.20 per outstanding share of Staples, Inc. common stock, with such dividend payable on May 17, 2004 to all stockholders of record on April 26, 2004. Previously, Staples never paid a cash dividend on Staples, Inc. common stock. While it is Staples' intention to pay annual cash dividends in years following 2004, any decision to pay future cash dividends will be made by Staples' Board of Directors and will depend upon Staples' earnings, financial condition and other factors.

Direct Stock Purchase Plan and Dividend Reinvestment

Purchase of Staples, Inc. common stock can be made through a Direct Stock Purchase Plan administered by Mellon Investor Services. Dividends on Staples, Inc. common stock may be automatically invested in additional shares. Contact Mellon Investor Services at 888-875-9002 for more information.

Stock Splits:

Record Date	Effective Date	Split
06/26/91	07/10/91	3 for 2
11/29/93	12/13/93	3 for 2
10/14/94	10/28/94	3 for 2
07/14/95	07/24/95	3 for 2
03/15/96	03/25/96	3 for 2
01/20/98	01/30/98	3 for 2
01/18/99	01/28/99	3 for 2

Debt Ratings:

Staples, Inc. Long-Term Corporate Debt Ratings as of January 31, 2004.

Fitch	BBB
Moody's	Baa2
Standard & Poors	BBB-

We have combined the Annual Report,
Notice of Annual Meeting and Proxy Statement to reduce
costs and return more value to our shareholders.

In keeping with our commitment to the environment,
this book is printed on paper made from 30%
post-consumer recycled content. Please help us
preserve the environment by choosing to receive
shareholder materials electronically.

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