Joint Exhibit A

Submitted at hearing on
August 24, 2011

STAPLES, INC.	*	IN THE MARYLAND TAX COURT
v.	*	301 W. Preston St., Suite 1513
COMPTROLLER OF THE TREASURY	*	Baltimore, Maryland 21201
STAPLES THE OFFICE SUPERSTORE, INC.	*	John T. Hearn, Clerk
v.	*	M.T.C. No. 09-IN-OO-0148
COMPTROLLER OF THE TREASURY	*	M.T.C. No. 09-IN-OO-0149

STIPULATION OF FACTS

(Filed Aug. 23, 2011)

Petitioners, Staples, Inc. ("Staples") and Staples The Office Superstore, Inc. ("Superstore"), and Respondent, the Comptroller of the Treasury ("Comptroller"), hereby stipulate and agree that the following facts are true and correct for purposes of this proceeding.

Unless otherwise noted, the parties agree that each of the following facts pertain in whole or in part to the "Years in Issue" as that phrase is defined in paragraph 1 herein.

PROCEDURAL FACTS

1. The Comptroller issued a Notice of Assessment to Superstore, dated January 28, 2008, for fiscal years ended January 30, 1999, January 29, 2000, February 3, 2001, February 2, 2002, February 1, 2003 and January 31, 2004 (the "Years in Issue"). The Comptroller issued a Notice of Assessment to Staples, dated January 28, 2008, for the Years in Issue. (The Notices of Assessment issued to Superstore and Staples are collectively referred to as the "Notices.")

2. Superstore and Staples timely requested an informal hearing on the Notices. The hearing was held on June 6, 2008.

3. The Comptroller issued a Notice of Final Determination to Superstore for the Years in Issue, dated January 26, 2009. The Comptroller issued a Notice of Final Determination to Staples for the Years in Issue, dated January 26, 2009. (The Notices of Final Determination issued to Superstore and Staples are collectively referred to as the "Final Determinations.")

4. The Final Determinations asserted tax, interest and penalties due as follows:

For Superstore:

Fiscal Year End	**Tax**	**Interest**	**Penalty**	**Total**
January 30, 1999	$ 957,358	$ 1,218,977	$ 239,340	$ 2,415,675
January 29, 2000	$ 1,085,745	$ 1,240,917	$ 271,436	$ 2,598,098

February 3, 2001	$ 1,105,337	$ 1,120,011	$ 276,334	$ 2,501,682
February 2, 2002	$ 1,011,386	$ 893,334	$ 252,847	$ 2,157,567
February 1, 2003	$ 1,046,114	$ 788,015	$ 261,529	$ 2,095,658
January 31, 2004	$ 1,134,895	$ 706,953	$ 283,724	$ 2,215,572
Total	$ 6,340,835	$ 5,968,207	$ 1,585,210	$13,894,252

For Staples:

Fiscal Year End	**Tax**	**Interest**	**Penalty**	**Total**
January 30, 1999	$ 55,949	$ 71,238	$ 13,987	$141,174
January 29, 2000	$ 50,469	$ 57,682	$ 12,617	$102,768
February 3, 2001	$ 63,794	$ 64,641	$ 15,949	$144,384
February 2, 2002	$ 42,125	$ 37,208	$ 10,531	$ 89,864
February 1, 2003	$ 547	$ 412	$ 137	$ 1,096
January 31, 2004	$ 441	$ 275	$ 110	$ 826
Total	$213,325	$231,456	$ 53,331	$498,112

5. Superstore and Staples appealed the Final Determinations on February 20, 2009 by each filing a Petition of Appeal. (The Petitions of Appeal filed by Staples and Superstore are collectively referred to as the "Petitions.")

6. Each of the Petitions are appeals pursuant to Section 13-510 of the Tax-General Article from the Final Determinations asserting corporate income tax, and related interest and penalties, assessed against Superstore and Staples for the Years in Issue.

7. The Comptroller filed his Answer to Superstore's Petition of Appeal on March 20, 2009. The Comptroller filed his Answer to Staples' Petition of Appeal on March 20, 2009.

8. Superstore and Staples filed a Motion to Consolidate the cases on April 16, 2009. The Motion to Consolidate was granted and the cases were consolidated on May 12, 2009.

9. During the course of discovery in this matter, Petitioners discovered that employees of both Superstore and Staples made visits to Staples The Office Superstore East, Inc. ("Staples East") and Staples Contract and Commercial, Inc. ("Staples C&C") locations in Maryland.

10. This discovery led to the filing of amended Petitions of Appeal by Superstore and Staples on June 1, 2010, wherein Superstore and Staples admitted that they were subject to the Maryland corporate income tax. (The amended Petitions of Appeal filed by Superstore and Staples are collectively referred to as the "Amended Petitions.")

11. The Comptroller filed his Answer to Superstore's Amended Petition of Appeal on June 10, 2010. The Comptroller filed his Answer to Staples' Amended Petition of Appeal on June 10, 2010.

AUDIT

12. Staples East timely filed Maryland corporate income tax returns (Form 500) for the Years in Issue.

13. Staples C&C timely filed Maryland corporate income tax returns (Form 500) for the Years in Issue.

14. Neither Superstore nor Staples initially filed Maryland corporate income tax returns for the Years in Issue as it was believed by the Petitioners that neither Superstore nor Staples had the requisite contacts with Maryland that would require that returns be filed. Superstore and Staples filed Maryland corporate income tax returns for the Years in Issue in August 2011.

15. The Notices emanated from an audit of Staples East and Staples C&C that were engaged in business in Maryland.

Calculation of Tax Due

16. For the Years in Issue, pursuant to the audit narrative, the auditors assessed Superstore by starting with Superstore's total franchise fee receipts received from both Staples East and Staples C&C. Then the auditor determined the percentage of the total franchise fee receipts that were attributable to Staples East and the percentage of the total franchise fee receipts that were attributable to Staples C&C. Next, the auditor (1) multiplied the percentage of franchise fee receipts received from Staples East by Staples East's Maryland apportionment factor as

reported by Staples East on its Maryland income tax return, and (2) multiplied the percentage of franchise fee receipts received from Staples C&C by Staples C&C's Maryland apportionment factor as reported by Staples C&C on its Maryland income tax return. These two apportionment factors were added together to arrive at a blended apportionment factor. This blended apportionment factor was then multiplied by the total franchise fee receipts received from both Staples East and Staples C&C to determine Superstore's purported Maryland taxable income.

17. For the fiscal years ended January 30, 1999 through February 1, 2003, pursuant to the audit narrative, the auditors assessed Staples by first netting the interest income received from and/or paid by Staples East and Staples C&C to Staples (the "Net Interest Income").[1] Then the auditor determined the percentage of the Net Interest Income that was attributable to Staples East and the percentage of the Net Interest Income that was attributable to Staples C&C. Next, the auditor (1) multiplied the percentage of Net Interest Income received from or paid by Staples East by Staples East's Maryland apportionment factor as reported by Staples East on its Maryland income tax return, and (2) multiplied the percentage of

[1] For fiscal years ended January 30, 1999 through February 3, 2001, Staples East paid interest to Staples and Staples paid interest to Staples C&C. For fiscal years ended February 2, 2002, both Staples East and Staples C&C paid interest to Staples. For fiscal years ended February 1, 2003 and January 31, 2004, Staples C&C paid interest to Staples and Staples paid interest to Staples East.

Net Interest Income received from or paid by Staples C&C by Staples C&C's Maryland apportionment factor as reported by Staples C&C on its Maryland income tax return. These two apportionment factors were added together to arrive at a blended apportionment factor. This blended apportionment factor was then multiplied by the Net Interest Income to determine Staples' purported Maryland taxable income.

18. For the fiscal year ended January 31, 2004, pursuant to the audit narrative, the auditors assessed Staples by starting with the interest income received from Staples C&C. The auditor then multiplied the interest income received from Staples C&C by Staples C&C's Maryland apportionment factor as reported by Staples C&C on its Maryland income tax return to determine Staples' purported Maryland taxable income.

THE ORGANIZATION OF THE BUSINESSES

19. Staples was incorporated on November 27, 1985.

20. Staples was organized under the laws of Delaware.

21. Prior to 1998, Staples' principal place of business and commercial domicile were in Westborough, Massachusetts. During the Years in Issue, Staples' principal place of business and commercial domicile were in Framingham, Massachusetts. From immediately prior to the reorganization until all offices were consolidated in one building in Framingham in 1999, Staples' offices were

located in four different buildings, two in Westborough and two in Framingham.

22. During the period 1985 through 1997, Staples was engaged in the sale of office supplies and equipment. During the Years in Issue, Staples was engaged in the sale of office supplies and equipment through its subsidiaries.

23. Staples pioneered the office supplies superstore concept in 1986 with the opening of its first superstore in Brighton, Massachusetts.

24. Staples experienced tremendous growth in its superstore operations from the time it opened the first superstore in 1986 through February 1, 1997, when it had 557 superstores operating in the United States and Canada.

25. Staples also experienced tremendous growth in its catalog sales and large customer sales.

26. In April 1996, a representative of Staples contacted Office Depot, Inc. ("Office Depot") with regard to a possible business combination involving both Staples and Office Depot. Discussions continued between Staples and Office Depot throughout the summer.

27. On August 14, 1996, Staples met with representatives of Ernst & Young LLP ("EY"). Among the items identified at this meeting to be acted upon was a request by Staples to try to reduce its state tax rate to zero for all separate return states. In the EY memo, dated August 26, 1996, discussing the action items from the meeting, there was no mention of any discussions regarding a possible

merger between Staples and any of its competitors.

28. A joint public announcement of the merger was made by Staples and Office Depot on the morning of September 4, 1996.

29. In December 1996 and January 1997, EY presented to Staples its State and Local Tax ("SALT") Value Analysis ("SVA"). Pursuant to a draft internal correspondence, entitled "SALT Value Analysis ('SVA')," the primary reasons this analysis was undertaken was 1) that it had been several years since EY had comprehensively reviewed Staples' state tax position and 2) Staples' planned merger with Office Depot. EY proposed a plan that would create a "Super Passive Investment Company" to hold Staples' intangibles, purchasing function, and possibly other assets and services. This passive investment company would charge the company (ies) housing the retail operations a fee for use of the intangibles, purchasing and other services. The draft internal correspondence further provides for an estimated gross state tax savings over a five year period of approximately $66.5 million under a combination of the current plan and the new plan. No other savings were identified by EY, nor did EY identify any other goals that would be accomplished by implementing their proposed plan as this document was a State and Local Tax Value Analysis. EY recommended the implementation of the plan regardless of whether there was a merger with Office Depot or not.

30. The Staples SVA Project Charter states that the "overall Staples SVA Project involves a corporate restructuring of the Staples entities with a view to achieving permanent recurring state tax savings through: strategic placement of assets and people in unitary versus separate company entities; and income shifting from separate company entities to unitary entities through imposition of intercompany royalties and fees." This EY document is marked "First draft. No client input."

31. With the assistance of EY, Staples considered several alternative structures. The tax effects resulting from any change to the structure were reviewed by Staples.

32. EY assisted in the restructuring.

33. After months of consideration, Staples determined that the best structure involved four separate operating companies: Staples; Superstore; Staples East; and Staples C&C. Of these four separate operating companies, Staples was the only company operating prior to the restructuring. Superstore and Staples East, while incorporated, were not capitalized or operating prior to the restructuring and Staples C&C was incorporated as part of the restructuring.

34. The merger with Office Depot was ultimately abandoned in the summer of 1997 after the issuance of a federal district court decision granting the Federal Trade Commission's motion for an injunction and enjoining Staples from going forward with the acquisition of Office Depot pending a final decision by the Federal Trade Commission

as to whether the acquisition would substantially lessen competition in violation of federal law.

35. Even though the merger was abandoned, Staples proceeded with the reorganization.

36. The reorganization process was completed on February 1, 1998.

37. Prior to the implementation of the reorganization, Staples was the parent company that owned and operated the retail stores and contract business. Staples Properties, Inc., ("Properties"), a subsidiary of Staples, owned the rights in and the goodwill associated with the use of certain valuable trademarks and other intellectual property, which it licensed to Staples pursuant to a Trademarks License Agreement.[2] Pursuant to such Agreement, Staples was required to pay Properties 3% of net sales, or $5 million a quarter, whichever was greater.

38. Prior to the implementation of the reorganization, there were no subsidiaries that were involved in Staples' actual U.S. operations, other than Properties.[3]

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[2] Properties also owned Staples Trust Company, a Massachusetts business trust.

[3] Two of the subsidiaries, Superstore and Staples East (previously Total Global Sourcing, Inc.), were non-operating companies. SOM Hagerstown owned Staples of Maryland LLC which held the building and land connected to the Hagerstown Distribution Center. Staples Security Corp. was a Massachusetts investment company which held the securities in which Staples invested. Kingfishers UK, The Business Depot, Ltd. [Canada], together with five companies related to Staples' Canadian operations, were connected to various international enterprises of

39. The basic functions of the merchandising, marketing, real estate, strategic planning, marketing support, corporate communications, legal, financial and accounting departments were in Staples prior to the reorganization.

40. Following the implementation of the reorganization, Staples was organized as the parent company. Superstore and Staples C&C were wholly owned subsidiaries of Staples and Staples East was a wholly owned subsidiary of Superstore.

41. During the Years in Issue, Staples, Superstore, Staples East, and Staples C&C had common officers and directors.

42. Following the implementation of the reorganization, Staples was engaged in the business of providing a variety of managerial and administrative services for the benefit of its subsidiaries, including strategic planning, marketing support, corporate communications and legal, financial and accounting services. Staples entered into Administrative Service Agreements with Superstore, Staples C&C and Staples East in connection with the provision of these services. The Administrative Service Agreements were executed on February 1, 1998.

43. In order to implement the reorganization, on February 1, 1998, Staples made a contribution of capital to Superstore including all "assets and liabilities relating to Staples' functional areas of

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Staples. Staples International, Inc., while a U.S. corporation, only maintained investments in companies with international operations.

business services, marketing/advertising, merchandising and Western U.S. retail operations, (including real and personal property, leasehold interests and improvements) intellectual property, contract rights and other intangibles, real estate leases, leasehold improvements and related assets."

44. In order to implement the reorganization, Properties was merged into Superstore. Thus Superstore owned the rights in and the goodwill associated with the use of certain valuable trademarks and other intellectual property, which it licensed to Staples pursuant to a Trademarks License Agreement, dated February 1, 1998.

45. In order to implement the reorganization, on February 1, 1998, Superstore entered into separate Franchise Agreements with Staples East and Staples C&C. Pursuant to these agreements, Superstore provided its franchise system to Staples East and Staples C&C. The franchise system provided by Superstore included the use of certain valuable trademarks and other intellectual property as well as site selection, building design, equipment and signage, equipment layout plans, marketing and merchandising practices and strategies and other business policies and practices provided by Superstore's merchandising, marketing and real estate departments, which are discussed below (collectively, the "Franchise System").

46. The services provided by Staples pursuant to the Administrative Services Agreement and the Franchise System provided by Superstore were

necessary for the operations of Staples East and Staples C&C.

47. The provision of the Franchise System and the administrative services to Staples East and Staples C&C were sources of income for Superstore and Staples.

48. Superstore is a corporation organized under the laws of Delaware. Superstore was incorporated in 1990, but it did not begin doing business until the reorganization took place in 1998.

49. Superstore's principal place of business and commercial domicile are in Framingham, Massachusetts.

50. Following the implementation of the reorganization, Superstore was engaged in the operation of distribution centers and retail stores selling office supplies and equipment in various states, but not Maryland. In addition, pursuant to the Franchise Agreements, Superstore provided its Franchise System to Staples East and Staples C&C.

51. Following the implementation of the reorganization, Staples East engaged in the operation of distribution centers and retail stores selling office supplies and equipment in various states, including Maryland. In order to implement the reorganization certain property was transferred from Staples to Staples East and certain employees of Staples began working for Staples East.[4]

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[4] Staples of Maryland LLC had two owners after the reorganization: Staples East had a 99% ownership interest and SOM Hagerstown had a 1% ownership interest.

52. Staples C&C was incorporated in 1997, but it did not begin doing business until the reorganization took place in 1998.

53. Staples C&C engaged in the operation of a catalog business selling office supplies and equipment, a contract stationer business and large customer sales and engaged in business in Maryland. In order to implement the reorganization certain property was transferred from Staples to Staples C&C and certain employees of Staples began working for Staples C&C.

<u>THE OPERATIONS OF SUPERSTORE DURING THE YEARS IN ISSUE</u>

54. During the Years in Issue, Superstore owned real property, buildings and depreciable assets with book values of the following amounts: $153,996,666 for fiscal year ended January 30, 1999; $169,766,957 for fiscal year ended January 29, 2000; $174,898,551 for fiscal year ended February 3, 2001; $181,786,909 for fiscal year ended February 2, 2002; $182,180,923 for fiscal year ended February 1, 2003; and $173,556,964 for fiscal year ended January 31, 2004.

55. Superstore had no real or tangible personal property in Maryland.

56. During the Years in Issue Superstore had over 7,000 employees. Superstore paid salaries, wages and officer compensation of the following amounts during the Years in Issue: $103,526,655 for fiscal year ended January 30, 1999; $158,909,481 for fiscal year ended January 29, 2000; $167,363,460

for fiscal year ended February 3, 2001; $173,396,537 for fiscal year ended February 2, 2002; $191,210,866 for fiscal year ended February 1, 2003; and $222,422,635 for fiscal year ended January 31, 2004.

57. Superstore was an operating company during the Years in Issue.

58. Superstore's operations consisted primarily of providing its Franchise System to its own stores, Staples East and Staples C&C and operating its own retail stores and distribution centers.

Superstore's Franchise System

59. A major part of Superstore's business was the provision of its Franchise System, both to its own stores and to the operations of Staples East and Staples C&C.

60. Employees in Superstore's merchandising, marketing and real estate departments provided Superstore's Franchise System to the operations of Superstore, Staples East and Staples C&C.

61. As a part of providing its Franchise System, Superstore owned and actively managed certain valuable trademarks and other intellectual property which it acquired in the reorganization. During the Years in Issue, Superstore filed for 67 additional trademarks. The new trademarks filed for were the result of work done by Superstore employees in the merchandising, marketing and real estate departments.

Superstore's Merchandising Department

62. Following the implementation of the reorganization Superstore's merchandising department ("Merchandising") handled vendor negotiations and product selections for Superstore, Staples East and Staples C&C. Merchandising was also responsible for the research and development of new products sold by Superstore, Staples East and Staples C&C.

63. The negotiations of Merchandising allowed Superstore, Staples East and Staples C&C to generally price products 30% to 70% below the manufacturer's suggested list prices.

64. Merchandising also continually compared the pricing of Superstore, Staples East and Staples C&C against that of competitors to ensure competitiveness in the marketplace.

65. Merchandising developed product promotions for Superstore, Staples East and Staples C&C.

66. As part of the Franchise System, Superstore employees in Merchandising assisted Staples East and Staples C&C. Although the majority of this assistance was performed where the employees were based, the employees did make some visits to Maryland.

Superstore's Marketing Department

67. Following the implementation of the reorganization, Superstore's marketing department ("Marketing") administered the rewards program and maintained the customer information for

Superstore, Staples East and Staples C&C. Marketing developed the marketing schemes, such as logos, colors, marketing campaigns, and product promotions for Superstore, Staples East and Staples C&C.

68. Marketing selected a broad base of media to use in advertising for Superstore, Staples East and Staples C&C, including radio, television, newspaper circulars, print and internet. The mix of media was based upon market, competitive and cost factors.

69. As part of the Franchise System, Superstore employees in Marketing assisted Staples East and Staples C&C. Although the majority of this assistance was performed where the employees were based, the employees did make some visits to Maryland.

Superstore's Real Estate Department

70. Following the implementation of the reorganization, Superstore's real estate department ("Real Estate") included site selection, new construction and remodeling functions.

71. Real Estate was responsible for the retail store and distribution concept for Superstore, Staples East and Staples C&C. The concept entailed determining the appropriate real estate location, constructing the store or distribution center, providing the initial inventory and operations and ensuring the proper plan-a-gram was utilized. A plan-a-gram was the innovative model for

assuring the franchises had a similar store lay-out.

72. As part of the Franchise System, Superstore employees in Real Estate assisted Staples East and Staples C&C. Although the majority of this assistance was performed where the employees were based, the employees did make some visits to Maryland.

Superstore's Retail Operations

73. A part of Superstore's business was the operation of its own retail stores and distribution centers.

74. Superstore operated numerous retail stores, none of which were in Maryland.

75. Superstore also operated multiple distribution centers, all of which were outside of Maryland.

Franchise Agreements

76. The provision of Superstore's Franchise System to Staples East and Staples C&C was provided for in Franchise Agreements.

77. On February 1, 1998, Superstore entered into Franchise Agreements with Staples East and Staples C&C.

78. The Franchise Agreements required the employees of Superstore to provide the Franchise System to Staples East and Staples C&C.

79. Staples East paid a franchise fee of 4.5% of net monthly sales to Superstore for the Franchise

System. There was not a separate fee for the components of the Franchise System.

80. For the Years in Issue, Superstore received franchise fees from Staples East in the following amounts: $143,353,141 for fiscal year ended January 30, 1999; $175,598,798 for fiscal year ended January 29, 2000; $206,836,147 for fiscal year ended February 3, 2001; $203,374,471 for fiscal year ended February 2, 2002; $209,167,802 for fiscal year ended February 1, 2003; and $223,581,930 for fiscal year ended January 31, 2004.

81. Staples C&C paid a franchise fee of 3.5% of net monthly sales to Superstore for the Franchise System. There was not a separate fee for the components of the Franchise System.

82. For the Years in Issue, Superstore received franchise fees from Staples C&C in the following amounts: $43,034,379 for fiscal year ended January 30, 1999; $50,780,115 for fiscal year ended January 29, 2000; $57,775,055 for fiscal year ended February 3, 2001; $70,815,703 for fiscal year ended February 2, 2002; $78,509,335 for fiscal year ended February 1, 2003; and $86,634,503 for fiscal year ended January 31, 2004.

83. The franchise fees were a portion of Superstore's income for each of the Years at Issue. During the fiscal year ended January 30, 1999, the total franchise fee receipts were 16% of total receipts, or $186,387,520 of $1,155,423,632. During the fiscal year ended January 29, 2000, the total franchise fee receipts were 18% of total receipts, or $226,378,913 of $1,244,796,656. During the fiscal

year ended February 3, 2001, the total franchise fee receipts were 16% of total receipts, or \$264,611,202 of \$1,674,302,476. During the fiscal year ended February 2, 2002, the total franchise fee receipts were 16% of total receipts, or \$274,190,174 of \$1,736,657,634. During the fiscal year ended February 1, 2003, the total franchise fee receipts were 17% of total receipts, or \$287,677,137 of \$1,662,440,130. During the fiscal year ended January 31, 2004, the total franchise fee receipts were 17% of total receipts, or \$310,216,433 of \$1,838,822,092.

THE OPERATIONS OF STAPLES DURING THE YEARS IN ISSUE

84. Following the implementation of the reorganization, Staples provided Superstore, Staples East and Staples C&C with numerous services, including the cash management system.

85. Staples owned real property, buildings and depreciable assets with book values of the following amounts during the Years in Issue: \$111,109,379 for fiscal year ended January 30, 1999; \$139,086,278 for fiscal year ended January 29, 2000; \$155,423,395 for fiscal year ended February 3, 2001; \$160,679,335 for fiscal year ended February 2, 2002; \$140,348,678 for fiscal year ended February 1, 2003; and \$129,966,389 for fiscal year ended January 31, 2004.

86. Following the implementation of the reorganization, Staples had no real or tangible personal property in Maryland.

87. Staples paid salaries, wages and officer compensation of the following amounts during the Years in Issue: $54,888,807 for fiscal year ended January 30, 1999; $59,413,348 for fiscal year ended January 29, 2000; $76,435,308 for fiscal year ended February 3, 2001; $71,750,689 for fiscal year ended February 2, 2002; $89,835,715 for fiscal year ended February 1, 2003; and $105,702,567 for fiscal year ended January 31, 2004.

88. Staples was an operating company during the Years in Issue.

Administrative Service Agreements

89. In order to implement the reorganization, on February 1, 1998, Staples entered into Administrative Service Agreements with Superstore, Staples East and Staples C&C regarding the services provided.

90. Superstore, Staples East and Staples C&C paid a fee to Staples for the services provided.

Staples' Treasury Department and Cash Management System

91. The Treasury Department, among other things, was responsible for the cash management system and credit support functions. The Treasury Department had been responsible for the cash management system and credit support functions of Staples prior to the reorganization.

92. As a part of the cash management system provided, Staples utilized a cash pooling arrangement with Superstore, Staples East and Staples C&C.

93. Under the cash pooling arrangement, if one company had a negative account balance, it would borrow funds from Staples. Conversely, if one company had excess cash, it would lend such funds to Staples.

94. At the end of each day, Staples would invest any excess funds on behalf of Superstore, Staples East and Staples C&C. (If additional funds were needed, Staples would borrow such funds.)

95. Due to the fluctuating net account balances, Staples executed Demand Notes in the amounts of $75,000,000, $200,000,000 and $100,000,000 in favor of Superstore, Staples East and Staples C&C, respectively. The Demand Notes had no collateral or security provisions.

96. The intercompany balances were tracked on a daily basis. At the end of every month, the cash flows were reconciled and interest was either paid by or charged by Staples to each of the subsidiaries.

97. Staples East paid net interest to Staples in the following amounts: $9,098,180 for fiscal year ended January 30, 1999; $8,655,235 for fiscal year ended January 29, 2000; $13,497,532 for fiscal year ended February 3, 2001; and $13,720,492 for fiscal year ended February 2, 2002. Staples paid net interest to Staples East in the following amounts: $28,202 for fiscal year ended February

1, 2003; and $4,828,781 for fiscal year ended January 31, 2004[.]

98. Staples paid net interest to Staples C&C in the following amounts: $842,979 for fiscal year ended January 30, 1999; $118,063 for fiscal year ended January 29, 2000; and $2,954,863 for fiscal year ended February 3, 2001. Staples C&C paid net interest to Staples in the following amounts: $1,414,407 for fiscal year ended February 2, 2002; $539,637 for fiscal year ended February 1, 2003; and $353,363 for fiscal year ended January 31, 2004[.]

99. Staples also managed all credit needs with third parties on behalf of Superstore, Staples East and Staples C&C.

100. In order to fund new store openings and recurring operating expenses, Staples entered into a revolving credit facility with a syndicate of banks in November 1997, which was effective through 2002. In 2002, the terms of the facility were renegotiated and the new facility was effective through 2006.

101. From its account, Staples paid all obligations of Superstore, Staples East and Staples C&C on behalf of each subsidiary, including expenses for marketing materials, delivery truck leases and payroll.

102. Staples had no personal or other liability for the debts of Superstore, Staples East or Staples C&C.

103. The cash management system allowed for efficient and effective management of the funds and

reduced fees payable to third parties (such as banks).

Respectfully submitted,

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Date: August 22, 2011

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Date: August 22, 2011

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