



**SAMPLE OF INITIAL FUNDAMENTAL ANALYSIS
FOR TARPON FUND HOLDINGS**

OFFICE DEPOT (ODP)

NOVEMBER 2008

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SPREADSHEET NOTES

INTRO TO THE SPREADSHEET

The following is an example of the type of initial fundamental analysis we do on companies when determining whether or not to add them to the Tarpon Fund. In this instance, we took an initial look at Office Depot (ODP), and the enclosed analysis supported our belief that the company, in November of 2008, was trading at extremely low levels based on what the company was likely worth in a more normalized economic period.

You'll note we emphasize the following in our initial financial analysis:

- Returns on invested capital;
- Owners' earnings (as opposed to unadjusted profits);
- Long-term cash flows of the business.

In the end, however, we did not add shares of Office Depot to the Tarpon Fund. While a decent business trading at a very low valuation, and run by a management team we generally admire, we want to see a much stronger moat around a business prior to investing in it. In other words, the company's competitive position is weak, and both Staples and (to a lesser extent) Office Max represent threats to the return on our own capital.

Not all businesses in the Tarpon Fund will possess unassailable barriers to entry. Some companies may simply be too cheap to overlook. In a different period, Office Depot may find its way into the Tarpon Fund, and the time we spent to better understand the company now may ultimately prove profitable then. But in late 2008, we are finding even better opportunities among much stronger companies.

Please contact us anytime to further discuss any of the above.

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You can sign up for our newsletter and learn more about the Tarpon Fund at www.islainvest.com. Nothing herein should be viewed as a recommendation.

The preliminary Office Depot analysis follows.

Office Depot (ODP) Analysis

Closing price on 11/10/08 of \$2.47

\$USD in Mil.

Islamorada Investment Management

Cale Smith

Historical Financial Data

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Income Statement Data										
Revenues	\$8,998	\$10,263	\$11,570	\$11,154	\$11,357	\$12,359	\$13,565	\$14,279	\$15,011	\$15,528
Growth	-	14%	13%	-4%	2%	9%	10%	5%	5%	3%
After-tax Op. Income	\$233	\$258	\$49	\$201	\$312	\$302	\$336	\$274	\$516	\$396
Growth	-	10%	-81%	308%	55%	-3%	11%	-18%	88%	-23%
Balance Sheet Data										
Current Assets	\$ 2,780	\$ 2,631	\$ 2,699	\$ 2,806	\$ 3,210	\$ 3,577	\$ 3,916	\$ 3,530	\$ 3,455	\$ 3,716
Total Assets	4,113	4,276	4,196	4,332	4,757	6,145	6,767	6,099	6,570	7,257
NIB Current Liabilities	\$ 1,528	\$ 1,694	\$ 1,755	\$ 1,783	\$ 1,976	\$ 2,264	\$ 2,603	\$ 2,422	\$ 2,922	\$ 2,766
<i>Accounts Payable</i>	1,028	1,239	1,137	1,061	1,174	1,323	1,650	1,324	1,562	1,591
<i>Accruals</i>	431	415	581	613	663	809	820	980	1,225	1,171
<i>Taxes Payable</i>	70	40	37	109	139	132	133	118	136	4
Excess Cash	\$ 255	\$ -	\$ -	\$ 6	\$ -	\$ 173	\$ 115	\$ -	\$ -	\$ -
<i>Cash</i>	705	219	152	563	877	791	794	703	174	223
<i>5% of Revenues</i>	450	513	578	558	568	618	678	714	751	776
Goodwill & Intangibles	228	240	220	250	258	1,004	1,050	881	1,199	1,390
Shareholder Equity	2,029	1,908	1,601	1,848	2,297	2,794	3,223	2,739	2,610	3,084
ROIC	11.1%	11.0%	2.2%	8.8%	12.3%	11.2%	11.2%	9.8%	21.1%	12.8%
Owners Earnings Data										
Net Income	\$ 233	\$ 258	\$ 49	\$ 201	\$ 311	\$ 276	\$ 336	\$ 274	\$ 516	\$ 396
Depr & Amort	6	169	206	199	201	248	269	268	279	281
Deferred Taxes	(38)	(0)	(82)	0	(10)	33	11	(110)	(8)	(1)
Adjustments in WC										
<i>Work Cap (Avg)</i>	618	633	756	626	408	439	520	462	383	543
<i>WC/Sales</i>	6.9%	6.2%	6.5%	5.6%	3.6%	3.6%	3.8%	3.2%	2.5%	3.5%
<i>WC Investment</i>	-	-	-	-	-	-	-	14	(90)	62
Non-cash Charges										
<i>Effect of acctg change</i>	-	-	-	-	-	25.9	-	-	-	-
<i>Charges - Invty/AR</i>	100	146	121	109	93	118	88	92	86	110
<i>Earnings - invest</i>	15	(2)	(9)	(11)	(9)	(11)	(16)	(23)	(27)	(35)
<i>Loss (gain) - securities</i>	-	-	(12)	14	3	8	-	-	-	-
<i>Loss (gain) PP&E</i>	2	10	11	(5)	2	7	(3)	(8)	(24)	(25)
<i>Impaired assets</i>	46	14	114	44	12	27	25	181	8	-
<i>Other</i>	24	25	26	5	27	17	(4)	60	38	41

Capex Data

# of Stores - OSS N.A.	702	825	821	857	867	900	984	1047	1158	1222
Change	100	123	(4)	36	10	33	84	63	111	64
# of Stores - OSS Int'l	87	118	132	144	173	64	78	70	125	148
Change	48	31	14	12	29	(109)	14	(8)	55	23
Reported Capex	255	396	268	207	202	212	391	261	343	461
Change in Capex	98	141	(128)	(60)	(5)	10	179	(130)	83	117
Maint Capex Per Store	0.275	0.275	0.275	0.275	0.275	0.275	0.275	0.275	0.275	0.275
Maintenance Capex	166	217	259	262	275	286	265	292	307	353
Owner Earnings	\$ 223	\$ 402	\$ 164	\$ 294	\$ 354	\$ 464	\$ 440	\$ 455	\$ 470	\$ 476
YOY OE Growth	-	81%	-59%	79%	20%	31%	-5%	4%	3%	1%
Average Growth in OE	17.2%									

Projected Financial Data - 2 Stage Discounted Cash Flow Model

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Owner Earnings	\$476	\$514	\$555	\$599	\$647	\$699	\$755	\$816	\$881	\$951
Growth Rate	0.08	0.08	0.08	0.08	0.08	0.08	0.08	0.08	0.08	0.08
EOY Owners Earnings	\$514	\$555	\$599	\$647	\$699	\$755	\$816	\$881	\$951	\$1,027
Discount Rate (11%)	0.901	0.812	0.731	0.659	0.593	0.535	0.482	0.434	0.391	0.352
Present Value of Cash Flow	\$463	\$451	\$438	\$427	\$415	\$404	\$393	\$382	\$372	\$362

Sum of PV of Annual Owners Earnings 4,106

Calculation of Terminal Value

Cash Flow in year 10	362
Growth rate	0.03
Owner Earnings in year 11	372
Cap rate	0.08
Terminal Value end of yr 10	4,656
PV factor at end of yr 10	0.352

PV of Terminal Value 1,639

Intrinsic Value of Company 8,635

Market Value of Company 3,270

Margin of Safety 62%

Shares Outstanding 275,940,000

Intrinsic Value per Share \$31.29

Market Price per Share \$2.47

Intrinsic Value versus Current Market Value

