UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended July 1, 2023

or

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

For the transition period from __ __ __ __to __ __ __ __

Commission File Number 1-10948

The ODP Corporation
(Exact Name of Registrant as Specified in its Charter)

Delaware	**85-1457062**
(State or Other Jurisdiction of Incorporation or Organization)	**(IRS Employer Identification No.)**
6600 North Military Trail, Boca Raton, Florida	**33496**
(Address of Principal Executive Offices)	**(Zip Code)**

(561) 438-4800
(Registrant's Telephone Number, Including Area Code)

(Former Name, Former Address and Former Fiscal Year, If Changed Since Last Report)

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

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on which Registered
Common Stock, par value $0.01 per share	**ODP**	**The NASDAQ Stock Market (NASDAQ Global Select Market)**

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 whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.:

Large accelerated filer	☒	Accelerated filer	☐	Non-accelerated filer	☐
Smaller reporting company	☐	Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The number of shares outstanding of the registrant's common stock, as of the latest practicable date: At August 2, 2023, there were 38,049,438 outstanding shares of The ODP Corporation Common Stock, $0.01 par value.

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The order and presentation of this Quarterly Report on Form 10-Q differ from that of the traditional U.S. Securities and Exchange Commission ("SEC") Form 10-Q format. We believe that our format better presents the relevant sections of this document and enhances readability. See "Form 10-Q Cross-Reference Index" within Other Information for a cross-reference index to the traditional SEC Form 10-Q format.

THE ODP CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions, except per share amounts)
(Unaudited)

	13 Weeks Ended		26 Weeks Ended	
	July 1, 2023	June 25, 2022	**July 1, 2023**	June 25, 2022
Sales	**$ 1,908**	$ 2,034	**$ 4,016**	$ 4,212
Cost of goods and occupancy costs	**1,493**	1,603	**3,119**	3,296
Gross profit	**415**	431	**897**	916
Selling, general and administrative expenses	**362**	377	**745**	773
Asset impairments	**6**	3	**10**	5
Merger, restructuring and other operating expenses, net	**1**	23	**1**	34
Operating income	**46**	28	**141**	104
Other income (expense):				
Interest income	**2**	1	**4**	2
Interest expense	**(5)**	(4)	**(10)**	(9)
Other income, net	**4**	3	**6**	5
Income from continuing operations before income taxes	**47**	28	**141**	102
Income tax expense	**13**	8	**34**	27
Net income from continuing operations	**34**	20	**107**	75
Discontinued operations, net of tax	**—**	7	**—**	7
Net income	**$ 34**	$ 27	**$ 107**	$ 82
Basic earnings per share				
Continuing operations	$ 0.89	$ 0.40	$ 2.70	$ 1.54
Discontinued operations	—	0.15	—	0.14
Net basic earnings per share	**$ 0.89**	$ 0.55	**$ 2.70**	$ 1.68
Diluted earnings per share				
Continuing operations	$ 0.87	$ 0.39	$ 2.61	$ 1.49
Discontinued operations	—	0.15	—	0.14
Net diluted earnings per share	**$ 0.87**	$ 0.54	**$ 2.61**	$ 1.63

This report should be read in conjunction with the Notes to Condensed Consolidated Financial Statements herein and the Notes to Consolidated Financial Statements in The ODP Corporation Annual Report on Form 10-K filed on March 1, 2023 (the “2022 Form 10-K”).

THE ODP CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In millions)
(Unaudited)

	13 Weeks Ended		26 Weeks Ended	
	July 1, 2023	June 25, 2022	**July 1, 2023**	June 25, 2022
Net income	**$ 34**	$ 27	**$ 107**	$ 82
Other comprehensive income, net of tax, where applicable:				
Foreign currency translation adjustments	**5**	(11)	**7**	(12)
Reclassification of foreign currency translation adjustments realized upon disposal of business	**—**		**—**	6
Other	**(1)**	(2)	**(1)**	(2)
Total other comprehensive income, net of tax, where applicable	**4**	(13)	**6**	(8)
Comprehensive income	**$ 38**	$ 14	**$ 113**	$ 74

This report should be read in conjunction with the Notes to Condensed Consolidated Financial Statements herein and the Notes to Consolidated Financial Statements in the 2022 Form 10-K.

THE ODP CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(In millions, except share and per share amounts)

	July 1, 2023 (Unaudited)	December 31, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 335**	$ 403
Receivables, net	**516**	536
Inventories	**836**	828
Prepaid expenses and other current assets	**38**	36
Current assets held for sale	**13**	107
Total current assets	**1,738**	1,910
Property and equipment, net	**347**	352
Operating lease right-of-use assets	**893**	874
Goodwill	**467**	464
Other intangible assets, net	**43**	46
Deferred income taxes	**158**	182
Other assets	**315**	321
Total assets	**$ 3,961**	$ 4,149
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable	**$ 864**	$ 821
Accrued expenses and other current liabilities	**903**	1,005
Income taxes payable	**6**	17
Short-term borrowings and current maturities of long-term debt	**9**	16
Total current liabilities	**1,782**	1,859
Deferred income taxes and other long-term liabilities	**122**	122
Pension and postretirement obligations, net	**16**	16
Long-term debt, net of current maturities	**172**	172
Operating lease liabilities	**708**	693
Total liabilities	**2,800**	2,862
Commitments and contingencies		
Stockholders' equity:		
Common stock — authorized 80,000,000 shares of $0.01 par value; issued shares — 66,597,105 at July 1, 2023 and 65,636,015 at December 31, 2022; outstanding shares — 38,187,362 at July 1, 2023 and 42,213,046 at December 31, 2022	**1**	1
Additional paid-in capital	**2,737**	2,742
Accumulated other comprehensive loss	**(71)**	(77)
Accumulated deficit	**(344)**	(451)
Treasury stock, at cost — 28,409,744 shares at July 1, 2023 and 23,422,969 shares at December 31, 2022	**(1,162)**	(928)
Total stockholders' equity	**1,161**	1,287
Total liabilities and stockholders' equity	**$ 3,961**	$ 4,149

This report should be read in conjunction with the Notes to Condensed Consolidated Financial Statements herein and the Notes to Consolidated Financial Statements in the 2022 Form 10-K.

THE ODP CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)
(Unaudited)

	26 Weeks Ended	
	July 1, 2023	June 25, 2022
Cash flows from operating activities:		
Net income	**$ 107**	$ 82
Income from discontinued operations, net of tax	**—**	7
Net income from continuing operations	**107**	75
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**59**	68
Amortization of debt discount and issuance costs	**1**	—
Charges for losses on receivables and inventories	**10**	8
Asset impairments	**10**	5
Gain on disposition of assets, net	**(1)**	(3)
Compensation expense for share-based payments	**18**	19
Deferred income taxes and deferred tax asset valuation allowances	**23**	12
Changes in working capital and other operating activities	**(78)**	(268)
Net cash provided by (used in) operating activities of continuing operations	**149**	(84)
Net cash provided by (used in) operating activities of discontinued operations	**—**	—
Net cash provided by (used in) operating activities	**149**	(84)
Cash flows from investing activities:		
Capital expenditures	**(51)**	(43)
Businesses acquired, net of cash acquired	**(10)**	—
Proceeds from disposition of assets	**101**	6
Settlement of company-owned life insurance policies	**1**	2
Net cash provided by (used in) investing activities of continuing operations	**41**	(35)
Net cash provided by investing activities of discontinued operations	**5**	74
Net cash provided by investing activities	**46**	39
Cash flows from financing activities:		
Net payments on long and short-term borrowings	**(9)**	(11)
Debt retirement	**(165)**	(43)
Debt issuance	**165**	—
Share purchases for taxes, net of proceeds from employee share-based transactions	**(23)**	(17)
Repurchase of common stock for treasury	**(231)**	—
Other financing activities	**—**	(3)
Net cash used in financing activities of continuing operations	**(263)**	(74)
Net cash used in financing activities of discontinued operations	**—**	—
Net cash used in financing activities	**(263)**	(74)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	**1**	(1)
Net decrease in cash, cash equivalents and restricted cash	**(67)**	(120)
Cash, cash equivalents and restricted cash at beginning of period	**404**	537
Cash, cash equivalents and restricted cash at end of period	**$ 337**	$ 417
Supplemental information on non-cash investing and financing activities		
Right-of-use assets obtained in exchange for new operating lease liabilities	**$ 148**	$ 113
Promissory note receivable obtained from disposition of discontinued operations	**59**	55
Cash taxes paid, net	**19**	—
Cash interest paid, net of amounts capitalized and non-recourse debt	**10**	—
Earn-out receivable obtained from disposition of discontinued operations	**9**	9
Right-of-use assets obtained in exchange for new finance lease liabilities	**3**	—
Other current receivable obtained from disposition of discontinued operations	**—**	30
Transfer from additional paid-in capital to treasury stock for final settlement of the accelerated share repurchase agreement	**—**	29

This report should be read in conjunction with the Notes to Condensed Consolidated Financial Statements herein and the Notes to Consolidated Financial Statements in the 2022 Form 10-K.

THE ODP CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In millions, except share amounts)
(Unaudited)

	26 Weeks Ended July 1, 2023						
	Common Stock Shares	**Common Stock Amount**	**Additional Paid-in Capital**	**Accumulated Other Comprehensive Loss**	**Accumulated Deficit**	**Treasury Stock**	**Total Equity**
Balance at December 31, 2022	65,636,015	$ 1	$ 2,742	$ (77)	$ (451)	$ (928)	$ 1,287
Net income	—	—	—	—	72	—	72
Other comprehensive income	—	—	—	2	—	—	2
Exercise and release of incentive stock (including income tax benefits and withholding)	812,978	—	(19)	—	—	—	(19)
Amortization of long-term incentive stock grants	—	—	9	—	—	—	9
Repurchase of common stock						(202)	(202)
Other	—	—	—	—	—	(1)	(1)
Balance at April 1, 2023	66,448,993	$ 1	$ 2,732	$ (75)	$ (379)	$ (1,131)	$ 1,148
Net income	—	—	—	—	34	—	34
Other comprehensive income	—	—	—	4	—	—	4
Exercise and release of incentive stock (including income tax benefits and withholding)	148,113	—	(4)	—	—	—	(4)
Amortization of long-term incentive stock grants	—	—	9	—	—	—	9
Repurchase of common stock	—	—		—	—	(31)	(31)
Other	—	—	—	—	1	—	1
Balance at July 1, 2023	66,597,106	1	2,737	(71)	(344)	(1,162)	1,161

	26 Weeks Ended June 25, 2022						
	Common Stock Shares	**Common Stock Amount**	**Additional Paid-in Capital**	**Accumulated Other Comprehensive Loss**	**Accumulated Deficit**	**Treasury Stock**	**Total Equity**
Balance at December 25, 2021	64,704,979	$ 1	$ 2,692	$ (6)	$ (617)	$ (632)	$ 1,438
Net income	—	—	—	—	55	—	55
Other comprehensive income	—	—	—	5	—	—	5
Exercise and release of incentive stock (including income tax benefits and withholding)	652,606	—	(14)	—	—	—	(14)
Amortization of long-term incentive stock grants	—	—	9	—	—	—	9
Other	—	—	—	—	—	(1)	(1)
Balance at March 26, 2022	65,357,585	$ 1	$ 2,687	$ (1)	$ (562)	$ (633)	$ 1,492
Net income	—	—	—	—	27	—	27
Other comprehensive loss	—	—	—	(13)	—	—	(13)
Exercise and release of incentive stock (including income tax benefits and withholding)	142,993	—	(3)	—	—	—	(3)
Amortization of long-term incentive stock grants	—	—	10	—	—	—	10
Final settlement of the accelerated share repurchase agreement	—	—	29	—	—	(29)	—
Balance at June 25, 2022	65,500,578	$ 1	$ 2,723	$ (14)	$ (535)	$ (662)	$ 1,513

This report should be read in conjunction with the Notes to Condensed Consolidated Financial Statements herein and the Notes to Consolidated Financial Statements in the 2022 Form 10-K.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The ODP Corporation (including its consolidated subsidiaries, "ODP" or the "Company") is a leading provider of products, services and technology solutions through an integrated business-to-business ("B2B") distribution platform and omni-channel presence, which includes supply chain and distribution operations, dedicated sales professionals, a B2B digital procurement solution, online presence, and a network of Office Depot and OfficeMax retail stores. Through its operating companies ODP Business Solutions, LLC; Office Depot, LLC; Veyer, LLC; and Varis, LLC, The ODP Corporation empowers every business, professional, and consumer to achieve more every day.

The Company has four reportable segments (or "Divisions"), which are ODP Business Solutions Division, Office Depot Division, Veyer Division, and Varis Division. Refer to Note 4 for additional information.

The Company's CompuCom Division was sold through a single disposal group on December 31, 2021. Accordingly, that business is presented as discontinued operations. Refer to Note 12 for additional information.

The Condensed Consolidated Financial Statements as of July 1, 2023, and for the 13-week and 26-week periods ended July 1, 2023 (also referred to as the "second quarter of 2023" and the "first half of 2023", respectively) and June 25, 2022 (also referred to as the "second quarter of 2022" and the "first half of 2022", respectively) are unaudited. However, in management's opinion, these Condensed Consolidated Financial Statements reflect all adjustments of a normal recurring nature necessary to provide a fair presentation of the Company's financial position, results of operations, and cash flows for the periods presented. The Company made a business acquisition in 2023 which is included prospectively from the date of acquisition, thus affecting the comparability of the Company's financial statements for the periods presented in this Quarterly Report on Form 10-Q. Refer to Note 2 for additional information.

The Company has prepared the Condensed Consolidated Financial Statements included herein pursuant to the rules and regulations of the SEC. Some information and note disclosures, which would normally be included in comprehensive annual financial statements prepared in accordance with accounting principles generally accepted in the United States ("GAAP"), have been condensed or omitted pursuant to those SEC rules and regulations. The preparation of these Condensed Consolidated Financial Statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. For a better understanding of the Company and its Condensed Consolidated Financial Statements, the Company recommends reading these Condensed Consolidated Financial Statements in conjunction with the audited financial statements, which are included in the Company's 2022 Form 10-K. These interim results are not necessarily indicative of the results that should be expected for the full year.

CASH MANAGEMENT

The cash management process generally utilizes zero balance accounts which provide for the settlement of the related disbursement and cash concentration accounts on a daily basis. Amounts not yet presented for payment to zero balance disbursement accounts of $13 million and $16 million at July 1, 2023 and December 31, 2022, respectively, are presented in Trade accounts payable and Accrued expenses and other current liabilities.

At July 1, 2023 and December 31, 2022, cash and cash equivalents held outside the United States amounted to $97 million and $113 million, respectively. During the second quarter of 2023, the Company repatriated $25 million cash that was held in Canada, for a cost of $1 million.

The Company has certain ongoing pension obligations related to its frozen defined benefit pension plan in the United Kingdom. Restricted cash consists primarily of cash in bank committed to fund UK pension obligations based on the agreements that govern the UK pension plan. Restricted cash is valued at cost, which approximates fair value. Restricted cash was $2 million and $1 million at July 1, 2023 and December 31, 2022, respectively.

REVENUE AND CONTRACT BALANCES

The Company generates substantially all of its revenue from contracts with customers for the sale of products and services. Refer to Note 4 for information on revenue by reportable segment and product category. Contract balances primarily consist of receivables, assets related to deferred contract acquisition costs, liabilities related to payments received in advance of performance under the contract, and liabilities related to unredeemed gift cards and loyalty programs. The following table provides information about receivables, contract assets and contract liabilities from contracts with customers:

(In millions)	July 1, 2023	December 31, 2022
Trade receivables, net	408	412
Short-term contract assets	5	8
Long-term contract assets	1	2
Short-term contract liabilities	32	41
Long-term contract liabilities	—	—

The Company recognized revenues of $23 million and $11 million in the first half of 2023 and the first half of 2022, respectively, which were included in the short-term contract liability balance at the beginning of each respective period.

NOTE 2. ACQUISITIONS

Since 2017, the Company has been acquiring profitable regional office supply distribution businesses to expand its reach and distribution network into geographic areas that were previously underserved. In the first half of 2023, the Company acquired a small independent regional office supply distribution business in the U.S. The Company’s strategy has been to acquire businesses with purchase prices ranging from $5 million to $15 million, which were individually insignificant to the Company. The business acquired was consistent with acquisitions of similar sized businesses in the past and the acquisition was primarily funded with cash on hand.

The acquisition was treated as a purchase in accordance with ASC 805, Business Combinations (“ASC 805”) which requires allocation of the purchase price to the estimated fair values of assets and liabilities acquired in the transactions including goodwill and other intangible assets. The Company has performed a preliminary purchase price allocation of the aggregate purchase price to the estimated fair values of assets and liabilities acquired in the transactions. The preliminary purchase price allocation for the acquired office supply distribution business includes $3 million of goodwill. An immaterial amount of the aggregate purchase price was allocated to working capital accounts. These assets and liabilities are included in the Condensed Consolidated Balance Sheet as of July 1, 2023. As additional information is obtained about these assets and liabilities within the measurement period (not to exceed one year from the dates of acquisition), the Company will refine its estimates of fair value to allocate the purchase price. The operating results of the acquired business is combined with the Company’s operating results subsequent to the purchase date and are included in the ODP Business Solutions Division, as described in Note 4. Certain disclosures set forth under ASC 805, including supplemental pro forma financial information, are not disclosed because the operating results of the acquired business are not material to the Company.

Under the business combinations accounting guidance, merger and integration costs are not included as components of consideration transferred. Instead, they are accounted for as expenses in the period in which the costs are incurred. Transaction-related expenses are included in the Merger, restructuring and other operating expenses, net line in the Condensed Consolidated Statements of Operations. Refer to Note 3 for additional information about the merger, restructuring and other operating expenses incurred during the second quarter and first half of 2023.

NOTE 3. MERGER, RESTRUCTURING AND OTHER ACTIVITY

The Company has taken actions to optimize its asset base and drive operational efficiencies. These actions include acquiring profitable businesses, closing underperforming retail stores and non-strategic distribution facilities, consolidating functional activities, eliminating redundant positions and disposing of non-strategic businesses and assets. The expenses and any income recognized directly associated with these actions are included in Merger, restructuring and other operating expenses, net on a separate line in the Condensed Consolidated Statements of Operations in order to identify these activities apart from the expenses incurred to sell to and service customers. These expenses are not included in the determination of Division operating income. The table below summarizes the major components of Merger, restructuring and other operating expenses, net.

	Second Quarter		First Half	
(In millions)	**2023**	2022	**2023**	2022
Merger and transaction related expenses				
Transaction and integration	**$ —**	$ —	**—**	—
Total Merger and transaction related expenses	**—**	—	**—**	—
Restructuring expenses				
Severance	**—**	(1)	**—**	(1)
Professional fees	**—**	—	**—**	—
Facility closure, contract termination, and other expenses, net	**1**	1	**1**	2
Total Restructuring expenses, net	**1**	—	**1**	1
Other operating expenses				
Professional fees	**—**	23	**—**	33
Total Other operating expenses	**—**	23	**—**	33
Total Merger, restructuring and other operating expenses, net	**$ 1**	$ 23	**$ 1**	$ 34

MERGER AND TRANSACTION RELATED EXPENSES

Transaction and integration expenses include legal, accounting, and other third-party expenses incurred in connection with acquisitions. In the first half of 2023, the Company recognized transaction and integration expenses of less than $1 million related to the acquisition of the small independent regional office supply distribution business. The Company did not incur any transaction and integration costs in the second quarter of 2023. Also, the Company did not incur any transaction and integration expenses in the second quarter and first half of 2022.

RESTRUCTURING EXPENSES

Maximize B2B Restructuring Plan

In May 2020, the Company's Board of Directors approved a restructuring plan to realign the Company's operational focus to support its "business-to-business" solutions and IT services business units and improve costs ("Maximize B2B Restructuring Plan"). Implementation of the Maximize B2B Restructuring Plan was expected to be substantially completed by the end of 2023. The Maximize B2B Restructuring Plan aims to generate savings through optimizing the Company's retail footprint, removing costs that directly support the Retail business and additional measures to implement a company-wide low-cost business model, which will then be invested in accelerating the growth of the Company's business-to-business platform.

In December 2022, the Company's Board of Directors approved to extend the program through 2024. The Company closed 6 and 26 retail stores, respectively, in the second quarter and first half of 2023. The Company had closed a total of 237 retail stores and two distribution facilities in 2022, 2021 and 2020 under the Maximize B2B Restructuring Plan. It is anticipated that additional retail stores will be closed in 2023 and 2024, however, it is generally understood that closures will approximate the store's lease termination date.

In both the second quarter and first half of 2023, the Company had $1 million of restructuring costs associated with the Maximize B2B Restructuring Plan. In the second quarter and first half of 2023, the Company made cash payments of $1 million and $4 million, respectively, associated with expenditures for the Maximize B2B Restructuring Plan. Since its inception in 2020, the Company incurred $82 million in restructuring expenses to implement the Maximize B2B Restructuring Plan through the first half of 2023 for its continuing operations, of which $65 million were cash expenditures. Total estimated restructuring costs related to the Maximize B2B Restructuring Plan are expected to be up to $95 million.

In the second quarter and first half of 2022, the Company incurred $1 million and $2 million, respectively, in restructuring expenses associated with the Maximize B2B Restructuring Plan, which consisted of facility closure and other costs. The Company had $1 million and $3 million of cash expenditures in the second quarter and first half of 2022, respectively, associated with the Maximize B2B Restructuring Plan.

OTHER OPERATING EXPENSES

Other operating expenses represent costs incurred that are incremental to those related to running the Company's core operations, which are presented within Selling, general and administrative expenses on the Condensed Consolidated Statements of Operations. The Company did not incur any other operating expenses in the second quarter and the first half of 2023. In the second quarter and first half of 2022, the Company had incurred $23 million and $33 million, respectively, in third-party professional fees associated with the previously planned separation of its consumer business. For additional information, see Note 1. "Summary of Significant Accounting Policies" in Notes to Consolidated Financial Statements and Management's Discussion and Analysis in the 2022 Form 10-K.

MERGER, RESTRUCTURING AND OTHER ACCRUALS

The activity in the merger, restructuring and other accruals in the first half of 2023 is presented in the table below. Certain merger, restructuring and other charges are excluded from the table because they are paid as incurred or non-cash, such as accelerated depreciation and gains and losses on asset dispositions.

(In millions)	Balance as of December 31, 2022	Charges (credits) Incurred	Cash Payments	Balance as of July 1, 2023
Termination benefits:				
Maximize B2B Restructuring Plan	5		(1)	**4**
Lease and contract obligations, accruals for facilities closures and other costs:				
Maximize B2B Restructuring Plan	4	2	(3)	**3**
Comprehensive Business Review	1			**1**
Previously planned separation of consumer business and re-alignment	2		(2)	**—**
Total	$ 12	$ 2	$ (6)	**$ 8**

The short-term and long-term components of these liabilities are included in Accrued expenses and other current liabilities and Deferred income taxes and other long-term liabilities, respectively, in the Condensed Consolidated Balance Sheets.

NOTE 4. SEGMENT INFORMATION

At July 1, 2023, the Company had four reportable segments:

ODP Business Solutions Division – The Company's leading B2B distribution solutions provider serving small, medium and enterprise level companies, including those in the public and education sectors. This segment includes the contract sales channel of the Company's previous Business Solutions Division, and operates in the United States, Puerto Rico, the U.S. Virgin Islands, and Canada. The ODP Business Solutions Division sells nationally branded, as well as the Company's private branded, office supply and adjacency products and services to customers, who are served through a dedicated sales force, catalogs, telesales, and electronically through the Company's Internet websites. Adjacency products and services include cleaning, janitorial, and breakroom supplies, office furniture, technology products, and copy and print services. This segment also includes our Federation entities, which are over a dozen regional office supply distribution businesses acquired by the Company as part of its transformation to expand its reach and distribution network into geographic areas that were previously underserved, and which continue to operate under their own brand names. The acquisition of these businesses has allowed for an effective means to expand our distribution reach, target new business customers and grow our offerings beyond traditional office supplies.

Office Depot Division – The Company's leading provider of retail consumer and small business products and services distributed through a fully integrated omni-channel platform of 952 Office Depot and OfficeMax retail locations in the United States, Puerto Rico and the U.S. Virgin Islands, and an eCommerce presence (www.officedepot.com). The Office Depot Division sells office supplies, technology products and solutions, business machines and related supplies, cleaning, breakroom and facilities products, personal protective equipment, and office furniture as well as offering business services including copying, printing, digital imaging, mailing, shipping and technology support services. In addition, the print needs for retail and business customers are facilitated through the Company's regional print production centers.

Veyer Division – The Company's supply chain, distribution, procurement and global sourcing operation, which has over 35 years of experience with proven leadership. The Veyer Division specializes in B2B and consumer business service delivery, with core competencies in distribution, fulfillment, transportation, global sourcing and purchasing. The Veyer Division's customers include our Office Depot Division and ODP Business Solutions Division, as well as third-party customers. The Veyer Division also includes the Company's global sourcing operations in Asia.

Varis Division – The Company's tech-enabled B2B indirect procurement marketplace, which provides a seamless way for buyers and suppliers to transact through the platform's consumer-like buying experience, advanced spend management tools, network of suppliers, and technology capabilities. In connection with the Company's development efforts of this Division, it acquired BuyerQuest Holdings, Inc. ("BuyerQuest") in 2021, a software as a service eProcurement platform company. BuyerQuest's operating results are included in the Varis Division. The Varis Division currently serves enterprise businesses and provides its services to middle- and small-sized businesses. It is focused on filling the growing demand for a B2B centric digital commerce platform that is modern, trusted, and provides the procurement controls and visibility businesses require to operate.

Division operating income is determined based on the measure of performance reported internally to manage the business and for resource allocation. This measure charges to the respective Divisions those expenses considered directly or closely related to their operations and allocates support costs. Certain operating expenses and credits are not allocated to the Divisions, including asset impairments and merger, restructuring and other operating expenses, as well as expenses and credits retained at the Corporate level, including certain management costs and legacy pension and environmental matters. Other companies may charge more or less of these items to their segments and results may not be comparable to similarly titled measures used by other entities.

The following is a summary of sales and operating income (loss) by each of the Divisions, reconciled to consolidated totals:

(In millions)	ODP Business Solutions Division	Office Depot Division	Veyer Division	Varis Division	Eliminations	Total
Second Quarter of 2023						
Sales (external)	$ 999	$ 897	$ 10	$ 2	$ -	$ 1,908
Sales (internal)	3	8	1,312	-	(1,323)	-
Total sales	$ 1,002	$ 905	$ 1,322	$ 2	$ (1,323)	$ 1,908
Division operating income (loss)	$ 45	$ 35	$ 6	$ (14)	$ -	$ 72
First Half of 2023						
Sales (external)	$ 2,004	$ 1,991	$ 17	$ 4	$ -	$ 4,016
Sales (internal)	7	17	2,725	-	(2,749)	-
Total sales	$ 2,011	$ 2,008	$ 2,742	$ 4	$ (2,749)	$ 4,016
Division operating income (loss)	$ 84	$ 120	$ 21	$ (31)	$ -	$ 194
Second Quarter of 2022						
Sales (external)	$ 995	$ 1,031	$ 7	$ 1	$ -	$ 2,034
Sales (internal)	5	8	1,409	-	(1,422)	-
Total sales	$ 1,000	$ 1,039	$ 1,416	$ 1	$ (1,422)	$ 2,034
Division operating income (loss)	$ 36	$ 49	$ 8	$ (16)	$ -	$ 77
First Half of 2022						
Sales (external)	$ 1,973	$ 2,225	$ 10	$ 4	$ -	$ 4,212
Sales (internal)	11	15	2,937	-	(2,963)	-
Total sales	$ 1,984	$ 2,240	$ 2,947	$ 4	$ (2,963)	$ 4,212
Division operating income (loss)	$ 55	$ 145	$ 16	$ (31)	$ -	$ 185

The reconciliation of the measure of Division operating income to Consolidated income from continuing operations before income taxes is as follows:

	Second Quarter		First Half	
(In millions)	**2023**	2022	**2023**	2022
Total Divisions operating income	**$ 72**	$ 77	**$ 194**	$ 185
Add/(subtract):				
Asset impairments	**(6)**	(3)	**(10)**	(5)
Merger, restructuring and other operating expenses, net	**(1)**	(23)	**(1)**	(34)
Unallocated expenses	**(19)**	(23)	**(42)**	(42)
Interest income	**2**	1	**4**	2
Interest expense	**(5)**	(4)	**(10)**	(9)
Other income, net	**4**	3	**6**	5
Income from continuing operations before income taxes	**$ 47**	$ 28	**$ 141**	$ 102

The following table provides information about disaggregated sales by major categories:

	Second Quarter		First Half	
(In millions)	**2023**	2022	**2023**	2022
Major sales categories				
Supplies	**$ 947**	$ 976	**$ 1,999**	$ 2,026
Technology	**527**	601	**1,143**	1,273
Furniture and other	**271**	301	**549**	612
Copy and print	**163**	156	**325**	301
Total	**$ 1,908**	$ 2,034	**$ 4,016**	$ 4,212

The components of goodwill by segment are as follows:

(In millions)	**Balance as of December 31, 2022**	**Acquisitions**	**Balance as of July 1, 2023**
ODP Business Solutions Division	$ 142	$ 3	**$ 145**
Office Depot Division	219	-	**219**
Veyer Division	35	-	**35**
Varis Division	68	-	**68**
Total	$ 464	$ 3	**$ 467**

Goodwill and indefinite-lived intangible assets are tested for impairment annually as of the first day of fiscal December or more frequently when events or changes in circumstances indicate that impairment may have occurred. Each reportable segment also represents a reporting unit. The most recent annual impairment assessment was performed during the fourth quarter of 2022, using a quantitative assessment for its Varis reporting unit, and qualitative assessments for all other reporting units. The quantitative assessment for Varis reporting unit combined the income approach and the market approach valuation methodologies and concluded that the fair value of this reporting unit exceeded its carrying amount by 21%. The Varis reporting unit has been in operation since 2021, therefore the Company has less experience estimating the operating performance of this reporting unit. Changes to the critical assumptions used to estimate the fair value of this reporting unit, including changes in projected revenue growth rates, gross margin or expenses may result in a different calculation of fair value that could lead to the recognition of impairment charges in future periods.

The Company will continue to evaluate the recoverability of goodwill at the reporting unit level on an annual basis and whenever events or changes in circumstances indicate there may be a potential impairment. If the operating results of the Company’s reporting units deteriorate in the future, it may cause the fair value of one or more of the reporting units to fall below their carrying value, resulting in additional goodwill impairment charges.

NOTE 5. INCOME TAXES

The Company's effective tax rates were 28% and 24% for the second quarter and first half of 2023, respectively, and 29% and 26% for the second quarter and first half of 2022, respectively. For the second quarter and first half of 2023 and 2022, the Company's effective rates were primarily impacted by the recognition of a tax benefit associated with stock-based compensation awards year-to-date. These factors, along with the impact of state taxes and the mix of income and losses across U.S. and non-U.S. jurisdictions, caused the Company's effective tax rate to differ from the statutory rate of 21%. Changes in pretax income projections and the mix of income across jurisdictions could impact the effective tax rates in future quarters.

The Company continues to have a U.S. valuation allowance for certain U.S. federal credits and state tax attributes, which relates to deferred tax assets that require certain types of income or for income to be earned in certain jurisdictions in order to be realized. The Company will continue to assess the realizability of its deferred tax assets in the U.S. and remaining foreign jurisdictions in future periods. Changes in pretax income projections could impact this evaluation in future periods.

The Company files a U.S. federal income tax return and other income tax returns in various states and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal and state and local income tax examinations for years prior to 2021 and 2014, respectively. The acquired OfficeMax U.S. consolidated group is no longer subject to U.S. federal income tax examination, and with few exceptions, is no longer subject to U.S. state and local income tax examinations for years prior to 2013. Generally, the Company is subject to routine examination for years 2013 and forward in its international tax jurisdictions.

It is anticipated that $1 million of tax positions will be resolved within the next 12 months. Additionally, the Company anticipates that it is reasonably possible that new issues will be raised or resolved by tax authorities that may require changes to the balance of unrecognized tax benefits; however, an estimate of such changes cannot be reasonably made.

NOTE 6. EARNINGS PER SHARE

The following table represents the calculation of earnings per common share – basic and diluted:

	Second Quarter		First Half	
(In millions, except per share amounts)	**2023**	2022	**2023**	2022
Basic Earnings Per Share				
Numerator:				
Net income from continuing operations	**$ 34**	$ 20	**$ 107**	$ 75
Income from discontinued operations, net of tax	**—**	7	**—**	7
Net income	**$ 34**	$ 27	**$ 107**	$ 82
Denominator:				
Weighted-average shares outstanding	**38**	49	**40**	49
Basic earnings per share				
Continuing operations	**$ 0.89**	$ 0.40	**$ 2.70**	$ 1.54
Discontinued operations	**—**	0.15	**—**	0.14
Net basic earnings per share	**$ 0.89**	$ 0.55	**$ 2.70**	$ 1.68
Diluted Earnings Per Share				
Numerator:				
Net income from continuing operations	**$ 34**	$ 20	**$ 107**	$ 75
Income from discontinued operations, net of tax	**—**	7	**—**	7
Net income	**$ 34**	$ 27	**$ 107**	$ 82
Denominator:				
Weighted-average shares outstanding	**38**	49	**40**	49
Effect of dilutive securities:				
Stock options and restricted stock	**1**	1	**1**	1
Diluted weighted-average shares outstanding	**39**	50	**41**	50
Diluted earnings per share				
Continuing operations	**$ 0.87**	$ 0.39	**$ 2.61**	$ 1.49
Discontinued operations	**—**	0.15	**—**	0.14
Net diluted earnings per share	**$ 0.87**	$ 0.54	**$ 2.61**	$ 1.63

Awards of stock options and nonvested shares representing additional shares of outstanding common stock were 1 million and less than 1 million in the second quarter and first half of 2023, respectively, and less than 1 million in both the second quarter and first half of 2022, but they were not included in the computation of diluted weighted-average shares outstanding because their effect would have been antidilutive.

NOTE 7. DEBT

On April 17, 2020, the Company entered into the Third Amended and Restated Credit Agreement (the "Third Amended Credit Agreement"), which provided for a $1.2 billion asset-based revolving credit facility and a $100 million asset-based first-in, last-out term loan facility (the "FILO Term Loan Facility"), for an aggregate principal amount of up to $1.3 billion (the "New Facilities"). The New Facilities mature on April 17, 2025. The Third Amended Credit Agreement replaced the Company's then existing amended and restated credit agreement that was due to mature in May 2021. During the first quarter of 2022, the Company reduced its asset-based revolving credit facility by $200 million to $1.0 billion and retired $43 million of outstanding FILO Term Loan Facility loans under the Third Amended Credit Agreement. Also, during the first quarter of 2023, the Third Amended Credit Agreement was amended to replace the LIBOR-based Eurocurrency reference interest rate option with a reference interest rate option based upon SOFR. Other than the foregoing, the material terms of the Third Amended Credit Agreement remain unchanged.

As provided by the Third Amended Credit Agreement, available amounts that can be borrowed at any given time are based on percentages of certain outstanding accounts receivable, credit card receivables, inventory, cash value of company-owned life insurance policies, and certain specific real estate of the Company. During the first half of 2023, the Company elected to draw down $165 million under the Third Amended Credit Agreement to fund the repurchase of its common stock from HG Vora Special Opportunities Master Fund, Ltd. ("HG Vora") as part of the Company's existing $1 billion stock repurchase program, as well as for working capital management and timing of collections and disbursements. This was repaid during the first half of 2023, resulting in no revolving loans outstanding at July 1, 2023. Also, at July 1, 2023, the Company had $57 million of outstanding FILO Term Loan Facility loans, $39 million of outstanding standby letters of credit, and $811 million of available credit under the Third Amended Credit Agreement. The Company was in compliance with all applicable covenants at July 1, 2023.

NOTE 8. STOCKHOLDERS' EQUITY

Accumulated other comprehensive loss activity, net of tax, where applicable, is provided in the following table:

(In millions)	**Foreign Currency Translation Adjustments**	**Change in Deferred Pension and Other**	**Total**
Balance at December 31, 2022	$ (39)	$ (38)	$ (77)
Other comprehensive income activity	7	(1)	6
Balance at July 1, 2023	**$ (32)**	**$ (39)**	**$ (71)**

TREASURY STOCK

In October 2022, the Board of Directors approved a new stock repurchase program of up to $1 billion, available through December 31, 2025, which replaced the existing $600 million stock repurchase program effective November 3, 2022. The new authorization may be suspended or discontinued at any time. The exact timing of share repurchases will depend on market conditions and other factors, and will be funded through available cash balances.

The Company repurchased 724 thousand shares of its common stock at a cost of $31 million and 5 million shares of its common stock at a cost of $234 million in the second quarter and first half of 2023, respectively. Of the total shares repurchased, 2 million shares were purchased from HG Vora for a cost of $89 million pursuant to the related stock purchase agreement that the Company entered into with HG Vora, effective March 13, 2023. As of July 1, 2023, $615 million remains available for stock repurchases under the current stock repurchase program. Subsequent to the end of the second quarter of 2023 and through August 2, 2023, the Company repurchased 227 thousand shares of its common stock at a cost of $11 million.

At July 1, 2023, there were 28 million shares of common stock held in treasury. The Company's Third Amended Credit Agreement permits restricted payments, such as common stock repurchases, but may be limited if the Company does not meet the required minimum liquidity or fixed charge coverage ratio requirements. Refer to Note 7 for additional information about the Company's compliance with covenants.

DIVIDENDS ON COMMON STOCK

The Company did not declare any cash dividends in the second quarter and first half of 2023. The Company does not anticipate declaring cash dividends in the foreseeable future. The Company's Third Amended Credit Agreement permits restricted payments, such as dividends, but may be limited if the Company does not meet the required minimum liquidity or fixed charge coverage ratio requirements. Refer to Note 7 for additional information about the Company's compliance with covenants.

NOTE 9. EMPLOYEE BENEFIT PLANS

PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS – NORTH AMERICA

The components of net periodic pension benefit for the Company's North America pension plans are as follows:

	Second Quarter		First Half	
(In millions)	**2023**	2022	**2023**	2022
Service cost	**$ —**	$ —	**$ —**	$ —
Interest cost	**8**	5	**16**	11
Expected return on plan assets	**(8)**	(7)	**(17)**	(13)
Amortization of gain	**(2)**	—	**(3)**	—
Net periodic pension benefit	**$ (2)**	$ (2)	**$ (4)**	$ (2)

The North America qualified pension plan is in a net asset position and included in Other assets in the Condensed Consolidated Balance Sheets at July 1, 2023 and December 31, 2022. The North America nonqualified pension plan is in a net liability position and included in Pension and postretirement obligations, net in the Condensed Consolidated Balance Sheets at July 1, 2023 and December 31, 2022. During the first half of 2023, $1 million of cash contributions were made to the North America pension plans. The Company expects to make additional cash contributions of approximately $1 million to the North America pension plans during the remainder of 2023.

PENSION PLAN – UNITED KINGDOM

The components of net periodic pension benefit for the Company's pension plan in the United Kingdom ("UK") are as follows:

	Second Quarter		First Half	
(In millions)	**2023**	2022	**2023**	2022
Service cost	**$ —**	$ —	**$ —**	$ —
Interest cost	**1**	1	**3**	2
Expected return on plan assets	**(1)**	(2)	**(3)**	(3)
Net periodic pension benefit	**$ —**	$ (1)	**$ —**	$ (1)

The UK pension plan is in a net asset position and included in Other assets in the Condensed Consolidated Balance Sheets at July 1, 2023 and December 31, 2022. During the first half of 2023, no cash contributions were made to the UK pension plan. The Company is not required to make any additional cash contributions to the UK pension plan in the remainder of 2023.

Net periodic pension benefits for the North America and UK pension plans and other postretirement benefit plans (the "Plans") are recorded at the Corporate level. The service cost for the Plans are reflected in Selling, general and administrative expenses, and the other components of net periodic pension benefits are reflected in Other income, net, in the Condensed Consolidated Statements of Operations.

In July 2023, in accordance with applicable UK pension regulations, Trustees of the UK pension plan entered into an agreement with an insurer for the bulk annuity purchase of the plan, covering 100% of the plan's members. The insurer was selected after careful consideration of offers received from multiple independent insurers. This agreement, or buy-in, will result in an exchange of plan assets for an annuity that covers the plan's future projected benefit obligations. The initial value of the asset associated with this contract is equal to the premium paid to the insurer to secure the insurance policy. In accordance with US GAAP, the Company will set the value of its liability obligations covered by the annuity buy-in contract to be equal to the fair value of the buy-in contract. The Company anticipates the buyout of the plan and transfer of future benefit obligations of plan participants to be completed with existing plan funds as early as 2024. Accordingly, the Company does not expect the transaction to result in material cash inflows or outflows. At the completion of the buy-out, the Company will remove the assets and liabilities of the UK pension plan from its Consolidated Balance Sheet and a final non-cash plan settlement loss will be included in net periodic pension cost.

NOTE 10. FAIR VALUE MEASUREMENTS

The Company measures fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. In developing its fair value estimates, the Company uses the following hierarchy:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3: Significant unobservable inputs that are not corroborated by market data. Generally, these fair value measures are model-based valuation techniques such as discounted cash flows or option pricing models using the Company's own estimates and assumptions or those expected to be used by market participants.

RECURRING FAIR VALUE MEASUREMENTS

In accordance with GAAP, certain assets and liabilities are required to be recorded at fair value on a recurring basis. The Company's assets and liabilities that are adjusted to fair value on a recurring basis are money market funds that qualify as cash equivalents, and derivative financial instruments, which may be entered into to mitigate risks associated with changes in foreign currency exchange rates, fuel and other commodity prices and interest rates. The Company did not have derivative financial instruments during the second quarter and year-to-date 2023.

NONRECURRING FAIR VALUE MEASUREMENTS

In addition to assets and liabilities that are recorded at fair value on a recurring basis, the Company records certain assets and liabilities at fair value on a nonrecurring basis as required by GAAP. Generally, assets are recorded at fair value on a nonrecurring basis as a result of impairment charges. In the second quarter and first half of 2023, the Company recognized asset impairment charges of $6 million and $10 million, respectively. Of these asset impairment charges, $4 million and $7 million in the second quarter and first half of 2023, respectively, related to the impairment of operating lease right-of-use ("ROU") assets associated with the Company's retail store locations, with the remainder relating to impairment of fixed assets and other impairment. In the second quarter and first half of 2022, the Company recognized asset impairment charges of $3 million and $5 million, respectively, primarily related to the impairment of operating lease ROU assets associated with the Company's retail store locations. All impairment charges discussed in the sections below are presented in Asset impairments in the Condensed Consolidated Statements of Operations.

The Company regularly reviews retail store assets for impairment indicators at the individual store level, as this represents the lowest level of identifiable cash flows. When indicators of impairment are present, a recoverability analysis is performed which considers the estimated undiscounted cash flows over the retail store's remaining life and uses input from retail operations and accounting and finance personnel. These inputs include management's best estimates of retail store-level sales, gross margins, direct expenses, exercise of future lease renewal options when reasonably certain to be exercised, and resulting cash flows that can naturally include judgments about how current initiatives will impact future performance. The assumptions used within the recoverability analysis for the retail stores were updated to consider current quarter retail store operational results and formal plans for future retail store closures as part of the Company's restructuring programs, including the probability of closure at the retail store level. While it is generally understood that closures will approximate the store's lease termination date, it is possible that changes in store performance or other conditions could result in future changes in assumptions utilized. These assumptions reflected declining sales over the forecast period, and gross margin and operating cost assumptions that are consistent with recent actual results and consider plans for future initiatives.

If the undiscounted cash flows of a retail store cannot support the carrying amount of its assets, the assets are impaired if necessary and written down to estimated fair value. The fair value of retail store assets is determined using a discounted cash flow analysis which uses Level 2 unobservable inputs that are corroborated by market data such as independent real estate valuation opinions. Specifically, the analysis uses assumptions of potential rental rates for each retail store location which are based on market data for comparable locations. These estimated cash flows used in the second quarter of 2023 impairment calculation were discounted at a weighted average discount rate of 8%.

The Company will continue to evaluate initiatives to improve performance and lower operating costs. There are uncertainties regarding the impact of supply chain and macroeconomic conditions on the future results of operations, including the forecast period used in the recoverability analysis. To the extent that forward-looking sales and operating assumptions are not achieved and are subsequently reduced, additional impairment charges may result. However, at the end of the second quarter of 2023, the impairment recognized reflects the Company's best estimate of future performance.

In addition to its retail store assets, the Company also regularly evaluates whether there are impairment indicators associated with its other long-lived assets. The Company did not identify any impairment indicators for these long-lived assets as of July 1, 2023, and as a result, there were no associated impairment charges.

The Company's corporate headquarters in Boca Raton met the criteria to be classified as held for sale during the third quarter of 2022. The asset was measured at the lower of its carrying amount or estimated fair value less costs to sell upon classification to held for sale, which was $104 million, and did not result in any valuation reserve being recorded. Accordingly, the Company presented its corporate headquarters in Boca Raton within current assets held for sale in the Condensed Consolidated Balance Sheets as of December 31, 2022. The Company had entered into an agreement in principle with a third-party buyer to sell this facility. The sales transaction was completed on April 6, 2023, for a sale price of $104 million. As a result, there were no gains or losses recorded as a result of the sales transaction in the second quarter and first half of 2023. Upon the completion of the sale, the Company also leased back a portion of the building's office space from the new owner.

OTHER FAIR VALUE DISCLOSURES

The fair values of cash and cash equivalents, receivables, trade accounts payable and accrued expenses and other current liabilities approximate their carrying values because of their short-term nature.

The following table presents information about financial instruments at the balance sheet dates indicated.

	July 1, 2023		**December 31, 2022**	
(In millions)	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Financial assets:				
Company-owned life insurance	**136**	**136**	138	138
Financial liabilities:				
Long-term debt:				
New Facilities loans under the Third Amended Credit Agreement, due 2025	**57**	**57**	57	57
Revenue bonds, due in varying amounts periodically through 2029	**75**	**76**	75	76
American & Foreign Power Company, Inc. 5% debentures, due 2030	**16**	**13**	15	14

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

- *Company-owned life insurance*: In connection with the 2013 OfficeMax merger, the Company acquired company-owned life insurance policies on certain former employees. The fair value of the company-owned life insurance policies is derived using determinable net cash surrender value, which is the cash surrender value less any outstanding loans (Level 2 measure). Death benefits received on company-owned life insurance policies, which are tax-free at payout, typically exceed their cash surrender values.
- *Long-term debt*: Long-term debt, for which there were no transactions on the measurement date, was valued based on quoted market prices near the measurement date when available or by discounting the future cash flows of each instrument using rates based on the most recently observable trade or using rates currently offered to the Company for similar debt instruments of comparable maturities (Level 2 measure). The carrying amount of the New Facilities loans under the Third Amended Credit Agreement approximates fair value because the interest rates vary with market interest rates. Refer to Note 7 for additional information about the Third Amended Credit Agreement.

NOTE 11. COMMITMENTS AND CONTINGENCIES

LEGAL MATTERS

The Company is involved in litigation arising in the normal course of business. While, from time to time, claims are asserted that make demands for a large sum of money (including, from time to time, actions which are asserted to be maintainable as class action suits), the Company does not believe that contingent liabilities related to these matters (including the matters discussed below), either individually or in the aggregate, will materially affect the Company's financial position, results of operations, or cash flows.

In the ordinary course of business, sales to and transactions with government customers may be subject to lawsuits, investigations, audits and review by governmental authorities and regulatory agencies, with which the Company cooperates. Many of these lawsuits, investigations, audits and reviews are resolved without material impact to the Company. While claims in these matters may at times assert large demands, the Company does not believe that contingent liabilities related to these matters, either individually or in the aggregate, will materially affect its financial position, results of operations, or cash flows.

In addition to the foregoing, OfficeMax is named as a defendant in a number of lawsuits, claims, and proceedings arising out of the operation of certain paper and forest products assets prior to those assets being sold in 2004, for which OfficeMax agreed to retain responsibility. Also, as part of that sale, OfficeMax agreed to retain responsibility for all pending, threatened and future proceedings alleging asbestos-related injuries arising out of the operation of the paper and forest products assets prior to the closing of the sale. The Company has made provision for losses with respect to the pending proceedings. Additionally, as of July 1, 2023, the Company has made provision for environmental liabilities with respect to certain sites where hazardous substances or other contaminants are or may be located. For these liabilities, the Company's estimated range of reasonably possible losses was approximately $15 million to $25 million. The Company regularly monitors its estimated exposure to these liabilities. As additional information becomes known, these estimates may change, however, the Company does not believe any of these OfficeMax retained proceedings are material to the Company's financial position, results of operations, or cash flows.

NOTE 12. DISCONTINUED OPERATIONS

The Company sold its former CompuCom Division through a single disposal group on December 31, 2021. The transaction was structured and accounted for as an equity sale. The related Securities Purchase Agreement ("SPA") provides for consideration consisting of a cash purchase price equal to $125 million (subject to customary adjustments, including for cash, debt and working capital), an interest-bearing promissory note in the amount of $55 million, and a holding fee ("earn-out") provision providing for payments of up to $125 million in certain circumstances. The promissory note accrues interest at six percent per annum, payable on a quarterly basis in cash or in-kind, and is due in full on June 30, 2027. Under the earn-out provision, if the purchaser receives dividends or sale proceeds from the CompuCom business equal to (i) three (3) times its initial capital investment in the CompuCom business plus (ii) 15% per annum on subsequent capital investments, the Company will be entitled to 50% of any subsequent dividends or sale proceeds up to and until the Company has received an aggregate of $125 million. The Company also agreed to provide certain transitional services to the purchaser for a period of three to twelve months under a separate agreement after closing. The SPA contains customary warranties of the Company and the purchaser.

In the fourth quarter of 2022, the Company and the purchaser settled on the cash, debt and working capital adjustments, which resulted in the total cash purchase price of $104 million. At the closing date of the transaction, on December 31, 2021, the Company had previously received $95 million from the purchaser. Of the additional $9 million to be received to settle the total cash purchase price, $5 million was received in the first quarter of 2023, and the promissory note was amended in February 2023 to include the remaining $4 million, bringing its principal balance to $59 million. The earn-out provision was identified to be a derivative in accordance with ASC 815, and its fair value was determined using Monte Carlo simulation as $9 million. The promissory note and the earn-out are non-current receivables as of July 1, 2023.

The Company did not have any financial results related to discontinued operations on its condensed consolidated statement of operations in the second quarter and first half of 2023. During the first quarter of 2022, the Company had loss on disposal of CompuCom of $1 million, representing third party professional fees incurred in connection with the sale. During the second quarter and first half of 2022, the Company received $7 million of insurance proceeds for the malware incident that occurred in 2021 reflected in gain on disposal of discontinued operations.

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

Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995

This document, including the following discussion and analysis, contains statements that constitute “forward-looking statements” within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and Section 27A of the Securities Act of 1933, as amended. All statements that are not statements of historical fact are forward-looking statements. Without limitation, when we use the words “believe,” “estimate,” “plan,” “expect,” “intend,” “anticipate,” “continue,” “may,” “project,” “probably,” “should,” “could,” “will” and similar expressions in this Quarterly Report on Form 10-Q, we are identifying forward-looking statements (as such term is defined in the Private Securities Litigation Reform Act of 1995). These statements appear in a number of places in this discussion and analysis and include statements regarding the intent, belief or current expectations of the Company, its directors or its officers with respect to, among other things, trends affecting the Company’s financial condition or results of operations, the Company’s ability to achieve its strategic plans, the potential impact of the COVID-19 pandemic on our business, liquidity, suppliers, consumers, customers, and employees, disruptions or inefficiencies in our supply chain, our strategic shift to maintain all of our businesses under common ownership, our ability to mitigate or manage disruptions posed by COVID-19, uncertainties arising from the Russia-Ukraine conflict, and macroeconomic drivers and their effect on the U.S. economy, changes in worldwide and U.S. economic conditions including higher interest rates that materially impact consumer spending and employment and the demand for our products and services, and the outcome of contingencies such as litigation and investigations. Readers are cautioned that any forward-looking statements are not guarantees of future performance and involve risks and uncertainties. More information regarding these risks, uncertainties and other important factors that could cause actual results to differ materially from those in the forward-looking statements is set forth herein under “Risk Factors,” found in Other Information which supplements our discussion of “Risk Factors” within Other Key Information in our Annual Report on Form 10-K filed on March 1, 2023 (the “2022 Form 10-K”) with the SEC, Forward-Looking Statements, found in our 2022 Form 10-K.

Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) is intended to provide information to assist readers in better understanding and evaluating our financial condition and results of operations. We recommend reading this MD&A in conjunction with our Condensed Consolidated Financial Statements and the Notes to those statements included in the “Financial Statements” section of this Quarterly Report on Form 10-Q, as well as our 2022 Form 10-K.

OVERVIEW

THE COMPANY

We are a leading provider of products, services and technology solutions through an integrated business-to-business (“B2B”) distribution platform and omni-channel presence, which includes supply chain and distribution operations, dedicated sales professionals, a B2B digital procurement solution, online presence, and a network of Office Depot and OfficeMax retail stores. Through our operating companies ODP Business Solutions, LLC; Office Depot, LLC; Veyer, LLC; and Varis, LLC, we empower every business, professional, and consumer to achieve more every day.

As of July 1, 2023, our operations are organized into four reportable segments (or “Divisions”), as described below. We sold our CompuCom Division through a single disposal group on December 31, 2021. Accordingly, that business is presented as discontinued operations.

ODP Business Solutions Division – Our leading B2B distribution solutions provider serving small, medium and enterprise level companies, including those in the public and education sectors. This segment includes the contract sales channel of our previous Business Solutions Division, and operates in the United States, Puerto Rico, the U.S. Virgin Islands, and Canada. The ODP Business Solutions Division sells nationally branded, as well as our private branded, office supply and adjacency products and services to customers, who are served through a dedicated sales force, catalogs, telesales, and electronically through our Internet websites. Adjacency products and services include cleaning, janitorial, and breakroom supplies, office furniture, technology products, and copy and print services. This segment also includes our Federation entities, which are over a dozen regional office supply distribution businesses acquired by us as part of our transformation to expand our reach and distribution network into geographic areas that were previously underserved, and which continue to operate under their own brand names. The acquisition of these businesses has allowed for an effective and accretive means to expand our distribution reach, target new business customers and grow our offerings beyond traditional office supplies.

Office Depot Division - Our leading provider of retail consumer and small business products and services distributed through a fully integrated omni-channel platform of 952 Office Depot and OfficeMax retail locations in the United States, Puerto Rico and the U.S. Virgin Islands, and an eCommerce presence (www.officedepot.com). Our Office Depot Division sells office supplies, technology products and solutions, business machines and related supplies, cleaning, breakroom and facilities products, personal protective equipment, and office furniture as well as offering business services including copying, printing, digital imaging, mailing, shipping and technology support services. In addition, the print needs for retail and business customers are facilitated through our regional print production centers.

Veyer Division – Our supply chain, distribution, procurement and global sourcing operation, which has over 35 years of experience with proven leadership. The Veyer Division specializes in B2B and consumer business service delivery, with core competencies in distribution, fulfillment, transportation, global sourcing and purchasing. The Veyer Division's customers include our Office Depot Division and ODP Business Solutions Division, as well as third-party customers. The Veyer Division also includes the Company's global sourcing operations in Asia.

Varis Division – Our tech-enabled B2B indirect procurement marketplace, which provides a seamless way for buyers and suppliers to transact through the platform's consumer-like buying experience, advanced spend management tools, network of suppliers, and technology capabilities. In connection with our development efforts of this Division, we acquired BuyerQuest Holdings, Inc. ("BuyerQuest") in 2021, a software as a service eProcurement platform company. BuyerQuest's operating results are included in our Varis Division. The Varis Division currently serves enterprise businesses and provides its services to middle- and small-sized businesses. It is focused on filling the growing demand for a B2B centric digital commerce platform that is modern, trusted, and provides the procurement controls and visibility businesses require to operate.

ACQUISITIONS

We have been acquiring profitable regional office supply distribution businesses to expand our reach and distribution network into geographic areas that were previously underserved. During the first half of 2023, we acquired a small independent regional office supply distribution business in the U.S. Our strategy has been to acquire businesses with purchase prices ranging from $5 million to $15 million, which were individually insignificant to us. The business acquired was consistent with acquisitions of similar sized businesses in the past and the acquisition was primarily funded with cash on hand. The operating results of this small office supply business is combined with our operating results subsequent to its purchase date, and is included in our ODP Business Solutions Division segment. Refer to Note 2. "Acquisitions" in Notes to Condensed Consolidated Financial Statements for additional information.

DISPOSITIONS

The sale of CompuCom, which represented our former CompuCom Division, was completed on December 31, 2021. The transaction was structured and accounted for as an equity sale. The related Securities Purchase Agreement ("SPA") provides for consideration consisting of a cash purchase price equal to $125 million (subject to customary adjustments, including for cash, debt and working capital), an interest-bearing promissory note in the amount of $55 million, and a holding fee ("earn-out") provision providing for payments of up to $125 million in certain circumstances. The promissory note accrues interest at six percent per annum, payable on a quarterly basis in cash or in-kind, and is due in full on June 30, 2027. Under the earn-out provision, if the purchaser receives dividends or sale proceeds from the CompuCom business equal to (i) three (3) times its initial capital investment in the CompuCom business plus (ii) 15% per annum on subsequent capital investments, the Company will be entitled to 50% of any subsequent dividends or sale proceeds up to and until the Company has received an aggregate of $125 million. The Company also agreed to provide certain transitional services to the purchaser for a period of three to twelve months under a separate agreement after closing. The SPA contains customary warranties of the Company and the purchaser.

In February 2023, the Company and the purchaser reached a settlement on the cash, debt and working capital adjustments, and amended the promissory note which increased its principal balance to $59 million. The sale of CompuCom represented a strategic shift that had a major impact on our operations and financial results. Accordingly, the operating results and cash flows are classified as discontinued operations for all periods presented. Refer to Note 12. "Discontinued Operations" in Notes to Condensed Consolidated Financial Statements for additional information.

COVID-19 UPDATE

For a discussion of the impacts to our business from COVID-19, refer to "COVID-19 Update" included in Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations, certain risk factors included in Item 1A Risk Factors in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022 and the information presented below within "Operating Results by Division."

CONSOLIDATED RESULTS OF CONTINUING OPERATIONS AND LIQUIDITY

The following summarizes the more significant factors impacting our operating results for the 13-week and 26-week periods ended July 1, 2023 (also referred to as the "second quarter of 2023" and the "first half of 2023") and June 25, 2022 (also referred to as the "second quarter of 2022" and the "first half of 2022"). Prior year amounts have been recast to conform to the current presentation of our reportable segments, which were re-aligned in the third quarter of 2022.

Our consolidated sales were $126 million, or 6%, lower in the second quarter of 2023 compared to the same period of the prior year. Sales in our ODP Business Solutions Division increased $4 million as compared to the same period in the prior year. The increase in sales in our ODP Business Solutions Division were mainly in categories of paper, furniture, cleaning and breakroom supplies, and copy and print services. These increases in sales were partially offset by decreases in sales of technology, ink, toner, office supplies, and personal protective equipment. Sales in our Office Depot Division decreased $134 million, or 13%, as compared to the same period in the prior year, mainly as a result of planned store closures and lower demand at our retail stores and eCommerce platform. Our Office Depot Division had lower demand in certain product categories that had higher sales in the prior year comparable quarter driven by the needs of our customers to help address their challenges derived from the COVID-19 pandemic, such as facilitating the continued remote work environment. The contribution of our Veyer Division and Varis Division to consolidated sales was not material.

Our consolidated sales were $196 million, or 5%, lower in the first half of 2023 compared to the same period of the prior year. Sales in our ODP Business Solutions Division increased $31 million, or 2%, as compared to the same period in the prior year. The increase in sales in our ODP Business Solutions Division were mainly in categories of paper, furniture, cleaning and breakroom, school and office supplies and copy and print services. These increases in sales were partially offset by decreases in mainly personal protective equipment and technology. Sales in our Office Depot Division decreased $234 million, or 11%, as compared to the same period in the prior year, mainly as a result of planned store closures and lower demand. Our Office Depot Division had lower demand in certain product categories that had higher sales in the prior year comparable period driven by the needs of our customers to help address challenges derived from the COVID-19 pandemic, such as facilitating the continued remote work environment. The contribution of Veyer Division and Varis Division to consolidated sales was not material.

Sales (External)	**Second Quarter**			**First Half**		
(In millions)	**2023**	2022	**Change**	**2023**	2022	**Change**
ODP Business Solutions Division	**$ 999**	$ 995	**0 %**	**$ 2,004**	$ 1,973	**2 %**
Office Depot Division	**897**	1,031	**(13)%**	**1,991**	2,225	**(11)%**
Veyer Division	**10**	7	**43 %**	**17**	10	**70 %**
Varis Division	**2**	1	**100 %**	**4**	4	**0 %**
Total	**$ 1,908**	$ 2,034	**(6)%**	**$ 4,016**	$ 4,212	**(5)%**

OTHER SIGNIFICANT FACTORS IMPACTING TOTAL COMPANY RESULTS AND LIQUIDITY

- Total gross profit decreased $16 million, or 4% in the second quarter of 2023 when compared to the same period in 2022. Our ODP Business Solutions Division had $14 million higher gross profit resulting from favorable product margin, which was more than offset by $30 million decrease in gross profit of our Office Depot Division. The decrease in the Office Depot Division gross profit in the second quarter of 2023 is due to the flow through impact of lower sales. Veyer Division and Varis Division gross profits were flat in the second quarter of 2023 when compared to the same period in 2022. Total gross profit decreased $19 million, or 2% in the first half of 2023 when compared to the same period in 2022. Our ODP Business Solutions Division had $36 million higher gross profit resulting from higher sales and favorable product costs, and our Veyer Division had $7 million higher gross profit due to lower product costs. Our Varis Division also contributed $1 million to the increase in gross profit. These increases were more than offset by a $63 million decrease in gross profit of our Office Depot Division. The decrease in the Office Depot Division gross profit in the first half of 2023 is due to the flow through impact of lower sales. In the first half of 2023, our supply chain and occupancy costs have been impacted by inflationary pressures, including labor, facility and store rents, and utilities.
- Total gross margin for both the second quarter and first half of 2023 was 22%. Total gross margin for the second quarter and first half of 2022 was 21% and 22%, respectively.

- Total selling, general and administrative expenses decreased $15 million and $28 million in the second quarter and first half of 2023, respectively, when compared to the same periods in 2022. This was mainly driven by a $16 million and $38 million decrease in our Office Depot Division in the second quarter and first half of 2023, respectively. The decrease in our Office Depot Division was driven by store closures and certain strategic initiatives, including the Maximize B2B Restructuring Plan, aimed to generate savings through optimizing our retail footprint and remove corresponding costs supporting our Office Depot Division as our retail footprint is reduced. This decrease was partially offset by increases related to employee costs in our ODP Business Solutions Division and Veyer Division. Also impacting the second quarter of 2023 were $5 million lower costs at corporate and our Varis Division, which mainly related to employee costs. Selling, general and administrative expenses as a percentage of total sales was flat in the second quarter and first half of 2023 as compared to the same prior year periods.

- We recorded $6 million and $10 million of asset impairment charges in the second quarter and first half of 2023, respectively, primarily related to the impairment of operating lease ROU assets associated with our retail store locations, with the remainder relating to impairment of fixed assets and other impairment. Refer to Note 10. “Fair Value Measurements” in Notes to Condensed Consolidated Financial Statements for additional information.

- Our merger, restructuring and other operating expenses, net was $1 million both in the second quarter and first half of 2023. The expenses in both periods related to restructuring activities, and transaction and integration costs. Refer to Note 3. “Merger, Restructuring and Other Activity” in Notes to Condensed Consolidated Financial Statements for additional information.

- For the second quarter and first half of 2023 and 2022, the Company’s effective tax rates were primarily impacted by the recognition of a tax benefit associated with stock-based compensation awards year-to-date. These factors, along with the impact of state taxes and the mix of income and losses across U.S. and non-U.S. jurisdictions, caused the Company’s effective tax rate of 28% for the second quarter of 2023 to differ from the statutory rate of 21%. Changes in pretax income projections and the mix of income across jurisdictions could impact the effective tax rates in future quarters. Refer to Note 5. “Income Taxes” in Notes to Condensed Consolidated Financial Statements for additional information.

- Diluted earnings per share from continuing operations was $0.87 in the second quarter of 2023 compared to $0.39 in the second quarter of 2022. Diluted earnings per share from continuing operations was $2.61 in the first half of 2023 compared to $1.49 in the first half of 2022. The increase in diluted earnings per share from continuing operations in the second quarter and first half of 2023 compared to the same prior year periods is due to higher net income and lower weighted average shares. Refer to Note 6. “Earnings Per Share” in Notes to Condensed Consolidated Financial Statements for additional information.

- There were no diluted earnings per share from discontinued operations in either the second quarter of 2023 or first half of 2023, compared to $0.15 and $0.14 in the second quarter of 2022 and first half of 2022, respectively.

- Net diluted earnings per share was $0.87 in the second quarter of 2023 compared to $0.54 in the second quarter of 2022. Net diluted earnings per share was $2.61 in the first half of 2023 compared to $1.63 in the first half of 2022.

- We repurchased 724 thousand shares of our common stock in the second quarter of 2023 for total consideration of $31 million. In the first half of 2023, we repurchased 5 million shares of our common stock for total consideration of $234 million. As of July 1, 2023, $615 million remains available for stock repurchases under the current stock repurchase program. Subsequent to the end of second quarter of 2023 and through August 2, 2023, we bought back 227 thousand shares of our common stock at a cost of $11 million.

- At July 1, 2023, we had $335 million in cash and cash equivalents and $811 million of available credit under the Third Amended Credit Agreement (as defined in Note 7. “Debt” in Notes to Condensed Consolidated Financial Statements), for a total liquidity of approximately $1.1 billion. Cash provided by operating activities of continuing operations was $149 million in the first half of 2023 compared to cash used in operating activities of continuing operations of $84 million in the comparable prior year period. Refer to the “Liquidity and Capital Resources” section for further information on cash flows.

OPERATING RESULTS BY DIVISION

Discussion of additional income and expense items, including material charges and credits and changes in interest and income taxes follows our review of segment results.

ODP BUSINESS SOLUTIONS DIVISION

(In millions)	Second Quarter		First Half	
	2023	2022	**2023**	2022
Sales (external)	**$ 999**	$ 995	**$ 2,004**	$ 1,973
Sales (internal)	**$ 3**	$ 5	**$ 7**	$ 11
% change of total sales	**0 %**		**1 %**	
Division operating income	**$ 45**	$ 36	**$ 84**	$ 55
% of total sales	**4 %**	4 %	**4 %**	3 %

Sales in our ODP Business Solutions Division increased $2 million in the second quarter of 2023 compared to the corresponding quarter in 2022. During the second quarter of 2023, our ODP Business Solutions Division experienced $31 million higher sales across certain product categories including paper, furniture, cleaning and breakroom supplies, and copy and print services. In addition to continued demand from our business-to-business customers, inflationary price adjustments contributed to the increase in sales. These increases were partially offset by a decline of $29 million, which was mainly in technology, ink, toner, office supplies, and personal protective equipment as demand for these categories decreased. Sales include internal sales of $3 million and $5 million in the second quarter of 2023 and the second quarter of 2022, respectively, which relate to ODP Business Solutions Division customers' transactions held at Office Depot Division retail store locations.

Sales in our ODP Business Solutions Division increased by $27 million in the first half of 2023 compared to the corresponding period in 2022. During the first half of 2023, our ODP Business Solutions Division experienced $90 million higher sales across certain product categories including paper, furniture, cleaning and breakroom, school and office supplies and copy and print services. In addition to continued demand from our business-to-business customers, inflationary price adjustments contributed to the increase in sales. These increases were partially offset by a decline of $63 million, which was mainly in personal protective equipment as demand for that category decreases, and technology. Sales include internal sales of $7 million and $11 million in the first half of 2023 and the first half of 2022, respectively, which relates to ODP Business Solutions Division customers' transactions held at Office Depot Division retail store locations. The impact of the small independent regional office supply distribution business we acquired in the first half of 2023 was not material to our sales.

Our ODP Business Solutions Division sales could be impacted in the near term related to numerous factors, among others, a weaker U.S. economy and higher unemployment and inflation that materially impact spending, the demand for our products and services and the availability of supply. The changes in work environments as a result of the COVID-19 outbreak has been material to the results of the ODP Business Solutions Division in the second quarter and first half of 2023. A prolonged or permanent shift to hybrid or continued remote work arrangements, as well as the substance and pace of macroeconomic recovery could also have a material impact to the future results of the ODP Business Solutions Division.

Our ODP Business Solutions Division operating income was $45 million in the second quarter of 2023 compared to $36 million in the second quarter of 2022, an increase of 25%, which was mainly driven by favorable product margin and higher gross profit. This was partially offset by an increase in employee related costs. As a percentage of sales, operating income increased approximately 100 basis points. Our selling, general and administrative expenses as a percentage of sales increased 41 basis points compared to the corresponding period in the prior year.

Our ODP Business Solutions Division operating income was $84 million in the first half of 2023 compared to $55 million in the first half of 2022, an increase of 53%, which was mainly driven by the flow through impact of higher sales and higher gross profit. As a percentage of sales, operating income increased approximately 140 basis points. Our selling, general and administrative expenses as a percentage of sales was flat compared to the corresponding period in the prior year.

OFFICE DEPOT DIVISION

(In millions)	Second Quarter 2023	Second Quarter 2022	First Half 2023	First Half 2022
Sales (external)	**$ 897**	$ 1,031	**$ 1,991**	$ 2,225
Sales (internal)	**$ 8**	$ 8	**$ 17**	$ 15
% change of total sales	**(13)%**		**(10)%**	
Division operating income	**$ 35**	$ 49	**$ 120**	$ 145
% of total sales	**4%**	5%	**6%**	6%
Comparable store sales decrease	**(8)%**	N/A	**(5)%**	N/A

Sales in our Office Depot Division decreased 13% and 10% in the second quarter and first half of 2023, respectively, compared to the corresponding periods in 2022. Since the prior year when the impacts of the COVID-19 pandemic began to recede, more of our customers have transitioned into on-site work and in-person learning, which resulted in a recovery of our copy and print services. We experienced $8 million and $20 million of increased sales in copy and print services in the second quarter and first half of 2023, respectively, compared to the corresponding periods in 2022. This was more than offset by fewer transactions in product sales for the second quarter and first half of 2023, as a result of planned store closures, lower demand, and lower average order values in our stores as well as through our eCommerce platform. Specifically, technology products, furniture, office supplies, and cleaning supplies had lower sales in the second quarter and first half of 2023, compared to the corresponding periods in 2022. These categories had experienced higher demand in the same prior year periods due to the needs of our customers to help address their challenges derived from the COVID-19 pandemic, which has been gradually decreasing since the prior year.

We believe sales in our Office Depot Division may continue to be adversely impacted in the near term and potentially longer related to numerous factors, among others, a weaker U.S. economy and higher unemployment that materially impact consumer spending, and the demand for our products and services.

Sales include internal sales of $8 million and $17 million in the second quarter and first half of 2023, respectively, which relate to print services provided to the ODP Business Solutions Division as well as internal service fee for providing buy online, pick up in store ("BOPIS") transactions to ODP Business Solutions Division customers.

Sales generated through our eCommerce platform includes online sales fulfilled through warehouses, BOPIS transactions, online orders shipped from store, and same day delivery orders fulfilled with retail store inventory. These sales represented 30% and 29% of Office Depot Division's total sales in the second quarter and first half of 2023, respectively, as compared to 30% of total sales in both the comparable prior periods.

Comparable store sales decreased 8% and 5% in the second quarter and first half of 2023, respectively, reflecting lower store traffic and average order value, partially offset by higher conversion rate. The average order value was impacted by lower sales in our workspace and computer product categories. Our comparable store sales relate to stores that have been open for at least one year. Stores are removed from the comparable sales calculation one month prior to closing, as sales during that period are mostly related to clearance activity. Stores are also removed from the comparable sales calculation during periods of store remodeling, store closures due to hurricanes or natural disasters, or if significantly downsized. Our measure of comparable store sales has been applied consistently across periods but may differ from measures used by other companies.

Our Office Depot Division operating income was $35 million in the second quarter of 2023, which decreased 29% as compared to $49 million in the second quarter of 2022. Operating income as a percentage of sales decreased approximately 90 basis points in the second quarter of 2023 and the corresponding period in 2022. The reduction in operating income was mainly due to the flow through impact of lower sales, partially offset by 40 basis point higher gross margin rate primarily due to improved product margin. Selling, general and administrative costs as a percentage of sales was 130 basis points higher compared to the corresponding period in the prior year, mainly due to deleveraging from lower sales. Our Office Depot Division operating income was $120 million in the first half of 2023, which decreased 17% as compared to $145 million in the first half of 2022. Operating income as a percentage of sales decreased 50 basis points in the first half of 2023 compared to the corresponding period in 2022. The reduction in operating income was mainly due to the flow through impact of lower sales as well as a 10 basis point lower gross margin rate primarily due to higher supply chain and occupancy costs. Selling, general and administrative costs as a percentage of sales was 40 basis points higher compared to the corresponding period in the prior year, mainly due to deleveraging from lower sales.

As of July 1, 2023, our Office Depot Division operated 952 retail stores in the United States, Puerto Rico and the U.S. Virgin Islands compared to 1,020 stores at the end of the second quarter of 2022. Charges associated with store closures as part of a restructuring plan are reported as appropriate in Asset impairments and Merger, restructuring and other operating expenses, net in the Condensed Consolidated Statements of Operations. In addition, as part of our periodic recoverability assessment of owned retail stores and distribution center assets, and operating lease ROU assets, we recognize impairment charges in the Asset impairments line item of our Condensed Consolidated Statements of Operations. These charges are reflected in Corporate reporting and are not included in the determination of Division operating income. Refer to the "Corporate" section below for additional information of expenses incurred to date.

VEYER DIVISION

(In millions)	Second Quarter 2023	Second Quarter 2022	First Half 2023	First Half 2022
Sales (external)	**$ 10**	$ 7	**$ 17**	$ 10
Sales (internal)	**$ 1,312**	$ 1,409	**$ 2,725**	$ 2,937
% change of total sales	**(7)%**		**(7)%**	
Division operating income	**$ 6**	$ 8	**$ 21**	$ 16
% of total sales	**0 %**	1 %	**1 %**	1 %

Internal sales represent sales of product and supply chain services provided to our Office Depot Division and ODP Business Solutions Division, which are then sold to third-party customers through those divisions. Internal sales of product are made at a price that includes a service fee to the cost of product we source from third-party vendors, net of the impact of vendor income, and certain other adjustments. Internal sales of services represent supply chain and logistics support services, which include warehousing, shipping and handling, returns and others. These internal sales of services are also provided to the Office Depot Division and the ODP Business Solutions Division, at a service fee over cost. Internal sales are eliminated upon consolidation.

Our Veyer Division aims to be the lowest cost provider to the Office Depot Division and the ODP Business Solutions Division, with the purpose of achieving the most favorable outcome for our consolidated results. As a result, Veyer Division's internal sales and profitability related to these internal sales could be impacted by product cost fluctuations and activities that we may undertake to drive efficiencies in the Veyer Division, including rebates we may receive from third-party vendors, as well as decisions made independently by the Office Depot Division and ODP Business Solutions Division for alternative sourcing options to meet customer needs.

In the second quarter of 2023 and the second quarter of 2022, $607 million and $683 million of internal sales are to the Office Depot Division, and $705 million and $726 million are to the ODP Business Solutions Division, respectively. The decrease in internal sales to the Office Depot Division is related to the decline in customer demand at our retail stores and eCommerce platform, which is discussed further in the Office Depot Division section above. The decrease in internal sales to the ODP Business Solutions Division is related to reduced demand experienced by ODP Business Solutions Division for certain product categories during the second quarter of 2023, which is discussed further in the ODP Business Solutions Division section above. In the first half of 2023 and the first half of 2022, $1.3 billion and $1.5 billion of internal sales are to the Office Depot Division, respectively, and $1.4 billion and $1.5 billion are to the ODP Business Solutions Division, respectively. The drivers of the change in internal sales to the Office Depot Division in the first half of 2023 are consistent with those described above. The decrease in internal sales to the ODP Business Solutions Division in the first half of 2023 is mainly related to reduced demand for personal protective equipment, which is discussed further in the ODP Business Solutions Division section above.

External sales represent supply chain services provided to third parties, as well as product sales by our Asia sourcing operation to third parties. The $3 million and $7 million increase in external sales in the second quarter and first half of 2023, respectively, was driven by supply chain services provided and product sales to third parties.

Our Veyer Division operating income was $6 million in the second quarter of 2023 compared to $8 million in the second quarter of 2022, which was driven by the flow through impact of lower internal sales. Our Veyer Division operating income was $21 million in the first half of 2023 compared to $16 million in the first half of 2022. The increase was related to the higher favorable impact from product costing on our Veyer Division's gross profit, which more than offset the impact of lower internal sales. Future performance of our Veyer Division is dependent upon market conditions in the transportation and logistics industry, including fluctuations in labor and fuel costs, and its ability to pass any cost increases through to its customers.

VARIS DIVISION

(In millions)	Second Quarter 2023	Second Quarter 2022	First Half 2023	First Half 2022
Sales (external)	**$ 2**	$ 1	**$ 4**	$ 4
Sales (internal)	**$ —**	$ —	**$ —**	$ —
% change of total sales	**100 %**		**0 %**	
Division operating loss	**$ (14)**	$ (16)	**$ (31)**	$ (31)
% of total sales	**(700)%**	(1,600)%	**(775)%**	(775)%

Sales in our Varis Division increased $1 million in the second quarter of 2023 and were flat in the first half of 2023 compared to the corresponding periods in the prior year. Sales predominantly related to subscription services.

Division operating loss was $14 million in the second quarter of 2023 compared to operating loss of $16 million in the second quarter of 2022, a decrease of 13%, which was driven by lower employee related costs. Division operating loss was $31 million in the first half of 2023 and was flat compared to the corresponding period in 2022. We incurred costs related to amortization of internally developed software, which represent investments in the resources required to expand and scale the technology platform. These costs were offset by the reduction in employee related costs, discussed above. We expect to continue to incur costs and invest in growing our Varis Division in the near future.

CORPORATE

The line items in our Condensed Consolidated Statements of Operations included as Corporate activities are Asset impairments and Merger, restructuring and other operating expenses, net. These activities are managed at the Corporate level and, accordingly, are not included in the determination of Division income for management reporting or external disclosures. In addition to these charges and credits, certain selling, general and administrative expenses are not allocated to the Divisions and are managed at the Corporate level. Those expenses are addressed in the section “Unallocated Expenses” below.

Asset impairments

We recognized asset impairment charges of $6 million and $10 million in the second quarter and first half of 2023, respectively. Of these asset impairment charges, $4 million and $7 million in the second quarter and first half of 2023, respectively, related to the impairment of operating lease ROU assets associated with our retail store locations, with the remainder relating to impairment of fixed assets and other impairment. We recognized asset impairment charges of $3 million and $5 million in the second quarter and first half of 2022, respectively, primarily related to impairment of operating lease ROU assets associated with our retail store locations.

We regularly review retail store assets for impairment indicators at the individual store level, as this represents the lowest level of identifiable cash flows. When indicators of impairment are present, a recoverability analysis is performed which considers the estimated undiscounted cash flows over the retail store’s remaining life and uses inputs from retail operations and accounting and finance personnel. These inputs include our best estimates of retail store-level sales, gross margins, direct expenses, exercise of future lease renewal options when reasonably certain to be exercised, and resulting cash flows, which, by their nature, include judgments about how current initiatives will impact future performance. In the second quarter and first half of 2023, the assumptions used within the recoverability analysis for the retail stores were updated to consider current quarter retail store operational results and formal plans for future retail store closures as part of our restructuring programs, including the probability of closure at the retail store level. While it is generally expected that closures will approximate the store’s lease termination date, it is possible that changes in store performance or other conditions could result in future changes in assumptions utilized. In addition, the assumptions used reflected declining sales over the forecast period, and gross margin and operating cost assumptions that are consistent with recent actual results and consider plans for future initiatives. If the undiscounted cash flows of a retail store cannot support the carrying amount of its assets, the assets are impaired and written down to estimated fair value.

During the fourth quarter of 2022, we performed our annual impairment assessment, which was as of the first day of fiscal month December. We used a quantitative assessment for our Varis Division reporting unit, and qualitative assessments for all other reporting units. The quantitative assessment for the Varis Division reporting unit combined the income approach and the market approach valuation methodologies and concluded that the fair value of this reporting unit exceeded its carrying amount. The fair value of our Varis reporting unit exceeded its carrying amount by 21%. Our Varis reporting unit has been in operation since 2021, therefore we have less experience estimating the operating performance of this reporting unit. Changes to the critical assumptions used to estimate the fair value of this reporting unit, including changes in projected revenue growth rates, gross margin or expenses may result in a different calculation of fair value that could lead to the recognition of impairment charges in future periods. Refer to Note 4. “Segment Information” in Notes to Condensed Consolidated Financial Statements for an additional information. We will continue to evaluate the recoverability of goodwill at the reporting unit level on an annual basis and whenever events or changes in circumstances indicate there may be a potential impairment. If the operating results of our reporting units deteriorate in the future, it may cause the fair value of one or more of the reporting units to fall below their carrying value, resulting in goodwill impairment charges. Further, while we are currently in a strong liquidity and capital position, a significant deterioration may have a material impact on our liquidity and capital in future periods.

Merger, restructuring and other operating expenses, net

We have taken actions to optimize our asset base and drive operational efficiencies. These actions include acquiring profitable businesses, closing underperforming retail stores and non-strategic distribution facilities, consolidating functional activities, eliminating redundant positions and disposing of non-strategic businesses and assets. In the first half of 2022, we have also incurred costs related to our actions to separate our consumer business through a potential sale, prior to our Board of Directors’ decision on June 21, 2022 to maintain the consumer business under common ownership. The expenses and any income recognized directly associated with these actions are included in Merger, restructuring and other operating expenses, net on a separate line in the Condensed Consolidated Statements of Operations in order to identify these activities apart from the expenses incurred to sell to and service customers. These expenses are not included in the determination of Division operating income. Merger, restructuring and other operating expenses, net were $1 million in both the second quarter and first half of 2023, compared to $23 million and $34 million in the second quarter and first half of 2022, respectively. Refer to Note 3. “Merger, Restructuring and Other Activity” in Notes to Condensed Consolidated Financial Statements for an additional analysis of these Corporate charges.

Unallocated Expenses

We allocate to our Divisions functional support expenses that are considered to be directly or closely related to segment activity. These allocated expenses are included in the measurement of Division operating income. Other companies may charge more or less for functional support expenses to their segments, and our results, therefore, may not be comparable to similarly titled measures used by other companies. The unallocated expenses primarily consist of the buildings used for our corporate headquarters and personnel not directly supporting the Divisions, including certain executive, finance, legal, audit and similar functions. Unallocated expenses were $19 million and $42 million in the second quarter and first half of 2023, respectively, compared to $23 million and $42 million in the second quarter and first half of 2022, respectively. The decrease in the second quarter of 2023 compared to the prior year period was primarily due to lower legal fees and corporate incentive expense. Unallocated costs were flat in the first half of 2023 compared to the prior year period.

Other Income and Expense

	Second Quarter		First Half	
(In millions)	**2023**	2022	**2023**	2022
Interest income	**$ 2**	$ 1	**$ 4**	$ 2
Interest expense	**(5)**	(4)	**(10)**	(9)
Other income, net	**4**	3	**6**	5

In April 2020, we entered into the Third Amended Credit Agreement which provided for an aggregate principal amount of up to $1.3 billion asset-based revolving credit facility and asset-based FILO Term Loan Facility, maturing in April 2025. We recorded $1 million and $3 million of interest expense in the second quarter and first half of 2023, respectively, and $1 million and $2 million of interest expense in the second quarter and first half of 2022, respectively, related to the Third Amended Credit Agreement. We also recorded interest expense related to our finance lease obligations and revenue bonds in all periods presented.

Other income, net includes the pension credit related to the frozen OfficeMax pension and other benefit plans, as well as the pension credit related to the pension plan in the United Kingdom that has been retained by us in connection with the sale of the European Business.

Income Taxes

Our effective tax rate was 28% and 24% for the second quarter and first half of 2023 and 29% and 26% for the second quarter and first half of 2022. For the second quarter and the first half of 2023 and 2022, the Company’s effective rate was primarily impacted by the recognition of a tax benefit associated with stock-based compensation awards year-to-date. This along with the impact of state taxes and the mix of income and losses across U.S and non-U.S. jurisdictions, caused our effective tax rate to differ from the statutory rate of 21%. Changes in pretax income projections and the mix of income across jurisdictions could impact the effective tax rates in future quarters.

We continue to have a U.S. valuation allowance for certain U.S. federal credits and state tax attributes, which relates to deferred tax assets that require certain types of income or for income to be earned in certain jurisdictions in order to be realized. We will continue to assess the realizability of our deferred tax assets in the U.S. and remaining foreign jurisdictions in future periods. Changes in pretax income projections could impact this evaluation in future periods.

We file a U.S. federal income tax return and other income tax returns in various states and foreign jurisdictions. With few exceptions, we are no longer subject to U.S. federal and state and local income tax examinations for years prior to 2021 and 2014, respectively. The acquired OfficeMax U.S. consolidated group is no longer subject to U.S. federal income tax examination, and with few exceptions, is no longer subject to U.S. state and local income tax examinations for years prior to 2013. Generally, we are subject to routine examination for years 2013 and forward in our international tax jurisdictions.

It is anticipated that $1 million of tax positions will be resolved within the next 12 months. Additionally, we anticipate that it is reasonably possible that new issues will be raised or resolved by tax authorities that may require changes to the balance of unrecognized tax benefits; however, an estimate of such changes cannot be reasonably made at this time.

Discontinued Operations

Refer to Note 12. “Discontinued Operations” in Notes to Condensed Consolidated Financial Statements for information regarding the CompuCom Division which is accounted for as discontinued operations.

LIQUIDITY AND CAPITAL RESOURCES

LIQUIDITY

At July 1, 2023 and December 31, 2022, we had $335 million and $403 million in cash and cash equivalents, respectively, and $811 million and $856 million of available credit under the Third Amended Credit Agreement, respectively, for a total liquidity of approximately $1.1 billion and $1.3 billion at the end of each respective period. We sold our Company's corporate headquarters in Boca Raton in April 2023 for $104 million, which increased our cash and cash equivalents and liquidity. This was partially offset by an $83 million reduction in our available credit under the Third Amended Credit Agreement as a result of this sale. Despite the weaker global economic conditions and the uncertainties related to the present macroeconomic environment, we currently believe that as a result of our strong financial position, including our cash and cash equivalents on hand, availability of funds under the Third Amended Credit Agreement, and future year cash flows generated from operations, we will be able to fund our working capital, capital expenditures, debt repayments, common stock repurchases, dividends (if any), merger integration and restructuring expenses, and future acquisitions consistent with our strategic growth initiatives for at least the next twelve months from the date of this Quarterly Report on Form 10-Q. From time to time, we may prepay outstanding debt and/or restructure or refinance debt obligations. As the impact of the COVID-19 pandemic on the global and national economies and our operations evolve, we will continue to assess our liquidity needs.

Financing

On April 17, 2020, as disclosed in Note 7. "Debt," we entered into the Third Amended and Restated Credit Agreement, which provides for a $1.2 billion asset-based revolving credit facility and a $100 million asset-based FILO Term Loan Facility, for an aggregate principal amount of up to $1.3 billion (the "New Facilities"). The New Facilities mature in April 2025. The Third Amended and Restated Credit Agreement replaced our then existing amended and restated credit agreement that was due to mature in May 2021. During the first quarter of 2022, we reduced our asset-based revolving credit facility by $200 million to $1.0 billion and retired $43 million of outstanding FILO Term Loan Facility loans under the Third Amended Credit Agreement. Also, during the first quarter of 2023, the Third Amended Credit Agreement was amended to replace the LIBOR-based Eurocurrency reference interest rate option with a reference interest rate option based upon SOFR. Other than the foregoing, the material terms of the Third Amended Credit Agreement remain unchanged.

During the first half of 2023, we elected to draw down $165 million under the Third Amended Credit Agreement to fund the repurchase of our common stock from HG Vora Special Opportunities Master Fund, Ltd. ("HG Vora") as part of our existing $1 billion stock repurchase program, as well as for working capital management and timing of collections and disbursements. We repaid this amount during the first half of 2023, resulting in no revolving loans outstanding at July 1, 2023. Also, at July 1, 2023, we had $57 million of outstanding FILO Term Loan Facility loans, $39 million of outstanding standby letters of credit, and $811 million of available credit under the Third Amended Credit Agreement. We were in compliance with all applicable covenants at July 1, 2023.

Acquisitions and dispositions

In addition to the business acquisition disclosed herein, we have evaluated, and expect to continue to evaluate, possible acquisitions and dispositions of businesses and assets in connection with our strategic transformation. Such transactions may be material and may involve cash, our securities or the incurrence of additional indebtedness.

Capital Expenditures

We estimate capital expenditures in 2023 to be up to approximately $100 million, which includes investments to support our business priorities. These expenditures will be funded through available cash on hand and operating cash flows.

Capital Return Programs – Share Repurchases and Dividends

In October 2022, our Board of Directors approved a new stock repurchase program of up to $1 billion, available through December 31, 2025, to replace the existing $600 million stock repurchase program effective November 3, 2022. During the first half of 2023, we repurchased 5 million shares of our common stock for total consideration of $234 million. Of the total shares repurchased, 2 million shares were purchased from HG Vora for a cost of $89 million pursuant to the related stock purchase agreement that the Company entered into with HG Vora, effective March 13, 2023. As of July 1, 2023, $615 million remains available for stock repurchases under the current stock repurchase program. Subsequent to the end of the second quarter of 2023 and through August 2, 2023, we repurchased 227 thousand shares of our common stock at a cost of $11 million.

The new authorization may be suspended or discontinued at any time. The stock repurchase authorization permits us to repurchase stock from time-to-time through a combination of open market repurchases, privately negotiated transactions, 10b5-1 trading plans, accelerated stock repurchase transactions and/or other derivative transactions. The exact number and timing of stock repurchases will depend on market conditions and other factors and will be funded through available cash balances. Our Third Amended Credit Agreement permits restricted payments, such as common stock repurchases, but may be limited if we do not meet the required minimum liquidity or fixed charge coverage ratio requirements. The authorized amount under the stock repurchase program excludes fees, commissions, taxes or other expenses.

We did not declare any cash dividends in the second quarter and first half of 2023. We do not anticipate declaring cash dividends in the foreseeable future. Our Third Amended Credit Agreement permits restricted payments, such as dividends, but may be limited if we do not meet the required minimum liquidity or fixed charge coverage ratio requirements.

We will continue to evaluate our capital return programs as appropriate. Decisions regarding future share repurchases and dividends are within the discretion of our Board of Directors, and depend on a number of factors, including, general business and economic conditions, which includes the impact of COVID-19 on such conditions, and other factors which are discussed in this discussion and analysis and “Risk Factors” within Other Key Information in our 2022 Form 10-K.

CASH FLOWS

Continuing Operations

Cash provided by (used in) operating, investing and financing activities of continuing operations is summarized as follows:

	First Half	
(In millions)	**2023**	2022
Operating activities of continuing operations	**$ 149**	$ (84)
Investing activities of continuing operations	**41**	(35)
Financing activities of continuing operations	**(263)**	(74)

Operating Activities

In the first half of 2023, cash provided by operating activities of continuing operations was $149 million, compared to cash used in operating activities of continuing operations of $84 million during the corresponding period in 2022. This increase in cash flows from operating activities was primarily driven by $190 million more cash inflows from working capital, $32 million more net income after adjusting for non-cash charges, and $11 million more usage of deferred tax assets against current obligations. Working capital is influenced by a number of factors, including period end sales, the flow of goods, credit terms, timing of promotions, vendor production planning, new product introductions and working capital management. For the first half of 2023, the primary drivers for higher cash flows from working capital was due to $60 million more cash flows from changes in our receivables, $104 million increase in cash flows from our inventories, $19 million more cash flows from our trade payables and other liabilities, and $9 million increase in cash flows from other current and noncurrent assets. The increase in our cash flows from receivables is due to the improved collections. The change in inventories is mainly attributable to purchase volume. The changes in our payables and other liabilities and in other current and noncurrent assets are reflective of the timing of payments.

For our accounting policy on cash management, refer to Note 1. “Summary of Significant Accounting Policies” in Notes to Condensed Consolidated Financial Statements.

Investing Activities

Cash provided by investing activities of continuing operations was $41 million in the first half of 2023, compared to cash used in investing activities of continuing operations of $35 million in the first half of 2022. The cash inflow in the first half of 2023 was driven by $101 million of proceeds from disposition of assets, of which $100 million related to the sale of our corporate headquarters. This cash inflow was partially offset by $51 million in capital expenditures associated with improvements in our service platform, distribution network, and eCommerce capabilities, as well as $10 million outflow related to the business acquisition disclosed herein. The cash outflow in the first half of 2022 was driven by $43 million in capital expenditures associated with improvements in our service platform, distribution network, and eCommerce capabilities. These outflows were partially offset by proceeds from sale of assets of $6 million and the cash proceeds from our company-owned life insurance policies of $2 million.

Financing Activities

Cash used in financing activities of continuing operations was $263 million in the first half of 2023, compared to $74 million in the first half of 2022. The cash outflow in the first half of 2023 primarily consisted of $231 million in repurchases of common stock, including commissions, $9 million of net payments on long- and short-term borrowings activity related to our debt, and $23 million share purchases for taxes, net of proceeds, for employee share-based transactions. Cash used in the first half of 2022 primarily consisted of $11 million of net payments on long- and short-term borrowings activity related to our debt, $43 million payment on our FILO Term Loan Facility loans under the Third Amended Credit Agreement, and $17 million share purchases for taxes, net of proceeds, for employee share-based transactions.

Discontinued Operations

There was no cash flow related to operating and financing activities of discontinued operations for the first half of 2023 or the first half of 2022.

Cash flows provided by investing activities of discontinued operations was $5 million in the first half of 2023 compared to cash provided by investing activities of discontinued operations of $74 million in the first half of 2022. The cash flows in the first half of 2023 represent proceeds from the purchaser to settle the cash, debt and working capital adjustments related to sale of our CompuCom Division. The cash flows in the comparative period reflects proceeds received from the sale of our CompuCom Division, net of cash sold and selling costs, on December 31, 2021, when the sale transaction closed, and insurance proceeds received related to the malware incident in 2021.

NEW ACCOUNTING STANDARDS

For a description of new applicable accounting standards, refer to Note 1. “Summary of Significant Accounting Policies” in Notes to Condensed Consolidated Financial Statements of this Quarterly Report on Form 10-Q.

CRITICAL ACCOUNTING POLICIES

Our Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America. Preparation of these statements requires management to make judgments and estimates. Some accounting policies have a significant impact on amounts reported in these financial statements. A summary of significant accounting policies and a description of accounting policies that are considered critical may be found in our 2022 Form 10-K, in Note 1 of the Notes to Consolidated Financial Statements and the Critical Accounting Policies and Estimates section of the Management’s Discussion and Analysis of Financial Condition and Results of Operations. Except for our accounting policy updates described in Note 1 “Summary of Significant Accounting Policies” in Notes to Condensed Consolidated Financial Statements of this Quarterly Report on Form 10-Q, there have been no significant changes to our critical accounting policies since December 31, 2022.

OTHER INFORMATION

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

At July 1, 2023, there had not been a material change in the interest rate, foreign exchange, and commodities risks information disclosed in the "Market Sensitive Risks and Positions" subsection of the Management's Discussion and Analysis of Financial Condition and Results of Operations set forth in our 2022 Form 10-K.

CONTROLS AND PROCEDURES

DISCLOSURE CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. Our management recognizes that any controls and procedures, no matter how well designed and operated, can only provide reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the possible controls and procedures. Each reporting period, we carry out an evaluation, with the participation of our principal executive officer and principal financial officer, or persons performing similar functions, of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act.

Based on management's evaluation, our principal executive officer and principal financial officer have concluded that, as of July 1, 2023, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to management, including the principal executive officer and the principal financial officer, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosures.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes in our internal control over financial reporting during the quarter ended July 1, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

LEGAL PROCEEDINGS

For a description of our legal proceedings, see Note 11. "Commitments and Contingencies" in Notes to Condensed Consolidated Financial Statements of this Quarterly Report on Form 10-Q.

RISK FACTORS

There have been no material changes with respect to the risk factors disclosed in our 2022 Form 10-K and our Form 10-Q for the quarter ended April 01, 2023.

UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

We repurchased 724 thousand shares of our common stock at a cost of $31 million in the second quarter of 2023. As of July 1, 2023, $615 million remained available for additional repurchases under the current stock repurchase. Subsequent to the end of the second quarter of 2023 and through August 2, 2023, we repurchased 227 thousand shares of our common stock at a cost of $11 million.

Period	Total Number of Shares Purchased *(In thousands)*	Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Plan or Program *(In thousands)*	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Repurchase Program *(In millions)* (1)
April 2, 2023 — April 29, 2023	216	$ 44.35	216	$ 637
April 30, 2023 — May 27, 2023	238	$ 42.42	238	$ 627
May 28, 2023 — July 1, 2023	270	$ 43.08	270	$ 615
Total	**724**	$ 43.24	**724**	

(1) In October 2022, our Board of Directors approved a new stock repurchase program of up to $1 billion, available through December 31, 2025, to replace the existing $600 million stock repurchase program effective November 3, 2022.

The new authorization may be suspended or discontinued at any time. The stock repurchase authorization permits us to repurchase stock from time-to-time through a combination of open market repurchases, privately negotiated transactions, 10b5-1 trading plans, accelerated stock repurchase transactions and/or other derivative transactions. The exact number and timing of stock repurchases will depend on market conditions and other factors and will be funded through available cash balances. Our Third Amended Credit Agreement permits restricted payments, such as common stock repurchases, but may be limited if we do not meet the required minimum liquidity or fixed charge coverage ratio requirements. The authorized amount under the stock repurchase program excludes fees, commissions, taxes or other expenses.

We did not declare any cash dividends in second quarter and first half of 2023 and do not anticipate declaring cash dividends in the foreseeable future. Our Third Amended Credit Agreement permits restricted payments, such as dividends, but may be limited if we do not meet the required minimum liquidity or fixed charge coverage ratio requirements.

OTHER INFORMATION

RULE 10B5-1 TRADING PLANS

On March 17, 2023, D. Anthony Scaglione, Executive Vice President and Chief Financial Officer of The ODP Corporation, entered into a trading plan designed to satisfy the affirmative defense of Rule 10b5-1 under the Securities Exchange Act of 1934, as amended (the “Plan”). The Plan provided for sales of up to 13,340 shares of our common stock beginning on June 16, 2023 until December 29, 2023 or once all of the shares have been sold. The trading plan was in accordance with our securities trading policy. On June 14, 2023, Mr. Scaglione terminated the Plan without any sale transactions executed thereunder. Mr. Scaglione has not entered into a new trading plan.

EXHIBITS

10.1	Varis, Inc. Equity Incentive Plan Option Award Agreement
31.1	Certification of Principal Executive Officer required by Securities and Exchange Commission Rule 13a-14(a) or 15d-14(a)
31.2	Certification of Principal Financial Officer required by Securities and Exchange Commission Rule 13a-14(a) or 15d-14(a)
32	Certification of Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	The cover page from this Quarterly Report on Form 10-Q has been formatted in Inline XBRL and contained in Exhibit 101.

FORM 10-Q CROSS-REFERENCE INDEX

SIGNATURES

Pursuant to the requirements 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.

		THE ODP CORPORATION (Registrant)
Date: August 9, 2023	By:	/s/ GERRY P. SMITH Gerry P. Smith Chief Executive Officer (Principal Executive Officer)
Date: August 9, 2023	By:	/s/ D. ANTHONY SCAGLIONE D. Anthony Scaglione Executive Vice President and Chief Financial Officer (Principal Financial Officer)
Date: August 9, 2023	By:	/s/ MAX W. HOOD Max W. Hood Senior Vice President and Chief Accounting Officer (Principal Accounting Officer)

Exhibit 10.1

VARIS, INC.

EQUITY INCENTIVE PLAN

Option Award Agreement

THIS OPTION AWARD AGREEMENT (this "**Option Agreement**") is made effective as of April [●], 2023 (the "**Grant Date**"), by and between Varis, Inc., a Delaware Corporation (the "**Company**"), and [●] (the "**Participant**"). Capitalized terms used but not otherwise defined herein shall have the meanings so indicated in the Varis, Inc. Equity Incentive Plan, effective as of April 13, 2023, as may be amended or supplemented from time to time (the "**Plan**").

R E C I T A L S:

WHEREAS, the Committee has determined that it is in the best interests of the Company and its shareholders to grant the Option (as such term is defined below) provided for herein to the Participant pursuant to the Plan and the terms set forth herein.

NOW THEREFORE, in consideration of the mutual covenants hereinafter set forth, the parties agree as follows:

1. *Grant of the Option*. The Company hereby grants to the Participant the right and option to purchase, on the terms and conditions set forth in the Plan and this Option Agreement, [●] shares of Common Stock (the "**Options**", or the "**Option Award**"), subject to adjustment as set forth in Section 4.02 of the Plan. At any time, the portion of the Option Award that has become vested is hereinafter referred to as the "**Vested Portion**," and any portion of the Option Award that is not a Vested Portion is hereinafter referred to as the "**Unvested Portion**."

2. *Option Price*. The exercise price of any shares of Common Stock subject to the Option Award shall be $[●] per Share (the "**Option Price**"), which amount is equal to the Fair Market Value of a share of Common Stock as of the date hereof, subject to adjustment as set forth in Section 4.02 of the Plan.

3. *Vesting of the Option*.

a. *General.* Subject to Section 3(b) and 4(a), the Option shall vest with respect to twenty percent (20%) of the shares of Common Stock underlying the Option Award on each of the first five (5) anniversaries of the Grant Date (each, an "**Annual Vesting Date")**, subject to the Participant's continued service through each applicable vesting date.

b. *Accelerated Vesting Upon a Qualifying Termination*. The Options shall become fully vested upon the twelve (12)-month anniversary of a Change in Control, subject to the Participant's continued service through such date; *provided* that Options shall vest earlier as follows: (1) in full on the date of the Change in Control if the Board determines to fully accelerate vesting upon a Change in Control, (2) on any applicable ordinary vesting date pursuant to the schedule contained in the Plan, if earlier than the twelve (12)-month anniversary of a Change in

Control or (3) in full upon a Qualifying Termination in connection with a Change in Control as provided below in Section 3(c).

c. Subject to the execution and non-revocation of a customary release of claims by the Participant in a form provided by the Company (a "**Release**"):

(i) if the Participant's service with the Company and its Affiliates is terminated due to a Qualifying Termination, then the Options, to the extent not then vested or forfeited, shall accelerate and become fully vested.

(ii) For purposes of this Option Agreement, "**Qualifying Termination**" means, with respect to the Participant, the Participant's termination initiated by the Company or its applicable Affiliate other than for Cause or initiated by the Participant for Good Reason, in either case during the time period commencing on the effective date of a Change in Control and continuing until the earlier of (i) the two (2)-year anniversary of such date, or (ii) the date of the Participant's Separation from Service by reason of Disability or the Participant's death. In addition, if (x) the Company and or its Affiliates initiate the Participant's termination without Cause during the six (6)-month period ending on the effective date of a Change in Control at the request of a third party engaging in a transaction or series of transactions that would result in a Change in Control and in contemplation of a Change in Control, or (y) the Participant initiates a termination for Good Reason during the six (6)-month period ending on the effective date of a Change in Control, then the Participant's termination shall be deemed to have occurred immediately following the Change in Control such that it shall be deemed a Qualifying Termination.

(iii) For purposes of this Option Agreement, "**Good Reason**" has the meaning ascribed to such or similar term in the Participant's agreement with Company concerning Participants employment with Company, if applicable, and if there is no such Service Agreement, than "Good Reason" means, with respect to the Participant, the occurrence of any one or more of the following:

A. the assignment of any duties to the Participant that are materially inconsistent with the Participant's responsibilities for the Company and its Affiliates as in effect immediately prior to the effective date of the Change in Control or a significant adverse alteration in the Participant's responsibilities for the Company and its Affiliates from those in effect immediately prior to the effective date of the Change in Control; or

B. a material reduction in the Participant's annual base salary as in effect on the date of the Change in Control (as such annual base salary may be increased from time to time), except for across-the-board annual base salary reductions affecting similarly-situated executives of the Company and its Affiliates; or

C. a material reduction in the Participant's target annual cash incentive as in effect immediately prior to the effective date of the Change in Control without replacement by a reasonably comparable alternative arrangement; or

D. a material reduction in the aggregate benefits and compensation, including paid time off, welfare benefits, short-term incentives, pension, life insurance, healthcare, and disability plans, as compared to such aggregate benefits and compensation in effect immediately prior to the effective date of the Change in Control; or

E. the relocation of the offices at which the Participant is principally employed immediately prior to the effective date of the Change in Control to a location more than fifty miles (or such longer distance that is the minimum permissible distance under the circumstances for purposes of the involuntary separation from service standards under the Treasury Regulations or other guidance under Code Section 409A) from such location, except for required travel for the Company and its Affiliates' business to an extent substantially consistent with the Participant's business travel obligations prior to the effective date of the Change in Control; or

F. the failure of the Company to obtain a satisfactory agreement from any successor to assume and agree to perform the Plan;

provided, however, that the Participant will only have Good Reason if he or she provides a notice of termination to the Company of the existence of the event or circumstance constituting Good Reason specified in any of the preceding clauses within ninety (90) days of the initial existence of such event or circumstances and if such event or circumstance is not cured within thirty (30) days after the Participant gives such notice of termination. If the Participant initiates his or her termination for Good Reason, the actual termination date must occur within sixty (60) days after the date of the notice of termination. A Participant's failure to timely give notice of termination of the occurrence of a specific event that would otherwise constitute Good Reason will not constitute a waiver of the Participant's right to give notice of any new subsequent event that would constitute Good Reason that occurs after such prior event (regardless of whether the new subsequent event is of the same or different nature as the preceding event).

i. For purposes of this Option Agreement, "**Disability**" has the meaning ascribed to such or similar term in the Participant's Service Agreement, if applicable, and otherwise means (i) if the Participant is eligible to participate in a program of long-term disability insurance maintained by the Company or its Affiliates, the date on which the insurer or administrator under such program of long-term disability insurance determines that the Participant is eligible to commence benefits under such program, and (ii) regardless of whether the Participant is eligible to participate in a program of long-term disability insurance maintained by the Company or its Affiliates, the Participant's inability, due to physical or mental incapacity, to substantially perform the Participant's duties and responsibilities for the Employer for one hundred eighty (180) days out of any three hundred sixty-five (365) day period or one hundred twenty (120) consecutive days.

d. *Exercise of the Options*

Except as otherwise provided in Section 3(d) or as otherwise determined by the Committee in its sole discretion, the vested Options shall only be exercisable upon a Liquidity Event that occurs prior to the Expiration Date, or may be exercised on and after the Exercisability Date (as defined below), if occurring prior to a Liquidity Event. Commencing with the date that is twelve (12) months prior to the fifth anniversary of the Grant Date (the "**Exercisability Date"**), Participant shall have the right at any time and from time to time to exercise up to one hundred percent (100%) of the outstanding vested Options as of such date to the Company. Notwithstanding the foregoing, the Board shall have discretion to accelerate the exercisability of any Options. For the avoidance of doubt, to the extent that any Options are not vested as of the Exercisability Date, the Participant shall not have the right to exercise such Options unless and until they become vested Options.

Unless the Committee determines in good faith that a Qualifying Offering is likely to occur in the next one-hundred eighty (180) days, and except in the event that either of the restrictions under (B) or (C) of the definition of "Liquidity Restriction" applies, payment of the Option Price and required tax withholding upon exercise of such Options shall, upon Participant request, be satisfied by net settlement. For the avoidance of doubt, any common shares that are withheld for the purpose of net settlement shall count toward the One-Third Limit.

e. *Liquidity Windows*

(i) Upon (A) the fifth (5th) anniversary of the Grant Date, (B) the seventh (7th) anniversary of the Grant Date and (C) the ninth (9th) anniversary of the Grant Date, in the event a Liquidity Event has not occurred prior to such date, the Participant shall have the right to exercise the Put Right (as define below) with respect to any common shares acquired upon exercise of the Option Award ("**Option Shares**") during a specified window of no less than forty-five (45) days following each applicable anniversary of the Grant Date (each, an "**Liquidity Window**"); *provided* that the number of Option Shares as to which the Put Right may be exercised during any

Liquidity Window, taken together with any Option Shares as to which the Put Right has previously been exercised, shall not exceed one-third of the total number of common shares previously acquired via Option exercise plus the total number of common shares then subject to outstanding vested Options (the "**One-Third Limit**"); *provided further* that, in the event that a Liquidity Event has not occurred before the sixth anniversary of the Grant Date due to any reason that is not related to poor market conditions (which may include the lack of an appropriate acquiror of the Company following efforts to pursue same), Company shall work in good faith to establish one or more additional opportunities for liquidity for the Participant, given the Plan's purpose to attract, reward and retain Participants in the Plan.

(ii) Any Option Shares that have been held by the Participant for at least six (6) months following the exercise shall be repurchased by the Company upon tender by the Participant (the "**Put Right**"), subject to the One-Third Limit, for the Fair Market Value of a common share as of the date of the repurchase (as determined by the Board based on an independent third party valuation) (the "**Repurchase Date FMV**"); *it being understood* that the Participant will be advised of the anticipated Repurchase Date FMV reasonably prior to the opening of the Liquidity Window).

(iii) Notwithstanding the foregoing, any Company repurchase may be suspended by the Company with written notice to the Participant prior to the opening of a Liquidity Window to the extent that the Committee determines in good faith at such time that it is not advisable to make such payment due to a Liquidity Restriction. In the event that restrictions under (B) or (C) of the Liquidity Restriction definition apply, the Company shall, to the extent possible, use any available cash pro-rata for the purpose of conducting a Company repurchase during a Liquidity Window while limiting the maximum number of Option Shares the Company repurchases for purposes of such Liquidity Window to ensure that Company is able to settle the Option Shares in cash. If the Company repurchase during a Liquidity Window is suspended, it shall commence as soon as practicable following the next date on which there are no Liquidity Restrictions to the extent a Liquidity Event has not occurred at such time.

(iv) At least ten (10) days prior to any Liquidity Window, the Company shall provide a written notice to the Participant explaining the process for tender during the upcoming repurchase and specifically advising the proposed Repurchase Date FMV to be paid (which notice shall be updated for any changes at least ten (10) days prior to the proposed date of repurchase).

4. *Forfeiture; Expiration*.

a. *Termination of Service*.

(i) Except as otherwise provided in Section 4(d)(ii), upon the Participant's Termination of Service for any reason other than by the Company for Cause, the Unvested Portion of the Option Award (determined following application of Section 4(a)(ii), if applicable) shall be cancelled and forfeited without consideration therefor, and the Vested Portion of the Option Award shall remain outstanding, subject to the terms of this Agreement and the Plan.

(ii) Upon the Participant's Termination of Service by the Company without Cause or resignation with Good Reason, or due to the Participant's death or Disability, a pro-rata portion of the Options scheduled to vest on the next Annual Vesting Date shall vest (with such pro-ration determined based on the number of full months elapsed since the Grant Date, in the first year of vesting, or the Annual Vesting Date, in subsequent years of vesting, immediately preceding the date of Termination of Service, *divided by* twelve (12)), subject to the execution and non-revocation of a Release by the Participant and, together with any other vested Options, shall remain outstanding and subject to the terms of this Option Agreement and the Plan.

(iii) Upon the Participant's Termination of Service by the Company without Cause or resignation with Good Reason, or due to the Participant's death or Disability, any portion of the Options which have not vested as of the date of the Participant's Termination of Service (determined following application of Section 4(a)(ii)) shall be cancelled and forfeited without consideration therefor.

(iv) Notwithstanding anything herein to the contrary, in the event that the Participant's service is terminated by the Company for Cause or the Participant's Restrictive Covenant Breach, the Vested Portion of the Option Award also shall immediately expire and shall be cancelled and forfeited without consideration therefor.

b. *Expiration of Option Term*. Unless terminated earlier pursuant to Section 5, any unexercised portion of the Option Award shall expire upon the tenth (10th) anniversary of the Grant Date (the "**Expiration Date**").

5. *Exercise Procedures*.

a. *Notice of Exercise*. Subject to Section 3(c) and Section 3(d), the Vested Portion may be exercised by delivering to the Company at its principal office written notice of intent to so exercise in the form attached hereto as Exhibit A (such notice, a "**Notice of Exercise**"). Such Notice of Exercise shall be accompanied by payment in full of the aggregate Option Price for the shares of Common Stock to be acquired upon exercise and applicable withholding tax (A) in cash or by check, bank draft or money order payable to the order of the Company; or (B) by a "net exercise" under which the Company reduces the number of shares of Common Stock otherwise issuable to the Participant upon such exercise by the number of shares of Common Stock with an aggregate Fair Market Value that equals the aggregate Option Price. In the event the Option Award is being exercised by the Participant's representative, the Notice of Exercise shall be accompanied by proof (satisfactory to the Committee) of the representative's right to exercise the Option. The aggregate Option Price for the shares of Common Stock to be exercised shall be paid in cash or its equivalent (e.g., by cashier's check) unless otherwise permitted by the Committee, in its sole discretion.

b. *Rights of Participant; Method of Exercise*. Neither the Participant nor the Participant's representative shall have any rights to dividends, voting rights or other rights of a shareholder with respect to shares of Common Stock subject to the Option until (i) the Participant has given a Notice of Exercise of the Option and paid the Option Price and the applicable withholding tax for such shares of Common Stock, (ii) such shares of Common Stock have been issued, and (iii) if applicable, the Participant has satisfied any other conditions imposed by the Committee pursuant to the Plan. In the event of the Participant's death, the Vested Portion shall be exercisable by the Participant's Beneficiary or the person or persons to whom the Participant's rights under this Option Agreement shall pass by will or by the laws of succession, as the case may be. Any heir or legatee of the Participant shall take rights herein granted subject to the terms and conditions of this Option Agreement and the Plan.

6. *Call Rights*. All shares of Common Stock acquired upon exercise of the Option Award shall be subject to the repurchase rights set forth in Article 7 of the Plan.

7. *Clawback*. Notwithstanding anything to the contrary in the Plan or herein, in the event that (i) within twelve (12) months following the date of a Call or repurchase of Option Shares following a Liquidity Window, the Participant commits a Restrictive Covenant Breach, or such a breach is discovered, or if, (ii) within six (6) months of the Participant's date of termination, the Company subsequently discovers circumstances, events or conditions existed when the Participant was employed that constitute "Cause", the Company shall have the right to require reimbursement of any after-tax amounts previously paid by the Company (or any of its assignees) (to the extent such amounts exceed the Option Price paid by such Participant for any Option Shares) in connection with a Call or repurchase. The amount prescribed in the first sentence of this Section 7 shall be promptly paid to the Company by the Participant, and in any event within twenty (20) Business Days after the Committee provides notice to such Participant, or, if later, after expiration of any cure period relating to such Restrictive Covenant Breach, repaid to the Company.

8. *Representations.* The Participant represents and warrants that:

(a) Any shares of Common Stock the Participant may acquire upon exercise of the Option Award will be acquired for the Participant's own account for investment and not with any view to the distribution thereof, and the Participant will not sell, assign, transfer or otherwise dispose of any of the shares of Common Stock underlying the Option or any Option Shares, or any interest therein, in violation of the Securities Act or any applicable state securities law.

(b) The Participant understands that (i) the shares of Common Stock acquired upon exercise of the Option Award will not be registered under the Securities Act or any applicable state securities law and may not be sold or otherwise disposed of unless it is registered or sold or otherwise disposed of in a transaction that is exempt from such registration and (ii) the certificates, if any, representing such shares of Common Stock will bear appropriate legends restricting the transferability thereof.

(c) The Participant understands that the Company will rely upon the completeness and accuracy of these representations in establishing that the contemplated transactions are exempt from the Securities Act and hereby affirms that all such representations are accurate and complete. The Participant will notify the Company immediately of any changes in any of such information occurring during the term of the Option.

(d) The Participant has completed Exhibit B attached hereto indicating the Participant's status as an "accredited investor" within the meaning of Rule 501 promulgated under the Securities Act.

9. *Drag-Along Rights/Tag-Along Rights*.

(e) *Drag-Along Rights*. In the event that the holders of at least 50% of shares of Common Stock then issued (the "**Electing Holders**") approve a Change in Control in writing, specifying that this Section 9(a) shall apply to such transaction, then the Participant agrees (i) if such transaction requires stockholder approval, with respect to all Option Shares that the Participant owns or over which the Participant otherwise exercises voting power, to vote (in person, by proxy or by action by written consent, as applicable) all Option Shares in favor of, and adopt, such Change in Control (together with any related amendment or restatement to the Company's Certificate of Incorporation required to implement such Change in Control) and to vote in opposition to any and all other proposals that could delay or impair the ability of the Company to consummate such Change in Control, (ii) to sell the same proportion of Option Shares beneficially held by the Participant as is being sold by the Electing Holders to the Person to whom the Electing Holders propose to sell their shares of Common Stock on the same terms and conditions as the other stockholders of the Company, (iii) to execute and deliver all related documentation and take such other action in support of the Change in Control as shall reasonably be requested by the Company or the Electing Holders in order to carry out the terms and provision of this Section 9(a), (iv) not to deposit any Option Shares owned by the Participant in a voting trust or subject any Option Shares to any arrangement or agreement with respect to the voting of such Option Shares, unless specifically requested to do so by the acquirer in connection with the Change in Control, (v) to refrain from (A) exercising any dissenters' rights or rights of appraisal under applicable law at any time with respect to such Change in Control or (B) asserting any claim or commencing any suit challenging the Change in Control, alleging a breach of any fiduciary duty of the Electing Holders or any affiliate or associate thereof (including, without limitation, aiding and abetting breach of fiduciary duty) in connection with the evaluation, negotiation or entry into the Change in Control or the consummation of the transactions contemplated thereby and (vi) if the consideration to be paid in exchange for the Option Shares pursuant to this Section 9(a) includes any securities and due receipt thereof by the Participant would require under applicable law the registration or qualification of such securities or of any person as a broker or dealer or agent with respect to such securities or the provision to the Participant of any information other than such information as a prudent issuer would generally furnish in an offering made solely to "accredited investors" as defined in Regulation D promulgated under the Securities Act, the Company may cause to be paid to the Participant in lieu thereof, against surrender of the Option Shares which would have otherwise been sold by the Participant, an amount in cash equal to the fair value (as determined in good faith by the Board) of the securities which the Participant would otherwise receive as of the date of the issuance of such securities in exchange for the Option Shares; *provided* that (y) the Participant shall not liable for the breach of any representation, warranty or covenant made by any other Person in connection with the Change in Control (except to the extent that funds may be paid out of an escrow established to cover breach of representations, warranties and covenants) and (z) subject to Section 9(a)(iv) above, upon the consummation of the Change in Control, the Participant will receive the same amount of consideration per Option Share as is received by other holders in respect of their shares of Common Stock.

(f) *Tag-Along Rights*. In the event that the holders of at least 50% of shares of Common Stock then issued (the "**Selling Holders**") propose to transfer their shares of Common Stock in a transaction that would constitute a Change in Control (such transaction, a "**Tag-Along Sale**"), the Company shall provide notice of such Tag-Along Sale prior to the later of the Company's actual knowledge of such Tag-Along Sale and thirty days prior to the consummation of such Tag-Along Sale (the "**Tag-Along Notice**"). The Tag-Along Notice shall contain the material terms and conditions (including price and form of consideration) of the Tag-Along Sale. The Participant may seek to participate on a pro rata basis in the Tag-Along Sale on the same terms and conditions as the Selling Holders by giving the Company written notice to that effect within ten days after delivery of the Tag-Along Notice. The Participant may seek to include in the Tag-Along Sale all or any part of the Participant's Option Shares equal to the product obtained by multiplying (i) the aggregate number of Option Shares held by the Participant by (ii) a fraction, the numerator of which is the number of shares of Common Stock proposed to be sold by the Selling Holders immediately before consummation of the Tag-Along Sale and the denominator of which is the total number of shares of Common Stock owned, in the aggregate, by all Selling Holders immediately prior to the consummation of the Tag-Along Sale. The Participant acknowledges that the Company shall use commercially reasonable efforts to include the Participant's Option Shares calculated in accordance with the previous sentence in the Tag-Along Sale; *provided* that the Company shall not have any liability to the Participant for any Option Shares not sold in the Tag-Along Sale.

(g) *Superseding Stockholders' Agreements*. If, after the date of this Option Agreement, the Company enters into any agreement with any of its stockholders providing such stockholders with any drag-along rights or tag-along rights of the type provided in Section 9(a) and Section 9(b) above, then the Company may, at its sole discretion, extend such rights to the Participant by providing written notice to the Participant. Upon receipt of such notice, the Participant agrees (i) (i) to be bound by such rights, (ii) if requested by the Company, to become a party to any agreement between the Company and its stockholders providing for such rights and (iii) that Section 9(a) and Section 9(b) above shall be of no further force or effect.

10. *Restrictive Covenants*. "**Restrictive Covenants**" shall mean the obligations and restrictions provided in this Section 10. Because of Company's legitimate business interest as described herein and the good and valuable consideration offered to Participant, including, without limitation, the Option Award granted in this Option Agreement and the provision of access to

confidential, proprietary, trade secret, and/or other non-public information to Participant, the receipt and sufficiency of which are hereby acknowledged, Participant agrees as follows:

(a) Confidential Information.

(i) Acknowledgment. Participant recognizes and acknowledges that: (i) Company's Confidential Information (as defined below) is a valuable, special and unique asset of Company; (ii) access to and knowledge of the Confidential Information by Participant may be required so that Participant can perform their duties to Company; (iii) it is vital to Company's legitimate business interests that the confidentiality of the Confidential Information be preserved and that the Confidential Information only be used for Company's benefit; (iv) disclosure of the Confidential Information to any other person or entity outside of Company or use of the Confidential Information by or on behalf of any other person or entity, unless specifically and unambiguously authorized by Company, would result in irreparable harm to Company; (v) disclosure or use beyond the permitted scope of Confidential Information entrusted to Company by its customers and contractors would expose Company to substantial damages; (vi) the Confidential Information is and shall remain the exclusive property of Company; and (vii) nothing in this Option Agreement shall be construed as a grant to Participant of any rights, title or interest in, to, or under the Confidential Information.

(ii) Confidential Information. Confidential Information is defined as information of any kind, nature, or description, that relates to Company's business, provides any member of Company economic value or any business advantage, is not generally known to the public (other than as a result of a disclosure or wrongful act of the Participant or any of Company's agents), and is or has been learned or developed by the Participant as a direct or indirect result of, or during the course of, the Participant's employment with or work relating to Company. Confidential Information includes, but is not limited to, the inventions, trade secrets, proprietary or business information of Company, including, but not limited to information about or relating in any way to: any customer; business, merchandise, or marketing procedures, processes, or services; formulas; techniques; mask works, designs, and drawings; hardware and hardware configurations; technical data; code; know-how; software; research; marketing; developments; products; product lines; design; product or service ideas; purchasing; finances and financial affairs; accounting; merchandising; selling or sales; engineering; employees, contractors, capital providers, business partners or business Participants of any member of Company; stockholders; lenders; training; business practices; past, present or future acquisitions; potential or target acquisitions; customer lists; customer contact lists; vendor lists; supplier lists; pricing; pricing agreements; marketshare data; marketing plans; licenses; contract information; business plans; financial forecasts; historical financial data; budgets; referral companies; merchandise resources; supply resources; service resources; system designs; procedures or manuals; policies; or the prices that any member of Company may obtain or have obtained or at which they sell or have sold any services or products.

(iii) Restrictions. Except as expressly directed by Company, Participant shall not, during or after Participant's employment by Company, in whole or in part, disclose such

Confidential Information to any person, firm, corporation, association or other entity for any reason or purpose whatsoever without written authorization from Company, nor shall Participant make use of any such Confidential Information for Participant's own purposes or for the benefit of any person, firm, corporation or other entity under any circumstances during or after Participant's employment without written authorization from Company; provided that if applicable law restricts the duration of the confidentiality and nonuse obligations set forth in this Section (collectively, the "**Confidentiality and Non-Use Obligations**") for Confidential Information that is not also a trade secret under applicable law ("**Other Confidential Information**"), the Confidentiality and Non-Use Obligations as to Other Confidential Information shall remain in effect during Participant's employment with Company and for a period of seven (7) years thereafter, but shall be perpetual as to trade secrets.

(iv) Exclusions. The Confidentiality and Non-Use Obligations shall not apply to such Confidential Information that Participant can establish by clear and convincing written proof: (i) was known by Participant both prior to employment and other than by disclosure by Company; (ii) was lawfully in the public domain and generally known in the trade prior to its disclosure hereunder, or becomes publicly available and generally known in the trade other than through a breach of this Option Agreement or breach of any other obligation of confidentiality to Company; or (iii) was specifically and unambiguously authorized for non-confidential disclosure by a duly authorized executive officer of Company, other than by authority of Participant. Furthermore, nothing in this Option Agreement is intended to conflict with 18 U.S.C. § 1833(b) or create liability for disclosures of trade secrets that are expressly allowed by 18 U.S.C. § 1833(b). The Defend Trade Secrets Act of 2016, 18 U.S.C. § 1833(b), provides: (1) An individual shall not be held criminally or civilly liable under any Federal or State trade secret law for the disclosure of a trade secret that—(A) is made—(i) in confidence to a Federal, State, or local government official, either directly or indirectly, or to an attorney; and (ii) solely for the purpose of reporting or investigating a suspected violation of law; or (B) is made in a complaint or other document that is filed in a lawsuit or other proceeding, if such filing is made under seal. (2) An individual who files a lawsuit for retaliation by an employer for reporting a suspected violation of law may disclose the trade secret to the attorney of the individual and use the trade secret information in the court proceeding, if the individual—(A) files any document containing the trade secret under seal; and (B) does not disclose the trade secret, except pursuant to court order. Accordingly, the Parties to this Option Agreement have the right to disclose in confidence trade secrets to Federal, State, and local government officials, or to an attorney, for the sole purpose of reporting or investigating a suspected violation of law. The Parties also have the right to disclose trade secrets in a document filed in a lawsuit or other proceeding, but only if the filing is made under seal and protected from public disclosure.

(v) Required Disclosures. Participant agrees to notify Company promptly upon learning about any court order or other legal requirement that purports to compel disclosure of any Confidential Information and to cooperate with Company in the exercise of Company's right to protect the confidentiality of the Confidential Information before any tribunal or governmental agency. Disclosure of Confidential Information pursuant to a court order or other legal requirement that purports to compel disclosure of any Confidential

Information shall not alter the character of that information as Confidential Information hereunder.

(vi) Return of Confidential Information. All Confidential Information is and shall continue to be the exclusive property of Company. Within twenty-four (24) hours after any termination of Participant's employment, or at any time upon the request of Company, Participant shall deliver to Company, or its designee, all of such Confidential Information and all other Company property (including but not limited to keys, passes, devices, records, data, notes, reports, proposals, lists, correspondence, specifications, drawings/sketches, laboratory notebooks, flow charts, and equipment) then in Participant's actual or potential possession or control in any tangible or electronic form. If Participant and Company mutually agree that if any Confidential Information or property cannot reasonably be delivered, Participant shall provide reasonable evidence that such materials have been destroyed, including but not limited to, the purging or erasing of any and all computer records and data files. Participant agrees that Company will be entitled to communicate these obligations to any future employer or potential employer of Participant.

(vii) Third Party Information. Participant acknowledges that Company has received and may in the future receive confidential and proprietary information from third parties subject to a duty on Company's part to maintain the confidentiality of such information and, in some cases, to use it only for certain limited purposes. Participant agrees that he/she owes Company and such third parties, both during the term of Participant's employment and thereafter, a duty to hold all such confidential or proprietary information in strictest confidence and not to disclose or use it in any manner that is inconsistent with Company's agreement with such third parties, unless expressly authorized to do so by a duly authorized executive officer of Company that is not the Participant.

(viii) No Disclosure or Use of Third Parties' Information. Participant will not disclose to Company or use for its benefit any confidential information or material in violation of the rights of former employers or any third parties. Participant agrees not to improperly use or disclose, or bring onto any Company premises, any confidential or proprietary information or material of any third party for which Participant has provided service outside of the Participant's employment with Company.

(ix) Stored/Transmitted Information. Participant acknowledges that all information stored on or transmitted using Company-owned or Company-leased property or equipment is the property of Company and is subject to access by Company at any time without notice. Participant has no expectation of privacy with respect to this information.

(b) Non-Competition.

(i) "**Business**" means the business-to-business software development and sales industry, business-to-business sourcing, purchasing, and supply chain development for suppliers and buyers, digital commerce, any business in which Company engages during the employment of the Participant, and any business in which, as of the date of the Participant's termination of employment, Company has then-current plans to enter and has taken material steps towards entering.

(ii) "**Competitor**" means any individual, corporation, limited liability company, association, partnership, estate, trust, or any other business, organization, or legal entity, and any parent, subsidiary, partner, agent, or affiliate of any such individual or entity, that engages in, or has then-current plans to become engaged in, the Business, provided that a Competitor does not include an individual or entity that has a line of business, division, subsidiary or other affiliate that is a Competitor, if the Participant is not providing services directly or indirectly to such line of business, division, subsidiary or other affiliate that is a Competitor and is not involved directly or indirectly in the management, supervision or operations of such line of business, division, subsidiary or other affiliate that is a Competitor. Competitors include, but are not limited to: Coupa Software, SAP Ariba, Ivalua, Inc., Jaggaer, and Basware Corp.

(iii) "**Non-Compete Period**" means the period of Participant's employment with Company and the greater of 12 months after Participant's employment ends with Company (regardless of how it ends) or the period of time following the end of Participant's employment during which Company pays severance to Participant (or if severance is paid in a lump sum, the period of time corresponding to the amount of salary paid in a lump sum). In the event of Participant's breach of fiduciary duty to Company or Participant's unlawful taking of physical or electronic property belonging to Company, the Non-Compete Period shall be enlarged to two (2) years after termination of employment, provided that the period shall also be extended and tolled for so long as Participant violates any of the restrictive covenants set forth herein (whether non-competition, non-solicitation, confidentiality, or others) until Participant comes into full compliance with the terms of the Option Agreement, and for any period(s) of time required for litigation to enforce the Option Agreement's provisions.

(iv) Before taking any position with any person or entity during the Non-Compete Period, Participant will give written notice to Company of the name of such person or entity, as well as the assigned location, duties and responsibilities related to the position under consideration by Company. Participant understands and expressly agrees that the obligation to provide written notice under this Section is a material term of this Option Agreement, and that the failure to provide such notice shall be a material breach of this Option Agreement, and shall constitute a presumption that any employment about which the Participant failed to give notice violates this Section of this Option Agreement. Irrespective of whether such notice is given, Company shall be entitled to advise any person or entity of the provisions of this Option Agreement, and to correspond and otherwise deal with any person or entity to ensure that the provisions of this Option Agreement are enforced and duly discharged.

(v) "**Restricted Area**" means that area necessary to protect Company's legitimate business needs. Participant acknowledges that Company does business in all 50 states and other U.S. territories and has direct competitors in all of these areas. Participant further acknowledges that Company's Confidential Information needs to be protected in all 50 states and other U.S. territories. Accordingly, for those Participants whose job responsibilities and access to Confidential Information are not limited to a specific geographic area, the Restricted Area shall include all 50 states and other U.S. territories. For all other Participants, the Restricted Area shall be within 150 miles of Participant's primary work location(s) for Company within the two years prior to the end of their employment with Company.

(vi) Non-Competition Obligations. Participant acknowledges that in the course of employment with Company, Participant has and will have access to and gain knowledge of the Confidential Information of Company; Participant has or will have substantial relationships with Company's existing and prospective customers; and/or Participant has or will perform services of special, unique, and extraordinary value to Company. Therefore, during the Non-Compete Period, Participant shall not anywhere in the Restricted Area: (i) own any interest in, control, or participate in any Competitor; or (ii) work for, become employed by, or provide services to (whether as an employee, consultant, independent contractor, volunteer, officer, director, or board member) any Competitor where such position or service is competitive with or otherwise similar to any of Participant's positions or services for Company. Nothing shall prohibit Participant from being a passive owner of not more than 2% of the outstanding stock of any class of a corporation that is publicly traded so long as Participant has no active participation in the corporation's business.

(c) Non-Solicitation and Non-Interference. During employment and for 12 months after Participant's employment ends with Company, regardless of how it ends ("**Non-Solicitation Period**"), Participant shall not directly or indirectly through any other person or entity: (a) induce or solicit any employee, independent contractor, or other service provider of Company to leave the employ of Company or otherwise interfere with such person's relationship with Company; provided, however, that nothing shall prohibit Participant from discharging any employee of Company as part of Participant's regular duties while employed by Company; (b) hire any person who was an employee of Company during the last six months of Participant's employment; or (c) induce or solicit or attempt to influence any Customer, supplier, licensee, licensor, or franchisee of Company about whom Participant has or may have had Confidential Information, or whom Participant, as a result of their employment with Company, contacted, solicited, or called upon, to (i) cease doing business or change detrimentally its relationship with Company, or (ii) provide or purchase goods or services similar to the goods or services provided by it to or purchased by it from Company. "**Customer**" means any individual, company or other entity that has bought, buys, purchases or otherwise obtains goods or services from Company, and known active or identified customer prospects.

(d) Non-Disparagement. Participant shall not during and after employment make any false, derogatory, or disparaging statements regarding Company or its business, officers, directors, or employees to or on behalf of any Company Customer, client, supplier, vendor, licensee, licensor, franchisee, or Competitor. This section does not, in any way, restrict or impede the Participant or Company from exercising protected rights to the extent that such rights cannot be waived by agreement, including but not limited to the Participant's Section 7 rights under the National Labor Relations Act or from complying with any applicable law or regulation, a valid court order, or an authorized government agency, provided that such compliance does not exceed that required by the law, regulation, or order. The Participant shall promptly provide written notice of any such order to Company in accordance with this Section.

11. *No Right to Continued Service*. The granting of the Option Award shall impose no obligation on the Company or any Affiliate to continue the service or employment of the Participant and shall not lessen or affect any right that the Company or any Affiliate may have to terminate the service of the Participant.

12. *Withholding*. The Company shall have the power and the right to deduct or withhold automatically from any payment or shares of Common Stock deliverable under this Option Agreement, or require the Participant to remit to the Company, the minimum statutory amount to satisfy federal, provincial, state, and local taxes, domestic or foreign, required by law or regulation to be withheld with respect to any taxable event arising as a result of this Option Agreement.

13. *Transferability*. Unless otherwise determined by the Committee, the Participant shall not be permitted to transfer or assign the Option Award except in the event of death and in accordance with Article 8 of the Plan and Section 6(b) of this Option Agreement.

14. *Adjustment of Option.* Equitable adjustments to the Option Award (or any shares of Common Stock underlying the Option Award) shall be made in accordance with the terms of the Plan.

15. *Option Subject to Plan*. The Option Award is subject to the terms and conditions of the Plan. In the event of a conflict between any term hereof and a term of the Plan, the applicable term of the Plan shall govern and prevail.

16. *Lock-Up*. The Participant agrees that in connection with any transaction that would result in the Company (or a company whose sole assets are securities of the Company) becoming subject to the reporting requirements of the Securities Exchange Act of 1934, if requested by any member of the Company Group or any underwriter engaged by a member of the Company Group, not to sell or otherwise transfer or dispose of any securities of the Company (and any securities convertible into or exercisable for any securities of the Company) held by him or her for up to one-hundred eighty (180) days following the effective date of the relevant registration statement filed under the Securities Act, as the Company or such underwriter shall specify reasonably and in good faith. The Participant agrees, if requested, to execute a separate letter reflecting the agreement set forth in this Section 17.

17. *Choice of Law*. This Option Agreement, and all claims or causes of action or other matters that may be based upon, arise out of or relate to this Option Agreement, shall be governed by and construed in accordance with the laws of the State of Delaware, without regard to the conflicts of laws rules of such state.

18. *Consent to Jurisdiction; Waiver of Jury Trial*. The Participant acknowledges and agrees that any controversy which may arise under or relate to the Plan or this Award Agreement is likely to involve complicated and difficult issues. Any dispute, controversy or claim arising out

of, relating to or in connection with this Plan or any Award shall be settled by final and binding arbitration in Palm Beach County Florida in accordance with the applicable rules then outstanding of the American Arbitration Association, and judgment upon any award rendered may be entered in any court having jurisdiction thereover. The Company and the Participant will share equally all costs associated with any arbitration; *provided* that the Company and the Participant shall be responsible for its own attorneys' fees and expenses. The Company and the Participant IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS PLAN OR AN AWARD AGREEMENT OR THE TRANSACTIONS AND MATTERS CONTEMPLATED HEREBY OR THEREBY, AND AGREES THAT IT WILL NOT SEEK A TRIAL BY JURY IN ANY SUCH PROCEEDING. Any actions or proceedings ancillary to the arbitration referenced above may be brought only in the Circuit Court of the Fifteenth Judicial Circuit in and for Palm Beach County, Florida or, if it has or can acquire jurisdiction, the United States Southern District of Florida, West Palm Beach Division.

19. *Shares Not Registered*. Shares of Common Stock shall not be issued pursuant to this Option Agreement unless the issuance and delivery of such shares of Common Stock comply with (or are exempt from) all applicable requirements of law, including, without limitation, the Securities Act, the rules and regulations promulgated thereunder, and the regulations of any stock exchange or other securities market on which the Company's securities may then be traded. The Company shall not be obligated to file any registration statement under any applicable securities laws to permit the purchase or issuance of any shares of Common Stock, and accordingly any certificates for shares of Common Stock may have an appropriate legend or statement of applicable restrictions endorsed thereon. If the Company deems it necessary to ensure that the issuance of shares of Common Stock under this Option Agreement is not required to be registered under any applicable securities laws, the Participant shall deliver to the Company an agreement containing such representations, warranties and covenants as the Company may reasonably require.

20. *Notices*. Any notice or other communication provided for herein or given hereunder to a party hereto must be in writing, and shall be deemed to have been given (a) when personally delivered or delivered by facsimile transmission with confirmation of delivery, (b) one (1) Business Day after deposit with a reputable overnight courier service, or (c) three (3) Business Days after being mailed by first-class mail, return receipt requested. A notice shall be addressed to the Company at its principal executive office, attention: General Counsel, and to the Participant at the address that he or she most recently provided to the Company, *provided* that either party may specify a different address by written notice provided in accordance with this Section 20.

21. *Entire Agreement*. This Option Agreement, including Exhibits A and B attached hereto, and the Plan constitute the entire agreement and understanding among the parties hereto in respect of the subject matter hereof and supersede all prior and contemporaneous arrangements, agreements and understandings, whether oral or written and whether express or implied, and whether in term sheets, presentations or otherwise, among the parties hereto, or between any of them, with respect to the subject matter hereof; *provided*, that the Participant shall continue to be bound by any Restrictive Covenants contained in any other agreements between the Participant and the Company, its Affiliates and their respective predecessors to which the Participant is bound. In the event of any inconsistency between any Restrictive Covenants contained herein and any

Restrictive Covenants contained in such other agreements, that obligation which is most restrictive upon the Participant shall control.

22. *Survival of Obligations*. Exercise, expiration or termination of any or all of the Option Award or termination of the Participant's service shall not affect the Participant's continuing obligations set forth in this Option Agreement, including the Restrictive Covenants set forth in Section 11, which obligations expressly survive the Participant's Termination of Service.

23. *Amendment; Waiver*. No amendment or modification of any term of this Option Agreement shall be effective unless it is made in accordance with the terms of the Plan. No waiver of any breach or condition of this Option Agreement shall be deemed to be a waiver of any other or subsequent breach or condition whether of like or different nature.

24. *Successors and Assigns; No Third-Party Beneficiaries*. The provisions of this Option Agreement shall inure to the benefit of, and be binding upon, the Company and its successors and assigns and upon the Participant and the Participant's heirs, successors, legal representatives and permitted assigns. Nothing in this Option Agreement, express or implied, is intended to confer on any person other than the Company and the Participant, and their respective heirs, successors, legal representatives and permitted assigns, any rights, remedies, obligations or liabilities under or by reason of this Option Agreement.

25. *Signature in Counterparts*. This Option Agreement may be signed in counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

26. *Acknowledgments*. The Participant accepts this Option Agreement and agrees to the terms and conditions in this Option Agreement and the Plan. The Participant acknowledges that the Participant has received a copy of the Plan.

* * *

IN WITNESS WHEREOF, the parties hereto have executed this Option Agreement.

VARIS, INC.

Per: ________________________________

Name:
Title:

Agreed and acknowledged as of the date first above written:

____

[●]

EXHIBIT A

NOTICE OF EXERCISE

[Varis, Inc].
[●]
Attention: [●]

Date of Exercise: __________________

Ladies & Gentlemen:

1. *Exercise of Option*. This constitutes notice to [Varis, Inc.] (the "**Company**"), that pursuant to my Option Award Agreement, dated [●] (the "**Option Agreement**"), I elect to purchase the number of shares of Common Stock set forth below and for the price set forth below. Capitalized terms used and not otherwise defined herein shall have the meaning ascribed to such term in the Option Agreement. By signing and delivering this notice to the Company, I hereby acknowledge that I am the holder of the Option(s) exercised by this notice and have full power and authority to exercise the same.

Number of shares of Common Stock as to which the Option is exercised ("**Optioned Shares**"): ____

Grant Date: ____

Shares to be issued in name of: ____

Total exercise price of Optioned Shares: ____

2. *Delivery of Payment*. Pursuant to any method of payment provided under the Option Agreement (including via "net exercise"), I will pay, on the date hereof, the full exercise price of my Optioned Shares in accordance with the terms of the Plan, and I will pay the full amount of withholding taxes determined by the Company to be due in connection with the exercise of my Option.

3. *Rights as Shareholder*. While the Company shall endeavor to process this notice in a timely manner, I acknowledge that until the issuance of the Optioned Shares (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company) and my satisfaction of any other conditions imposed by the Committee pursuant to the Plan or set forth in the Option Agreement, no right to vote or to receive dividends or any other rights as a shareholder shall exist with respect to such Shares, notwithstanding the exercise of my Option. No adjustment shall be made for a dividend or other right for which the record date is prior to the date of issuance of the Optioned Shares.

4. *Interpretation*. Any dispute regarding the interpretation of this notice shall be submitted promptly by me or by the Company to the Committee. The resolution of such a dispute by the Committee, acting reasonably, shall be final and binding on all parties.

5. *Entire Agreement*. The Plan and the Option Agreement under which the Optioned Shares were granted are incorporated herein by reference, and together with this notice constitute the entire agreement of the parties with respect to the subject matter hereof.

Very truly yours,

____

EXHIBIT B

ACCREDITED INVESTOR QUESTIONNAIRE

1. The Participant is an Accredited Investor as a result of meeting one or more of the criteria set forth in items 2(a) through (d) below, and the Participant reasonably believes he or she will continue to be an Accredited Investor for the duration of the period during which the Option is exercisable in accordance with its terms (check the relevant response):

   Yes _____________ No _____________

2. If the answer to Question 1 above is yes, the Participant is an Accredited Investor because he or she certifies that (check all appropriate descriptions that apply):

   a. _____________ The Participant has individual net worth, or joint net worth with his or her spouse, exceeding $1,000,000. For purposes of this Question 2, “net worth” means the excess of total assets at fair market value (including personal and real property, but excluding the estimated fair market value of a person’s primary home) over total liabilities.

   b. _____________ The Participant had individual income exceeding $200,000 in each of the last two (2) calendar years and the Participant has a reasonable expectation of reaching the same income level in the current calendar year. For purposes of this Question 2(b), "income" means annual adjusted gross income, as reported for federal income tax purposes, plus (i) the amount of any tax-exempt interest income received; (ii) the amount of losses claimed as a limited partner in a limited partnership; (iii) any deduction claimed for depletion; (iv) amounts contributed to an IRA or Keogh retirement plan; (v) alimony paid; and (vi) any amount by which income from long-term capital gains has been reduced in arriving at adjusted gross income pursuant to the provisions of Section 1202 of the Code.

   c. _____________ The Participant had joint income with his or her spouse exceeding $300,000 in each of the last two (2) calendar years and the Participant has a reasonable expectation of reaching the same income level in the current calendar year, as defined in (b) above.

   d. _____________ The Participant is a director, executive officer or general partner of the Company, or a director, executive officer of the Company. (For purposes of this Question 2(d), executive officer means the president; any vice president in charge of a principal business unit, division or function, such as sales, administration or finance; or any other person or persons who perform(s) similar policymaking functions for the Company.)

[*Signature Page – Option Award Agreement*]

3. The Participant is qualified to purchase the shares of Common Stock underlying the Option because he or she has such knowledge and experience in financial and business matters that he or she is capable of evaluating the merits and risks of such investment.

   Yes _____________ No _____________

4. The Participant has sufficient knowledge and experience in similar investments to evaluate the merits and risks of an investment in the Company Group.

   Yes _____________ No _____________

Exhibit 31.1

Rule 13a-14(a)/15d-14(a) Certification

I, Gerry P. Smith, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of The ODP Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ GERRY P. SMITH

Name:	Gerry P. Smith
Title:	Chief Executive Officer (principal executive officer)
Date:	August 9, 2023

Exhibit 31.2

Rule 13a-14(a)/15d-14(a) Certification

I, D. Anthony Scaglione, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of The ODP Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ D. ANTHONY SCAGLIONE

Name:	D. Anthony Scaglione
Title:	Executive Vice President and Chief Financial Officer (principal financial officer)
Date:	August 9, 2023

The ODP Corporation

**Certification of Principal Executive Officer and Principal Financial Officer Pursuant to
18 U.S.C. Section 1350, as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report on Form 10-Q (the “Report”) of The ODP Corporation (the “Company”) for the quarter ended July 1, 2023, as filed with the U.S. Securities and Exchange Commission on the date hereof, Gerry P. Smith, as Chief Executive Officer of the Company, and D. Anthony Scaglione, as Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to each officer’s knowledge:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ GERRY P. SMITH

Name:	Gerry P. Smith
Title:	Chief Executive Officer (principal executive officer)
Date:	August 9, 2023

/s/ D. ANTHONY SCAGLIONE

Name:	D. Anthony Scaglione
Title:	Chief Financial Officer (principal financial officer)
Date:	August 9, 2023

A signed original of this certification required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the U.S. Securities and Exchange Commission or its staff upon request.

The foregoing certification is being furnished as an exhibit to the Report pursuant to Item 601(b)(32) of Regulation S-K and Section 1350 of Title 18 of the United States Code and, accordingly, is not being filed with the U.S. Securities and Exchange Commission as part of the Report and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933 or the Securities Exchange Act of 1934 (whether made before or after the date of the Report, irrespective of any general incorporation language contained in such filing).