HD Supply Holdings, Inc.
Form 10-Q
September 07, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended July 31, 2016

- OR -

o **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	Exact name of Registrant as specified in its charter, Address of principal executive offices	State of incorporation	I.R.S. Employer Identification

	and Telephone number		Number
001-35979	**HD SUPPLY HOLDINGS, INC.** **3100 Cumberland Boulevard, Suite 1480** **Atlanta, Georgia 30339** **(770) 852-9000**	**Delaware**	**26-0486780**
333-159809	**HD SUPPLY, INC.** **3100 Cumberland Boulevard, Suite 1480** **Atlanta, Georgia 30339** **(770) 852-9000**	**Delaware**	**75-2007383**

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.

HD Supply Holdings, Inc.	Yes x No o
HD Supply, Inc.	Yes o No x

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).

HD Supply Holdings, Inc.	Yes x No o
HD Supply, Inc.	Yes x No o

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

HD Supply Holdings, Inc.

Large accelerated filer x	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

HD Supply, Inc.

Large accelerated filer o	Accelerated filer o	Non-accelerated filer x (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

HD Supply Holdings, Inc.	Yes o No x

HD Supply, Inc.	Yes o No x

The number of shares of the Registrant s common stock outstanding as of September 2, 2016:

HD Supply Holdings, Inc.	201,025,941 shares of common stock, par value $0.01 per share
HD Supply, Inc.	1,000 shares of common stock, par value $0.01 per share, all of which were owned by HDS Holding Corporation, a wholly-owned subsidiary of HD Supply Holdings, Inc.

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EXPLANATORY NOTE

This Form 10-Q is a combined quarterly report being filed separately by two registrants: HD Supply Holdings, Inc. and HD Supply, Inc. Unless the context indicates otherwise, any reference in this report to Holdings refers to HD Supply Holdings, Inc., any reference to HDS refers to HD Supply, Inc., the indirect wholly-owned subsidiary of Holdings, and any references to HD Supply, the Company, we, us and our refer to HD Supply Holdings, Inc. together with its direct and indirect subsidiaries, including HDS. Each registrant hereto is filing on its own behalf all of the information contained in this quarterly report that relates to such registrant. Each registrant hereto is not filing any information that does not relate to such registrant, and therefore makes no representation as to any such information.

Forward-looking statements and information

This quarterly report includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Some of the forward-looking statements can be identified by the use of forward-looking terms such as believes, expects, may, will, should, could, intends, plans, estimates, anticipates or other comparable terms. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this report and include statements regarding our intentions, beliefs or current expectations concerning, among other things, our results of operations, financial condition, liquidity, prospects, growth strategies and the industries in which we operate.

Forward-looking statements are subject to known and unknown risks and uncertainties, many of which may be beyond our control. We caution you that forward-looking statements are not guarantees of future performance and that our actual results of operations, financial condition and liquidity, and the development of the industries in which we operate may differ materially from those made in or suggested by the forward-looking statements contained in this report. In addition, even if our results of operations, financial condition and liquidity, and the development of the industries in which we operate are consistent with the forward-looking statements contained in this report, those results or developments may not be indicative of results or developments in subsequent periods. A number of important factors could cause actual results to differ materially from those contained in or implied by the forward-looking statements, including those factors discussed in Item 1A, Risk Factors in our annual report on Form 10-K, for the fiscal year ended January 31, 2016 and those described from time to time in our other filings with the U.S. Securities and Exchange Commission (SEC). Factors that could cause actual results to differ from those reflected in forward-looking statements relating to our operations, financial condition and liquidity, and the development of industries in which we operate include:

- inherent risks of the maintenance, repair and operations market, infrastructure spending and the non-residential and residential construction markets;
- our ability to maintain profitability;
- our substantial debt and our ability to incur additional debt, as well as our ability to service our debt or refinance all or a portion of our indebtedness;

- limitations and restrictions in the agreements governing our indebtedness;

- the competitive environment in which we operate and the demand for our products and services in highly competitive and fragmented industries;

- the loss of any of our significant customers;

- competitive pricing pressure from our customers;

- our ability to identify and acquire suitable acquisition candidates on favorable terms;

- cyclicality and seasonality of infrastructure spending, the maintenance, repair and operations market and the non-residential and residential construction markets;

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- our ability to identify and develop relationships with a sufficient number of qualified suppliers and to maintain our supply chains;
- our ability to manage fixed costs;
- the development of alternatives to distributors in our supply chain;
- our ability to manage our working capital through product purchasing and customer credit policies;
- potential material liabilities under our self-insured programs;
- our ability to attract, train and retain highly qualified associates and key personnel;
- our ability to protect our intellectual property rights;
- the cost of complying with environmental, health and safety laws, as well as other legal and regulatory requirements or disclosures;
- limitations on our income tax net operating loss carryforwards in the event of an ownership change; and
- our ability to identify and integrate new products.

You should read this report completely and with the understanding that actual future results may be materially different from expectations. All forward-looking statements made in this report are qualified by these cautionary statements. These forward-looking statements are made only as of the date of this report and we do not undertake any obligation, other than as may be required by law, to update or revise any forward-looking statements to reflect changes in assumptions, the occurrence of unanticipated events, changes in future operating results over time or otherwise. Comparisons of results for current and any prior periods are not intended to express any future trends or indications of future performance, unless expressed as such, and should only be viewed as historical data.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

HD SUPPLY HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

Amounts in millions, except share and per share data, unaudited

	Three Months Ended		Six Months Ended	
	July 31, 2016	**August 2, 2015**	**July 31, 2016**	**August 2, 2015**
Net Sales	**$ 2,016**	$ 1,937	**$ 3,797**	$ 3,597
Cost of sales	**1,336**	1,289	**2,508**	2,390
Gross Profit	**680**	648	**1,289**	1,207
Operating expenses:				
Selling, general and administrative	**414**	397	**815**	773
Depreciation and amortization	**24**	28	**47**	55
Restructuring	**5**		**12**	
Total operating expenses	**443**	425	**874**	828
Operating Income	**237**	223	**415**	379
Interest expense	**69**	106	**154**	212
Loss on extinguishment of debt			**115**	
Other (income) expense, net		1		1
Income from Continuing Operations Before Provision (Benefit) for Income Taxes	**168**	116	**146**	166
Provision (benefit) for income taxes	**66**	12	**58**	(172)
Income from Continuing Operations	**102**	104	**88**	338
Income (Loss) from discontinued operations, net of tax	**(4)**	5	**(4)**	13
Net Income	**$ 98**	$ 109	**$ 84**	$ 351
Other comprehensive income (loss) foreign currency translation adjustment	**(2)**	(7)	**2**	(2)
Total Comprehensive Income	**$ 96**	$ 102	**$ 86**	$ 349
Weighted Average Common Shares Outstanding (thousands)				
Basic	**199,250**	196,893	**199,029**	196,120
Diluted	**201,978**	201,809	**201,615**	201,221
Basic Earnings Per Share (1):				
Income from Continuing Operations	**$ 0.51**	$ 0.53	**$ 0.44**	$ 1.72
Income (Loss) from Discontinued Operations	**$ (0.02)**	$ 0.03	**$ (0.02)**	$ 0.07
Net Income	**$ 0.49**	$ 0.55	**$ 0.42**	$ 1.79
Diluted Earnings Per Share (1):				
Income from Continuing Operations	**$ 0.51**	$ 0.52	**$ 0.44**	$ 1.68
Income (Loss) from Discontinued Operations	**$ (0.02)**	$ 0.02	**$ (0.02)**	$ 0.06

Net Income	**$**	**0.49**	$	0.54	**$**	**0.42**	$	1.74

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(1) *May not foot due to rounding.*

The accompanying notes are an integral part of these consolidated financial statements.

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HD SUPPLY HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

Amounts in millions, except share and per share data, unaudited

	July 31, 2016	January 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 313**	$ 269
Receivables, less allowance for doubtful accounts of $13 and $13	**1,101**	872
Inventories	**887**	770
Current assets of discontinued operations		43
Other current assets	**42**	29
Total current assets	**2,343**	1,983
Property and equipment, net	**306**	310
Goodwill	**2,869**	2,869
Intangible assets, net	**119**	127
Deferred tax asset	**633**	685
Non-current assets of discontinued operations		20
Other assets	**19**	22
Total assets	**$ 6,289**	$ 6,016
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	**$ 721**	$ 490
Accrued compensation and benefits	**117**	142
Current installments of long-term debt	**9**	9
Current liabilities of discontinued operations		30
Other current liabilities	**200**	200
Total current liabilities	**1,047**	871
Long-term debt, excluding current installments	**4,299**	4,302
Non-current liabilities of discontinued operations		1
Other liabilities	**102**	98
Total liabilities	**5,448**	5,272
Stockholders equity:		
Common stock, par value $0.01; 1 billion shares authorized; 200.9 million and 200.1 million shares issued and outstanding at July 31, 2016 and January 31, 2016, respectively	**2**	2
Paid-in capital	**3,934**	3,909
Accumulated deficit	**(3,076)**	(3,150)
Accumulated other comprehensive loss	**(14)**	(16)
Treasury stock, at cost, 0.13 million and 0.06 million shares at July 31, 2016 and January 31, 2016, respectively	**(5)**	(1)
Total stockholders equity	**841**	744
Total liabilities and stockholders equity	**$ 6,289**	$ 6,016

The accompanying notes are an integral part of these consolidated financial statements.

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HD SUPPLY HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Amounts in millions, unaudited

	Six Months Ended	
	July 31, 2016	**August 2, 2015**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	**$ 84**	$ 351
Reconciliation of net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	**51**	72
Provision for uncollectibles	**3**	4
Non-cash interest expense	**9**	14
Loss on extinguishment of debt	**115**	
Stock-based compensation expense	**11**	10
Deferred income taxes	**52**	19
Loss on sales of businesses, net	**3**	
Other		(1)
Changes in assets and liabilities:		
(Increase) decrease in receivables	**(232)**	(252)
(Increase) decrease in inventories	**(118)**	(153)
(Increase) decrease in other current assets	**(9)**	(2)
Increase (decrease) in accounts payable and accrued liabilities	**196**	217
Increase (decrease) in other long-term liabilities	**(1)**	(181)
Net cash provided by (used in) operating activities	**164**	98
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	**(32)**	(43)
Proceeds from sales of property and equipment	**1**	1
Proceeds from sales of businesses	**37**	
Net cash provided by (used in) investing activities	**6**	(42)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock under employee benefit plans	**14**	41
Purchase of treasury shares	**(14)**	(31)
Borrowings of long-term debt	**1,000**	
Repayments of long-term debt	**(1,110)**	(16)
Borrowings on long-term revolver debt		562
Repayments on long-term revolver debt		(526)
Debt issuance and modification fees	**(15)**	
Other financing activities	**(2)**	(1)
Net cash provided by (used in) financing activities	**(127)**	29
Effect of exchange rates on cash and cash equivalents	**1**	(1)
Increase (decrease) in cash and cash equivalents	**$ 44**	$ 84
Cash and cash equivalents at beginning of period	**269**	85
Cash and cash equivalents at end of period	**$ 313**	$ 169

The accompanying notes are an integral part of these consolidated financial statements.

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HD SUPPLY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

Amounts in millions, unaudited

	Three Months Ended		Six Months Ended	
	July 31, 2016	**August 2, 2015**	**July 31, 2016**	**August 2, 2015**
Net Sales	**$ 2,016**	$ 1,937	**$ 3,797**	$ 3,597
Cost of sales	**1,336**	1,289	**2,508**	2,390
Gross Profit	**680**	648	**1,289**	1,207
Operating expenses:				
Selling, general and administrative	**414**	397	**815**	773
Depreciation and amortization	**24**	28	**47**	55
Restructuring	**5**		**12**	
Total operating expenses	**443**	425	**874**	828
Operating Income	**237**	223	**415**	379
Interest expense	**69**	106	**154**	212
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Income from Continuing Operations Before Provision (Benefit) for Income Taxes	**168**	116	**146**	166
Provision (benefit) for income taxes	**66**	12	**58**	(172)
Income from Continuing Operations	**102**	104	**88**	338
Income (Loss) from discontinued operations, net of tax	**(4)**	5	**(4)**	13
Net Income	**$ 98**	$ 109	**$ 84**	$ 351
Other comprehensive income (loss) foreign currency translation adjustment	**(2)**	(7)	**2**	(2)
Total Comprehensive Income	**$ 96**	$ 102	**$ 86**	$ 349

The accompanying notes are an integral part of these consolidated financial statements.

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HD SUPPLY, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

Amounts in millions, except share and per share data, unaudited

	July 31, 2016	January 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 310**	$ 266
Receivables, less allowance for doubtful accounts of $13 and $13	**1,101**	872
Inventories	**887**	770
Current assets of discontinued operations		43
Other current assets	**42**	29
Total current assets	**2,340**	1,980
Property and equipment, net	**306**	310
Goodwill	**2,869**	2,869
Intangible assets, net	**119**	127
Deferred tax asset	**633**	685
Non-current assets of discontinued operations		20
Other assets	**19**	22
Total assets	**$ 6,286**	$ 6,013
LIABILITIES AND STOCKHOLDER S EQUITY		
Current liabilities:		
Accounts payable	**$ 721**	$ 490
Accrued compensation and benefits	**117**	142
Current installments of long-term debt	**9**	9
Current liabilities of discontinued operations		30
Other current liabilities	**200**	199
Total current liabilities	**1,047**	870
Long-term debt, excluding current installments	**4,299**	4,302
Non-current liabilities of discontinued operations		1
Other liabilities	**102**	98
Total liabilities	**5,448**	5,271
Stockholder s equity:		
Common stock, par value $0.01; authorized 1,000 shares; issued and outstanding 1,000 shares at July 31, 2016 and January 31, 2016		
Paid-in capital	**3,796**	3,786
Accumulated deficit	**(2,944)**	(3,028)
Accumulated other comprehensive loss	**(14)**	(16)
Total stockholder s equity	**838**	742
Total liabilities and stockholder s equity	**$ 6,286**	$ 6,013

The accompanying notes are an integral part of these consolidated financial statements.

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HD SUPPLY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Amounts in millions, unaudited

	Six Months Ended	
	July 31, 2016	**August 2, 2015**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	**$ 84**	$ 351
Reconciliation of net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	**51**	72
Provision for uncollectibles	**3**	4
Non-cash interest expense	**9**	14
Loss on extinguishment of debt	**115**	
Stock-based compensation expense	**11**	10
Deferred income taxes	**52**	19
Loss on sales of businesses, net	**3**	
Other		(1)
Changes in assets and liabilities:		
(Increase) decrease in receivables	**(232)**	(252)
(Increase) decrease in inventories	**(118)**	(153)
(Increase) decrease in other current assets	**(9)**	(2)
Increase (decrease) in accounts payable and accrued liabilities	**196**	217
Increase (decrease) in other long-term liabilities	**(1)**	(181)
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CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	**(32)**	(43)
Proceeds from sales of property and equipment	**1**	1
Proceeds from sales of businesses	**37**	
Net cash provided by (used in) investing activities	**6**	(42)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings of long-term debt	**1,000**	
Repayments of long-term debt	**(1,110)**	(16)
Borrowings on long-term revolver debt		562
Repayments on long-term revolver debt		(526)
Debt issuance and modification fees	**(15)**	
Other financing activities	**(2)**	(1)
Net cash provided by (used in) financing activities	**(127)**	19
Effect of exchange rates on cash and cash equivalents	**1**	(1)
Increase (decrease) in cash and cash equivalents	**$ 44**	$ 74
Cash and cash equivalents at beginning of period	**266**	85
Cash and cash equivalents at end of period	**$ 310**	$ 159

The accompanying notes are an integral part of these consolidated financial statements.

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HD SUPPLY HOLDINGS, INC. AND SUBSIDIARIES

HD SUPPLY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 NATURE OF BUSINESS AND BASIS OF PRESENTATION

Nature of Business

HD Supply Holdings, Inc. (Holdings) indirectly owns all of the outstanding common stock of HD Supply, Inc. (HDS).

Holdings, together with its direct and indirect subsidiaries, including HDS (HD Supply or the Company), is one of the largest industrial distribution companies in North America. The Company specializes in three distinct market sectors: Maintenance, Repair & Operations; Infrastructure; and Specialty Construction. Through approximately 500 locations across 48 U.S. states and six Canadian provinces, the Company serves these markets with an integrated go-to-market strategy. HD Supply has approximately 13,000 associates delivering localized, customer-tailored products, services and expertise. The Company serves approximately 500,000 customers, which include contractors, maintenance professionals, industrial businesses, and government entities. HD Supply s broad range of end-to-end product lines and services include more than 800,000 stock-keeping units (SKUs) of quality, name-brand and proprietary-brand products as well as value-add services supporting the entire life-cycle of a project from infrastructure and construction to maintenance, repair and operations.

HD Supply is managed primarily on a product line basis and reports results of operations in three reportable segments. The reportable segments are Facilities Maintenance, Waterworks, and Construction & Industrial - White Cap. In addition, the consolidated financial statements include an operating segment, Home Improvement Solutions, and Corporate, which is comprised of enterprise-wide functional departments.

Basis of Presentation

In management s opinion, the unaudited financial information for the interim periods presented includes all adjustments necessary for a fair statement of the results of operations, financial position, and cash flows. All adjustments are of a normal recurring nature unless otherwise disclosed. Revenues, expenses, assets and liabilities can vary during each quarter of the year. Therefore, the results and trends in these interim financial statements may not be the same as those for the full year. For a more complete discussion of the Company s significant accounting policies and other information, you should read this report in conjunction with the Company s annual report on Form 10-K for the year ended January 31, 2016, which includes all disclosures required by generally accepted accounting principles in the United States of America (GAAP). Certain amounts in the prior-period financial statements have been reclassified to conform to the current period s presentation.

Fiscal Year

HD Supply s fiscal year is a 52- or 53-week period ending on the Sunday nearest to January 31. Fiscal years ending January 29, 2017 (fiscal 2016) and January 31, 2016 (fiscal 2015) both include 52 weeks. The three months ended July 31, 2016 (second quarter 2016) and August 2, 2015 (second quarter 2015) both include 13 weeks. The six months ended July 31, 2016 and August 2, 2015 both include 26 weeks.

Principles of Consolidation

The consolidated financial statements of Holdings present the results of operations, financial position and cash flows of Holdings and its wholly-owned subsidiaries, including HDS. The consolidated financial statements of HD Supply, Inc. present the results of operations, financial position and cash flows of HDS. and its wholly-owned subsidiaries. All material intercompany balances and transactions are eliminated. Results of operations of businesses acquired are included from their respective dates of acquisition. The results of operations of all discontinued operations have been separately reported as discontinued operations for all periods presented.

Estimates

Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities, the disclosure of contingent assets and liabilities, and reported amounts of revenues and expenses in preparing these consolidated financial statements in conformity with GAAP. Actual results could differ from these estimates.

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HD SUPPLY HOLDINGS, INC. AND SUBSIDIARIES

HD SUPPLY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Self-Insurance

HD Supply has a high deductible insurance program for most losses related to general liability, product liability, environmental liability, automobile liability and workers compensation, and is self-insured for medical claims and certain legal claims. The expected ultimate cost for claims incurred as of the balance sheet date is not discounted and is recognized as a liability. Self-insurance losses for claims filed and claims incurred but not reported are accrued based upon estimates of the aggregate liability for uninsured claims using loss development factors and actuarial assumptions followed in the insurance industry and historical loss development experience. At July 31, 2016 and January 31, 2016, self-insurance reserves totaled approximately $82 million and $84 million, respectively.

NOTE 2 DISCONTINUED OPERATIONS

In May 2016, the Company completed the sale of its Interior Solutions business, which is subject to a customary working capital adjustment. The Company received cash proceeds of approximately $34 million, net of $2 million of transaction costs. As a result of the sale, the Company recorded a $6 million pre-tax loss.

In October 2015, the Company completed the sale of its Power Solutions business. During the second quarter of fiscal 2016, the Company received cash proceeds of $3 million in accordance with the final working capital settlement, and, as a result, recorded an additional $3 million pre-tax gain.

Summary Financial Information

In accordance with Accounting Standards Codification (ASC) 205-20, Discontinued Operations and Accounting Standards Update (ASU) 2014-08, Reporting discontinued operations and disclosure of disposals of components of an entity, the results of Interior Solutions and Power Solutions are classified as discontinued operations. The presentation of discontinued operations includes revenues and expenses of the discontinued operations and gain/loss on the disposition of businesses, net of tax, as one line item on the Consolidated Statements of Operations and Comprehensive Income. All Consolidated Statements of Operations and Comprehensive Income presented have been revised to reflect this presentation.

The following table provides additional detail related to the results of operations of the discontinued operations (amounts in millions):

	Three Months Ended		Six Months Ended	
	July 31, 2016	August 2, 2015	July 31, 2016	August 2, 2015
Net sales	**$ 22**	$ 594	**$ 85**	$ 1,155
Cost of sales	**18**	499	**65**	970
Gross Profit	**4**	95	**20**	185
Operating expenses:				
Selling, general and administrative	**7**	77	**23**	148
Depreciation and amortization		7	**1**	15
Total operating expenses	**7**	84	**24**	163
Operating Income (Loss)	**(3)**	11	**(4)**	22
Loss on sales of discontinued operations	**3**		**3**	
Income (loss) before provision for income taxes	**(6)**	11	**(7)**	22
Provision (benefit) for income taxes	**(2)**	6	**(3)**	9
Income (loss) from discontinued operations, net of tax	**$ (4)**	$ 5	**$ (4)**	$ 13

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HD SUPPLY HOLDINGS, INC. AND SUBSIDIARIES

HD SUPPLY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

At July 31, 2016 and January 31, 2016, the carrying amounts of major classes of assets and liabilities of discontinued operations included in the Consolidated Balance Sheets were as follows (amounts in millions):

	July 31, 2016	January 31, 2016
Current assets:		
Receivables, less allowance for doubtful accounts of $0 and $1	$	$ 31
Inventories		12
Total current assets		43
Intangible assets, net		3
Other non-current assets		17
Total assets of discontinued operations	**$**	**$** 63
Current Liabilities:		
Accounts payable	$	$ 19
Accrued compensation and benefits		2
Other current liabilities		9
Total current liabilities		30
Other non-current liabilities		**1**
Total liabilities of discontinued operations	**$**	**$** 31

The following table provides additional detail related to the net cash provided by (used in) operating and investing activities of the discontinued operations (amounts in millions):

	Six Months Ended	
	July 31, 2016	August 2, 2015
Net cash flows provided by (used in) operating activities	**$ (3)**	**$ 10**
Cash flows from investing activities:		
Capital expenditures	(1)	(3)
Proceeds from sales of businesses, net	37	
Net cash flows provided by (used in) investing activities	**$ 36**	**$ (3)**

NOTE 3 DEBT

HDS s long-term debt as of July 31, 2016 and January 31, 2016 consisted of the following (dollars in millions):

	July 31, 2016			January 31, 2016		
	Outstanding Principal		Interest Rate %(1)	Outstanding Principal		Interest Rate %(1)
Senior ABL Facility due 2018	**$**			$		
Term Loans due 2021		**844**	**3.75**		848	3.75
December 2014 First Priority Notes due 2021		**1,250**	**5.25**		1,250	5.25
April 2016 Senior Unsecured Notes due 2024		**1,000**	**5.75**			
October 2012 Senior Unsecured Notes due 2020					1,000	11.50
February 2013 Senior Unsecured Notes due 2020		**1,275**	**7.50**		1,275	7.50
Total gross long-term debt	**$**	**4,369**		$	4,373	
Less unamortized discount		**(10)**			(11)	
Less unamortized deferred financing costs		**(51)**			(51)	
Total net long-term debt	**$**	**4,308**		$	4,311	
Less current installments		**(9)**			(9)	
Total net long-term debt, excluding current installments	**$**	**4,299**		$	4,302	

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(1) *Represents the stated rate of interest, without including the effect of discounts or premiums.*

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On April 11, 2016, HDS issued $1,000 million of 5.75% Senior Unsecured Notes due 2024 (the April 2016 Senior Unsecured Notes) at par. HDS received approximately $985 million, net of transaction fees. The transaction fees of $15 million are reflected as deferred financing costs in the Consolidated Balance Sheets and will be amortized into interest expense over the term of the notes.

On April 27, 2016, HDS used the net proceeds from the April 2016 Senior Unsecured Notes issuance, together with available cash, to redeem all of the outstanding $1,000 million aggregate principal of the 11.5% Senior Unsecured Notes due 2020 (the October 2012 Senior Unsecured Notes), and pay a $106 million make-whole premium calculated in accordance with the terms of the indenture governing such notes and pay $4 million of accrued but unpaid interest to the redemption date. As a result, the Company incurred a $115 million loss on extinguishment of the debt, which includes the $106 million make-whole premium and the write-off of $9 million of unamortized deferred financing costs, in accordance with ASC 470-50, Debt Modifications and Extinguishments.

Senior Credit Facilities

Asset Based Lending Facility

HDS s Senior Asset Based Lending Facility due 2018 (Senior ABL Facility) provides for senior secured revolving loans and letters of credit of up to a maximum aggregate principal amount of $1,500 million (subject to availability under a borrowing base). Extensions of credit under the Senior ABL Facility are limited by a borrowing base calculated periodically based on specified percentages of the value of eligible inventory and eligible accounts receivable, subject to certain reserves and other adjustments. A portion of the Senior ABL Facility is available for letters of credit and swingline loans. As of July 31, 2016, HDS had $1,289 million of additional available borrowings under the Senior ABL Facility (after giving effect to the borrowing base limitations and approximately $34 million in letters of credit issued and including $89 million of borrowings available on qualifying cash balances).

At HDS s option, the interest rates applicable to the loans under the Senior ABL Facility are based (i) in the case of U.S. dollar-denominated loans, either at London Interbank Offered Rate (LIBOR) plus an applicable margin, or Prime Rate plus an applicable margin and (ii) in the case of Canadian dollar-denominated loans, either the banker s acceptance (BA) rate plus an applicable margin, or the Canadian Prime Rate plus an applicable margin. The margins applicable for each elected interest rate are subject to a pricing grid, as defined in the agreement governing the Senior ABL Facility, based on average excess availability for the previous fiscal quarter. The Senior ABL Facility also contains a letter of credit fee computed at a rate per annum equal to the Applicable Margin (as defined in the Senior ABL Facility agreement) then in effect for LIBOR Loans (as defined in the Senior ABL Facility agreement) and an unused commitment fee subject to a pricing grid, included in the agreement governing the Senior ABL Facility, based on the Average Daily Used Percentage (as defined in the agreement).

The Senior ABL Facility also permits HDS to add one or more incremental term loan facilities to be included in the Senior ABL Facility or one or more revolving credit facility commitments to be included in the Senior ABL Facility. The Senior ABL Facility will mature on June 28, 2018 (or the maturity date under HDS s Term Loan Facility, if earlier).

Senior Secured Term Loan Facility

HDS s Senior Term Facility consists of a senior secured term loan facility (the Term Loan Facility, and the term loans thereunder, the Term Loans) providing for Term Loans in an original aggregate principal amount of $850 million. The Term Loan Facility will mature on August 13, 2021 (the Term Loan Maturity Date). The Term Loans amortize in equal quarterly installments in aggregate annual amounts equal to 1.00% of the original principal amount of the Term Loan Facility beginning December 2015 with the balance payable on the Term Loan Maturity Date. The Term Loans bear interest at the applicable margin for borrowings of 2.75% for LIBOR borrowings and 1.75% for base rate borrowings, with the LIBOR floor at 1.00%.

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For additional information on our Senior ABL Facility or Term Loan Facility (collectively, the Senior Credit Facilities), including guarantees and security, please refer to the Notes to Consolidated Financial Statements of our Form 10-K for the fiscal year ended January 31, 2016.

Secured Notes

5.25% Senior Secured First Priority Notes due 2021

HDS s 5.25% Senior Secured First Priority Notes due 2021 (the December 2014 First Priority Notes) bear interest at 5.25% per annum and will mature on December 15, 2021. Interest is paid semi-annually in arrears on June 15th and December 15th of each year.

Redemption

HDS may redeem the December 2014 First Priority Notes, in whole or in part, at any time (1) prior to December 15, 2017, at a price equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date, plus the applicable make-whole premium set forth in the indenture governing the December 2014 First Priority Notes and (2) on and after December 15, 2017, at the applicable redemption price set forth below (expressed as a percentage of principal amount), plus accrued and unpaid interest, if any, to the relevant redemption date, if redeemed during the 12-month period commencing on December 15 of the year set forth below.

Year	Percentage
2017	103.938%
2018	102.625%
2019	101.313%
2020 and thereafter	100.000%

In addition, at any time prior to December 15, 2017, HDS may redeem on one or more occasions up to 40% of the aggregate principal amount of the December 2014 First Priority Notes with the proceeds of certain equity offerings at a redemption price of 105.25% of the principal amount of the December 2014 First Priority Notes being redeemed, plus accrued and unpaid interest to the redemption date, provided, however, that if the December 2014 First Priority Notes are redeemed, an aggregate principal amount of December 2014 First Priority Notes equal to at least 50% of the original aggregate principal amount of December 2014 First Priority Notes must remain outstanding immediately after each such redemption of December 2014 First Priority Notes.

Collateral

The December 2014 First Priority Notes and the related guarantees are secured by a first-priority security interest in substantially all of the tangible and intangible assets of HDS and the Subsidiary Guarantors (other than the ABL Priority Collateral (both as defined in the indenture governing the December 2014 First Priority Notes), in which the December 2014 First Priority Notes and the related guarantees have a second-priority security interest), including pledges of all capital stock of HDS s restricted subsidiaries directly owned by HDS and the Subsidiary Guarantors (but only up to 65% of each series of capital stock of each direct Foreign Subsidiary owned by HDS or any Subsidiary Guarantor), subject to certain thresholds, exceptions and permitted liens, and excluding any Excluded Assets and Excluded Subsidiary Securities (each as defined in the indenture governing the December 2014 First Priority Notes, and together, the Cash Flow Priority Collateral).

The indenture governing the December 2014 First Priority Notes and the applicable collateral documents provide that any capital stock and other securities of any of HDS s subsidiaries will be excluded from the collateral to the extent the pledge of such capital stock or other securities to secure the December 2014 First Priority Notes would cause such subsidiary to be required to file separate financial statements with the U.S. Securities and Exchange Commission (SEC) pursuant to Rule 3-16 of Regulation S-X (as in effect from time to time).

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For additional information on the December 2014 First Priority Notes, including guarantees and security, please refer to the Notes to Consolidated Financial Statements of our Form 10-K, for the fiscal year ended January 31, 2016.

Unsecured Notes

5.75% Senior Unsecured Notes due 2024

HDS issued $1,000 million aggregate principal amount of 5.75% Senior Notes (April 2016 Senior Unsecured Notes) under an Indenture, dated as of April 11, 2016 (April 2016 Senior Unsecured Notes Indenture) among HDS, certain subsidiaries of HDS as guarantors and the Trustee. The April 2016 Senior Unsecured Notes bear interest at a rate of 5.75% and will mature on April 15, 2024. Interest is paid semi-annually on April 15th and October 15th of each year with first interest payment scheduled October 15, 2016.

The April 2016 Senior Unsecured Notes are unsecured senior indebtedness of HDS and rank equal in right of payment with all of HDS s existing and future senior indebtedness, senior in right of payment to all of HDS s existing and future subordinated indebtedness, and effectively subordinated to all of HDS s existing and future indebtedness, including, without limitation, indebtedness under the Senior Credit Facilities and December 2014 First Priority Notes, to the extent of the value of the collateral securing each indebtedness.

The April 2016 Senior Unsecured Notes are guaranteed, on a senior unsecured basis, by each of HDS s direct and indirect domestic existing and future subsidiaries that is a wholly owned domestic subsidiary (other than certain excluded subsidiaries), and by each other domestic subsidiary that is a borrower under the Senior ABL Facility or that guarantees HDS s obligations under any credit facility or capital markets securities. These guarantees are subject to release under customary circumstances as stipulated in the April 2016 Senior Unsecured Notes Indenture.

Redemption

HDS may redeem the April 2016 Senior Unsecured Notes, in whole or in part, at any time (1) prior to April 15, 2019, at a price equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date, plus the applicable make-whole premium set forth in the April 2016 Senior Unsecured Notes Indenture and (2) on and after April 15, 2019, at the applicable redemption price set forth below (expressed as a percentage of principal amount), plus accrued and unpaid interest, if any, to the relevant redemption date, if redeemed during the

12-month period commencing on April 15 of the year set forth below.

Year	**Percentage**
2019	104.313%
2020	102.875%
2021	101.438%
2022 and thereafter	100.000%

In addition, at any time prior to April 15, 2019, HDS may redeem on one or more occasions up to 40% of the aggregate principal amount of the April 2016 Senior Unsecured Notes with the proceeds of certain equity offerings at a redemption price of 105.75% of the principal amount in respect of the April 2016 Senior Unsecured Notes being redeemed, plus accrued and unpaid interest to the redemption date, provided, however, that if the April 2016 Senior Unsecured Notes are redeemed, an aggregate principal amount of April 2016 Senior Unsecured Notes equal to at least 50% of the original aggregate principal amount of April 2016 Senior Unsecured Notes must remain outstanding immediately after each such redemption of April 2016 Senior Unsecured Notes.

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7.5% Senior Unsecured Notes due 2020

HDS s 7.5% Senior Unsecured Notes due 2020 (the February 2013 Senior Unsecured Notes) bear interest at 7.5% per annum and will mature on July 15, 2020. Interest is paid semi-annually in arrears on April 15th and October 15th of each year.

Redemption

HDS may redeem the February 2013 Senior Unsecured Notes, in whole or in part, at any time (1) prior to October 15, 2016, at a price equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date, plus the applicable make-whole premium set forth in the indenture governing the February 2013 Senior Unsecured Notes and (2) on and after October 15, 2016, at the applicable redemption price set forth below (expressed as a percentage of principal amount), plus accrued and unpaid interest, if any, to the relevant redemption date, if redeemed during the 12-month period commencing on October 15 of the year set forth below.

Year	Percentage
2016	103.750%
2017	101.875%
2018 and thereafter	100.000%

11.5% Senior Unsecured Notes due 2020

HDS s 11.5% Senior Unsecured Notes due 2020 (the October 2012 Senior Unsecured Notes) bore interest at 11.5% per annum with a maturity date of July 15, 2020. Interest was paid semi-annually in arrears on April 15th and October 15th of each year, prior to the April 27, 2016 redemption of all of the outstanding $1,000 million aggregate principal amount of the October 2012 Senior Unsecured Notes.

Debt covenants

HDS s outstanding debt agreements contain various restrictive covenants including, but not limited to, limitations on the incurrence of additional indebtedness and dividend payments and restrictions on the use of proceeds from asset dispositions. As of July 31, 2016, HDS was in compliance with all such covenants that were in effect on such date.

NOTE 4 FAIR VALUE MEASUREMENTS

The fair value measurements and disclosure principles of GAAP (ASC 820, Fair Value Measurements and Disclosures) define fair value, establish a framework for measuring fair value and provide disclosure requirements about fair value measurements. These principles define a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 Quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs (other than quoted prices) that are observable for the asset or liability, either directly or indirectly;

Level 3 Unobservable inputs in which little or no market activity exists.

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The Company s financial instruments that are not reflected at fair value on the Consolidated Balance Sheets were as follows as of July 31, 2016 and January 31, 2016 (amounts in millions):

	As of July 31, 2016		As of January 31, 2016	
	Recorded Amount(1)	Estimated Fair Value	Recorded Amount(1)	Estimated Fair Value
Senior ABL Facility	$	$	$	$
Term Loans and Notes	**4,369**	**4,571**	4,373	4,560
Total	**$ 4,369**	**$ 4,571**	$ 4,373	$ 4,560

(1) These amounts do not include accrued interest; accrued interest is classified as Other current liabilities in the accompanying Consolidated Balance Sheets. These amounts do not include any related discounts, premiums, or deferred financing costs.

The Company utilized Level 2 inputs, as defined in the fair value hierarchy, to measure the fair value of the long-term debt. Management s fair value estimates were based on quoted prices for recent trades of HDS s long-term debt, recent similar credit facilities initiated by companies with like credit quality in similar industries, quoted prices for similar instruments, and inquiries with certain investment communities.

NOTE 5 INCOME TAXES

For the six months ended July 31, 2016, the Company s combined federal, state, and foreign effective tax rate is an expense of 39.7%. The effective rate for continuing operations for the six months ended August 2, 2015 was a benefit of 103.6%, mainly driven by a decrease of $189 million in the Company s unrecognized U.S. federal and state tax benefits related to the Joint Committee on Taxation s February 19, 2015 approval and finalization of a tentative settlement with the Internal Revenue Service s Office of Appeals in conjunction with a Revenue Agent s report issued in January 2013. For additional information, please refer to the Notes to Consolidated Financial Statements of our Form 10-K for the fiscal year ended January 31, 2016.

The Company s effective tax rate will vary based on a variety of factors, including overall profitability, the geographical mix of income before taxes and the related tax rates in the jurisdictions where it operates, restructuring and other one-time charges, as well as discrete events, such as settlements of future audits.

As of January 31, 2016, the Company s unrecognized tax benefits in accordance with the income taxes principles of GAAP (ASC 740, Income Taxes) were $9 million. As of July 31, 2016, the Company s unrecognized tax benefits remained unchanged. The Company s ending net accrual for interest and penalties related to unrecognized tax benefits as of January 31, 2016 was zero and remained unchanged as of July 31, 2016. At July 31, 2016 and January 31, 2016, the Company s valuation allowance on its U.S. deferred tax assets was approximately $5 million and $6 million, respectively. Each reporting period management assesses available positive and negative evidence and estimate if sufficient future taxable income will be generated to utilize the existing deferred tax assets.

NOTE 6 BASIC AND DILUTED WEIGHTED AVERAGE COMMON SHARES

The following basic and diluted weighted average common shares information is provided for Holdings.

The reconciliation of basic to diluted weighted average common shares for the six months ended July 31, 2016 and August 2, 2015 was as follows (in thousands):

	Three Months Ended		Six Months Ended	
	July 31, 2016	**August 2, 2015**	**July 31, 2016**	**August 2, 2015**
Weighted-average common shares	**199,250**	196,893	**199,029**	196,120
Effect of potentially dilutive stock plan securities	**2,728**	4,916	**2,586**	5,101
Diluted weighted-average common shares	**201,978**	201,809	**201,615**	201,221
Stock plan securities excluded from dilution (1)	**1,452**	107	**2,240**	1,645

(1) *Represents securities not included in the computation of diluted earnings per share because their effect would have been anti-dilutive.*

Stock plan securities consist of securities (stock options, restricted stock and restricted stock units) granted under Holdings stock-based compensation plans.

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NOTE 7 SUPPLEMENTAL BALANCE SHEET AND CASH FLOW INFORMATION

Receivables

Receivables consisted of the following (amounts in millions):

		July 31, 2016		January 31, 2016
Trade receivables, net of allowance for doubtful accounts	**$**	**1,020**	$	784
Vendor rebate receivables		**70**		76
Other receivables		**11**		12
Total receivables, net	**$**	**1,101**	$	872

Other Current Liabilities

Other current liabilities consisted of the following (amounts in millions):

	HD Supply Holdings, Inc.				HD Supply, Inc.			
		July 31, 2016		January 31, 2016		July 31, 2016		January 31, 2016
Accrued interest	**$**	**57**	$	73	**$**	**57**	$	73
Accrued non-income taxes		**41**		30		**41**		30
Other		**102**		97		**102**		96
Total other current liabilities	**$**	**200**	$	200	**$**	**200**	$	199

Supplemental Cash Flow Information

Cash paid for interest in the six months ended July 31, 2016 and August 2, 2015 was $161 million and $201 million, respectively.

Cash paid for income taxes, net of refunds, in the six months ended July 31, 2016 and August 2, 2015 was approximately $6 million and $9 million, respectively.

Significant Non-Cash Transactions

During the six months ended July 31, 2016, Holdings retired 319,093 shares of its common stock (Retired Shares) held as treasury shares by Holdings in the amount of $9 million. All of these shares were repurchased by Holdings pursuant to the publicly announced share repurchase program previously authorized by Holdings board of directors. Holdings reinstated the Retired Shares to the status of authorized but unissued shares of common stock, par value $0.01 per share, effective as of the date of retirement. In accordance with ASC 505-30, Equity-Treasury Stock, Holdings reversed the $0.01 par value of the Retired Shares and the excess of the cost of the Retired Shares over par value to Retained Earnings.

NOTE 8 RESTRUCTURING ACTIVITIES

During the fourth quarter of fiscal 2015 in conjunction with the sale of the Power Solutions business unit, management evaluated the Company s talent alignment and functional support strategies. Consequently, during fiscal 2015, the Company initiated a restructuring plan to strategically align its leadership and functional support teams. Initially, the Company expected to incur approximately $10 million to $20 million of restructuring charges under the plan. During first quarter fiscal 2016, the Company accelerated and expanded the restructuring plan. As a result, the Company now expects to incur a total of approximately $25 million to $30 million of restructuring charges under the restructuring plan, which is expected to be complete in the second half of fiscal 2016 and deliver a payback of approximately two years via a reduction in costs.

During the three and six months ended July 31, 2016, the Company s activities under this restructuring plan resulted in restructuring charges of $5 million and $12 million, respectively, of which $3 million and $9 million, respectively, was incurred at the Facilities Maintenance business. During fiscal 2015, the Company incurred $9 million of restructuring charges under this plan. The Company expects to incur an additional $4 million to $9 million of restructuring charges over the next six months primarily for severance, relocation and related costs.

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The following table presents the activity for the liability balance, included in Other current liabilities in the Consolidated Balance Sheets (amounts in millions):

	Severance	Relocation & Other Costs	Total
Balance January 31, 2016	$ 6	$ 1	$ 7
Charges	4	8	**12**
Cash payments	(5)	(8)	**(13)**
Balance July 31, 2016	**$ 5**	**$ 1**	**$ 6**

NOTE 9 COMMITMENTS AND CONTINGENCIES

Legal Matters

HD Supply is involved in various legal proceedings arising in the normal course of its business. The Company establishes reserves for litigation and similar matters when those matters present loss contingencies that it determines to be both probable and reasonably estimable in accordance with ASC 450, Contingencies. In the opinion of management, based on current knowledge, all reasonably estimable and probable matters are believed to be adequately reserved for or covered by insurance and are not expected to have a material adverse effect on the Company s consolidated financial condition, results of operations or cash flows. For all other matters, except as noted below, management believes the possibility of losses from such matters is not probable, the potential loss from such matters is not reasonably estimable, or such matters, if disposed of unfavorably to the Company, are of such kind or involve such amounts that would not have a material adverse effect on the financial position, results of operations or cash flows of the Company. For material matters that are reasonably possible and reasonably estimable, including matters that are probable and estimable but for which the amount that is reasonably possible is in excess of the amount that the Company has accrued for, management has estimated the aggregate range of potential loss as $0 to $15 million. If a material loss is probable or reasonably possible, and in either case estimable, the Company has considered it in the analysis and it is included in the discussion set forth above.

NOTE 10 SEGMENT INFORMATION

HD Supply s operating segments are based on management structure and internal reporting. Each segment offers different products and services to the end customer, except for Corporate, which provides general corporate overhead support. The Company determines its reportable segments in accordance with the principles of segment reporting within ASC 280, Segment Reporting. For purposes of evaluation under these segment reporting principles, the Chief Operating Decision Maker for HD Supply assesses HD Supply s ongoing performance, based on the periodic review and evaluation of Net sales, Adjusted EBITDA and certain other measures for each of the operating segments.

HD Supply has three reportable segments, each of which is presented below:

- *Facilities Maintenance* Facilities Maintenance distributes maintenance, repair and operations (MRO) products, provides value-add services and fabricates custom products to multifamily, hospitality, healthcare and institutional facilities.

- *Waterworks* Waterworks distributes complete lines of water and wastewater transmission products, serving contractors and municipalities in the water and wastewater industries for non-residential and residential uses.

- *Construction & Industrial - White Cap* Construction & Industrial - White Cap distributes specialized hardware, tools, engineered materials and safety products to non-residential and residential contractors.

In addition to the reportable segments, the Company s consolidated financial results include Corporate & Other. Corporate & Other includes the operating segment Home Improvement Solutions, which offers light remodeling and construction supplies, kitchen and bath cabinets, windows, plumbing materials, electrical equipment and other products, primarily to small remodeling contractors and trade professionals. Corporate &

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Other also includes costs related to our centralized support functions, which are comprised of finance, information technology, human resources, legal, supply chain and other support services, and removes inter-segment transactions.

The following tables present Net sales, Adjusted EBITDA, and other measures for each of the reportable segments and total continuing operations for the periods indicated (amounts in millions):

	Facilities Maintenance	Waterworks	Construction & Industrial White Cap	Corporate & Other	Total Continuing Operations
Three Months Ended July 31, 2016					
Net sales	**$ 741**	**$ 733**	**$ 489**	**$ 53**	**$ 2,016**
Adjusted EBITDA	**151**	**70**	**60**	**(8)**	**273**
Depreciation(1) & Software Amortization	**7**	**3**	**7**	**5**	**22**
Other Intangible Amortization	**2**			**1**	**3**
Three Months Ended August 2, 2015					
Net sales	$ 733	$ 702	$ 455	$ 47	$ 1,937
Adjusted EBITDA	156	66	45	(10)	257
Depreciation(1) & Software Amortization	11	3	7	5	26
Other Intangible Amortization	2			1	3
Six Months Ended July 31, 2016					
Net sales	**$ 1,418**	**$ 1,338**	**$ 936**	**$ 105**	**$ 3,797**
Adjusted EBITDA	**285**	**118**	**103**	**(18)**	**488**
Depreciation(1) & Software Amortization	**15**	**5**	**14**	**9**	**43**
Other Intangible Amortization	**3**	**1**		**3**	**7**

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	Facilities Maintenance	Waterworks	Construction & Industrial White Cap	Corporate & Other	Total Continuing Operations
Six Months Ended August 2, 2015					
Net sales	$ 1,368	$ 1,272	$ 862	$ 95	$ 3,597
Adjusted EBITDA	278	111	79	(22)	446
Depreciation(1) & Software Amortization	23	5	13	9	50
Other Intangible Amortization	3	1		3	7

(1) *Depreciation includes amounts recorded within Cost of sales in the Consolidated Statements of Operations.*

Reconciliation to Consolidated Financial Statements

	Three Months Ended		Six Months Ended	
	July 31, 2016	**August 2, 2015**	**July 31, 2016**	**August 2, 2015**
Total Adjusted EBITDA	**$ 273**	$ 257	**$ 488**	$ 446
Depreciation and amortization(1)	**25**	29	**50**	57
Stock-based compensation	**5**	5	**11**	10
Restructuring	**5**		**12**	
Other	**1**			
Operating income	**237**	223	**415**	379
Interest expense, net	**69**	106	**154**	212
Loss on extinguishment of debt(2)			**115**	
Other (income) expense, net(3)		1		1
Income from Continuing Operations Before Provision (Benefit) for Income Taxes	**168**	116	**146**	166
Provision (benefit) for income taxes	**66**	12	**58**	(172)
Income from continuing operations	**102**	104	**88**	338
Less: Income (loss) from discontinued operations, net of tax	**(4)**	5	**(4)**	13
Net income (loss)	**$ 98**	$ 109	**$ 84**	$ 351

(1) *Depreciation and amortization includes amounts recorded within Cost of sales in the Consolidated Statements of Operations.*

(2) Represents the loss on extinguishment of debt including the premium paid to redeem the debt as well as the write-off of unamortized deferred financing costs and other assets or liabilities associated with such debt.

(3) Represents the costs expensed in connection with secondary offerings of Holdings common stock by certain of Holdings stockholders.

NOTE 11 SUBSIDIARY GUARANTORS

HDS (the Debt Issuer) has outstanding December 2014 First Priority Notes, February 2013 Senior Unsecured Notes, and April 2016 Senior Unsecured Notes (collectively the Notes), which are guaranteed by certain of its subsidiaries (the Subsidiary Guarantors). The Subsidiary Guarantors are direct or indirect wholly-owned domestic subsidiaries of HDS. The subsidiaries of HDS that do not guarantee the Notes (Non-guarantor Subsidiaries) are direct or indirect wholly-owned subsidiaries of HDS and primarily include HDS s operations in Canada.

The Debt Issuer s payment obligations under the Notes are jointly and severally guaranteed by the guarantors and all guarantees are full and unconditional.

These guarantees are subject to release under the circumstances as described below:

(i) concurrently with any direct or indirect sale or disposition (by merger or otherwise) of any Subsidiary Guarantor or any interest therein in accordance with the terms of the applicable indebtedness by HDS or a restricted subsidiary, following which such Subsidiary Guarantor is no longer a restricted subsidiary of HDS;

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(ii) at any time that such Subsidiary Guarantor is released from all of its obligations under all of its guarantees of payment of any indebtedness of HDS or any Subsidiary Guarantor under all other indebtedness and is not a borrower under the Senior ABL Facility;

(iii) upon the merger or consolidation of any Subsidiary Guarantor with and into HDS or another Subsidiary Guarantor that is the surviving entity in such merger or consolidation, or upon the liquidation of such Subsidiary Guarantor following the transfer of all of its assets to HDS or another Subsidiary Guarantor;

(iv) concurrently with any Subsidiary Guarantor becoming an unrestricted subsidiary;

(v) during the period when the rating on the notes is changed to investment grade and certain covenants cease to apply while such investment grade rating is maintained, upon the merger or consolidation of any Subsidiary Guarantor with and into another subsidiary that is not a Subsidiary Guarantor with such other subsidiary being the surviving entity in such merger or consolidation, or upon liquidation of such Subsidiary Guarantor following the transfer of all of its assets to a subsidiary that is not a Subsidiary Guarantor;

(vi) upon legal or covenant defeasance of HDS s obligations under the applicable indebtedness, or satisfaction and discharge of the indenture governing the applicable indebtedness; or

(vii) subject to customary contingent reinstatement provisions, upon payment in full of the aggregate principal amount of all applicable indebtedness then outstanding and all other obligations guaranteed by a Subsidiary Guarantor then due and owing.

In addition, HDS has the right, upon 30 days notice to the applicable trustee, to cause any Subsidiary Guarantor that has not guaranteed payment of any indebtedness of HDS or any Subsidiary Guarantor under all other indebtedness and is not a borrower under the Senior ABL Facility to be unconditionally released from all obligations under its Subsidiary Guarantee, and such Subsidiary Guarantee shall thereupon terminate and be discharged and of no further force or effect.

In connection with the issuance of the Notes, HDS determined the need for compliance with Rule 3-10 of SEC Regulation S-X. In lieu of providing separate audited financial statements for the Guarantor Subsidiaries, HDS has included the accompanying Condensed Consolidating Financial Statements in accordance with Rule 3-10(f) of SEC Regulation S-X. The following supplemental financial information sets forth, on a consolidating basis under the equity method of accounting, the condensed statements of operations and comprehensive income, the condensed balance sheets and the condensed statements of cash flows for the Debt Issuer, for the Subsidiary Guarantors and the Non-guarantor Subsidiaries and total consolidated Debt Issuer and subsidiaries (amounts in millions).

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HD SUPPLY HOLDINGS, INC. AND SUBSIDIARIES

HD SUPPLY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

	Three Months Ended July 31, 2016				
	Debt Issuer	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Total HDS
Net Sales	**$**	**$ 1,984**	**$ 33**	**$ (1)**	**$ 2,016**
Cost of sales		1,319	18	(1)	1,336
Gross Profit		**665**	**15**		**680**
Operating expenses:					
Selling, general and administrative	20	383	11		414
Depreciation and amortization	3	20	1		24
Restructuring	1	4			5
Total operating expenses	24	407	12		443
Operating Income (Loss)	**(24)**	**258**	**3**		**237**
Interest expense	73	60		(64)	69
Interest (income)	(60)	(4)		64	
Net (earnings) loss of equity affiliates	(200)			200	
Income (Loss) from Continuing Operations Before Provision for Income Taxes	163	202	3	(200)	168
Provision for income taxes	63	1	2		66
Income (Loss) from Continuing Operations	**100**	**201**	**1**	**(200)**	**102**
Income (loss) from discontinued operations, net of tax	(2)	(2)			(4)
Net Income (Loss)	**$ 98**	**$ 199**	**$ 1**	**$ (200)**	**$ 98**
Other comprehensive income (loss) foreign currency translation adjustment	(2)		(2)	2	(2)
Total Comprehensive Income (Loss)	**$ 96**	**$ 199**	**$ (1)**	**$ (198)**	**$ 96**

	Three Months Ended August 2, 2015				
	Debt Issuer	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Total HDS
Net Sales	**$**	**$ 1,904**	**$ 34**	**$ (1)**	**$ 1,937**
Cost of sales		1,271	18		1,289
Gross Profit		**633**	**16**	**(1)**	**648**
Operating expenses:					
Selling, general and administrative	21	364	13	(1)	397
Depreciation and amortization	4	23	1		28
Total operating expenses	25	387	14	(1)	425

Operating Income (Loss)		**(25)**		**246**		**2**				**223**
Interest expense		108		61				(63)		106
Interest (income)		(61)		(2)				63		
Net (earnings) loss of equity affiliates		(188)						188		
Other (income) expense, net		1								1
Income (Loss) from Continuing Operations Before Provision for Income Taxes		**115**		**187**		**2**		**(188)**		**116**
Provision for income taxes		9		3						12
Income (Loss) from Continuing Operations		**106**		**184**		**2**		**(188)**		**104**
Income (loss) from discontinued operations, net of tax		3		(2)		4				5
Net Income (Loss)	**$**	**109**	**$**	**182**	**$**	**6**	**$**	**(188)**	**$**	**109**
Other comprehensive income (loss) foreign currency translation adjustment		(7)				(7)		7		(7)
Total Comprehensive Income (Loss)	**$**	**102**	**$**	**182**	**$**	**(1)**	**$**	**(181)**	**$**	**102**

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HD SUPPLY HOLDINGS, INC. AND SUBSIDIARIES

HD SUPPLY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (CONTINUED)

	Six Months Ended July 31, 2016				
	Debt Issuer	**Subsidiary Guarantors**	**Non-Guarantor Subsidiaries**	**Eliminations**	**Total HDS**
Net Sales	$	$ **3,736**	$ **62**	$ **(1)**	$ **3,797**
Cost of sales		2,475	34	(1)	2,508
Gross Profit		**1,261**	**28**		**1,289**
Operating expenses:					
Selling, general and administrative	40	753	22		815
Depreciation and amortization	6	40	1		47
Restructuring	2	10			12
Total operating expenses	48	803	23		874
Operating Income (Loss)	**(48)**	**458**	**5**		**415**
Interest expense	162	121		(129)	154
Interest (income)	(121)	(8)		129	
Net (earnings) loss of equity affiliates	(345)			345	
Loss on extinguishment of debt	115				115
Income (Loss) from Continuing Operations Before Provision for Income Taxes	**141**	**345**	**5**	**(345)**	**146**
Provision for income taxes	55	1	2		58
Income (Loss) from Continuing Operations	**86**	**344**	**3**	**(345)**	**88**
(Loss) from discontinued operations, net of tax	**(2)**	**(2)**			**(4)**
Net Income (Loss)	$ **84**	$ **342**	$ **3**	$ **(345)**	$ **84**
Other comprehensive income (loss) foreign currency translation adjustment	2		2	(2)	2
Total Comprehensive Income (Loss)	$ **86**	$ **342**	$ **5**	$ **(347)**	$ **86**

	Six Months Ended August 2, 2015				
	Debt Issuer	**Subsidiary Guarantors**	**Non-Guarantor Subsidiaries**	**Eliminations**	**Total HDS**
Net Sales	$	$ **3,535**	$ **63**	$ **(1)**	$ **3,597**
Cost of sales		2,357	33		2,390
Gross Profit		**1,178**	**30**	**(1)**	**1,207**
Operating expenses:					
Selling, general and administrative	42	708	24	**(1)**	773
Depreciation and amortization	7	47	1		55

Total operating expenses	49	755	25	(1)	828
Operating Income (Loss)	**(49)**	**423**	**5**		**379**
Interest expense	215	121		(124)	212
Interest (income)	(121)	(3)		124	
Net (earnings) loss of equity affiliates	(321)			321	
Other (income) expense, net	1				1
Income (Loss) from Continuing Operations Before Provision (Benefit) for Income Taxes	177	305	5	(321)	166
Provision (benefit) for income taxes	(174)	2			(172)
Income (Loss) from Continuing Operations	**351**	**303**	**5**	**(321)**	**338**
Income from discontinued operations, net of tax		**5**	**8**		**13**
Net Income (Loss)	**$ 351**	**$ 308**	**$ 13**	**$ (321)**	**$ 351**
Other comprehensive income (loss) foreign currency translation adjustment	(2)		(2)	2	(2)
Total Comprehensive Income (Loss)	**$ 349**	**$ 308**	**$ 11**	**$ (319)**	**$ 349**

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HD SUPPLY HOLDINGS, INC. AND SUBSIDIARIES

HD SUPPLY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

CONDENSED CONSOLIDATING BALANCE SHEETS

	As of July 31, 2016				
	Debt Issuer	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Total HDS
ASSETS					
Current assets:					
Cash and cash equivalents	$ 274	$ 17	$ 19	$	$ 310
Receivables, net	2	1,081	18		1,101
Inventories		868	19		887
Intercompany receivables		1		(1)	
Other current assets	9	32	1		42
Total current assets	285	1,999	57	(1)	2,340
Property and equipment, net	61	243	2		306
Goodwill		2,869			2,869
Intangible assets, net		118	1		119
Deferred tax asset	705		3	(75)	633
Investment in subsidiaries	2,637			(2,637)	
Intercompany notes receivable	2,193	547		(2,740)	
Other assets	15	4			19
Total assets	**$ 5,896**	**$ 5,780**	**$ 63**	**$ (5,453)**	**$ 6,286**
LIABILITIES AND STOCKHOLDER S EQUITY					
Current liabilities:					
Accounts payable	$ 10	$ 699	$ 12	$	$ 721
Accrued compensation and benefits	30	85	2		117
Current installments of long-term debt	9				9
Intercompany payables			1	(1)	
Other current liabilities	82	110	8		200
Total current liabilities	131	894	23	(1)	1,047
Long-term debt, excluding current installments	4,299				4,299
Deferred tax liabilities		75		(75)	
Intercompany notes payable	547	2,193		(2,740)	
Other liabilities	81	19	2		102
Total liabilities	**5,058**	**3,181**	**25**	**(2,816)**	**5,448**
Stockholder s equity	838	2,599	38	(2,637)	838
Total liabilities and stockholder s equity	**$ 5,896**	**$ 5,780**	**$ 63**	**$ (5,453)**	**$ 6,286**

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HD SUPPLY HOLDINGS, INC. AND SUBSIDIARIES

HD SUPPLY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

CONDENSED CONSOLIDATING BALANCE SHEETS (CONTINUED)

	As of January 31, 2016				
	Debt Issuer	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Total HDS
ASSETS					
Current assets:					
Cash and cash equivalents	$ 233	$ 18	$ 15	$	$ 266
Receivables, net	5	852	15		872
Inventories		753	17		770
Current assets of discontinued operations		43			43
Other current assets	9	19	1		29
Total current assets	247	1,685	48		1,980
Property and equipment, net	55	253	2		310
Goodwill		2,869			2,869
Intangible assets, net		125	2		127
Deferred tax asset	759		2	(76)	685
Non-current assets of discontinued operations		20			20
Investment in subsidiaries	2,623			(2,623)	
Intercompany notes receivable	2,192	627		(2,819)	
Other assets	20	2			22
Total assets	**$ 5,896**	**$ 5,581**	**$ 54**	**$ (5,518)**	**$ 6,013**
LIABILITIES AND STOCKHOLDER S EQUITY					
Current liabilities:					
Accounts payable	$ 12	$ 469	$ 9	$	$ 490
Accrued compensation and benefits	38	101	3		142
Current installments of long-term debt	9				9
Current liabilities of discontinued operations		30			30
Other current liabilities	93	99	7		199
Total current liabilities	152	699	19		870
Long-term debt, excluding current installments	4,302				4,302
Deferred tax liabilities		76		(76)	
Non-current liabilities of discontinued operations		1			1
Intercompany notes payable	627	2,192		(2,819)	
Other liabilities	73	22	3		98
Total liabilities	**5,154**	**2,990**	**22**	**(2,895)**	**5,271**
Stockholder s equity	742	2,591	32	(2,623)	742
	$ 5,896	**$ 5,581**	**$ 54**	**$ (5,518)**	**$ 6,013**

Total liabilities and stockholder s equity	

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

CONDENSED CONSOLIDATING CASH FLOW STATEMENTS

	Six Months Ended July 31, 2016				
	Debt Issuer	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Total HDS
Net cash flows from operating activities	**$ 242**	**$ (81)**	**$ 3**	$	**$ 164**
Cash flows from investing activities					
Capital expenditures	(7)	(25)			(32)
Proceeds from sale of property and equipment		1			1
Proceeds from sale of a business	37				37
Proceeds from (payments of) intercompany notes		105		(105)	
Net cash flows from investing activities	**$ 30**	**$ 81**	**$**	**$ (105)**	**$ 6**
Cash flows from financing activities					
Borrowings of (repayments of) intercompany notes	(105)			105	
Borrowings of long-term debt	1,000				1,000
Repayments of long-term debt	(1,110)				(1,110)
Debt issuance costs	(15)				(15)
Other financing activities	(1)	(1)			(2)
Net cash flows from financing activities	**(231)**	**(1)**		**105**	**(127)**
Effect of exchange rates on cash			**1**		**1**
Net increase (decrease) in cash & cash equivalents	**$ 41**	**$ (1)**	**$ 4**	$	**$ 44**
Cash and cash equivalents at beginning of period	233	18	15		266
Cash and cash equivalents at end of period	**$ 274**	**$ 17**	**$ 19**	$	**$ 310**

	Six Months Ended August 2, 2015				
	Debt Issuer	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Total HDS
Net cash flows from operating activities	**$ 112**	**$ (21)**	**$ 7**	$	**$ 98**
Cash flows from investing activities					
Capital expenditures	(7)	(35)	(1)		(43)
Proceeds from sale of property and equipment		1			1
		51		(51)	

Proceeds from (payments of) intercompany notes										
Net cash flows from investing activities	**$**	**(7)**	**$**	**17**	**$**	**(1)**	**$**	**(51)**	**$**	**(42)**
Cash flows from financing activities										
Borrowings of (repayments of) intercompany notes		(51)						51		
Repayments of long-term debt		(16)								(16)
Borrowings on long-term revolver		562								562
Repayments on long-term revolver		(526)								(526)
Other financing activities		(1)								(1)
Net cash flows from financing activities		**(32)**						**51**		**19**
Effect of exchange rates on cash						**(1)**				**(1)**
Net increase (decrease) in cash & cash equivalents	**$**	**73**	**$**	**(4)**	**$**	**5**	$		**$**	**74**
Cash and cash equivalents at beginning of period		28		25		32				85
Cash and cash equivalents at end of period	**$**	**101**	**$**	**121**	**$**	**37**	$		**$**	**159**

NOTE 12 RECENT ACCOUNTING PRONOUNCEMENTS

Stock Compensation In March 2016, The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-09, Compensation Stock Compensation (Topic 718): Improvements to

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HD SUPPLY HOLDINGS, INC. AND SUBSIDIARIES

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Employee Share-Based Payment Accounting (ASU 2016-09). The new guidance identifies areas for simplification involving several aspects of accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities as well as certain classifications on the statement of cash flows. ASU 2016-09 is effective for annual and interim periods beginning after December 15, 2016. Early adoption is permitted. The Company is currently evaluating the impact of adopting ASU 2016-09.

Leases In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) (ASU 2016-02). The new guidance requires companies to recognize all leases as assets and liabilities for the rights and obligations created by leased assets on the consolidated balance sheet. ASU 2016-02 is effective for annual and interim periods beginning after December 15, 2018. Early adoption is permitted. It is to be adopted using a modified retrospective approach. The Company is currently evaluating the impact of adopting ASU 2016-02.

Inventory In July 2015, the FASB issued ASU No. 2015-11, Inventory, Simplifying the Measurement of Inventory (ASU 2015-11). The amended guidance requires that inventory be measured at the lower of cost and net realizable value. The amended guidance is limited to inventory measured using the first-in, first-out (FIFO) or average cost methods and excludes inventory measured using last-in, first-out (LIFO) or retail inventory methods. ASU 2015-11 is effective for fiscal years, and interim periods, beginning after December 15, 2016. Early adoption is permitted. The adoption of ASU 2015-11 is not expected to have a material impact on the Company s financial position or results of operations.

Revenue recognition In May 2014, the FASB issued ASU No. 2014-09, Revenue from contracts with customers (ASU 2014-09). The amended guidance outlines a single comprehensive revenue model for entities to use in accounting for revenue arising from contracts with customers. The guidance supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Entities have the option of using either a full retrospective or modified approach to adopt the guidance. In July 2015, the FASB provided a one-year delay in the effective date of ASU 2014-09, to be effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period, early adoption is permitted for interim and annual periods beginning after December 15, 2016. The Company is currently evaluating the impact of adopting ASU 2014-09.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Overview

This Management s Discussion and Analysis of Financial Condition and Results of Operations is combined for two registrants: HD Supply Holdings, Inc. and HD Supply, Inc. Unless the context indicates otherwise, any reference in this discussion and analysis to Holdings refers to HD Supply Holdings, Inc., any reference to HDS refers to HD Supply, Inc., the indirect wholly-owned subsidiary of Holdings, and any references to HD Supply, the Company, we, us and our refer to Holdings together with its direct and indirect subsidiaries, including HDS.

HD Supply is one of the largest industrial distributors in North America. We believe we have leading positions in the three distinct market sectors in which we specialize: Maintenance, Repair & Operations (MRO); Infrastructure; and Specialty Construction. We serve these markets with an integrated go-to-market strategy. We operate through approximately 500 locations across 48 U.S. states and six Canadian provinces. We have approximately 13,000 associates delivering localized, customer-tailored products, services and expertise. We serve approximately 500,000 customers, which include contractors, maintenance professionals, industrial businesses, and government entities. Our broad range of end-to-end product lines and services include more than 800,000 stock-keeping units (SKUs) of quality, name-brand and proprietary-brand products as well as value-add services supporting the entire lifecycle of a project from infrastructure and construction to maintenance, repair and operations.

Description of segments

We operate our Company through three reportable segments: Facilities Maintenance, Waterworks, and Construction & Industrial - White Cap.

Facilities Maintenance. Facilities Maintenance distributes MRO products, provides value-add services and fabricates custom products. The markets that Facilities Maintenance serves include multifamily, hospitality, healthcare and institutional facilities. Products include electrical and lighting items, plumbing, HVAC products, appliances, janitorial supplies, hardware, kitchen and bath cabinets, window coverings, textiles and guest amenities, healthcare maintenance and water and wastewater treatment products.

Waterworks. Waterworks distributes complete lines of water and wastewater transmission products, serving contractors and municipalities in the water and wastewater industries for residential and non-residential uses. Waterworks serves non-residential, residential, water systems, sewage systems and other markets. Products include pipes, fittings, valves, hydrants and meters for use in the construction, maintenance and repair of water and wastewater systems as well as fire-protection systems. Waterworks has complemented its core products through additional offerings, including smart meters (AMR/AMI), HDPE pipes and specific engineered treatment plant products and services.

Construction & Industrial - White Cap. Construction & Industrial - White Cap distributes specialized hardware, tools and engineered materials to non-residential and residential contractors. Products include tilt-up brace systems, forming and shoring systems, concrete chemicals, hand and power tools, cutting tools, rebar, ladders, safety and fall arrest equipment, specialty screws and fasteners, sealants and adhesives, drainage pipe, geo-synthetics, erosion and sediment control equipment and other engineered materials used broadly across all types of non-residential and residential construction.

In addition to the reportable segments, our consolidated financial results include Corporate & Other. Corporate & Other include the operating segment Home Improvement Solutions, which offers light remodeling and construction supplies, kitchen and bath cabinets, windows, plumbing materials, electrical equipment and other products, primarily to small remodeling contractors and trade professionals. Corporate & Other also includes costs related to our centralized support functions, which are comprised of finance, information technology, human resources, legal, supply chain and other support services, and removes inter-segment transactions.

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Discontinued operations

In May 2016, the Company completed the sale of its Interior Solutions business, which is subject to a customary working capital adjustment. The Company received cash proceeds of approximately $34 million, net of $2 million of transaction costs. As a result of the sale, the Company recorded a $6 million pre-tax loss.

In October 2015, the Company completed the sale of its Power Solutions business. During the second quarter of fiscal 2016, the Company received cash proceeds of $3 million in accordance with the final working capital settlement, and, as a result, recorded an additional $3 million pre-tax gain.

The presentation of discontinued operations includes revenues and expenses of the discontinued operations, net of tax, as one line item on the Consolidated Statements of Operations and Comprehensive Income. Prior periods presented have been revised to reflect this presentation. For additional detail related to the results of operations of the discontinued operations, see Note 2, Discontinued Operations, in the Notes to Consolidated Financial Statements within Item 1 of this quarterly report on Form 10-Q.

Seasonality

In a typical year, our operating results are impacted by seasonality. Historically, sales of our products have been higher in the second and third quarters of each fiscal year due to favorable weather and longer daylight conditions during these periods. Seasonal variations in operating results may also be significantly impacted by inclement weather conditions, such as cold or wet weather, which can delay construction projects.

Fiscal Year

HD Supply s fiscal year is a 52- or 53-week period ending on the Sunday nearest to January 31. Fiscal years ending January 29, 2017 (fiscal 2016) and January 31, 2016 (fiscal 2015) both include 52 weeks. The three months ended July 31, 2016 (second quarter 2016) and August 2, 2015 (second quarter 2015) both include 13 weeks. The six months ended July 31, 2016 and August 2, 2015 both include 26 weeks.

Key business metrics

Net sales

We earn our Net sales primarily from the sale of construction, infrastructure, maintenance and renovation and improvement related products and our provision of related services to approximately 500,000 customers, including contractors, government entities, maintenance professionals and industrial businesses. We recognize sales, net of sales tax and allowances for returns and discounts, when persuasive evidence of an agreement exists, delivery has occurred or services have been rendered, price to the buyer is fixed and determinable and collectability is reasonably assured. Net sales in certain business units, particularly Waterworks, fluctuate with the price of commodities as we seek to minimize the effects of changing commodities prices by passing such increases in the prices of certain commodity-based products to our customers.

We ship products to customers by internal fleet and by third-party carriers. Net sales are recognized from product sales when title to the products is passed to the customer, which generally occurs at the point of destination for products shipped by internal fleet and at the point of shipping for products shipped by third-party carriers.

We include shipping and handling fees billed to customers in Net sales. Shipping and handling costs associated with inbound freight are capitalized to inventories and relieved through Cost of sales as inventories are sold. Shipping and handling costs associated with outbound freight are included in Selling, general and administrative expenses.

Gross profit

Gross profit primarily represents the difference between the product cost from our suppliers (net of earned rebates and discounts) including the cost of inbound freight and the sale price to our customers. The cost of outbound freight, purchasing, receiving and warehousing are included in Selling, general and administrative expenses within operating expenses. Our Gross profits may not be comparable to those of other companies, as other companies may include all of the costs related to their distribution network in Cost of sales.

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Operating expenses

Operating expenses are primarily comprised of Selling, general and administrative costs, which include payroll expenses (salaries, wages, employee benefits, payroll taxes and bonuses), outbound freight, rent, insurance, utilities, repair and maintenance and professional fees. In addition, operating expenses include depreciation and amortization and restructuring charges.

Adjusted EBITDA and Adjusted net income

Adjusted EBITDA and Adjusted net income are not recognized terms under generally accepted accounting principles in the United States of America (GAAP) and do not purport to be alternatives to Net income as a measure of operating performance. We present Adjusted EBITDA and Adjusted net income because each is a primary measure used by management to evaluate operating performance. In addition, we present Adjusted net income to measure our overall profitability as we believe it is an important measure of our performance. We believe the presentation of Adjusted EBITDA and Adjusted net income enhances our investors overall understanding of the financial performance of our business. We believe Adjusted EBITDA and Adjusted net income are helpful in highlighting operating trends, because each excludes the results of decisions that are outside the control of operating management and that can differ significantly from company to company depending on long-term strategic decisions regarding capital structure, the tax jurisdictions in which companies operate, age and book depreciation of facilities and capital investments

Adjusted EBITDA is based on Consolidated EBITDA, a measure which is defined in HDS s Term Loan Facility and Senior ABL Facility and used in calculating financial ratios in several material debt covenants. Borrowings under these facilities are a key source of liquidity and our ability to borrow under these facilities depends upon, among other things, our compliance with such financial ratio covenants. In particular, both facilities contain restrictive covenants that can restrict our activities if we do not maintain financial ratios calculated based on Consolidated EBITDA. Our Senior ABL Facility requires us to maintain a minimum fixed charge coverage ratio of 1:1 if our specified excess availability (including an amount by which our borrowing base exceeds the outstanding amounts) under the Senior ABL Facility falls below the greater of $150 million and 10% of the aggregate commitments. Adjusted EBITDA is defined as Net income (loss) less Income from discontinued operations, net of tax, plus (i) Interest expense and Interest income, net, (ii) Provision (benefit) for income taxes, (iii) Depreciation and amortization and further adjusted to exclude loss on extinguishment of debt, non-cash items and certain other adjustments to Consolidated Net Income, including costs associated with capital structure enhancements, permitted in calculating Consolidated EBITDA under our Term Loan Facility and our Senior ABL Facility. We believe that presenting Adjusted EBITDA is appropriate to provide additional information to investors about how the covenants in those agreements operate and about certain non-cash and other items. The Term Loan Facility and Senior ABL Facility permit us to make certain additional adjustments to Consolidated Net Income in calculating Consolidated EBITDA, such as projected net cost savings, which are not reflected in the Adjusted EBITDA data presented in this quarterly report on Form 10-Q. We may in the future reflect such permitted adjustments in our calculations of Adjusted EBITDA. These covenants are important to the Company as failure to comply with certain covenants would result in a default under our Senior Credit Facilities. The material covenants in our Senior Credit Facilities are discussed in our annual report on Form 10-K for the fiscal year ended January 31, 2016.

Adjusted net income is defined as Net income (loss) less Income from discontinued operations, net of tax, further adjusted for loss on extinguishment of debt and certain non-cash, non-recurring, non-operational, or unusual items, net of tax.

We believe that Adjusted EBITDA and Adjusted net income are frequently used by securities analysts, investors and other interested parties in their evaluation of companies, many of which present an Adjusted EBITDA or Adjusted net income measure when reporting their results. We compensate for the limitations of using non-GAAP financial measures by using them to supplement GAAP results to provide a more complete understanding of the factors and trends affecting the business than GAAP results alone. Because not all companies use identical calculations, our presentation of Adjusted EBITDA and Adjusted net income may not be comparable to other similarly titled measures of other companies.

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Adjusted EBITDA and Adjusted net income have limitations as analytical tools and should not be considered in isolation or as substitutes for analyzing our results as reported under GAAP. Some of these limitations are:

- Adjusted EBITDA and Adjusted net income do not reflect changes in, or cash requirements for, our working capital needs;

- Adjusted EBITDA does not reflect our interest expense, or the requirements necessary to service interest or principal payments on our debt;

- Adjusted EBITDA does not reflect our income tax expenses or the cash requirements to pay our taxes;

- Adjusted EBITDA and Adjusted net income do not reflect historical cash expenditures or future requirements for capital expenditures or contractual commitments; and

- although depreciation and amortization charges are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and Adjusted EBITDA does not reflect any cash requirements for such replacements.

The following table presents a reconciliation of Net income and Income from continuing operations, the most directly comparable financial measures under GAAP, to Adjusted EBITDA for the periods presented (amounts in millions):

	Three Months Ended		Six Months Ended	
	July 31, 2016	**August 2, 2015**	**July 31, 2016**	**August 2, 2015**
Net income	**$ 98**	$ 109	**$ 84**	$ 351
Less income (loss) from discontinued operations, net of tax	**(4)**	5	**(4)**	13
Income from continuing operations	**102**	104	**88**	338
Interest expense, net	**69**	106	**154**	212
Provision for income taxes (1)	**66**	12	**58**	(172)
Depreciation and amortization (2)	**25**	29	**50**	57
Loss on extinguishment of debt (3)			**115**	
Restructuring charges (4)	**5**		**12**	
Stock-based compensation	**5**	5	**11**	10
Costs related to public offerings (5)		1		1
Other	**1**			
Adjusted EBITDA	**$ 273**	$ 257	**$ 488**	$ 446

(1) During the six months ended August 2, 2015, the Company recorded a reduction in unrecognized tax benefits as a result of IRS and state audit settlements. See Note 5, Income Taxes.

(2) Depreciation and amortization includes amounts recorded within Cost of sales in the Consolidated Statements of Operations.

(3) Represents the loss on extinguishment of debt including the premium paid to redeem the debt as well as the write-off of unamortized deferred financing costs and other assets or liabilities associated with such debt.

(4) Represents the costs incurred for strategic alignment of our workforce. These costs include severance, relocation costs and other related costs.

(5) Represents the costs expensed in connection with secondary offerings of Holdings common stock by certain of Holdings stockholders.

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The following table presents a reconciliation of Net income and Income from continuing operations, the most directly comparable financial measures under GAAP, to Adjusted net income for the periods presented (amounts in millions):

	Three Months Ended		Six Months Ended	
	July 31, 2016	August 2, 2015	July 31, 2016	August 2, 2015
Net income	**$ 98**	$ 109	**$ 84**	$ 351
Less income (loss) from discontinued operations, net of tax	**(4)**	5	**(4)**	13
Income from continuing operations	**102**	104	**88**	338
Plus: Provision (benefit) for income taxes (1)	**66**	12	**58**	(172)
Less: Cash income taxes	**(5)**	(6)	**(6)**	(9)
Plus: Amortization of acquisition-related intangible assets (other than software)	**3**	3	**7**	7
Plus: Loss on extinguishment of debt (2)			**115**	
Restructuring charges (3)	**5**		**12**	
Costs related to public offerings (4)		1		1
Adjusted Net Income	**$ 171**	$ 114	**$ 274**	$ 165

(1) During the six months ended August 2, 2015, the Company recorded a reduction in unrecognized tax benefits as a result of IRS and state audit settlements. See Note 5, Income Taxes.

(2) Represents the loss on extinguishment of debt including the premium paid to redeem the debt as well as the write-off of unamortized deferred financing costs and other assets or liabilities associated with such debt.

(3) Represents the costs incurred for strategic alignment of our workforce. These costs include severance, relocation costs and other related costs.

(4) Represents the costs expensed in connection with secondary offerings of Holdings common stock by certain of Holdings stockholders.

Consolidated results of operations

Dollars in millions

	Three Months Ended		Percentage Increase (Decrease)	Six Months Ended		Percentage Increase (Decrease)
	July 31, 2016	August 2, 2015		July 31, 2016	August 2, 2015	

Net Sales	**$**	**2,016**	$	1,937	4.1%	**$**	**3,797**	$	3,597	5.6%
Gross Profit		**680**		648	4.9		**1,289**		1,207	6.8
Operating expenses:										
Selling, general and administrative		**414**		397	4.3		**815**		773	5.4
Depreciation and amortization		**24**		28	(14.3)		**47**		55	(14.5)
Restructuring charges		**5**			*		**12**			*
Total operating expenses		**443**		425	4.2		**874**		828	5.6
Operating Income		**237**		223	6.3		**415**		379	9.5
Interest expense		**69**		106	(34.9)		**154**		212	(27.4)
Loss on extinguishment of debt					*		**115**			*
Other (income) expense, net				1	*				1	*
Income from Continuing Operations Before Provision (Benefit) for Income Taxes		**168**		116	44.8		**146**		166	(12.0)
Provision (benefit) for income taxes		**66**		12	*		**58**		(172)	*
Income from Continuing Operations		**102**		104	(1.9)		**88**		338	(74.0)
Income (loss) from discontinued operations, net of tax		**(4)**		5	*		**(4)**		13	*
Net Income	**$**	**98**	$	109	(10.1)	**$**	**84**	$	351	(76.1)
Non-GAAP financial data:										
Adjusted EBITDA	**$**	**273**	$	257	6.2	**$**	**488**	$	446	9.4
Adjusted net income	**$**	**171**	$	114	50.0	**$**	**274**	$	165	66.1

* *Not meaningful*

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	% of Net Sales Three Months Ended July 31, 2016	August 2, 2015	Basis Point Increase (Decrease)	% of Net Sales Six Months Ended July 31, 2016	August 2, 2015	Basis Point Increase (Decrease)
Net Sales	**100.0%**	100.0%		**100.0%**	100.0%	
Gross Profit	**33.7**	33.5	20	**33.9**	33.6	30
Operating expenses:						
Selling, general and administrative	**20.5**	20.5		**21.5**	21.5	
Depreciation and amortization	**1.2**	1.5	(30)	**1.2**	1.6	(40)
Restructuring charges	**0.2**		20	**0.3**		30
Total operating expenses	**21.9**	22.0	(10)	**23.0**	23.1	(10)
Operating Income	**11.8**	11.5	30	**10.9**	10.5	40
Interest expense	**3.4**	5.5	(210)	**4.1**	5.9	(180)
Loss on extinguishment of debt			*	**3.0**		300
Other (income) expense, net		0.1	(10)			*
Income from Continuing Operations Before Provision (Benefit) for Income Taxes	**8.4**	6.0	240	**3.8**	4.6	(80)
Provision (benefit) for income taxes	**3.3**	0.6	270	**1.5**	(4.8)	630
Income from Continuing Operations	**5.1**	5.4	(30)	**2.3**	9.4	(710)
Income (loss) from discontinued operations, net of tax	**(0.2)**	0.2	(40)	**(0.1)**	0.4	(50)
Net Income	**4.9**	5.6	(70)	**2.2**	9.8	(760)
Non-GAAP financial data:						
Adjusted EBITDA	**13.5**	13.3	20	**12.9**	12.4	50
Adjusted net income	**8.5**	5.9	260	**7.2**	4.6	260

Highlights

Net sales in second quarter 2016 increased $79 million, or 4.1%, as compared to second quarter 2015. Each of our three reportable segments realized increases in Net sales. Operating income in second quarter 2016 increased $14 million, or 6.3%, as compared to second quarter 2015. Net income in second quarter 2016 decreased $11 million, to $98 million as compared to second quarter 2015. Our growth initiatives, cost control efforts and the leverage of fixed costs, resulted in an increase to Adjusted EBITDA of $16 million, or 6.2%, in second quarter 2016 as compared to second quarter 2015. Adjusted net income in second quarter 2016 increased $57 million, or 50.0%, as compared to second quarter 2015 as a result of the improvement in operating income and decline in interest expense. As of July 31, 2016, our total liquidity was $1.5 billion. See Liquidity and Capital Resources External Financing for further information.

In May 2016, the Company completed the sale of its Interior Solutions business, a provider of turnkey supply and installation services for multiple interior finish options. The Company received cash proceeds of approximately $34 million, net of $2 million of transaction costs and subject to customary post-closing working capital adjustments. As a result of the sale, the Company recorded a $6 million pre-tax loss, reflected in Income (loss) from discontinued operations, net of tax, in the Consolidated Statement of Operations.

For additional information, see Note 2, Discontinued Operations, in the Notes to Consolidated Financial Statements within Item 1 of this quarterly report on Form 10-Q.

As a result of the sale of the Power Solutions business unit in October 2015 management evaluated our talent alignment and functional support strategies. Consequently, during fiscal 2015, we initiated a restructuring plan to strategically align our leadership and functional support teams. Initially, we expected to incur approximately $10 million to $20 million of restructuring charges under the plan. During first quarter fiscal 2016, we accelerated and expanded the restructuring plan. As a result, we now expect to incur a total of approximately $25 million to $30 million of restructuring charges under the restructuring plan, which we expect to complete in the second half of fiscal 2016 and deliver a payback of approximately two years via a reduction in costs.

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During the three and six months ended July 31, 2016, our activities under this restructuring plan resulted in restructuring charges of $5 million and $12 million, respectively, of which $3 million and $9 million, respectively, was incurred at the Facilities Maintenance business. During fiscal 2015, we incurred $9 million of restructuring charges under this plan. We expect to incur an additional $4 million to $9 million of restructuring charges over the next six months primarily for severance, relocation and related costs. For additional information, see Note 8, Restructuring Activities, in the Notes to Consolidated Financial Statements within Item 1 of this quarterly report on Form 10-Q.

Net sales

Net sales in second quarter 2016 increased $79 million, or 4.1%, compared to second quarter 2015, and $200 million, or 5.6%, in the first six months of fiscal 2016 as compared to the same period in fiscal 2015.

Each of our reportable segments experienced an increase in Net sales in second quarter 2016 and in the first six months of fiscal 2016 as compared to the same periods in fiscal 2015. The Net sales increases were primarily due to growth initiatives at each of our businesses and, to a lesser extent, increases in market volume. Growth initiatives contributed approximately $36 million and $108 million in second quarter 2016 and the first six months of fiscal 2016, respectively. The Net sales increases were partially offset by the impact of an unfavorable Canadian exchange rate, resulting in a $1 million and $3 million reduction to Net sales in second quarter 2016 and the first six months of fiscal 2016, respectively.

Gross profit

Gross profit increased $32 million, or 4.9%, during second quarter 2016 as compared to second quarter 2015 and $82 million, or 6.8%, in the first six months of fiscal 2016 as compared to the same period in fiscal 2015.

Each of our reportable segments experienced an increase in Gross profit in second quarter 2016 and the first six months of fiscal 2016 as compared to the same periods in fiscal 2015. The Gross profit increases, in both periods, were primarily due to sales growth from initiatives and increased market volume.

Gross profit as a percentage of Net sales (gross margin) increased approximately 20 basis points to 33.7% in second quarter 2016 as compared to 33.5% in second quarter 2015 and increased approximately 30 basis points to 33.9% in the first six months of fiscal 2016 as compared to 33.6% in the first six months of fiscal 2015. The improvement in gross margin in both periods was primarily driven by our category management initiatives, partially offset by the competitive environment.

Operating expenses

Operating expenses increased $18 million, or 4.2%, during second quarter 2016 as compared to second quarter 2015 and increased $46 million, or 5.6%, during the first six months of fiscal 2016 as compared to the same period in fiscal 2015.

Selling, general and administrative expenses increased $17 million, or 4.3%, in second quarter 2016 as compared to second quarter 2015 and increased $42 million, or 5.4%, in the first six months of fiscal 2016 as compared to the same period in fiscal 2015. The increase in both periods was primarily a result of increases in variable expenses due to higher sales volume and increased investments in growth initiatives. Depreciation and amortization expense decreased $4 million, or 14.3%, in second quarter 2016 as compared to second quarter 2015 and $8 million, or 14.5%, in the first six months of fiscal 2016 as compared to the same period in fiscal 2015. The decrease in both periods was primarily a result of a decrease in capital expenditures and timing of in-service projects. In addition, restructuring charges during second quarter 2016 and the first six months of fiscal 2016 were $5 million and $12 million, respectively, as the Company continued restructuring activities to strategically align its workforce, initiated during the fourth quarter of fiscal 2015 in conjunction with the sale of Power Solutions.

Operating expenses as a percentage of Net sales decreased approximately 10 basis points to 21.9% in second quarter 2016 and remained flat in the first six months of fiscal 2016 as compared to the same periods in fiscal 2015. Depreciation and amortization expense as a percentage of Net sales decreased approximately 30 basis points to 1.2% in second quarter 2016 and 40 basis points to 1.2% in the first six months of fiscal 2016 as compared to the same periods in fiscal 2015. The decrease over both periods was due to a decrease in capital expenditures and timing of in-service projects. Selling, general and administrative expenses as a percentage of Net sales remained

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flat during second quarter 2016 and the first six months of fiscal 2016 as compared to the same periods in fiscal 2015.

Operating income

Operating income increased $14 million, or 6.3%, during second quarter 2016 as compared to second quarter 2015 and $36 million, or 9.5%, in the first six months of fiscal 2016 as compared to the same period in fiscal 2015. The improvement in both periods was primarily due to higher Net sales and Gross profit partially offset by higher operating expenses.

Operating income as a percentage of Net sales increased approximately 30 basis points during second quarter 2016 as compared to first quarter 2015 and increased approximately 40 basis points during the first six months of fiscal 2016 as compared to the same period in fiscal 2015. The improvement was driven primarily by improvements in gross margins.

Interest expense

Interest expense decreased $37 million, or 34.9%, during second quarter 2016 as compared to second quarter 2015 and $58 million, or 27.4%, during the first six months of fiscal 2016 as compared to the same period in fiscal 2015. The decrease in both periods was due to a lower average interest rate on our outstanding indebtedness due to debt refinancing transactions in fiscal 2016 and fiscal 2015, and a lower average outstanding balance due to the redemption of debt in the third quarter of fiscal 2015.

Loss on extinguishment of debt

On April 27, 2016, HDS redeemed all of the outstanding $1,000 million aggregate principal of its 11.5% Senior Unsecured Notes due 2020 (the October 2012 Senior Unsecured Notes) incurring a $115 million loss on extinguishment of debt, which included a $106 million make-whole premium payment and a write-off of $9 million of unamortized deferred financing costs. These charges were recorded in accordance with Accounting Standards Codification (ASC) 470-50, Debt-Modifications and Extinguishments.

Provision (benefit) for income taxes

The provision (benefit) for income taxes during the period is calculated by applying an estimated annual tax rate for the full fiscal year to pre-tax income for the reported period plus or minus unusual or infrequent discrete items occurring within the period. The Company s income tax provision (benefit) recorded in interim periods can move from an income tax provision to income tax benefit (and vice versa) in situations in which the Company is experiencing changes between interim pre-tax income to pre-tax loss (and vice versa). The provision for income taxes from continuing operations in second quarter of fiscal 2016 was an expense of $66 million compared to a $12 million expense in second quarter fiscal 2015. The provision for income taxes in the first six months of fiscal 2016 was an expense of $58 million compared to a $172 million benefit in the first six months of fiscal 2015.

The effective rate for continuing operations for the second quarter and first six months of fiscal 2016 is an expense of 39.3% and 39.7%, respectively. The effective rate for continuing operations for the second quarter and first six months of fiscal 2015 was an expense of 10.3% and a benefit of 103.6%, respectively, mainly driven by a decrease of $189 million in the Company s unrecognized U.S. federal and state tax benefits related to the Joint Committee on Taxation s February 19, 2015 approval and finalization of a tentative settlement with the Internal Revenue Service s Office of Appeals in connection with a Revenue Agent s Report issued in January 2013. For additional information, please refer to the Notes to Consolidated Financial Statements of our Form 10-K, for the fiscal year ended January 31, 2016. In addition, the Company s rate for the second quarter and first six months of fiscal 2015 was impacted by the utilization of deferred tax assets which had previously been subject to a valuation allowance, increasing the deferred tax liability for U.S. goodwill amortization for tax purposes, and the accrual of income taxes for foreign and certain state jurisdictions.

We regularly assess the realization of our net deferred tax assets and the need for any valuation allowance. This assessment requires management to make judgments about the benefits that could be realized from future taxable income, as well as other positive and negative factors influencing the realization of deferred tax assets. At both July 31, 2016 and January 31, 2016, the Company s valuation allowance on its U.S. deferred tax assets was approximately $5 million and $6 million, respectively.

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Adjusted EBITDA

Adjusted EBITDA increased $16 million, or 6.2%, in second quarter 2016 as compared to second quarter 2015, and $42 million, or 9.4%, in the first six months of fiscal 2016 as compared to the same period in fiscal 2015. Two of our three reportable segments experienced an increase in Adjusted EBITDA in second quarter 2016 as compared to second quarter 2015 and all three of our reportable segments experienced an increase in Adjusted EBITDA in the first six months of fiscal 2016 as compared to the same period in fiscal 2015.

The increase in Adjusted EBITDA in the second quarter and first six months of fiscal 2016 was primarily due to the increases in Net sales and Gross profit. Adjusted EBITDA as a percentage of Net sales increased approximately 20 basis points to 13.5% in second quarter 2016 as compared to second quarter 2015 and approximately 50 basis points to 12.9% in the first six months of fiscal 2016 as compared to the same period in fiscal 2015. The increase was primarily due to gross margin improvements and Selling, general and administrative expenses remaining flat as a percentage of Net sales.

Adjusted net income

Adjusted net income increased $57 million, or 50.0%, in second quarter 2016 as compared to second quarter 2015 and $109 million, or 66.1%, in the first six months of fiscal 2016 as compared to the same period in fiscal 2015. The increase in Adjusted net income was attributable to the sales growth, improving gross margins, and lower interest expense.

Results of operations by reportable segment

Facilities Maintenance

Dollars in millions	Three Months Ended July 31, 2016	Three Months Ended August 2, 2015	Increase (Decrease)	Six Months Ended July 31, 2016	Six Months Ended August 2, 2015	Increase (Decrease)
Net sales	**$ 741**	**$ 733**	1.1%	**$ 1,418**	**$ 1,368**	3.7%
Operating income	**$ 139**	**$ 143**	(2.8)%	**$ 258**	**$ 252**	2.4%
% of Net sales	*18.8%*	*19.5%*	*(70) bps*	*18.2%*	*18.4%*	*(20) bps*
Depreciation and amortization	9	13	(30.8)%	18	26	(30.8)%
Restructuring	3		*	9		*
Adjusted EBITDA	**$ 151**	**$ 156**	(3.2)%	**$ 285**	**$ 278**	2.5%
% of Net sales	*20.4%*	*21.3%*	*(90) bps*	*20.1%*	*20.3%*	*(20) bps*

* *Not meaningful*

Net Sales

Net sales increased $8 million, or 1.1%, in second quarter 2016 as compared to second quarter 2015 and increased $50 million, or 3.7%, in the first six months of fiscal 2016 as compared to the same period in fiscal 2015.

The increase in Net sales was primarily due to growth initiatives. These growth initiatives consisted of investments in sales personnel, products, and technology aligned with our customers   multifamily, hospitality, and healthcare industries. The Net sales increase was partially offset by suboptimal inventory forecasting, and certain operational and distribution strategies from the second half of fiscal 2015. Management has taken corrective action within the supply chain, however, we expect the impact to continue into the third quarter of 2016.

Adjusted EBITDA

Adjusted EBITDA decreased $5 million, or 3.2%, in second quarter 2016 as compared to second quarter 2015 and increased $7 million, or 2.5%, in the first six months of fiscal 2016 as compared to the same period in fiscal 2015.

The decrease in second quarter 2016 as compared to second quarter 2015 was primarily due to increased Selling, general and administrative expenses related to expenses incurred for supply chain investments. The increase in the first six months of fiscal 2016 as compared to the same period in fiscal 2015 was primarily due to

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the increase in Net sales and operating leverage through productivity, partially offset by increased Selling, general and administrative expenses related to the hiring of additional associates to support the expanding business and future growth.

Adjusted EBITDA as a percentage of Net sales decreased approximately 90 basis points in second quarter 2016 as compared to second quarter 2015 and approximately 20 basis points in the first six months of fiscal 2016 as compared to the same period in fiscal 2015. The decrease in both periods was primarily driven by an increase in Selling, general and administrative expenses as a percentage of Net sales due to expenses incurred for supply chain investments.

Waterworks

Dollars in millions	Three Months Ended July 31, 2016	Three Months Ended August 2, 2015	Increase (Decrease)	Six Months Ended July 31, 2016	Six Months Ended August 2, 2015	Increase (Decrease)
Net sales	**$ 733**	**$ 702**	4.4%	**$ 1,338**	**$ 1,272**	5.2%
Operating income	**$ 66**	**$ 63**	4.8%	**$ 111**	**$ 105**	5.7%
% of Net sales	*9.0%*	*9.0%*		*8.3%*	*8.3%*	
Depreciation and amortization	3	3		6	6	
Restructuring	1		*	1		*
Adjusted EBITDA	**$ 70**	**$ 66**	6.1%	**$ 118**	**$ 111**	6.3%
% of Net sales	*9.5%*	*9.4%*	*10bps*	*8.8%*	*8.7%*	*10bps*

* *Not meaningful*

Net Sales

Net sales increased $31 million, or 4.4%, in second quarter 2016 as compared to second quarter 2015 and increased $66 million, or 5.2%, in the first six months of fiscal 2016 as compared to the same period of fiscal 2015.

Growth initiatives, including meters, storm drainage, treatment plant, and new locations (greenfields), contributed to the increase in the second quarter and first six months of fiscal 2016. Net sales was also positively impacted by higher sales volume due to end-market improvements, partially offset by a decline in Polyvinyl chlorides (PVC) pipe pricing.

Adjusted EBITDA

Adjusted EBITDA increased $4 million, or 6.1%, in second quarter 2016 as compared to second quarter 2015 and increased $7 million, or 6.3%, in the first six months of fiscal 2016 as compared to the same period of fiscal 2015.

The increase in the second quarter and first six months of fiscal 2016, was due to growth initiatives, partially offset by increased Selling, general and administrative expenses. The increase in Selling, general and administrative expenses was primarily driven by personnel costs related to hiring additional associates to support growth initiatives and variable costs due to the increased volume and inflation.

Adjusted EBITDA as a percentage of Net sales increased approximately 10 basis points in both second quarter 2016 and the first six months of fiscal 2016 as compared to the same periods of fiscal 2015. The increase in Adjusted EBITDA as a percentage of Net sales is the result of improvements in gross margin partially offset by an increase in Selling, general and administrative expenses as a percentage of Net sales, due to investing in growth strategies.

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Construction & Industrial White Cap

Dollars in millions	Three Months Ended July 31, 2016	Three Months Ended August 2, 2015	Increase (Decrease)	Six Months Ended July 31, 2016	Six Months Ended August 2, 2015	Increase (Decrease)
Net sales	**$ 489**	**$ 455**	7.5%	**$ 936**	**$ 862**	8.6%
Operating income	**$ 53**	**$ 38**	39.5%	**$ 89**	**$ 66**	34.8%
% of Net sales	*10.8%*	*8.4%*	*240bps*	*9.5%*	*7.7%*	*180bps*
Depreciation and amortization	7	7		14	13	7.7%
Adjusted EBITDA	**$ 60**	**$ 45**	33.3%	**$ 103**	**$ 79**	30.4%
% of Net sales	*12.3%*	*9.9%*	*240bps*	*11.0%*	*9.2%*	*180bps*

Net Sales

Net sales increased $34 million, or 7.5%, in second quarter 2016 as compared to second quarter 2015 and $74 million, or 8.6%, in the first six months of fiscal 2016 as compared to the same period of fiscal 2015.

Growth initiatives contributed to the increase in Net sales in the second quarter and first six months of fiscal 2016 driven by greenfields, managed sales approach (MSA) and direct marketing initiatives. MSA is a structured approach to drive revenue at a regional level through analysis, tools and sales management. In addition, Net sales was positively impacted by end-market improvement in both non-residential and residential construction markets. The Net sales increase was partially offset by an unfavorable Canadian exchange rate, resulting in a reduction to Net sales in second quarter 2016 and the first six months of fiscal 2016 of $1 million and $2 million, respectively, as compared to the same periods in fiscal 2015.

Adjusted EBITDA

Adjusted EBITDA increased $15 million, or 33.3%, in second quarter 2016 as compared to second quarter 2015 and increased $24 million, or 30.4%, in the first six months of fiscal 2016 as compared to the same period of fiscal 2015.

The increase in Adjusted EBITDA in both periods was primarily driven by growth initiatives, gross margin expansion, and market volume. This increase was partially offset by increased Selling, general and administrative expenses related to variable expenses and the hiring of additional associates to support the expanding business and drive future growth.

Adjusted EBITDA as a percentage of Net sales increased approximately 240 basis points in second quarter 2016 as compared to second quarter 2015 and increased approximately 180 basis points in the first six months of fiscal 2016 as compared to the same period in fiscal 2015. The increase in both periods was driven by improvements in gross margins, due to product mix and category management initiatives, and a decrease in Selling, general and administrative expenses as a percentage of Net sales due to the leverage of fixed costs through sales volume increases and cost control efforts.

Liquidity and capital resources

Sources and uses of cash

Our sources of funds, primarily from operations, cash on-hand, and, to the extent necessary, from readily available external financing arrangements, are sufficient to meet all current obligations on a timely basis. We believe that these sources of funds will be sufficient to meet the operating needs of our business for at least the next twelve months.

During the first six months of fiscal 2016, the Company s generation of cash was primarily driven by cash receipts from operations, the sale of a business, and proceeds from stock option exercises, partially offset by net debt repayments including premiums and make-whole payments to call or redeem debt prior to maturity, the payment of interest on debt, capital expenditures and purchases of treasury shares.

As of July 31, 2016, our combined liquidity of approximately $1,513 million was comprised of $313 million in cash and cash equivalents and $1,200 million of additional available borrowings (excluding $89 million of

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borrowings on available cash balances) under our Senior ABL Facility, based on qualifying inventory and receivables.

Information about the Company s cash flows, by category, is presented in the Consolidated Statements of Cash Flows and is summarized as follows:

Net cash provided by (used for):

	Six Months Ended		Increase
Amounts in millions	**July 31, 2016**	**August 2, 2015**	**(Decrease)**
Operating activities	**$ 164**	$ 98	$ 66
Investing activities	**6**	(42)	48
Financing activities	**(127)**	29	(156)

Working capital

Working capital, excluding cash and cash equivalents, was $983 million as of July 31, 2016, decreasing $314 million as compared to $1,297 million as of August 2, 2015. Excluding the impact of discontinued operations, working capital, excluding cash and cash equivalents, increased $21 million. The increase was primarily driven by an increase in business growth, resulting in increases in Receivables and Inventory, offset by increases in Accounts Payable. Additionally, working capital increased due to lower Accrued Interest as a result of debt refinancings and extinguishments.

Operating activities

During the first six months of fiscal 2016 cash provided by operating activities was $164 million compared to $98 million in the first six months of fiscal 2015. Cash interest paid in the first six months of fiscal 2016 was $161 million, compared to $201 million in the first six months of fiscal 2015. Cash flows used in operating activities for discontinued operations were $3 million for the first six months of fiscal 2016 and cash flows provided by operating activities for discontinued operations were $10 million during the first six months of fiscal 2015, respectively. Excluding the cash interest payments in both periods, cash flows from operating activities for continuing operations increased approximately $39 million in the first six months of fiscal 2016 as compared to the first six months of fiscal 2015. The increase in operating cash flows excluding interest and discontinued operations is attributable to growth in earnings of continuing operations and working capital efficiency.

Investing activities

During the first six months of fiscal 2016, cash provided by investing activities was $6 million, primarily comprised of proceeds from the sales of businesses, offset by capital expenditures. During the first six months of fiscal 2015, cash used by investing activities was $42 million, primarily for capital expenditures.

Financing activities

During the first six months of fiscal 2016, cash used in financing activities was $127 million, primarily due to net debt repayments of $110 million including premiums and make-whole payments to call or redeem debt prior to maturity, payments for debt issuance costs of $15 million and purchases of treasury shares of $14 million, partially offset proceeds from employee stock option exercises of $14 million.

During the first six months of fiscal 2015, cash provided by financing activities was $29 million, primarily due to net debt borrowings of $20 million and $41 million of proceeds from employee stock option exercises, partially offset by purchases of treasury shares of $31 million.

External Financing

As of July 31, 2016, we had an aggregate principal amount of $4,308 million of outstanding indebtedness, net of unamortized discounts and unamortized deferred financing costs of $10 million and $51 million, respectively, and $1,289 million of additional available borrowings under our Senior ABL Facility (after giving effect to the borrowing base limitations and approximately $34 million in letters of credit issued and including $89 million of borrowings available on qualifying cash balances). From time to time, depending on market conditions and other factors, the Company may seek to repay, redeem, repurchase or otherwise acquire or refinance all or a portion of our

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indebtedness. We may make such repurchases in privately negotiated transactions or otherwise. As a result of the current market conditions and other factors, we expect to initiate a transaction in September 2016 to refinance all of HDS s $1,275 million 7.5% Senior Unsecured Notes due 2020; although no assurance can be given that the transaction will be initiated and/or consummated.

On April 11, 2016, HDS issued $1,000 million of 5.75% Senior Unsecured Notes due 2024 (the April 2016 Senior Unsecured Notes) at par. HDS received approximately $985 million, net of transaction fees. The transaction fees of $15 million are reflected as deferred financing costs in the Consolidated Balance Sheets and will be amortized into interest expense over the term of the notes.

On April 27, 2016, HDS used the net proceeds from the April 2016 Senior Unsecured Notes issuance, together with available cash, to redeem all of the outstanding $1,000 million aggregate principal of the October 2012 Senior Unsecured Notes, and pay a $106 million make-whole premium calculated in accordance with the terms of the indenture governing such notes and pay $4 million of accrued but unpaid interest to the redemption date. As a result, the Company incurred a $115 million loss on extinguishment of debt, which includes the $106 million make-whole premium and the write-off of $9 million of unamortized deferred financing costs, in accordance with ASC 470-50, Debt Modifications and Extinguishments.

For additional information, see Note 3, Debt, in the Notes to Consolidated Financial Statements within Item 1 of this quarterly report on Form 10-Q

Rating agency actions

In March 2016, Moody s Investor s Service (Moody s) upgraded HDS s corporate family rating to B1, from B2. Moody s cited our solid operating performance and lower level of balance sheet debt. In a related rating action, Moody s raised HDS s Speculative Grade Liquidity Rating to SGL-1 from SGL-2, citing their expectations of increasing free cash flows and the amount of revolving credit facility availability. Moody s rating outlook remains at positive. Also in March 2016, Standard & Poor s raised HDS s corporate credit rating to BB- from B+ , and revised its rating outlook to positive from stable.

Critical accounting policies

Our condensed consolidated financial statements have been prepared in accordance with GAAP. Preparation of these statements requires management to make judgments and estimates. Some accounting policies have a significant impact on amounts reported in these consolidated financial statements. The Company s critical accounting policies have not changed from those reported in Management s Discussion and Analysis of Financial Condition and Results of Operations in our Form 10-K for the fiscal year ended January 31, 2016.

Recent accounting pronouncements

Stock Compensation In March 2016, The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-09, Compensation Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting (ASU 2016-09). The new guidance identifies areas for simplification involving several aspects of accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities as well as certain classifications on the statement of cash flows. ASU 2016-09 is effective for annual and interim periods beginning after December 15, 2016. Early adoption is permitted. The Company is currently evaluating the impact of adopting ASU 2016-09.

Leases In February 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-02, Leases (Topic 842) (ASU 2016-02). The new guidance requires companies to recognize all leases as assets and liabilities for the rights and obligations created by leased assets on the consolidated balance sheet. ASU 2016-02 is effective for annual and interim periods beginning after December 15, 2018. Early adoption is permitted. It is to be adopted using a modified retrospective approach. The Company is currently evaluating the impact of adopting ASU 2016-02.

Inventory In July 2015, the FASB issued ASU No. 2015-11, Inventory, Simplifying the Measurement of Inventory (ASU 2015-11). The amended guidance requires that inventory be measured at the lower of cost and net realizable value. The amended guidance is limited to inventory measured using the first-in, first-out (FIFO) or average cost methods and excludes inventory measured using last-in, first-out (LIFO) or retail inventory methods. ASU 2015-11 is effective for fiscal years, and interim periods, beginning after December 15, 2016. Early adoption is permitted. The adoption of ASU 2015-11 is not expected to have a material impact on the Company s financial position or results of operations.

Revenue recognition In May 2014, the FASB issued ASU No. 2014-09, Revenue from contracts with customers (ASU 2014-09). The amended guidance outlines a single comprehensive revenue model for entities to use in accounting for revenue arising from contracts with customers. The guidance supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Entities have the option of using either a full retrospective or modified approach to adopt the guidance. In July 2015, the FASB provided a one-year delay in the effective date of ASU 2014-09, to be effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period, early adoption is permitted for interim and annual periods beginning after December 15, 2016. The Company is currently evaluating the impact of adopting ASU 2014-09.

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Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risk associated with changes in interest rates, foreign currency exchange rate fluctuations and certain commodity prices. To reduce these risks, we selectively use financial instruments and other proactive management techniques. We do not use financial instruments for trading purposes or speculation. There have been no material changes in our market risk exposures as compared to those discussed in our annual report on Form 10-K for the fiscal year ended January 31, 2016.

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures

HD Supply Holdings, Inc.

Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer of HD Supply Holdings, Inc., we have evaluated the effectiveness of our disclosure controls and procedures as required by Exchange Act Rule 13a-15(b) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the HD Supply Holdings, Inc. disclosure controls and procedures were effective as of July 31, 2016 (the end of the period covered by this report).

HD Supply, Inc.

Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer of HD Supply, Inc., we have evaluated the effectiveness of our disclosure controls and procedures as required by Exchange Act Rule 13a-15(b) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the HD Supply, Inc. disclosure controls and procedures were effective as of July 31, 2016 (the end of the period covered by this report).

(b) Changes in internal control

There were no changes in Holdings or HDS s internal control over financial reporting, as defined in the Exchange Act Rules 13a-15(f) or 15d-15(f), during the second quarter of fiscal 2016 that have materially affected, or are reasonably likely to materially affect, Holdings or HDS s internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

HD Supply is involved in various legal proceedings arising in the normal course of its business. The Company establishes reserves for litigation and similar matters when those matters present loss contingencies that it determines to be both probable and reasonably estimable in accordance with ASC 450, Contingencies. In the opinion of management, based on current knowledge, all reasonably estimable and probable matters are believed to be adequately reserved for or covered by insurance and are not expected to have a material adverse effect on the Company s consolidated financial condition, results of operations or cash flows. For all other matters, except as noted below, management believes the possibility of losses from such matters is not probable, the potential loss from such matters is not reasonably estimable, or such matters are of such kind or involve such amounts that would not have a material adverse effect on the financial position, results of operations or cash flows of the Company if disposed of unfavorably. For material matters that are reasonably possible and reasonably estimable, including matters that are probable and estimable but for which the amount that is reasonably possible is in excess of the amount that the Company has accrued for, management has estimated the aggregate range of potential loss as $0 to $15 million. If a material loss is probable or reasonably possible, and in either case estimable, the Company has considered it in the analysis and it is included in the discussion set forth above.

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Item 1A. Risk Factors

We discuss in our filings with the SEC various risks that may materially affect our business. There have been no material changes to the risk factors disclosed in our annual report on Form 10-K for the fiscal year ended January 31, 2016.

The materialization of any risks and uncertainties identified in forward-looking statements contained in this report together with those previously disclosed in our annual report on Form 10-K for the fiscal year ended January 31, 2016 and our and HDS s other filings with the SEC or those that are presently unforeseen could result in significant adverse effects on our financial condition, results of operations and cash flows. See Forward-looking statements and information at the beginning of this report.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(c) Purchases of Equity Securities

In the first quarter of fiscal 2014, Holdings Board of Directors authorized a share repurchase program to be funded from cash proceeds received from exercises of employee stock options, as was disclosed in our annual report on Form 10-K filed on March 25, 2014. This share repurchase program does not obligate Holdings to acquire any particular amount of common stock, and it may be terminated at any time at Holdings discretion.

Issuer Purchases of Equity Securities in each fiscal month of the second quarter of fiscal 2016 are set forth in the table below:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Program	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (1)
May 2 May 29	23,662	$ 33.48	23,662	
May 30 June 26	21,192	$ 34.96	21,192	$ 2,557,876
June 27 July 31	85,770	$ 36.17	85,770	$ 3,042,457
Total	130,624	$ 35.49	130,624	

(1) The total dollar value of shares that may yet be purchased increases by the amount of cash proceeds received from the exercise of employee stock options as they occur.

During the six months ended July 31, 2016, Holdings retired 319,093 shares of its common stock (Retired Shares) held as treasury shares by Holdings in the amount of $9 million. All of these shares were repurchased by Holdings pursuant to the previously authorized share repurchase program. Holdings reinstated the Retired Shares to the status of authorized but unissued shares of common stock, par value $0.01 per share, effective as of the date of retirement. In accordance with Accounting Standards Codification 505-30, Equity-Treasury Stock, Holdings reversed the $0.01 par value of the Retired Shares and the excess of the cost of the Retired Shares over par value to Retained Earnings.

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Item 6. Exhibits

The following exhibits are filed or furnished with this quarterly report.

Exhibit Number	Exhibit Description
3.1	Second Amended and Restated Certificate of Incorporation of HD Supply Holdings, Inc.(2)
3.2	Third Amended and Restated By-Laws of HD Supply Holdings, Inc.(2)
3.3	Certificate of Incorporation of HD Supply, Inc.(1)
3.4	Certificate of Amendment of Certificate of Incorporation of HD Supply, Inc.(3)
3.5	Amended and Restated By-Laws of HD Supply, Inc.(3)
21.1	List of subsidiaries
31.1	Certification of Chairman of the Board, President and Chief Executive Officer of HD Supply Holdings, Inc. pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Senior Vice President and Chief Financial Officer of HD Supply Holdings, Inc. pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.
31.3	Certification of Chairman of the Board, President and Chief Executive Officer of HD Supply, Inc. pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.
31.4	Certification of Senior Vice President and Chief Financial Officer of HD Supply, Inc. pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chairman of the Board, President and Chief Executive Officer of HD Supply Holdings, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Senior Vice President and Chief Financial Officer of HD Supply Holdings, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.3	Certification of Chairman of the Board, President and Chief Executive Officer of HD Supply, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.4	Certification of Senior Vice President and Chief Financial Officer of HD Supply, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	Interactive data files pursuant to Rule 405 of Regulation S-T.

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(1) Previously filed in Amendment No.1 to Form S-4 of HD Supply, Inc. (File No. 333-159809) filed on July 10, 2009.

(2) Previously filed in Form S-8 of HD Supply Holdings, Inc. (File No. 333-189771) filed on July 2, 2013.

(3) Previously filed in Form 8-K of HD Supply, Inc. (File No. 333-159809) filed on July 9, 2013.

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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.

HD SUPPLY HOLDINGS, INC.
(Registrant)

September 6, 2016	By:	/s/ Joseph J. DeAngelo
(Date)		Joseph J. DeAngelo
		Chairman of the Board, President and Chief Executive Officer
		/s/ Evan J. Levitt
		Evan J. Levitt
		Senior Vice President and Chief Financial Officer

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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.

		HD SUPPLY, INC. (Registrant)
September 6, 2016 (Date)	By:	/s/ Joseph J. DeAngelo Joseph J. DeAngelo Chairman of the Board, President and Chief Executive Officer
		/s/ Evan J. Levitt Evan J. Levitt Senior Vice President and Chief Financial Officer