# HD SUPPLY HOLDINGS, INC.

## FORM 10-Q
(Quarterly Report)

Filed 09/06/17 for the Period Ending 07/30/17

| | |
|---|---|
| Address | 3100 CUMBERLAND BOULEVARD, SUITE 1480<br>ATLANTA, GA, 30339 |
| Telephone | 770-852-9000 |
| CIK | 0001573097 |
| Symbol | HDS |
| SIC Code | 5000 - Wholesale-Durable Goods |
| Industry | Diversified Trading & Distributing |
| Sector | Industrials |
| Fiscal Year | 01/31 |

# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON, D.C. 20549**

# FORM 10-Q

**(Mark One)**

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

**For the quarterly period ended July 30, 2017**

**- OR -**

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

**For the transition period from to**

| Commission File Number | Exact name of Registrant as specified in its charter, Address of principal executive offices and Telephone number | State of incorporation | I.R.S. Employer Identification Number |
|---|---|---|---|
| 001-35979 | **HD SUPPLY HOLDINGS, INC.**<br>3100 Cumberland Boulevard, Suite 1480<br>Atlanta, Georgia 30339<br>(770) 852-9000 | Delaware | 26-0486780 |
| 333-159809 | **HD SUPPLY, INC.**<br>3100 Cumberland Boulevard, Suite 1480<br>Atlanta, Georgia 30339<br>(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 ☒ No ☐ |
| HD Supply, Inc. | Yes ☐ No ☒ |

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 ☒ No ☐ |
| HD Supply, Inc. | Yes ☒ No ☐ |

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

HD Supply Holdings, Inc.

| | | |
|---|---|---|
| Large accelerated filer ☒ | Accelerated filer ☐ | Smaller reporting company ☐ |
| Non-accelerated filer ☐ (Do not check if a smaller reporting company) | | |
| Emerging growth company ☐ | | |

HD Supply, Inc.

| | | |
|---|---|---|
| Large accelerated filer ☐ | Accelerated filer ☐ | Smaller reporting company ☐ |
| Non-accelerated filer ☒ (Do not check if a smaller reporting company) | | |
| Emerging growth company ☐ | | |

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

HD Supply Holdings, Inc. ☐
HD Supply, Inc. ☐

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 ☐ No ☒ |
| HD Supply, Inc. | Yes ☐ No ☒ |

The number of shares of the Registrant's common stock outstanding as of September 1, 2017:

| | |
|---|---|
| HD Supply Holdings, Inc. | 186,646,151 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," "seeks," "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 29, 2017 and those described from time to time in our other filings with the U.S. Securities and Exchange Commission (the "SEC"). Factors that could cause actual results to differ from those reflected in forward-looking statements relating to our results of operations, financial condition and liquidity, and the development of industries in which we operate include:

- inherent risks of the maintenance, repair and operations market and the non-residential and residential construction markets;
- our ability to maintain profitability;
- our ability to service our debt and to 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 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 the maintenance, repair and operations market and the non-residential and residential construction markets;

- 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 the 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;
- 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.

**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 30, 2017 | July 31, 2016 | July 30, 2017 | July 31, 2016 |
| **Net Sales** | **$ 1,352** | $ 1,283 | **$ 2,568** | $ 2,459 |
| Cost of sales | **813** | 770 | **1,545** | 1,477 |
| **Gross Profit** | **539** | 513 | **1,023** | 982 |
| Operating expenses: | | | | |
| Selling, general and administrative | **338** | 317 | **672** | 625 |
| Depreciation and amortization | **21** | 21 | **42** | 42 |
| Restructuring | **—** | 4 | **—** | 11 |
| Total operating expenses | **359** | 342 | **714** | 678 |
| **Operating Income** | **180** | 171 | **309** | 304 |
| Interest expense | **49** | 69 | **98** | 154 |
| Loss on extinguishment of debt | **—** | — | **3** | 115 |
| **Income from Continuing Operations Before Provision for Income Taxes** | **131** | 102 | **208** | 35 |
| Provision for income taxes | **50** | 41 | **69** | 15 |
| **Income from Continuing Operations** | **81** | 61 | **139** | 20 |
| Income from discontinued operations, net of tax | **361** | 37 | **388** | 64 |
| **Net Income** | **$ 442** | $ 98 | **$ 527** | $ 84 |
| Other comprehensive income (loss) — foreign currency translation adjustment | **(3)** | (2) | **(2)** | 2 |
| **Total Comprehensive Income** | **$ 439** | $ 96 | **$ 525** | $ 86 |
| | | | | |
| **Weighted Average Common Shares Outstanding (thousands)** | | | | |
| Basic | **197,752** | 199,250 | **199,230** | 199,029 |
| Diluted | **198,954** | 201,978 | **201,010** | 201,615 |
| | | | | |
| **Basic Earnings Per Share( *1* ):** | | | | |
| Income from Continuing Operations | **$ 0.41** | $ 0.31 | **$ 0.70** | $ 0.10 |
| Income from Discontinued Operations | **$ 1.83** | $ 0.19 | **$ 1.95** | $ 0.32 |
| Net Income | **$ 2.24** | $ 0.49 | **$ 2.65** | $ 0.42 |
| **Diluted Earnings Per Share *(1)* :** | | | | |
| Income from Continuing Operations | **$ 0.41** | $ 0.30 | **$ 0.69** | $ 0.10 |
| Income from Discontinued Operations | **$ 1.81** | $ 0.18 | **$ 1.93** | $ 0.32 |
| Net Income | **$ 2.22** | $ 0.49 | **$ 2.62** | $ 0.42 |

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

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

**HD SUPPLY HOLDINGS, INC. AND SUBSIDIARIES**
**CONSOLIDATED BALANCE SHEETS**
*Amounts in millions, except share and per share data, unaudited*

| | July 30, 2017 | January 29, 2017 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | **$ 67** | $ 75 |
| Receivables, less allowance for doubtful accounts of $11 and $9 | **693** | 559 |
| Inventories | **690** | 606 |
| Current assets of discontinued operations | **752** | 575 |
| Other current assets | **33** | 32 |
| Total current assets | **2,235** | 1,847 |
| Property and equipment, net | **266** | 253 |
| Goodwill | **1,807** | 1,807 |
| Intangible assets, net | **96** | 102 |
| Deferred tax asset | **857** | 556 |
| Non-current assets of discontinued operations | **1,120** | 1,122 |
| Other assets | **23** | 20 |
| **Total assets** | **$ 6,404** | $ 5,707 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | **$ 454** | $ 320 |
| Accrued compensation and benefits | **83** | 98 |
| Current installments of long-term debt | **14** | 14 |
| Current liabilities of discontinued operations | **354** | 259 |
| Other current liabilities | **189** | 152 |
| Total current liabilities | **1,094** | 843 |
| Long-term debt, excluding current installments | **4,038** | 3,798 |
| Non-current liabilities of discontinued operations | **41** | 20 |
| Other liabilities | **100** | 86 |
| **Total liabilities** | **5,273** | 4,747 |
| **Stockholders' equity:** | | |
| Common stock, par value $0.01; 1 billion shares authorized; 189.1 million and 201.4 million shares issued and outstanding at July 30, 2017 and January 29, 2017, respectively | **2** | 2 |
| Paid-in capital | **4,004** | 3,962 |
| Accumulated deficit | **(2,408)** | (2,969) |
| Accumulated other comprehensive loss | **(17)** | (15) |
| Treasury stock, at cost, 14.2 and 0.6 million shares at July 30, 2017 and January 29, 2017, respectively | **(450)** | (20) |
| Total stockholders' equity | **1,131** | 960 |
| **Total liabilities and stockholders' equity** | **$ 6,404** | $ 5,707 |

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

**HD SUPPLY HOLDINGS, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
*Amounts in millions, unaudited*

| | Six Months Ended | |
|---|---|---|
| | **July 30, 2017** | **July 31, 2016** |
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | |
| Net income | **$ 527** | $ 84 |
| Reconciliation of net income to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | **50** | 51 |
| Provision for uncollectibles | **4** | 3 |
| Non-cash interest expense | **6** | 9 |
| Payment of discounts upon extinguishment of debt | **(4)** | — |
| Loss on extinguishment of debt | **3** | 115 |
| Stock-based compensation expense | **12** | 11 |
| Deferred income taxes | **(223)** | 52 |
| Loss on sales of businesses, net | **—** | 3 |
| Changes in assets and liabilities, net of the effects of acquisitions & dispositions: | | |
| (Increase) decrease in receivables | **(258)** | (232) |
| (Increase) decrease in inventories | **(141)** | (118) |
| (Increase) decrease in other current assets | **—** | (9) |
| Increase (decrease) in accounts payable and accrued liabilities | **212** | 196 |
| Increase (decrease) in other long-term liabilities | **1** | (1) |
| Net cash provided by (used in) operating activities | **189** | 164 |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | |
| Capital expenditures | **(43)** | (32) |
| Proceeds from sales of property and equipment | **2** | 1 |
| Proceeds from sales of businesses, net | **—** | 37 |
| Net cash provided by (used in) investing activities | **(41)** | 6 |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | |
| Proceeds from issuance of common stock under employee benefit plans | **29** | 14 |
| Purchase of treasury shares | **(414)** | (14) |
| Borrowings of long-term debt | **—** | 1,000 |
| Repayments of long-term debt | **(103)** | (1,110) |
| Borrowings on long-term revolver debt | **599** | — |
| Repayments on long-term revolver debt | **(261)** | — |
| Debt issuance costs | **(6)** | (15) |
| Other financing activities | **—** | (2) |
| Net cash provided by (used in) financing activities | **(156)** | (127) |
| Effect of exchange rates on cash and cash equivalents | **—** | 1 |
| Increase (decrease) in cash and cash equivalents | **$ (8)** | $ 44 |
| Cash and cash equivalents at beginning of period | **75** | 269 |
| Cash and cash equivalents at end of period | **$ 67** | $ 313 |

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

**HD SUPPLY, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME**
*Amounts in millions, unaudited*

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | July 30, 2017 | July 31, 2016 | July 30, 2017 | July 31, 2016 |
| **Net Sales** | **$ 1,352** | $ 1,283 | **$ 2,568** | $ 2,459 |
| Cost of sales | **813** | 770 | **1,545** | 1,477 |
| **Gross Profit** | **539** | 513 | **1,023** | 982 |
| Operating expenses: | | | | |
| Selling, general and administrative | **338** | 317 | **672** | 625 |
| Depreciation and amortization | **21** | 21 | **42** | 42 |
| Restructuring | **—** | 4 | **—** | 11 |
| Total operating expenses | **359** | 342 | **714** | 678 |
| **Operating Income** | **180** | 171 | **309** | 304 |
| Interest expense | **49** | 69 | **98** | 154 |
| Loss on extinguishment of debt | **—** | — | **3** | 115 |
| Other (Income) expense, net | **—** | — | **—** | — |
| **Income from Continuing Operations Before Provision for Income Taxes** | **131** | 102 | **208** | 35 |
| Provision for income taxes | **50** | 41 | **69** | 15 |
| **Income from Continuing Operations** | **81** | 61 | **139** | 20 |
| Income from discontinued operations, net of tax | **361** | 37 | **388** | 64 |
| **Net Income** | **$ 442** | $ 98 | **$ 527** | $ 84 |
| Other comprehensive income (loss) — foreign currency translation adjustment | **(3)** | (2) | **(2)** | 2 |
| **Total Comprehensive Income** | **$ 439** | $ 96 | **$ 525** | $ 86 |

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

**HD SUPPLY, INC. AND SUBSIDIARIES**
**CONSOLIDATED BALANCE SHEETS**
*Amounts in millions, except share and per share data, unaudited*

| | July 30, 2017 | January 29, 2017 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | **$ 55** | $ 73 |
| Receivables, less allowance for doubtful accounts of $11 and $9 | **693** | 559 |
| Inventories | **690** | 606 |
| Current assets of discontinued operations | **752** | 575 |
| Other current assets | **33** | 32 |
| Total current assets | **2,223** | 1,845 |
| Property and equipment, net | **266** | 253 |
| Goodwill | **1,807** | 1,807 |
| Intangible assets, net | **96** | 102 |
| Deferred tax asset | **857** | 556 |
| Non-current assets of discontinued operations | **1,120** | 1,122 |
| Other assets | **23** | 20 |
| **Total assets** | **$ 6,392** | $ 5,705 |
| **LIABILITIES AND STOCKHOLDER'S EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | **$ 454** | $ 320 |
| Accrued compensation and benefits | **83** | 98 |
| Current installments of long-term debt | **14** | 14 |
| Current liabilities of discontinued operations | **354** | 259 |
| Other current liabilities | **151** | 152 |
| Total current liabilities | **1,056** | 843 |
| Long-term debt, excluding current installments | **4,038** | 3,798 |
| Non-current liabilities of discontinued operations | **41** | 20 |
| Other liabilities | **100** | 86 |
| **Total liabilities** | **5,235** | 4,747 |
| **Stockholder's equity:** | | |
| Common stock, par value $0.01; authorized 1,000 shares; issued and outstanding 1,000 shares at July 30, 2017 and January 29, 2017 | **—** | — |
| Paid-in capital | **3,423** | 3,806 |
| Accumulated deficit | **(2,249)** | (2,833) |
| Accumulated other comprehensive loss | **(17)** | (15) |
| Total stockholder's equity | **1,157** | 958 |
| **Total liabilities and stockholder's equity** | **$ 6,392** | $ 5,705 |

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

**HD SUPPLY, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
*Amounts in millions, unaudited*

| | Six Months Ended | |
|---|---|---|
| | July 30, 2017 | July 31, 2016 |
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | |
| Net income | **$ 527** | $ 84 |
| Reconciliation of net income to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | **50** | 51 |
| Provision for uncollectibles | **4** | 3 |
| Non-cash interest expense | **6** | 9 |
| Payment of discounts upon extinguishment of debt | **(4)** | — |
| Loss on extinguishment of debt | **3** | 115 |
| Stock-based compensation expense | **12** | 11 |
| Deferred income taxes | **(223)** | 52 |
| Loss on sales of businesses, net | **—** | 3 |
| Changes in assets and liabilities, net of the effects of acquisitions & dispositions: | | |
| (Increase) decrease in receivables | **(258)** | (232) |
| (Increase) decrease in inventories | **(141)** | (118) |
| (Increase) decrease in other current assets | **—** | (9) |
| Increase (decrease) in accounts payable and accrued liabilities | **212** | 196 |
| Increase (decrease) in other long-term liabilities | **1** | (1) |
| Net cash provided by (used in) operating activities | **189** | 164 |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | |
| Capital expenditures | **(43)** | (32) |
| Proceeds from sales of property and equipment | **2** | 1 |
| Proceeds from sales of businesses, net | **—** | 37 |
| Net cash provided by (used in) investing activities | **(41)** | 6 |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | |
| Equity distribution | **(395)** | — |
| Borrowings of long-term debt | **—** | 1,000 |
| Repayments of long-term debt | **(103)** | (1,110) |
| Borrowings on long-term revolver debt | **599** | — |
| Repayments on long-term revolver debt | **(261)** | — |
| Debt issuance costs | **(6)** | (15) |
| Other financing activities | **—** | (2) |
| Net cash provided by (used in) financing activities | **(166)** | (127) |
| Effect of exchange rates on cash and cash equivalents | **—** | 1 |
| Increase (decrease) in cash and cash equivalents | **$ (18)** | $ 44 |
| Cash and cash equivalents at beginning of period | **73** | 266 |
| Cash and cash equivalents at end of period | **$ 55** | $ 310 |

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

**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 two distinct market sectors: Maintenance, Repair & Operations and Specialty Construction. Through approximately 260 locations across 36 U.S. states and six Canadian provinces, the Company serves these markets with an integrated go-to-market strategy. HD Supply has approximately 11,000 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 includes approximately 500,000 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 construction to maintenance, repair and operations.

HD Supply is managed primarily on a product line basis and reports results of operations in two reportable segments: Facilities Maintenance and Construction & Industrial. In addition, the consolidated financial statements include Corporate, which is comprised of enterprise-wide functional departments.

See "Note 2 — Discontinued Operations" for further information on the sale of the Waterworks business.

***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 29, 2017, which includes all disclosures required by generally accepted accounting principles in the United States of America ("GAAP").

*F* ***iscal 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 28, 2018 ("fiscal 2017") and January 29, 2017 ("fiscal 2016") both include 52 weeks.  The three months ended July 30, 2017 ("second quarter 2017") and July 31, 2016 ("second quarter 2016") both include 13 weeks. The six months ended July 30, 2017 and July 31, 2016 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 HDS 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.

**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, workers' compensation and certain legal claims, and is self-insured for medical claims, while maintaining per employee stop loss coverage. 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 30, 2017 and January 29, 2017, self-insurance reserves totaled approximately $81 million and $79 million, respectively.

## NOTE 2 — DISCONTINUED OPERATIONS

On June 4, 2017, the Company entered into a definitive agreement to sell its Waterworks business unit to funds affiliated with Clayton, Dubilier & Rice, LLC ("CD&R") for $2.5 billion cash payable at closing, subject to customary regulatory approvals. On August 1, 2017, the Company completed the sale of the Waterworks business unit to funds affiliated with CD&R. For additional information on the sale of the Waterworks business unit, please see "Note 13 — Subsequent Events."

In May 2016, the Company completed the sale of its Interior Solutions business.

*Summary Financial Information*

In accordance with Accounting Standards Codification ("ASC") 205-20, "Discontinued Operations," as amended, the results of Waterworks and Interior 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.

In accordance with ASC 740, "Income Taxes," a deferred tax asset should be recognized for the excess of the tax basis over the financial reporting carrying value of an investment in a subsidiary ("outside basis difference") when it is apparent that the temporary difference will reverse in the foreseeable future. In connection with presenting the Waterworks business unit as a discontinued operation as of July 30, 2017, the Company was required to re-evaluate its position related to the recognition of a deferred tax asset or liability for the outside basis difference of the Waterworks corporate subsidiary being sold. In prior years, and as required under ASC 740, deferred taxes for such outside basis difference had not been recognized because the outside basis difference was deemed permanent in nature. Due to the pending sale of the Waterworks business unit as of July 30, 2017, the outside basis difference was no longer deemed to be permanent in nature and is expected to reverse in the foreseeable future. As a result, a net deferred tax asset of $323 million and a corresponding income tax benefit for the difference in the Company's stock basis versus its book carrying value of the Waterworks corporate subsidiary was recorded in the second quarter of fiscal 2017. Since the deferred tax asset will remain with and be settled by HD Supply, the deferred tax asset has not been included in the assets held for sale. However, the income statement benefit associated with recording the $323 million deferred tax asset was recorded in the discontinued operations.

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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 30, 2017 | July 31, 2016 | July 30, 2017 | July 31, 2016 |
| **Net sales** | **$ 746** | $ 755 | **$ 1,403** | $ 1,422 |
| Cost of sales | **582** | 583 | **1,092** | 1,094 |
| **Gross Profit** | **164** | 172 | **311** | 328 |
| Operating expenses: | | | | |
| Selling, general and administrative | **100** | 105 | **197** | 214 |
| Depreciation and amortization | **3** | 3 | **6** | 6 |
| Restructuring Charges | **—** | 1 | **—** | 1 |
| Total operating expenses | **103** | 109 | **203** | 221 |
| **Operating Income** | **61** | 63 | **108** | 107 |
| Loss on disposal of discontinued operations | **—** | 2 | **—** | 2 |
| Other (Income) expense, net | **1** | — | **3** | — |
| Income before provision (benefit) for income taxes | **60** | 61 | **105** | 105 |
| Provision (benefit) for income taxes | **(301)** | 24 | **(283)** | 41 |
| Income from discontinued operations, net of tax | **$ 361** | $ 37 | **$ 388** | $ 64 |

At July 30, 2017 and January 29, 2017, 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 30, 2017 | January 29, 2017 |
|---|---|---|
| Current assets: | | |
| Receivables, less allowance for doubtful accounts of $4 and $4 | **$ 466** | $ 346 |
| Inventories | **283** | 225 |
| Other current assets | **3** | 4 |
| Total current assets | **752** | 575 |
| Property and equipment, net | **50** | 51 |
| Goodwill | **1,061** | 1,061 |
| Intangible assets, net | **9** | 10 |
| Total non-current assets | **1,120** | 1,122 |
| **Total assets of discontinued operations** | **$ 1,872** | $ 1,697 |
| | | |
| Current Liabilities: | | |
| Accounts payable | **$ 316** | $ 212 |
| Accrued compensation and benefits | **32** | 42 |
| Other current liabilities | **6** | 5 |
| Total current liabilities | **354** | 259 |
| Deferred tax liability | **21** | — |
| Other non-current liabilities | **20** | 20 |
| Total non-current liabilities | **41** | 20 |
| **Total liabilities of discontinued operations** | **$ 395** | $ 279 |

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

| | Six Months Ended | |
|---|---|---|
| | July 30, 2017 | July 31, 2016 |
| **Net cash flows provided by (used in) operating activities** | **$ 11** | **$ (6)** |
| Cash flows from investing activities: | | |
| Capital expenditures | (5) | (4) |
| Proceeds from sales of businesses, net | — | 37 |
| Proceeds from sales of property and equipment, net | 2 | — |
| **Net cash flows provided by (used in) investing activities** | **$ (3)** | **$ 33** |

**NOTE 3 — DEBT**

HDS's long-term debt as of July 30, 2017 and January 29, 2017 consisted of the following (dollars in millions):

| | July 30, 2017 | | January 29, 2017 | |
|---|---|---|---|---|
| | Outstanding Principal | Interest Rate %(1) | Outstanding Principal | Interest Rate %(1) |
| Senior ABL Facility due 2022 | **$ 762** | **3.29** | $ 421 | 2.38 |
| Term B-1 Loans due 2021 | **535** | **4.05** | 639 | 3.75 |
| Term B-2 Loans due 2023 | **546** | **4.05** | 549 | 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** | 1,000 | 5.75 |
| Total gross long-term debt | **$ 4,093** | | $ 3,859 | |
| Less unamortized discount | **(7)** | | (9) | |
| Less unamortized deferred financing costs | **(34)** | | (38) | |
| Total net long-term debt | **$ 4,052** | | $ 3,812 | |
| Less current installments | **(14)** | | (14) | |
| Total net long-term debt, excluding current installments | **$ 4,038** | | $ 3,798 | |

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

On April 18, 2017, HDS used cash and available borrowings under its Senior ABL Facility, as defined below, to repay $100 million aggregate principal of its approximately $842 million original aggregate principal tranche of term loans due 2021 (the "Term B-1 Loans"). As a result, the Company incurred a $2 million loss on extinguishment of debt, which included write-offs of unamortized original issue discount and unamortized deferred financing costs for $1 million each, in accordance with ASC 470-50, "Debt — Modifications and Extinguishments."

On April 5, 2017, HDS entered into a Third Amendment (the "Third Amendment") to the credit agreement governing its existing Senior ABL Facility. The Third Amendment, among other things, reduced the applicable margin for borrowings under the Senior ABL Facility, reduced the applicable commitment fee, and extended the maturity date of the Senior ABL Facility until April 5, 2022. As a result, the Company recorded a $1 million loss on extinguishment of debt, in accordance with ASC 470-50, "Debt — Modifications and Extinguishments," for the write-off of $1 million of unamortized deferred financing costs.

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**Senior Credit Facilities**

**Senior ABL Facility**

HDS's Senior Asset Based Lending Facility due 2022 (the "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 30, 2017, HDS had $530 million of additional available borrowings under the Senior ABL Facility (after giving effect to the borrowing base limitations and approximately $30 million in letters of credit issued and including $7 million of borrowings available on qualifying cash balances). Of the approximately $762 million borrowed on the Senior ABL Facility as of July 30, 2017, approximately $62 million represents Canadian borrowings with the remainder in the U.S.

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 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 Senior ABL Facility).

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.

See "Note 13 — Subsequent Events" for additional information regarding the repayment of certain outstanding amounts under the Senior ABL Facility.

**Senior Term Loan Facility**

HDS's Senior Term Facility (the "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 with remaining aggregate principal amount of $1,081 million. Term B-1 Loans will mature on August 13, 2021 and Term B-2 Loans will mature on October 17, 2023. Both Term B-1 Loans and Term B-2 Loans amortize in equal quarterly installments in aggregate annual amounts equal to 1.00% of the original principal amount of the Term Loans with the balances payable on their respective maturity dates. Both Term B-1 Loans and Term B-2 Loans bear interest at the applicable margin for borrowings of 2.75% for LIBOR borrowings and 1.75% for base rate borrowings. The Term Loan Facility allows for a reduction to the applicable margin on the Term B-2 Loans from 2.75% per annum to 2.50% per annum upon the Company reaching a consolidated total leverage ratio of 3.0x or less.

For additional information on our Senior ABL Facility or Senior Term Facility (collectively, the "Senior Credit Facilities"), including guarantees and security, please refer to the Notes to Consolidated Financial Statements in our Form 10-K for the fiscal year ended January 29, 2017.

See "Note 13 — Subsequent Events" for additional information on the Term Loan Facility.

**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 15$^{th}$ and December 15$^{th}$ of each year.

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*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 (as amended or supplemented, the "2014 indenture") 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.

On August 2, 2017, HDS delivered a notice of redemption to holders of its December 2014 First Priority Notes. The December 2014 First Priority Notes were redeemed on September 1 2017. For additional information, see "Note 13 — Subsequent Events."

**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 (as defined in the 2014 indenture), 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 2014 indenture) and together (the "Cash Flow Priority Collateral").

The 2014 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 (the "SEC") pursuant to Rule 3-16 of Regulation S-X (as in effect from time to time).

In connection with the December 2014 First Priority Notes, the 2014 indenture was discharged and the liens securing the December 2014 First Priority Notes were release in accordance with the terms of the 2014 indenture. For additional information, see "Note 13 — Subsequent Events."

**Unsecured Notes**

**5.75% Senior Unsecured Notes due 2024**

HDS's 5.75% Senior Unsecured Notes due 2024 (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 in arrears on April 15$^{th}$ and October 15$^{th}$ of each year.

*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 (as amended or supplemented, the "2016 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.

For additional information on the December 2014 First Priority Notes and the April 2016 Senior Unsecured Notes, including guarantees and security, please refer to the Notes to Consolidated Financial Statements in our Form 10-K for the fiscal year ended January 29, 2017.

See "Note 13 — Subsequent Events" for additional information on the recently completed consent solicitation related to the April 2016 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 30, 2017, 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.

The Company's financial instruments that are not reflected at fair value on the Consolidated Balance Sheets were as follows as of July 30, 2017 and January 29, 2017 (amounts in millions):

| | As of July 30, 2017 | | As of January 29, 2017 | |
|---|---|---|---|---|
| | Recorded Amount(1) | Estimated Fair Value | Recorded Amount(1) | Estimated Fair Value |
| Senior ABL Facility | **$ 762** | **$ 758** | $ 421 | $ 410 |
| Term Loans and Notes | **3,331** | **3,475** | 3,438 | 3,572 |
| Total | **$ 4,093** | **$ 4,233** | $ 3,859 | $ 3,982 |

*(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.*

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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 30, 2017, the Company's combined federal, state, and foreign effective tax rate for continuing operations was an expense of 33.2%. The effective rate for continuing operations for the six months ended July 31, 2016 was an expense of 42.9%.

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 audits. For the six months ended July 30, 2017, the application of stock-based compensation expense guidance in ASU No. 2016-09 resulted in discrete tax benefits of $12 million from the exercise and vesting of stock based awards, which lowered the effective tax rate by 580 basis points. For additional information on the Company's adoption of ASU No. 2016-09, see "Note 12 — Recent Accounting Pronouncements."

As of January 29, 2017, the Company's unrecognized tax benefits in accordance with the income taxes principles of GAAP, ASC 740, "Income Taxes," were $10 million. As of July 30, 2017, 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 29, 2017 was zero and remained unchanged as of July 30, 2017. As of January 29, 2017, the Company's valuation allowance on its U.S. deferred tax assets was approximately $5 million and remained unchanged as of July 30, 2017. Each reporting period we assess 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 three and six months ended July 30, 2017 and July 31, 2016 was as follows (in thousands):

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | **July 30, 2017** | **July 31, 2016** | **July 30, 2017** | **July 31, 2016** |
| Weighted-average common shares | **197,752** | 199,250 | **199,230** | 199,029 |
| Effect of potentially dilutive stock plan securities | **1,202** | 2,728 | **1,780** | 2,586 |
| Diluted weighted-average common shares | **198,954** | 201,978 | **201,010** | 201,615 |
| Stock plan securities excluded from dilution (1) | **2,383** | 1,452 | **1,652** | 2,240 |

(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.

## NOTE 7 — SUPPLEMENTAL BALANCE SHEET AND CASH FLOW INFORMATION

### Receivables

Receivables as of July 30, 2017 and January 29, 2017 consisted of the following (amounts in millions):

| | **July 30, 2017** | **January 29, 2017** |
|---|---|---|
| Trade receivables, net of allowance for doubtful accounts | **$ 631** | $ 499 |
| Vendor rebate receivables | **48** | 50 |
| Other receivables | **14** | 10 |
| Total receivables, net | **$ 693** | $ 559 |

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**Other Current Liabilities**

Other current liabilities as of July 30, 2017 and January 29, 2017 consisted of the following (amounts in millions):

| | HD Supply Holdings, Inc. | | HD Supply, Inc. | |
|---|---|---|---|---|
| | July 30, 2017 | January 29, 2017 | July 30, 2017 | January 29, 2017 |
| Accrued interest | **$ 30** | $ 30 | **$ 30** | $ 30 |
| Accrued non-income taxes | **40** | 30 | **40** | 30 |
| Unsettled share repurchases | **38** | — | **—** | — |
| Other | **81** | 92 | **81** | 92 |
| Total other current liabilities | **$ 189** | $ 152 | **$ 151** | $ 152 |

**Supplemental Cash Flow Information**

Cash paid for interest in the six months ended July 30, 2017 and July 31, 2016 was $92 million and $161 million, respectively. During the six months ended July 30, 2017, the Company paid $4 million of original issue discounts related to the $100 million payment on Term B-1 Loans.

Cash paid for income taxes, net of refunds, in the six months ended July 30, 2017 and July 31, 2016 was approximately $10 million and $6 million, respectively.

During the six months ended July 30, 2017, HDS executed an equity cash distribution of $395 million to Holdings, via HDS's direct parent, HDS Holding Corporation. The equity distribution from HDS and return of capital recognized by Holdings were eliminated in consolidation of Holdings and its wholly-owned subsidiaries, including HDS.

On June 3, 2017, Holdings' Board of Directors authorized the Company to enter into a share repurchase program for the repurchase of up to an aggregate amount of $500 million of Holdings' common stock. As of July 30, 2017, under this plan, Holdings has repurchased 13,449,146 shares of its common stock for $421 million. In combination with the 2014 authorized share repurchase plan, Holdings has repurchased a total of 14,267,923 shares of its common stock during the first six months of fiscal 2017 for $452 million, of which $38 million remain unsettled as of July 30, 2017.

See "Note 13 — Subsequent Events" for additional information regarding the Company's share repurchase programs.

**Significant Non-Cash Transactions**

During the six months ended July 30, 2017, Holdings retired 611,433 shares of its common stock ("Retired Shares") held as treasury shares by Holdings in the amount of $23 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.

*Build-to-Suit Lease*

On February 4, 2016, the Company entered into a build-to-suit arrangement for a leadership development and headquarters facility in Atlanta, Georgia, which began construction in 2016. The lease commences upon completion of construction which is anticipated to be early 2018.

In accordance with ASC 850, "Leases," for build-to-suit arrangements where the Company is involved in the construction of structural improvements prior to the commencement of the lease or takes some level of construction risk, the Company is considered the owner of the assets and land during the construction period. Accordingly, during construction activities, the Company recorded a Construction in progress asset within Property and equipment and a corresponding financing liability on the Consolidated Balance Sheet for contributions by the landlord toward construction. Once the construction is completed, if the lease meets certain "sales-leaseback" criteria, the Company will remove the asset and related financial obligation from the Consolidated Balance Sheet and treat the building lease as an operating lease. If upon completion of construction, the lease does not meet the "sales-leaseback" criteria, the leased property will be treated as a capital lease and included in Property and equipment on the Consolidated Balance Sheet. As of July 30, 2017, the Consolidated Balance Sheet includes $35 million of build-to-suit assets in Construction in progress, and the corresponding financial obligation of $35 million in Other long-term liabilities in the Consolidated Balance Sheet.

## NOTE 8—RESTRUCTURING ACTIVITIES

As a result of the sale of the Power Solutions business unit in fiscal 2015, 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. During the six months ended July 31, 2016, the Company incurred $11 million of restructuring charges under this plan. The Company completed the activities under this plan in fiscal 2016 and does not expect to incur any additional charges. As of July 30, 2017 and January 29, 2017, the Company's liability balance for these restructuring activities was $2 million and $4 million respectively, and is included in Other current liabilities in the Consolidated Balance Sheets. Payments for these charges are expected to be substantially complete by the end of fiscal 2017.

## NOTE 9 — COMMITMENTS AND CONTINGENCIES

### Legal Matters

On July 10, 2017, a putative class action complaint was filed in the U.S. District Court for the Northern District of Georgia by The City of Hollywood Police Officers' Retirement System (the "Retirement System complaint") against HD Supply and certain senior members of its management (collectively, the "defendants"). On August 8, 2017, a second class action complaint was filed in the U.S. District Court for the Northern District of Georgia by Obioma Ebisike (the "Ebisike complaint" and together with the Retirement System complaint, the "complaints") against the defendants. The complaints are brought individually on behalf of all persons other than defendants who purchased or otherwise acquired Company securities between November 9, 2016 and June 5, 2017. The complaints generally allege that the defendants engaged in a fraudulent scheme to inflate the Company's stock price by making materially false and misleading statements about the Company's business, operational, and compliance policies that allegedly failed to disclose: (1) that the Company's full year 2017 growth and operational leverage targets were unattainable; (2) the operational recovery of the Company's Facilities Maintenance business unit's supply chain was not going according to plan; and (3) the Company was exploring the sale of its Waterworks business unit. The complaints assert claims against the defendants under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and SEC Rule 10b-5, and they seek (1) class certification under the Federal Rules of Civil Procedure, (2) damages in an amount to be proven at trial, (3) pre-judgment and post-judgment interest, and (4) attorneys' fees and other costs.

On August 8, 2017, two shareholder derivative complaints were filed (one by Sean Zhou and another by James Calderaro) against the Company (the "nominal defendant") and certain members of its senior management and board of directors (collectively, the "individual defendants"). The complaints generally allege that the individual defendants caused the Company to issue false and misleading statements concerning the Company's business, operations, and financial prospects, including misrepresentations regarding operating leverage and supply chain corrective actions, while failing to disclose: (1) that the Company's growth and operating leverage targets for full year 2017 were unattainable; (2) the operational recovery of the Company's Facilities Maintenance business unit's supply chain was not progressing as expected and would require substantial additional investment; and (3) the Company was preparing to sell its Waterworks business unit. The complaints assert claims against the individual defendants under Section 14(a) of the Securities Exchange Act of 1934, allege breaches of fiduciary duties, and assert claims under theories of unjust enrichment, corporate waste, and insider selling. The complaints assert a claim to recover any damages sustained by the Company as a result of the individual defendants' actions, ask that the Company take certain actions to reform and improve its corporate governance and internal procedures, seek restitution on behalf of the Company, and seek to recover attorneys' fees and other costs.

The Company intends to defend these lawsuits vigorously. Given the stage of the complaints and the claims and issues presented in the above matters, the Company cannot reasonably estimate at this time the possible loss or range of loss, if any, that may arise from these unresolved lawsuits.

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 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 $10 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 two 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.

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

In addition to the reportable segments, the Company's consolidated financial results include ''Corporate.'' Corporate includes costs related to the Company's centralized support functions, which are comprised of finance, information technology, human resources, legal, supply chain and other support services, and removes inter-segment transactions.

See "Note 2 — Discontinued Operations" for further information on the sale of the Waterworks business.

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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 | Construction & Industrial | Corporate | Total Continuing Operations |
|---|---|---|---|---|
| **Three Months Ended July 30, 2017** | | | | |
| Net sales | **$ 769** | **$ 584** | **$ (1)** | **$ 1,352** |
| Adjusted EBITDA | **156** | **69** | **(17)** | **208** |
| Depreciation(1) & Software Amortization | **5** | **9** | **5** | **19** |
| Other Intangible Amortization | **2** | **—** | **1** | **3** |
| **Three Months Ended July 31, 2016** | | | | |
| Net sales | $ 741 | $ 544 | $ (2) | $ 1,283 |
| Adjusted EBITDA | 151 | 68 | (16) | 203 |
| Depreciation(1) & Software Amortization | 7 | 9 | 4 | 20 |
| Other Intangible Amortization | 2 | — | 1 | 3 |
| **Six Months Ended July 30, 2017** | | | | |
| Net sales | **$ 1,451** | **$ 1,120** | **$ (3)** | **$ 2,568** |
| Adjusted EBITDA | **273** | **124** | **(32)** | **365** |
| Depreciation(1) & Software Amortization | **12** | **18** | **8** | **38** |
| Other Intangible Amortization | **3** | **—** | **3** | **6** |
| **Six Months Ended July 31, 2016** | | | | |
| Net sales | $ 1,418 | $ 1,045 | $ (4) | $ 2,459 |
| Adjusted EBITDA | 285 | 117 | (32) | 370 |
| Depreciation(1) & Software Amortization | 15 | 17 | 6 | 38 |
| Other Intangible Amortization | 3 | — | 3 | 6 |

*(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 30, 2017 | July 31, 2016 | July 30, 2017 | July 31, 2016 |
| **Total Adjusted EBITDA** | **$ 208** | $ 203 | **$ 365** | $ 370 |
| Depreciation and amortization(1) | **22** | 23 | **44** | 44 |
| Stock-based compensation | **6** | 5 | **12** | 11 |
| Restructuring | **—** | 4 | **—** | 11 |
| **Operating income** | **180** | 171 | **309** | 304 |
| Interest expense, net | **49** | 69 | **98** | 154 |
| Loss on extinguishment of debt(2) | **—** | — | **3** | 115 |
| **Income from Continuing Operations Before Provision for Income Taxes** | **131** | 102 | **208** | 35 |
| Provision for income taxes | **50** | 41 | **69** | 15 |
| **Income from continuing operations** | **81** | 61 | **139** | 20 |
| Income from discontinued operations, net of tax | **361** | 37 | **388** | 64 |
| **Net income** | **$ 442** | $ 98 | **$ 527** | $ 84 |

*(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 write-off of unamortized deferred financing costs, original issue discount, and other assets or liabilities associated with such debt.*

## NOTE 11—SUBSIDIARY GUARANTORS

HDS (the "Debt Issuer") has outstanding December 2014 First Priority 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 (the "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;

(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 consolidating statements of operations and comprehensive income (loss), the condensed consolidating balance sheets and the condensed consolidating cash flow statements for the Debt Issuer, for the Subsidiary Guarantors and the Non-guarantor Subsidiaries and total consolidated amount for the Debt Issuer and subsidiaries (amounts in millions).

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**CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)**

| | Three Months Ended July 30, 2017 | | | | |
|---|---|---|---|---|---|
| | Debt Issuer | Subsidiary Guarantors | Non-Guarantor Subsidiaries | Eliminations | Total HDS |
| **Net Sales** | $ — | $ 1,316 | **$ 36** | $ — | **$ 1,352** |
| Cost of sales | — | 793 | 20 | — | 813 |
| **Gross Profit** | — | 523 | **16** | — | **539** |
| Operating expenses: | | | | | |
| Selling, general and administrative | 21 | 304 | 13 | — | 338 |
| Depreciation and amortization | 3 | 17 | 1 | — | 21 |
| Total operating expenses | 24 | 321 | 14 | — | 359 |
| **Operating Income (Loss)** | **(24)** | **202** | **2** | — | **180** |
| Interest expense | 56 | 31 | 1 | (39) | 49 |
| Interest (income) | (32) | (7) | — | 39 | — |
| Net (earnings) loss of equity affiliates | (239) | — | — | 239 | — |
| **Income (Loss) from Continuing Operations Before Provision (Benefit) for Income Taxes** | 191 | 178 | 1 | (239) | 131 |
| Provision for income taxes | 48 | 1 | 1 | — | 50 |
| **Income (Loss) from Continuing Operations** | **143** | **177** | — | **(239)** | **81** |
| Income (loss) from discontinued operations, net of tax | **299** | 61 | **1** | — | 361 |
| **Net Income (Loss)** | **$ 442** | **$ 238** | **$ 1** | **$ (239)** | **$ 442** |
| Other comprehensive income (loss)—foreign currency translation adjustment | (3) | — | (3) | 3 | (3) |
| **Total Comprehensive Income (Loss)** | **$ 439** | **$ 238** | **$ (2)** | **$ (236)** | **$ 439** |

| | Three Months Ended July 31, 2016 | | | | |
|---|---|---|---|---|---|
| | Debt Issuer | Subsidiary Guarantors | Non-Guarantor Subsidiaries | Eliminations | Total HDS |
| **Net Sales** | $ — | **$ 1,251** | **$ 33** | **$ (1)** | **$ 1,283** |
| Cost of sales | — | 753 | 18 | (1) | 770 |
| **Gross Profit** | — | **498** | **15** | — | **513** |
| Operating expenses: | | | | | |
| Selling, general and administrative | 21 | 285 | 11 | — | 317 |
| Depreciation and amortization | 3 | 17 | 1 | — | 21 |
| Restructuring | 1 | 3 | — | — | 4 |
| Total operating expenses | 25 | 305 | 12 | — | 342 |
| **Operating Income (Loss)** | **(25)** | **193** | **3** | — | **171** |
| Interest expense | 72 | 35 | — | (38) | 69 |
| Interest (income) | (34) | (4) | — | 38 | — |
| Net (earnings) loss of equity affiliates | (200) | — | — | 200 | — |
| **Income (Loss) from Continuing Operations Before Provision (Benefit) for Income Taxes** | 137 | 162 | 3 | (200) | 102 |
| Provision for income taxes | 38 | 1 | 2 | — | 41 |
| **Income (Loss) from Continuing Operations** | **99** | **161** | **1** | **(200)** | **61** |
| Income (loss) from discontinued operations, net of tax | (1) | 38 | — | — | 37 |
| **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** |

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**CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)** (CONTINUED)

| | Six Months Ended July 30, 2017 | | | | |
|---|---|---|---|---|---|
| | Debt Issuer | Subsidiary Guarantors | Non-Guarantor Subsidiaries | Eliminations | Total HDS |
| **Net Sales** | $ — | $ 2,501 | **$ 68** | **$ (1)** | **$ 2,568** |
| Cost of sales | — | 1,509 | 37 | (1) | 1,545 |
| **Gross Profit** | — | 992 | **31** | — | **1,023** |
| Operating expenses: | | | | | |
| Selling, general and administrative | 42 | 605 | 25 | — | 672 |
| Depreciation and amortization | 7 | 34 | 1 | — | 42 |
| Total operating expenses | 49 | 639 | 26 | — | 714 |
| **Operating Income (Loss)** | **(49)** | **353** | **5** | — | **309** |
| Interest expense | 112 | 66 | 1 | (81) | 98 |
| Interest (income) | (66) | (15) | — | 81 | — |
| Net (earnings) loss of equity affiliates | (394) | — | — | 394 | — |
| Loss on extinguishment of debt | 3 | — | — | — | 3 |
| **Income (Loss) from Continuing Operations Before Provision (Benefit) for Income Taxes** | 296 | 302 | 4 | (394) | 208 |
| Provision (benefit) for income taxes | 66 | 2 | 1 | — | 69 |
| **Income (Loss) from Continuing Operations** | **230** | **300** | **3** | **(394)** | **139** |
| Income (loss) from discontinued operations, net of tax | 297 | 91 | — | — | 388 |
| **Net Income (Loss)** | **$ 527** | **$ 391** | **$ 3** | **$ (394)** | **$ 527** |
| Other comprehensive income (loss)—foreign currency translation adjustment | (2) | — | (2) | 2 | (2) |
| **Total Comprehensive Income (Loss)** | **$ 525** | **$ 391** | **$ 1** | **$ (392)** | **$ 525** |

| | Six Months Ended July 31, 2016 | | | | |
|---|---|---|---|---|---|
| | Debt Issuer | Subsidiary Guarantors | Non-Guarantor Subsidiaries | Eliminations | Total HDS |
| **Net Sales** | $ — | **$ 2,398** | **$ 62** | **$ (1)** | **$ 2,459** |
| Cost of sales | — | 1,444 | 34 | (1) | 1,477 |
| **Gross Profit** | — | **954** | **28** | — | **982** |
| Operating expenses: | | | | | |
| Selling, general and administrative | 41 | 562 | 22 | — | 625 |
| Depreciation and amortization | 6 | 35 | 1 | — | 42 |
| Restructuring | 2 | 9 | — | — | 11 |
| Total operating expenses | 49 | 606 | 23 | — | 678 |
| **Operating Income (Loss)** | **(49)** | **348** | **5** | — | **304** |
| Interest expense | 161 | 70 | — | (77) | 154 |
| Interest (income) | (69) | (8) | — | 77 | — |
| Net (earnings) loss of equity affiliates | (345) | — | — | 345 | — |
| Loss on extinguishment of debt | 115 | — | — | — | 115 |
| **Income (Loss) from Continuing Operations Before Provision (Benefit) for Income Taxes** | 89 | 286 | 5 | (345) | 35 |
| Provision (benefit) for income taxes | 12 | 1 | 2 | — | 15 |
| **Income (Loss) from Continuing Operations** | **77** | **285** | **3** | **(345)** | **20** |
| Income (loss) from discontinued operations, net of tax | 7 | 57 | — | — | 64 |
| **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** |

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**CONDENSED CONSOLIDATING BALANCE SHEETS**

| | As of July 30, 2017 | | | | |
|---|---|---|---|---|---|
| | Debt Issuer | Subsidiary Guarantors | Non-Guarantor Subsidiaries | Eliminations | Total HDS |
| **ASSETS** | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | $ 32 | $ 17 | $ 6 | $ — | $ 55 |
| Receivables, net | 2 | 669 | 22 | — | 693 |
| Inventories | — | 670 | 20 | — | 690 |
| Intercompany receivables | — | 1 | — | (1) | — |
| Current assets of discontinued operations | — | 752 | — | — | 752 |
| Other current assets | 11 | 21 | 1 | — | 33 |
| Total current assets | 45 | 2,130 | 49 | (1) | 2,223 |
| Property and equipment, net | 89 | 174 | 3 | — | 266 |
| Goodwill | — | 1,807 | — | — | 1,807 |
| Intangible assets, net | — | 95 | 1 | — | 96 |
| Deferred tax asset | 951 | — | 2 | (96) | 857 |
| Non-current assets of discontinued operations | — | 1,120 | — | — | 1.120 |
| Investment in subsidiaries | 4,289 | — | — | (4,289) | — |
| Intercompany notes receivable | 1,005 | 1,032 | — | (2,037) | — |
| Other assets | 19 | 4 | — | — | 23 |
| **Total assets** | **$ 6,398** | **$ 6,362** | **$ 55** | **$ (6,423)** | **$ 6,392** |
| **LIABILITIES AND STOCKHOLDER'S EQUITY (DEFICIT)** | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | $ 12 | $ 428 | $ 14 | $ — | $ 454 |
| Accrued compensation and benefits | 30 | 50 | 3 | — | 83 |
| Current installments of long-term debt | 14 | — | — | — | 14 |
| Intercompany payables | — | — | 1 | (1) | — |
| Current liabilities of discontinued operations | 2 | 352 | — | — | 354 |
| Other current liabilities | 52 | 91 | 8 | — | 151 |
| Total current liabilities | 110 | 921 | 26 | (1) | 1,056 |
| Long-term debt, excluding current installments | 3,976 | — | 62 | — | 4,038 |
| Deferred tax liabilities | — | 96 | — | (96) | — |
| Non-current liabilities of discontinued operations | 41 | — | — | — | 41 |
| Intercompany notes payable | 1,032 | 1,005 | — | (2,037) | — |
| Other liabilities | 82 | 17 | 1 | — | 100 |
| **Total liabilities** | **5,241** | **2,039** | **89** | **(2,134)** | **5,235** |
| **Stockholder's equity (deficit)** | 1,157 | 4,323 | (34) | (4,289) | 1,157 |
| **Total liabilities and stockholder's equity (deficit)** | **$ 6,398** | **$ 6,362** | **$ 55** | **$ (6,423)** | **$ 6,392** |

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**CONDENSED CONSOLIDATING BALANCE SHEETS (CONTINUED)**

| | As of January 29, 2017 | | | | |
|---|---|---|---|---|---|
| | Debt Issuer | Subsidiary Guarantors | Non-Guarantor Subsidiaries | Eliminations | Total HDS |
| **ASSETS** | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | $ 51 | $ 17 | $ 5 | $ — | $ 73 |
| Receivables, net | 3 | 540 | 16 | — | 559 |
| Inventories | — | 588 | 18 | — | 606 |
| Intercompany receivables | — | 1 | — | (1) | — |
| Current assets of discontinued operations | — | 575 | — | — | 575 |
| Other current assets | 13 | 17 | 2 | — | 32 |
| Total current assets | 67 | 1,738 | 41 | (1) | 1,845 |
| Property and equipment, net | 76 | 175 | 2 | — | 253 |
| Goodwill | — | 1,807 | — | — | 1,807 |
| Intangible assets, net | — | 101 | 1 | — | 102 |
| Deferred tax asset | 681 | — | 2 | (127) | 556 |
| Non-current assets of discontinued operations | — | 1,122 | — | — | 1,122 |
| Investment in subsidiaries | 2,451 | — | — | (2,451) | — |
| Intercompany notes receivable | 2,192 | 584 | — | (2,776) | — |
| Other assets | 16 | 4 | — | — | 20 |
| **Total assets** | **$ 5,483** | **$ 5,531** | **$ 46** | **$ (5,355)** | **$ 5,705** |
| **LIABILITIES AND STOCKHOLDER'S EQUITY (DEFICIT)** | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | $ 13 | $ 296 | $ 11 | $ — | $ 320 |
| Accrued compensation and benefits | 36 | 60 | 2 | — | 98 |
| Current installments of long-term debt | 14 | — | — | — | 14 |
| Intercompany payables | — | — | 1 | (1) | — |
| Current liabilities of discontinued operations | 2 | 257 | — | — | 259 |
| Other current liabilities | 52 | 94 | 6 | — | 152 |
| Total current liabilities | 117 | 707 | 20 | (1) | 843 |
| Long-term debt, excluding current installments | 3,737 | — | 61 | — | 3,798 |
| Deferred tax liabilities | — | 127 | — | (127) | — |
| Non-current liabilities of discontinued operations | 20 | — | — | — | 20 |
| Intercompany notes payable | 584 | 2,192 | — | (2,776) | — |
| Other liabilities | 67 | 17 | 2 | — | 86 |
| **Total liabilities** | **4,525** | **3,043** | **83** | **(2,904)** | **4,747** |
| **Stockholder's equity (deficit)** | 958 | 2,488 | (37) | (2,451) | 958 |
| **Total liabilities and stockholder's equity (deficit)** | **$ 5,483** | **$ 5,531** | **$ 46** | **$ (5,355)** | **$ 5,705** |

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**CONDENSED CONSOLIDATING CASH FLOW STATEMENTS**

| | Six Months Ended July 30, 2017 | | | | |
|---|---|---|---|---|---|
| | Debt Issuer | Subsidiary Guarantors | Non-Guarantor Subsidiaries | Eliminations | Total HDS |
| **Net cash flows from operating activities** | **$ 227** | **$ (41)** | **$ 3** | **$ —** | **$ 189** |
| Cash flows from investing activities | | | | | |
| Capital expenditures | (9) | (34) | — | — | (43) |
| Proceeds from sales of property and equipment | — | 2 | — | — | 2 |
| Proceeds from (payments of) intercompany notes | — | 73 | — | (73) | — |
| **Net cash flows from investing activities** | **$ (9)** | **$ 41** | **$ —** | **$ (73)** | **$ (41)** |
| Cash flows from financing activities | | | | | |
| Equity distribution | (395) | — | — | — | (395) |
| Borrowings of (repayments of) intercompany notes | (73) | — | — | 73 | — |
| Repayments of long-term debt | (103) | — | — | — | (103) |
| Borrowings on long-term revolver debt | 596 | — | 3 | — | 599 |
| Repayments on long-term revolver debt | (256) | — | (5) | — | (261) |
| Debt issuance costs | (6) | — | — | — | (6) |
| **Net cash flows from financing activities** | **(237)** | **—** | **(2)** | **73** | **(166)** |
| Effect of exchange rates on cash | — | — | — | — | — |
| **Net increase (decrease) in cash & cash equivalents** | **$ (19)** | **$ —** | **$ 1** | **$ —** | **$ (18)** |
| Cash and cash equivalents at beginning of period | 51 | 17 | 5 | — | 73 |
| **Cash and cash equivalents at end of period** | **$ 32** | **$ 17** | **$ 6** | **$ —** | **$ 55** |

| | 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 sales of businesses, net | 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) | — | — | (1) |
| **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** |

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**NOTE 12—RECENT ACCOUNTING PRONOUNCEMENTS**

*Stock Compensation* — In May 2017, the Financial Accounting Standards Board ("FASB") issued ASU No. 2017-09, "Compensation — Stock Compensation (Topic 718): Scope of Modification Accounting" ("ASU 2017-09"). The amendments in this update provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. The ASU is effective for annual and interim periods beginning after December 15, 2017. Early adoption is permitted. The amendments in this update should be applied prospectively to an award modified on or after the adoption date. The Company is currently evaluating the impact of adopting of ASU 2017-09.

*Goodwill* — In January 2017, the FASB issued ASU No. 2017-04, "Intangibles — Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment" ("ASU 2017-04"). The new guidance eliminates the requirement to calculate the implied fair value of goodwill to measure a goodwill impairment charge. Instead, entities will record an impairment charge based on the excess of a reporting unit's carrying amount over its fair value. The ASU is effective for annual and interim impairment tests performed in periods beginning after December 15, 2019. Early adoption is permitted for annual and interim goodwill impairment testing dates after January 1, 2017. The amendments in this update should be applied on a prospective basis. The adoption of ASU 2017-04 is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

*Statement of Cash Flows* — In November 2016, the FASB issued ASU No. 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash" ("ASU 2016-18"). The new guidance is intended to reduce diversity in practice by adding or clarifying guidance on classification and presentation of changes in restricted cash on the statement of cash flows. ASU 2016-18 is effective for annual and interim periods beginning after December 15, 2017. Early adoption is permitted. The amendments in this update should be applied retrospectively to all periods presented. On a prospective basis, the ASU will only impact the Company to the extent it has restricted cash.

*Income Taxes* — In October 2016, the FASB issued ASU No. 2016-16, "Income Taxes (Topic 740): Intra-entity Transfers of Assets Other than Inventory" ("ASU 2016-16"). The new guidance is intended to improve the accounting for intra-entity transfers of assets other than inventory by requiring recognition of income tax consequences of intra-entity transfers of assets other than inventory when the transfer occurs. ASU 2016-16 is effective for annual and interim periods beginning after December 15, 2017. Early adoption is permitted. The amendments in this update should be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The adoption of ASU 2016-16 is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

*Statement of Cash Flows* — In August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows (Topic 230): Clarification of Certain Cash Receipts and Cash Payments" ("ASU 2016-15"). The new guidance is intended to reduce diversity in practice related to certain cash receipts and payments in the statement of cash flows by adding or clarifying guidance on eight specific cash flow issues. ASU 2016-15 is effective for annual and interim periods beginning after December 15, 2017. Early adoption is permitted. The amendments in this update should be applied retrospectively to all periods presented, unless deemed impracticable, in which case, prospective application is permitted. The adoption of ASU 2016-15 is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

*Stock Compensation* — In March 2016, the FASB issued 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.

The Company adopted the guidance from this amendment on January 30, 2017 (the first day of fiscal 2017) recording a $56 million cumulative-effect adjustment to retained earnings in order to recognize a deferred tax asset on the excess deduction for stock option exercises over the expense recorded for book purposes. Beginning

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in the first quarter of fiscal 2017, the impact to the Company will be through a credit or charge to the tax provision reflecting the difference between the amount deductible for tax purposes and the amount expensed for book purposes as options are exercised.

*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 annual and interim periods, beginning after December 15, 2016. The Company adopted this guidance on January 30, 2017 (the first day of fiscal 2017) with no material impact on the Company's financial position, results of operations or cash flows.

*Revenue recognition* — In May 2014, the FASB issued ASU No. 2014-09, "Revenue from contracts with customers" ("ASU 2014-09"), amended by ASU 2016-10, "Revenue from contracts with customers (Topic 606): Identifying Performance Obligations and Licensing," ASU 2016-12, "Revenue from contracts with customers (Topic 606): Narrow-Scope Improvements and Practical Expedients," and ASU 2016-20, "Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers." 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." The update requires significant additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgements. 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, and a permission to early adopt for annual and interim periods beginning after December 15, 2016.

The Company has performed a review of the new revenue standard and is monitoring the activity of the FASB and the transition resource group as it relates to specific interpretative guidance. The Company is reviewing customer contracts and is in the process of applying the five-step model of the new standard to each contract category identified and will compare the results to current accounting practice. The Company plans to adopt ASU 2014-09, as well as other clarifications and technical guidance issued by the FASB related to this new revenue standard on January 29, 2018 (the first day of fiscal 2018). The Company has not yet determined whether it will adopt the provisions of ASU 2014-09 on a retrospective basis or through a cumulative adjustment to equity.

The new standard could change the amount and timing of revenue and costs under certain arrangement types and could increase the administrative burden on Company operations to properly account for customer contracts and provide the more expansive required disclosures. The Company is currently evaluating the impact of adopting ASU 2014-09, but has not yet determined what effect, if any, the new guidance will have on its financial position, results of operations or cash flows.

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**NOTE 13—SUBSEQUENT EVENTS**

*Sale of the Waterworks Business*

On August 1, 2017, the Company completed the sale of its Waterworks business for gross cash proceeds of $2,500 million, subject to a post-closing working capital adjustment. The Company expects to pay approximately $40 million of transaction costs and recognize a pre-tax gain of approximately $925 million. In connection with the pending sale, the Company recorded a $323 million net deferred tax asset and corresponding tax benefit in discontinued operations during the second quarter of fiscal 2017 in order to recognize the outside basis difference in the Waterworks investment. The Company expects to recognize tax expense of approximately $520 million in discontinued operations in third quarter fiscal 2017 related to the sale of the Waterworks business, which includes an expense of $323 million related to utilizing the deferred tax asset associated with the outside basis difference in the Waterworks corporate subsidiary recorded as an income tax benefit in the second quarter in discontinued operations. The Company estimates that it will utilize approximately $280 million of tax-effected Federal and state net operating loss carryforwards as a result of the sale of the Waterworks business. For additional information, please see “Note 2 — Discontinued Operations.”

*Repayment of the Senior ABL Facility*

On August 1, 2017, HDS repaid all of the outstanding U.S. borrowings on its Senior ABL Facility. Canadian borrowings of $62 million on the Senior ABL Facility remain outstanding.

*Amendment of the April 2016 Senior Unsecured Notes*

On August 25, 2017, HDS entered into the Second Supplemental Indenture (the “Second Supplemental Indenture”) which amends and supplements the Indenture, dated as of April 11, 2016, as amended and supplemented by the First Supplemental Indenture, dated as of April 11, 2016 (together, the “Indenture”). The Second Supplemental Indenture effects certain Proposed Amendments (as defined below) to the Indenture pertaining to the Company’s April 2016 Senior Unsecured Notes. Holders of a majority in aggregate principal amount of the outstanding April 2016 Senior Unsecured Notes consented to the Proposed Amendments.

The Proposed Amendments (a) amend the definition of “Permitted Payments” contained in the Indenture to permit an additional category of Permitted Payments permitting Restricted Payments (as defined in the Indenture) at any time in an aggregate amount not to exceed (x) $500,000,000 and (y) thereafter, upon full use of such capacity set forth in clause (x), an additional amount, if any, such that, after giving pro forma effect to such Restricted Payment, the Company’s consolidated leverage ratio does not exceed 3.00 to 1.00; (b) increase the interest rate for the April 2016 Senior Unsecured Notes to 7.00% per annum commencing April 15, 2019, to the extent the April 2016 Senior Unsecured Notes remain outstanding after April 15, 2019; (c) amend the definition of “Net Available Cash” contained in the Indenture to provide that proceeds from the sale of the Waterworks business unit consummated on August 1, 2017 (other than proceeds to be applied to redeem the Company’s 2021 Notes (as defined in the Second Supplemental Indenture)) shall be excluded and accordingly, the Company will not be required to apply the remaining net proceeds in accordance with the provision of the “Sale of Assets” covenant of the Indenture and (d) amend the definition of “Consolidated EBITDA” contained in the Indenture to provide that while the Company may continue to include in the calculation thereof projected cost savings, it may only do so with respect those realized as a result of actions taken or to be taken in connection with a purchase of assets from, or a sale of assets to, a third party (excluding the Waterworks Sale (as defined in the Second Supplemental Indenture)) (collectively, the “Proposed Amendments”).

As a result of entering into the Second Supplemental Indenture, the Company paid approximately $15 million in consent fees to holders of the outstanding April 2016 Senior Unsecured Notes, which will be capitalized as deferred financing costs and amortized over the expected life of the April 2016 Senior Unsecured Notes.

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*Amendment of the Term Loan Facility*

On August 31, 2017, HDS entered into a Fifth Amendment (the "Fifth Amendment") to the credit agreement governing HDS's existing Term Loan Facility. Pursuant to the Fifth Amendment, HDS amended its existing Term Loan Facility to, among other things, (i) refinance all the outstanding Term B-1 Loans with a new tranche of term loans (the "Term B-3 Loans") in an aggregate principal amount of $535 million, (ii) refinance all the outstanding Term B-2 Loans with a new tranche of term loans (the "Term B-4 Loans") in an aggregate principal amount of $546 million and (iii) amend the definition of "Permitted Payments" contained in the credit agreement to permit an additional category of Permitted Payments permitting Restricted Payments (as defined in the credit agreement) at any time in an aggregate amount not to exceed (x) $500,000,000 and (y) thereafter, upon full use of such capacity set forth in clause (x), an additional amount, if any, such that, after giving pro forma effect to such Restricted Payment, the Company's consolidated leverage ratio does not exceed 3.00 to 1.00.

The Term B-3 Loans bear interest at the applicable margin for borrowings of 2.25% for LIBOR borrowings and 1.25% for base rate borrowings. The Term B-3 Loans amortize in equal quarterly installments in aggregate annual amounts equal to 1.00% of the original principal amount and will mature on August 13, 2021.

The Term B-4 Loans bear interest at the applicable margin for borrowings of 2.50% for LIBOR borrowings and 1.50% for base rate borrowings. The Term B-4 Loans amortize in equal quarterly installments in aggregate annual amounts equal to 1.00% of the original principal amount and will mature on October 17, 2023.

The Fifth Amendment also provides for a prepayment premium equal to 1.00% of the aggregate principal amount of the applicable Term Loans being prepaid if, on or prior to March 2, 2018, the Company enters into certain repricing transactions.

In connection with the Fifth Amendment, the Company paid approximately $1 million in consent fees and expects to record a modification and extinguishment charge of approximately $3 million, which includes financing fees and other costs of approximately $1 million and approximately $2 million to write off a portion of the related unamortized discount and deferred financing costs.

*Redemption of the December 2014 First Priority Notes*

On September 1, 2017, HDS used a portion of the net proceeds from the sale of the Waterworks business to redeem all of the outstanding $1,250 million in aggregate principal amount of December 2014 First Priority Notes for an aggregate redemption price of approximately $1,325 million. The redemption price included an approximately $62 million make-whole premium calculated in accordance with terms of the 2014 indenture and $14 million of accrued but unpaid interest to the redemption date. The 2014 indenture, pursuant to which the December 2014 First Priority Notes were issued, was discharged and the liens securing the December 2014 First Priority Notes were released in accordance with the terms of the 2014 indenture. As a result of the redemption, the Company expects to record a $73 million loss on extinguishment of debt in the third quarter of fiscal 2017, which includes the $62 million make-whole premium and the write-off of $11 million of unamortized deferred financing costs, in accordance with ASC 470-50, "Debt — Modifications and Extinguishments."

*Share Repurchase Programs*

As of August 8, 2017, Holdings has completed the repurchase of all $500 million of common stock under the share repurchase program authorized in June 2017, purchasing approximately 15.9 million shares at an average price of $31.37 per share.

On August 27, 2017, Holdings' Board of Directors authorized the Company to enter into a new share repurchase program for the repurchase of up to an aggregate $500 million of Holdings' common stock in accordance with guidelines specified under Rule 10b5-1 of the Securities Exchange Act of 1934, as amended.

## 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 two distinct market sectors in which we specialize: Maintenance, Repair & Operations ("MRO") and Specialty Construction. We serve these markets with an integrated go-to-market strategy. We operate through approximately 260 locations across 36 U.S. states and six Canadian provinces. We have approximately 11,000 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 approximately 500,000 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 construction to maintenance, repair and operations.

### Description of segments

We operate our Company through two reportable segments: Facilities Maintenance and Construction & Industrial.

***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. Facilities Maintenance operates a distribution center-based model that sells its products primarily through a professional sales force, e-commerce and print catalogs.

***Construction & Industrial.*** Construction & Industrial 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. Construction & Industrial reaches customers through a nationwide network of regionally organized branches as well as print catalogs and e-commerce. Construction & Industrial also includes 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 through local retail outlets.

In addition to the reportable segments, our consolidated financial results include ''Corporate.'' Corporate 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.

### Discontinued operations

On August 1, 2017, the Company completed the sale of its Waterworks business. For additional information on the sale of the Waterworks business, see "Note 13 — Subsequent Events," in the Notes to Consolidated Financial Statements within Item 1 of this quarterly report on Form 10-Q.

On May 31, 2016, the Company completed the sale of its Interior Solutions business.

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 (Loss). 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 28, 2018 (“fiscal 2017”) and January 29, 2017 (“fiscal 2016”) both include 52 weeks. The three months ended July 30, 2017 (“second quarter 2017) and July 31, 2016 (“second quarter 2016”) both include 13 weeks. The six months ended July 30, 2017 and July 31, 2016 both include 26 weeks.

**Key business metrics**

***Net sales***

We earn our Net sales primarily from the sale of construction, 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 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.

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.

***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 Senior Credit Facilities 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 (a) $100 million and (b) 10% of the lesser of (i) the borrowing base and (ii) 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, and (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 Senior Credit Facilities. 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 29, 2017.

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.

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 30, 2017 | July 31, 2016 | July 30, 2017 | July 31, 2016 |
| **Net income** | **$ 442** | $ 98 | **$ 527** | $ 84 |
| Less income from discontinued operations, net of tax | **361** | 37 | **388** | 64 |
| **Income from continuing operations** | **81** | 61 | **139** | 20 |
| Interest expense | **49** | 69 | **98** | 154 |
| Provision for income taxes | **50** | 41 | **69** | 15 |
| Depreciation and amortization (1) | **22** | 23 | **44** | 44 |
| Loss on extinguishment of debt (2) | **—** | — | **3** | 115 |
| Restructuring charges (3) | **—** | 4 | **—** | 11 |
| Stock-based compensation | **6** | 5 | **12** | 11 |
| **Adjusted EBITDA** | **$ 208** | $ 203 | **$ 365** | $ 370 |

*(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 write-off of unamortized deferred financing costs, original issue discount, 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.*

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 30, 2017 | July 31, 2016 | July 30, 2017 | July 31, 2016 |
| **Net income** | **$ 442** | $ 98 | **$ 527** | $ 84 |
| Less income from discontinued operations, net of tax | **361** | 37 | **388** | 64 |
| **Income from continuing operations** | **81** | 61 | **139** | 20 |
| Plus: Provision for income taxes | **50** | 41 | **69** | 15 |
| Less: Cash income taxes | **(7)** | (5) | **(10)** | (6) |
| Plus: Amortization of acquisition-related intangible assets (other than software) | **3** | 3 | **6** | 6 |
| Plus: Loss on extinguishment of debt (1) | **—** | — | **3** | 115 |
| Plus: Restructuring charges (2) | **—** | 4 | **—** | 11 |
| **Adjusted Net Income** | **$ 127** | $ 104 | **$ 207** | $ 161 |

*(1) Represents the loss on extinguishment of debt including the write-off of unamortized deferred financing costs, original issue discount, and other assets or liabilities associated with such debt.*

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

**Consolidated results of operations**

| Dollars in millions | Three Months Ended July 30, 2017 | Three Months Ended July 31, 2016 | Percentage Increase (Decrease) | Six Months Ended July 30, 2017 | Six Months Ended July 31, 2016 | Percentage Increase (Decrease) |
|---|---|---|---|---|---|---|
| **Net sales** | **$ 1,352** | $ 1,283 | 5.4% | **$ 2,568** | $ 2,459 | 4.4% |
| **Gross Profit** | **539** | 513 | 5.1 | **1,023** | 982 | 4.2 |
| Operating expenses: | | | | | | |
| Selling, general and administrative | **338** | 317 | 6.6 | **672** | 625 | 7.5 |
| Depreciation and amortization | **21** | 21 | * | **42** | 42 | * |
| Restructuring Charges | **—** | 4 | * | **—** | 11 | * |
| Total operating expenses | **359** | 342 | 5.0 | **714** | 678 | 5.3 |
| **Operating Income** | **180** | 171 | 5.3 | **309** | 304 | 1.6 |
| Interest expense | **49** | 69 | (29.0) | **98** | 154 | (36.4) |
| Loss on extinguishment of debt | **—** | — | * | **3** | 115 | (97.4) |
| **Income from Continuing Operations Before Provision for Income Taxes** | **131** | 102 | 28.4 | **208** | 35 | * |
| Provision for income taxes | **50** | 41 | 22.0 | **69** | 15 | * |
| **Income from Continuing Operations** | **81** | 61 | 32.8 | **139** | 20 | * |
| Income from discontinued operations, net of tax | **361** | 37 | * | **388** | 64 | * |
| **Net Income** | **$ 442** | $ 98 | * | **$ 527** | $ 84 | * |
| **Non-GAAP financial data:** | | | | | | |
| Adjusted EBITDA | **$ 208** | $ 203 | 2.5 | **$ 365** | $ 370 | (1.4) |
| Adjusted net income | **$ 127** | $ 104 | 22.1 | **$ 207** | $ 161 | 28.6 |

* *Not meaningful*

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| | % of Net Sales Three Months Ended July 30, 2017 | % of Net Sales Three Months Ended July 31, 2016 | Basis Point Increase (Decrease) | % of Net Sales Six Months Ended July 30, 2017 | % of Net Sales Six Months Ended July 31, 2016 | Basis Point Increase (Decrease) |
|---|---|---|---|---|---|---|
| **Net sales** | **100.0%** | 100.0% | — | **100.0%** | 100.0% | — |
| **Gross Profit** | **39.9** | 40.0 | (10) | **39.8** | 39.9 | (10) |
| Operating expenses: | | | | | | |
| Selling, general and administrative | **25.0** | 24.8 | 20 | **26.2** | 25.4 | 80 |
| Depreciation and amortization | **1.6** | 1.6 | — | **1.6** | 1.7 | (10) |
| Restructuring Charges | **—** | 0.3 | * | **—** | 0.4 | * |
| Total operating expenses | **26.6** | 26.7 | (10) | **27.8** | 27.5 | 30 |
| **Operating Income** | **13.3** | 13.3 | — | **12.0** | 12.4 | (40) |
| Interest expense | **3.6** | 5.4 | (180) | **3.8** | 6.3 | (250) |
| Loss on extinguishment of debt | **—** | — | * | **0.1** | 4.7 | * |
| **Income from Continuing Operations Before Provision for Income Taxes** | **9.7** | 7.9 | 180 | **8.1** | 1.4 | * |
| Provision for income taxes | **3.7** | 3.1 | 60 | **2.7** | 0.6 | * |
| **Income from Continuing Operations** | **6.0** | 4.8 | 120 | **5.4** | 0.8 | * |
| Income from discontinued operations, net of tax | **26.7** | 2.9 | * | **15.1** | 2.6 | * |
| **Net Income** | **32.7** | 7.7 | * | **20.5** | 3.4 | * |
| **Non-GAAP financial data:** | | | | | | |
| Adjusted EBITDA | **15.4** | 15.8 | (40) | **14.2** | 15.0 | (80) |
| Adjusted net income | **9.4** | 8.1 | 130 | **8.1** | 6.5 | 160 |

* *Not meaningful*

*Highlights*

Net sales in second quarter 2017 increased $69 million, or 5.4%, as compared to second quarter 2016. Both of our reportable segments delivered increases in Net sales. Operating income in second quarter 2017 increased $9 million, or 5.3%, as compared to second quarter 2016. Net income in second quarter 2017 increased $344 million to $442 million as compared to $98 million in second quarter 2016 due primarily to a $323 million tax benefit recorded as a result of the sale of the Waterworks business. Adjusted EBITDA in second quarter 2017 increased $5 million, or 2.5%, as compared to second quarter 2016. Adjusted net income in second quarter 2017 increased $23 million, or 22.1%, as compared to second quarter 2016 due primarily to a decline in interest expense as a result of a lower effective interest rate and lower outstanding debt balances. As of July 30, 2017, our total liquidity was $590 million. See “Liquidity and Capital Resources — External Financing” for further information.

*Net sales*

Net sales in second quarter 2017 increased $69 million, or 5.4%, compared to second quarter 2016 and $109 million, or 4.4%, in the first six months of fiscal 2017 as compared to the same period in fiscal 2016.

Both of our reportable segments delivered an increase in Net sales in second quarter 2017 and in the first six months of fiscal 2017 as compared to the same periods in fiscal 2016. The Net sales increases were primarily due to increases in market volume and growth initiatives at both of our businesses. Growth initiatives contributed approximately $36 million and $44 million in second quarter 2017 and the first six months of fiscal 2017, respectively.

*Gross profit*

Gross profit increased $26 million, or 5.1%, during second quarter 2017 as compared to second quarter 2016 and $41 million, or 4.2%, during the first six months of fiscal 2017 as compared to the same period in fiscal 2016.

Both of our reportable segments delivered an increase in Gross profit primarily due to sales growth from increased market volume and initiatives.

Gross profit as a percentage of Net sales ("gross margin") decreased approximately 10 basis points to 39.9% in second quarter 2017 as compared to 40.0% in second quarter 2016 and approximately 10 basis points to 39.8% in the first six months of fiscal 2017 as compared to 39.9% in the same period in fiscal 2016. The decline in gross margin in both periods was primarily driven by decreasing rebar margins at our Construction & Industrial business.

*Operating expenses*

Operating expenses increased $17 million, or 5.0%, during second quarter 2017 as compared to second quarter 2016 and $36 million, or 5.3%, in the first six months of fiscal 2017 as compared to the same period in fiscal 2016.

Selling, general and administrative expenses increased $21 million, or 6.6%, in second quarter 2017 as compared to second quarter 2016 and $47 million, or 7.5%, in the first six months of fiscal 2017 as compared to the same period in fiscal 2016. 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, primarily additional personnel. Restructuring charges decreased $4 million and $11 million in second quarter 2017 and the first six months of fiscal 2017, respectively, as compared to the same periods in fiscal 2016 as the Company completed restructuring activities to strategically align its workforce in fiscal 2016.

Operating expenses as a percentage of Net sales decreased approximately 10 basis points to 26.6% in second quarter 2017 as compared to second quarter 2016 and increased approximately 30 basis points to 27.8% in the first six months of fiscal 2017 as compared to the same period in fiscal 2016. Selling, general and administrative expenses as a percentage of Net sales increased approximately 20 basis points to 25.0% in second quarter 2017 and approximately 80 basis points to 26.2% in the first six months of fiscal 2017 as compared to the same periods in fiscal 2016. The increase in both periods was primarily a result of the increased investments in growth initiatives, partially offset by the decline in restructuring charges. 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.

*Operating income*

Operating income increased $9 million, or 5.3%, during second quarter 2017 as compared to second quarter 2016 and $5 million, or 1.6%, in the first six months of fiscal 2017 as compared to the same period in fiscal 2016. The increase in both periods was primarily due to higher sales volume, partially offset by the decrease in gross margins and increase in Operating expenses.

Operating income as a percentage of Net sales remained flat during second quarter 2017 as compared to second quarter 2016 and decreased approximately 40 basis points during the first six months of fiscal 2017 as compared to the same period in fiscal 2016. In second quarter 2017, the decline in gross margins and increase in selling, general and administrative expense as a percentage of Net sales were offset by the decline in restructuring charges. In the first six months of fiscal 2017, the decline in margins and increase in selling, general and administrative expense as a percentage of Net sales were partially offset by a decline in depreciation and amortization as a percentage of Net sales and restructuring charges.

*Interest expense*

Interest expense decreased $20 million, or 29.0%, during second quarter 2017 as compared to second quarter 2016 and $56 million, or 36.4%, during the first six months of fiscal 2017 as compared to the same period in fiscal 2016. The decrease in both periods was due to a lower average interest rate on our outstanding indebtedness due to debt refinancing transactions and a lower average outstanding balance as we continue to use cash flow from operations and proceeds from the sale of businesses to reduce indebtedness.

*Loss on extinguishment of debt*

On April 18, 2017, HDS used cash and available borrowings under its Senior ABL Facility, as defined below, to repay $100 million aggregate principal of its approximately $842 million original aggregate principal tranche of term loans due 2021 (the “Term B-1 Loans”). As a result, the Company incurred a $2 million loss on extinguishment of debt, which included write-offs of unamortized original issue discount and unamortized deferred financing costs for $1 million each, in accordance with Accounting Standards Codification (“ASC”) 470-50, “Debt — Modifications and Extinguishments.”

On April 5, 2017, HDS amended its Senior Asset Based Lending Facility due 2022 (the “Senior ABL Facility”) which, among other things, reduced the applicable margin for borrowings under the Senior ABL Facility, reduced the applicable commitment fee, and extended the maturity date of the Senior ABL Facility until April 5, 2022. As a result, the Company recorded a $1 million loss on extinguishment of debt, in accordance with ASC 470-50, “Debt — Modifications and Extinguishments,” for the write-off of $1 million of unamortized deferred financing costs.

*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 2017 was an expense of $50 million compared to $41 million in second quarter 2016. The provision for income taxes in the first six months of fiscal 2017 was an expense of $69 million compared to $15 million in the first six months of fiscal 2016.

The effective rate for continuing operations for second quarter 2017 and the first six months of fiscal 2017 was an expense of 38.2% and 33.2%, respectively. The effective rate for continuing operations for second quarter 2016 and the first six months of fiscal 2016 was an expense of 40.2% and 42.9%, respectively.

In second quarter 2017 and the first six months of fiscal 2017, the application of stock-based compensation expense guidance in Accounting Standards Update (“ASU”) No. 2016-09 resulted in discrete tax benefits of $1 million and $12 million, respectively, from the exercise and vesting of stock based awards, which lowered the effective tax rate by 80 and 580 basis points, respectively. For additional information on the adoption of ASU No. 2016-09, see “Note 12 — Recent Accounting Pronouncements,” in the Notes to Consolidated Financial Statements within Item 1 of this quarterly report on Form 10-Q.

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. As of January 29, 2017, the Company’s valuation allowance on its U.S. deferred tax assets was approximately $5 million and remained unchanged as of July 30, 2017.

*Income from discontinued operations, net of tax*

Income from discontinued operations, net of tax during second quarter 2017 was $361 million, which included $60 million of pre-tax income from discontinued operations and a $301 million income tax benefit. During second quarter 2017, the Company recorded a $323 million tax benefit in Income from discontinued operations, net of tax, to recognize a net deferred tax asset for the difference between the Company’s stock basis versus its book basis of the Waterworks business unit. On August 1, 2017, the Company completed the sale of the Waterworks business and utilized the $323 million net deferred tax asset. For additional information. see “Note 2 — Discontinued Operations” and “Note 13 — Subsequent Events” in the Notes to Consolidated Financial Statements within Item 1 of this quarterly report on Form 10-Q.

*Adjusted EBITDA*

Adjusted EBITDA increased $5 million, or 2.5%, in second quarter 2017 as compared to second quarter 2016 and decreased $5 million, or 1.4%, in the first six months of fiscal 2017 as compared to the first six months of fiscal 2016. Construction & Industrial experienced an increase in Adjusted EBITDA in both periods. Facilities Maintenance experienced an increase in Adjusted EBITDA in second quarter 2017 as compared to second quarter 2016 and a decrease in Adjusted EBITDA for the first six months of fiscal 2017 as compared to the first six months of fiscal 2016.

The increase in Adjusted EBITDA in second quarter 2017 as compared to second quarter 2016 was primarily due to the increase in sales volume, partially offset by the decrease in gross margin and increase in Operating expenses. The decrease in Adjusted EBITDA during the first six months of fiscal 2017 as compared to the first six months in fiscal 2016 was primarily due to the decrease in gross margin and increase in Operating expenses. Adjusted EBITDA as a percentage of Net sales decreased approximately 40 basis points to 15.4% in second quarter 2017 as compared to second quarter 2016 and approximately 80 basis points to 14.2% in the first six months of fiscal 2017 as compared to the first six months of fiscal 2016.

*Adjusted net income*

Adjusted net income increased $23 million, or 22.1%, in second quarter 2017 as compared to second quarter 2016 and $46 million, or 28.6%, in the first six months of fiscal 2017 as compared to the first six months of fiscal 2016. The increase in Adjusted net income in both periods was primarily attributable to lower interest expense.

**Results of operations by reportable segment**

***Facilities Maintenance***

| | Three Months Ended | | | Six Months Ended | | |
|---|---|---|---|---|---|---|
| **Dollars in millions** | **July 30, 2017** | **July 31, 2016** | **Increase (Decrease)** | **July 30, 2017** | **July 31, 2016** | **Increase (Decrease)** |
| **Net sales** | **$ 769** | **$ 741** | 3.8% | **$ 1,451** | **$ 1,418** | 2.3% |
| **Operating income** | **$ 149** | **$ 139** | 7.2% | **$ 258** | **$ 258** | — |
| *% of Net sales* | *19.4%* | *18.8%* | *60bps* | *17.8%* | *18.2%* | *(40)bps* |
| Depreciation and amortization | 7 | 9 | (22.2)% | 15 | 18 | (16.7)% |
| Restructuring | — | 3 | * | — | 9 | * |
| **Adjusted EBITDA** | **$ 156** | **$ 151** | 3.3% | **$ 273** | **$ 285** | (4.2)% |
| *% of Net sales* | *20.3%* | *20.4%* | *(10)bps* | *18.8%* | *20.1%* | *(130)bps* |

* *Not meaningful*

*Net Sales*

Net sales increased $28 million, or 3.8%, in second quarter 2017 as compared to second quarter 2016 and $33 million, or 2.3%, in the first six months of fiscal 2017 as compared to the same period in fiscal 2016.

The increase in Net sales in both periods was primarily due to market growth in the multifamily and hospitality industries and growth initiatives, particularly in the second quarter of 2017. These growth initiatives consist of investments in personnel, products, and technology aligned with our selling channels, such as our sales force, e-commerce site and mobile application, and our enabling functions, such as supply chain, data analytics, and dynamic pricing.

*Adjusted EBITDA*

Adjusted EBITDA increased $5 million, or 3.3%, in second quarter 2017 as compared to second quarter 2016 and decreased $12 million, or 4.2%, in the first six months of fiscal 2017 as compared to the same period in fiscal 2016.

The increase in Adjusted EBITDA in second quarter 2017 as compared to second quarter 2016 was primarily due to increased sales volume, partially offset by increased Selling, general and administrative expenses. The decrease in Adjusted EBITDA in the first six months of fiscal 2017 as compared to the same period in fiscal 2016 was primarily due to increased Selling, general and administrative expenses. The increase in Selling, general and administrative expenses in both periods was related to costs incurred to increase distribution center capacity and higher personnel costs in fiscal 2017 related to open positions in fiscal 2016 due to transitioning the business from San Diego to Atlanta.

Adjusted EBITDA as a percentage of Net sales decreased approximately 10 basis points in second quarter 2017 as compared to second quarter 2016 and approximately 130 basis points in the first six months of fiscal 2017 as compared to the same period in fiscal 2016 . 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 costs incurred to increase distribution center capacity and open positions in 2016 due to transitioning the business to Atlanta, partially offset by gross margin improvements.

***Construction & Industrial***

| | Three Months Ended | | | Six Months Ended | | |
|---|---|---|---|---|---|---|
| **Dollars in millions** | **July 30, 2017** | **July 31, 2016** | **Increase (Decrease)** | **July 30, 2017** | **July 31, 2016** | **Increase (Decrease)** |
| **Net sales** | **$ 584** | **$ 544** | 7.4% | **$ 1,120** | **$ 1,045** | 7.2% |
| **Operating income** | **$ 60** | **$ 59** | 1.7% | **$ 106** | **$ 100** | 6.0% |
| *% of Net sales* | *10.3%* | *10.8%* | *(50)bps* | *9.5%* | *9.6%* | *(10)bps* |
| Depreciation and amortization | 9 | 9 | — | 18 | 17 | 5.9% |
| **Adjusted EBITDA** | **$ 69** | **$ 68** | 1.5% | **$ 124** | **$ 117** | 6.0% |
| *% of Net sales* | *11.8%* | *12.5%* | *(70)bps* | *11.1%* | *11.2%* | *(10)bps* |

*Net Sales*

Net sales increased $40 million, or 7.4%, in second quarter 2017 as compared to second quarter 2016 and $75 million, or 7.2%, in the first six months of fiscal 2017 as compared to the same period in fiscal 2016.

Growth initiatives contributed to the increase in Net sales in both periods driven by managed sales approach (''MSA''), new locations, 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.

*Adjusted EBITDA*

Adjusted EBITDA increased $1 million, or 1.5%, in second quarter 2017 as compared to second quarter 2016 and $7 million, or 6.0%, in the first six months of fiscal 2017 as compared to the same period in fiscal 2016.

The increase in Adjusted EBITDA in both periods was primarily driven by growth initiatives and market volume. This increase was partially offset by lower gross margins in the second quarter and increased Selling, general and administrative expenses in both periods 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 decreased approximately 70 basis points in second quarter 2017 as compared to second quarter 2016 and approximately 10 basis points in the first six months of fiscal 2017 as compared to the same period in fiscal 2016. The decrease in both periods was driven by declines in rebar gross margins, partially offset by product mix and category management initiatives. Rebar margins are declining due to an increase in steel costs impacted by duties and the threat of duties on imported steel. We have been unable to pass along all of the cost increases to our customers due to the competitive environment. We expect rebar margins to remain under pressure for the remainder of the year.

**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 2017, the Company's generation of cash was primarily driven by cash receipts from operations and proceeds from stock option exercises, partially offset by net debt repayments, the payment of interest on debt, capital expenditures and purchases of treasury shares.

As of July 30, 2017, our combined liquidity of approximately $590 million was comprised of $67 million in cash and cash equivalents and $523 million of additional available borrowings (excluding $7 million of 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 30, 2017** | **July 31, 2016** | **(Decrease)** |
| Operating activities | **$ 189** | $ 164 | $ 25 |
| Investing activities | **(41)** | 6 | (47) |
| Financing activities | **(156)** | (127) | (29) |

*Working capital*

Working capital, excluding cash and cash equivalents, was $1,074 million as of July 30, 2017, increasing $91 million as compared to $983 million as of July 31, 2016. Working capital, excluding the impact of discontinued operations and cash and cash equivalents increased $62 million. The increase was primarily driven by business growth, resulting in increases in Receivables and Inventory, partially offset by increases in Accounts Payable.

*Operating activities*

During the first six months of fiscal 2017, cash provided by operating activities was $189 million compared to $164 million in the first six months of fiscal 2016. Cash interest paid in the first six months of fiscal 2017 was $92 million, compared to $161 million in the first six months of fiscal 2016. Cash flows from operating activities included a payment of $4 million of original issue discount related to the extinguishment of a portion of the Term Loans in the first six months of fiscal 2017. Cash flows provided by operating activities for discontinued operations were $11 million in the first six months of fiscal 2017. Cash flows used by operating activities for discontinued operations were $6 million during the first six months of fiscal 2016. Excluding the cash interest payments in both periods and original issue discounts paid, cash flows from operating activities for continuing operations decreased approximately $57 million in the first six months of fiscal 2017 as compared to the first six months of fiscal 2016. The decrease in operating cash flows excluding interest, original issue discount, and discontinued operations is attributable to investments in working capital for business growth.

*Investing activities*

During the first six months of fiscal 2017, cash used by investing activities was $41 million, comprised of $43 million of capital expenditures, partially offset by $2 million of cash received from the sales of property and equipment. During the first six months of fiscal 2016, cash provided by investing activities was $6 million, comprised of $38 million of proceeds from the sales of businesses and property and equipment, offset by $32 million of capital expenditures.

*Financing activities*

During the first six months of fiscal 2017, cash used in financing activities was $156 million, primarily due to purchases of treasury shares of $414 million and payments for debt issuance costs of $6 million, offset by net debt borrowings of $235 million and proceeds from employee stock option exercises of $29 million.

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 by proceeds from employee stock option exercises of $14 million.

**External financing**

As of July 30, 2017, we had an aggregate principal amount of $4,052 million of outstanding indebtedness, net of unamortized discounts and unamortized deferred financing costs of $7 million and $34 million, respectively, and $523 million of additional available borrowings under our Senior ABL Facility (after giving effect to the borrowing base limitations and approximately $30 million in letters of credit issued and including $7 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 indebtedness. We may make such repurchases in privately negotiated transactions or otherwise.

On September 1, 2017, HDS used a portion of the net proceeds it received from the sale of the Waterworks business to redeem all of the outstanding $1,250 million in aggregate principal amount of December 2014 First Priority Notes for an aggregate redemption price of approximately $1,325 million. The redemption price included an approximately $62 million make-whole premium calculated in accordance with the terms of the 2014 indenture and $14 million of accrued but unpaid interest to the redemption date. The 2014 indenture, pursuant to which the December 2014 First Priority Notes were issued, was discharged and the liens securing the December 2014 First Priority Notes were released in accordance with the terms of the 2014 indenture. As a result of the redemption, the Company expects to record a $73 million loss on extinguishment of debt in the third quarter of fiscal 2017, which includes the $62 million make-whole premium and the write-off off $11 million of unamortized deferred financing costs, in accordance with ASC 470-50, “Debt — Modifications and Extinguishments.”

On August 31, 2017, HDS entered into a Fifth Amendment (the “Fifth Amendment”) to the credit agreement governing HDS’s existing Term Loan Facility. Pursuant to the Fifth Amendment, HDS amended its existing Term Loan Facility to, among other things, (i) refinance all the outstanding Term B-1 Loans with a new tranche of term loans (the “Term B-3 Loans”) in an aggregate principal amount of $535 million, (ii) refinance all the outstanding Term B-2 Loans with a new tranche of term loans (the “Term B-4 Loans”) in an aggregate principal amount of $546 million and (iii) amend the definition of “Permitted Payments” contained in the credit agreement to permit an additional category of Permitted Payments permitting Restricted Payments (as defined in the credit agreement) at any time in an aggregate amount not to exceed (x) $500,000,000 and (y) thereafter, upon full use of such capacity set forth in clause (x), an additional amount, if any, such that, after giving pro forma effect to such Restricted Payment, the Company’s Consolidated Leverage Ratio (as defined in the credit agreement) does not exceed 3.00 to 1.00.

The Term B-3 Loans bear interest at the applicable margin for borrowings of 2.25% for LIBOR borrowings and 1.25% for base rate borrowings. The Term B-3 Loans amortize in equal quarterly installments in aggregate annual amounts equal to 1.00% of the original principal amount and will mature on August 13, 2021.

The Term B-4 Loans bear interest at the applicable margin for borrowings of 2.50% for LIBOR borrowings and 1.50% for base rate borrowings. The Term B-4 Loans amortize in equal quarterly installments in aggregate annual amounts equal to 1.00% of the original principal amount and will mature on October 17, 2023.

The Fifth Amendment also provides for a prepayment premium equal to 1.00% of the aggregate principal amount of the applicable Term Loans being prepaid if, on or prior to March 2, 2018, the Company enters into certain repricing transactions.

In connection with the Fifth Amendment, the Company paid approximately $1 million in consent fees and expects to record a modification and extinguishment charge of approximately $3 million, which includes financing fees and other costs of approximately $1 million and approximately $2 million to write off a portion of the related unamortized discount and deferred financing costs.

On August 25, 2017, HDS entered into the Second Supplemental Indenture (the “Second Supplemental Indenture”) which amends and supplements the Indenture, dated as of April 11, 2016, as amended and supplemented by the First Supplemental Indenture, dated as of April 11, 2016 (together, the "Indenture"). The Second Supplemental Indenture effects certain Proposed Amendments (as defined below) to the Indenture pertaining to the Company's April 2016 Senior Unsecured Notes. Holders of a majority in aggregate principal amount of the outstanding April 2016 Senior Unsecured Notes consented to the Proposed Amendments.

The Proposed Amendments (a) amend the definition of "Permitted Payments" contained in the Indenture to permit an additional category of Permitted Payments permitting Restricted Payments (as defined in the Indenture) at any time in an aggregate amount not to exceed (x) $500,000,000 and (y) thereafter, upon full use of such capacity set forth in clause (x), an additional amount, if any, such that, after giving pro forma effect to such Restricted Payment, the Company's Consolidated Leverage Ratio (as defined in the Second Supplemental Indenture) does not exceed 3.00 to 1.00; (b) increase the interest rate for the April 2016 Senior Unsecured Notes to 7.00% per annum commencing April 15, 2019, to the extent the April 2016 Senior Unsecured Notes remain outstanding after April 15, 2019; (c) amend the definition of "Net Available Cash" contained in the Indenture to provide that proceeds from the sale of the Waterworks business unit consummated on August 1, 2017 (other than proceeds to be applied to redeem the Company's 2021 Notes (as defined in the Second Supplemental Indenture)) shall be excluded and accordingly, the Company will not be required to apply the remaining net proceeds in accordance with the provision of the "Sale of Assets" covenant of the Indenture and (d) amend the definition of "Consolidated EBITDA" contained in the Indenture to provide that while the Company may continue to include in the calculation thereof projected cost savings, it may only do so with respect those realized as a result of actions taken or to be taken in connection with a purchase of assets from, or a sale of assets to, a third party (excluding the Waterworks Sale (as defined in the Second Supplemental Indenture)) (collectively, the "Proposed Amendments").

As a result of entering into the Second Supplemental Indenture, the Company paid approximately $15 million in consent fees to holders of the outstanding April 2016 Senior Unsecured Notes, which will be capitalized as deferred financing costs and amortized over the expected life of the April 2016 Senior Unsecured Notes.

On August 1, 2017, HDS repaid all of the outstanding U.S. borrowings on its Senior ABL Facility. Canadian borrowings of $62 million on the Senior ABL Facility remain outstanding.

On April 18, 2017, HDS used cash and available borrowings under its Senior ABL Facility, to repay $100 million aggregate principal of its Term B-1 Loans. As a result, the Company incurred a $2 million loss on extinguishment of debt, which included write-offs of unamortized original issue discount and unamortized deferred financing costs for $1 million each, in accordance with ASC 470-50, "Debt — Modifications and Extinguishments."

On April 5, 2017, HDS entered into a Third Amendment (the "Third Amendment") to the credit agreement governing its existing Senior ABL Facility. The Third Amendment, among other things, reduced the applicable margin for borrowings under the Senior ABL Facility, reduced the applicable commitment fee, and extended the maturity date of the Senior ABL Facility until April 5, 2022. As a result, the Company recorded a $1 million loss on extinguishment of debt, in accordance with ASC 470-50, "Debt — Modifications and Extinguishments," for the write-off of $1 million of unamortized deferred financing costs.

For additional information, see "Note 3 — Debt" and "Note 13 — Subsequent Events" in the Notes to Consolidated Financial Statements within Item 1 of this quarterly report on Form 10-Q.

**Rating agency actions**

On August 17, 2017, S&P Global Ratings ("S&P") placed HDS's Term B-1 Loan on CreditWatch with positive implications, noting their expectations of improved recovery prospects for lenders when incorporating HDS's anticipated repayment of its December 2014 First Priority Notes. S&P noted that once HDS's December 2014 First Priority Notes are repaid, they anticipate raising the credit ratings on HDS's Term B-1 Loan and Term B-2 Loan to 'BB+' from 'BB' and revise its recovery rating on the Term Loans to '2'. On September 1, 2017, HDS repaid all of the outstanding aggregate principal amount of its December 2014 First Priority Notes.

In March 2017, Moody's Investor's Service ("Moody's") upgraded HDS's corporate family rating to Ba3, from B1. Moody's cited improved credit metrics and anticipated gains from all of our business units. In related rating actions, Moody's upgraded HDS's senior secured term loans and senior secured notes from Ba3 to B1 and senior unsecured notes to B2 from B3. Moody's rating outlook changed to stable from positive. Also in April 2017, S&P raised HDS's corporate credit rating to 'BB' from 'BB-', assigned a 'BBB-' rating to the Senior ABL Facility, upgraded senior secured debt to 'BB' from 'BB-', and upgraded unsecured notes to 'B+' from 'B'. S&P cited meaningful credit ratio improvement in fiscal 2016 as well as our prioritization of free cash generation for debt reduction. S&P’s outlook upgraded to 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 29, 2017.

**Recent accounting pronouncements**

See “Note 12 — Recent Accounting Pronouncements” in the Notes to Consolidated Financial Statements within Item 1 of this quarterly report on Form 10-Q.

**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 29, 2017.

**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 30, 2017 (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 30, 2017 (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 2017 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**

On July 10, 2017, a putative class action complaint was filed in the U.S. District Court for the Northern District of Georgia by The City of Hollywood Police Officers' Retirement System (the "Retirement System complaint") against HD Supply and certain senior members of its management (collectively, the "defendants"). On August 8, 2017, a second class action complaint was filed in the U.S. District Court for the Northern District of Georgia by Obioma Ebisike (the "Ebisike complaint" and together with the Retirement System complaint, the "complaints") against the defendants. The complaints are brought individually on behalf of all persons other than defendants who purchased or otherwise acquired Company securities between November 9, 2016 and June 5, 2017. The complaints generally allege that the defendants engaged in a fraudulent scheme to inflate the Company's stock price by making materially false and misleading statements about the Company's business, operational, and compliance policies that allegedly failed to disclose: (1) that the Company's full year 2017 growth and operational leverage targets were unattainable; (2) the operational recovery of the Company's Facilities Maintenance business unit's supply chain was not going according to plan; and (3) the Company was exploring the sale of its Waterworks business unit. The complaints assert claims against the defendants under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and SEC Rule 10b-5, and they seek (1) class certification under the Federal Rules of Civil Procedure, (2) damages in an amount to be proven at trial, (3) pre-judgment and post-judgment interest, and (4) attorneys' fees and other costs.

On August 8, 2017, two shareholder derivative complaints were filed (one by Sean Zhou and another by James Calderaro) against the Company (the "nominal defendant") and certain members of its senior management and board of directors (collectively, the "individual defendants"). The complaints generally allege that the individual defendants caused the Company to issue false and misleading statements concerning the Company's business, operations, and financial prospects, including misrepresentations regarding operating leverage and supply chain corrective actions, while failing to disclose: (1) that the Company's growth and operating leverage targets for full year 2017 were unattainable; (2) the operational recovery of the Company's Facilities Maintenance business unit's supply chain was not progressing as expected and would require substantial additional investment; and (3) the Company was preparing to sell its Waterworks business unit. The complaints assert claims against the individual defendants under Section 14(a) of the Securities Exchange Act of 1934, allege breaches of fiduciary duties, and assert claims under theories of unjust enrichment, corporate waste, and insider selling. The complaints assert a claim to recover any damages sustained by the Company as a result of the individual defendants' actions, ask that the Company take certain actions to reform and improve its corporate governance and internal procedures, seek restitution on behalf of the Company, and seek to recover attorneys' fees and other costs.

The Company intends to defend these lawsuits vigorously. Given the stage of the complaints and the claims and issues presented in the above matters, the Company cannot reasonably estimate at this time the possible loss or range of loss, if any, that may arise from these unresolved lawsuits.

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 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 $10 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.

**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 29, 2017.

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 29, 2017 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

On June 3, 2017, Holdings' Board of Directors authorized the Company to enter into a share repurchase program for the repurchase of up to an aggregate amount of $500 million of Holdings' common stock in accordance with guidelines specified under Rule 10b5-1 of the Securities Exchange Act of 1934, as amended. As of August 8, 2017, Holdings has completed the repurchase of all $500 million of common stock authorized under the share repurchase program , purchasing approximately 15.9 million shares at an average price of $31.37 per share .

On August 27, 2017, Holdings' Board of Directors authorized the Company to enter into a new share repurchase program for the repurchase of up to an aggregate amount of $500 million of Holdings' common stock in accordance with guidelines specified under Rule 10b5-1 of the Securities Exchange Act of 1934, as amended.

In 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 2017 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 1 - May 28 | 290,000 | $ 40.56 | 290,000 | $ 5,827,478 |
| May 29 - June 25 | 3,704,230 | 32.15 | 3,704,230 | 386,935,423 |
| June 26 - July 30 | 10,009,675 | 31.02 | 10,009,675 | 79,409,281 |
| Total | 14,003,905 | $ 31.52 | 14,003,905 | |

*(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 30, 2017, Holdings retired 611,433 shares of its common stock ("Retired Shares") held as treasury shares by Holdings in the amount of $23 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.

**Item 6. Exhibits**

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

| Exhibit Number | Exhibit Description |
|---|---|
| 2.1 | Amended and Restated Agreement and Plan of Merger, dated as of July 14, 2017, by and among HD Supply Holdings, LLC, HD Supply GP & Management, Inc., HD Supply Waterworks Group, Inc., HD Supply Waterworks, Ltd., HD Supply, Inc., CD&R Plumb Buyer, LLC, CD&R Waterworks Merger Sub, LLC, CD&R WW, LLC, and CD&R WW Merger Sub, LLC (1) |
| 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. (3) |
| 3.4 | Certificate of Amendment of Certificate of Incorporation of HD Supply, Inc. (4) |
| 3.5 | Amended and Restated By-Laws of HD Supply, Inc.(4) |
| 4.1 | Second Supplemental Indenture, dated as of August 25, 2017, by and among the Company, the subsidiary guarantors signatory thereto, and Wells Fargo Bank, National Association, as Trustee (5) |
| 10.1 | HD Supply Holdings, Inc. Omnibus Incentive Plan (as amended and restated effective May 17, 2017) (6) |
| 10.2 | HD Supply Holdings, Inc. Annual Incentive Plan for Executive Officers(6) |
| 10.3 | Board of Directors Compensation Policy (as amended effective May 17, 2017). |
| 10.4 | Letter of Employment, dated as of June 5, 2017, by and between HD Supply, Inc. and William P. Stengel. |
| 10.5 | Fifth Amendment to Credit Agreement, dated as of August 31, 2017, among the Company, as borrower, certain of the Company's affiliates signatory thereto, as guarantors, Bank of America, N.A., as administrative agent, Bank of America, N.A., as collateral agent, Bank of America, N.A., as a Term B-3 Lender and Term B-4 Lender, and the other lenders party thereto. (7) |
| 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 30(a) of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Senior Vice President, Chief Financial Officer and Chief Administrative 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, Chief Financial Officer and Chief Administrative 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, Chief Financial Officer and Chief Administrative 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, Chief Financial Officer and Chief Administrative 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 Form S-8 of HD Supply Holdings, Inc. (File No. 333-189771) filed on July 2, 2013. *See* Exhibit 3.1 (Certificate of Incorporation) and Exhibit 3.2 (Bylaws).

(2) Previously filed in Form S-8 of HD Supply Holdings, Inc. (File No. 333-189771) filed on July 2, 2013. *See* Exhibit 3.1 (Certificate of Incorporation) and Exhibit 3.2 (Bylaws).

(3) Previously filed in Amendment No.1 to Form S-4/A of HD Supply, Inc. (File No. 333-159809) filed on July 10, 2009. *See* Exhibit 3.1.

(4) Previously filed in Form 8-K of HD Supply, Inc. (File No. 333-159809) filed on July 9, 2013. *See* Exhibit 3.1 (Certificate of Incorporation) and Exhibit 3.2 (Bylaws).

(5) Previously filed in Form 8-K of HD Supply, Inc. (File No. 333-159809) filed on August 25, 2017. *See* Exhibit 4.1.

(6) Previously filed in Form 8-K of HD Supply Holdings, Inc. (File No. 001-35979) filed on May 19, 2017. *See* Exhibit 10.1 (Omnibus Incentive Plan) and Exhibit 10.2 (Annual Incentive Plan).

(7) Previously filed in Form 8-K of HD Supply, Inc. (File No. 001-35979) filed on September 1, 2017. *See* Exhibit 10.1.

**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.**<br>(Registrant) |
| September 5, 2017 | By: | /s/ Joseph J. De Angelo |
| (Date) | | Joseph J. DeAngelo<br>Chairman of the Board, President and Chief Executive Officer |
| | | /s/ Evan J. Levitt |
| | | Evan J. Levitt<br>Senior Vice President, Chief Financial Officer and Chief Administrative 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 5, 2017 | By: | /s/ Joseph J. DeAngelo |
| (Date) | | Joseph J. DeAngelo<br>Chairman of the Board, President and Chief Executive Officer |
| | | /s/ Evan J. Levitt |
| | | Evan J. Levitt<br>Senior Vice President, Chief Financial Officer and Chief Administrative Officer |

**BOARD OF DIRECTORS COMPENSATION POLICY**
**(As Amended Effective May 17, 2017)**

## 1. ANNUAL BOARD RETAINER

Each non-employee director is paid an annual fee for service of $220,000 ($280,000 for the independent Lead Director), of which $90,000 is paid in quarterly cash installments and $130,000 ($190,000 for the independent Lead Director) is paid in the form of restricted stock units ("RSUs") under the Company's Omnibus Incentive Plan. The number of RSUs is determined by dividing the dollar amount of the fee to be granted as RSUs by the closing stock price of a share of Company common stock on the grant date. The RSUs cliff vest on the earlier of the first anniversary of the grant date or the next annual shareholders meeting after the grant date, although directors who stop serving on the board during the year due to death, permanent disability or retirement at age 75 receive a pro-rata number of shares based on the number of days of service during the year. RSUs are credited with dividends during the one-year vesting period. As the RSUs vest, dividends credited to the RSUs similarly vest. If any RSUs are forfeited, dividends related to the forfeited shares are also forfeited.

## 2. ANNUAL COMMITTEE RETAINER

Each non-employee director appointed to serve as a member of a standing board committee receives the following annual cash retainer: Audit Committee: $12,500; Compensation Committee: $10,000; Nominating and Corporate Governance Committee: $7,500. The committee retainer is in addition to the board retainer. Committee Chairs are not eligible to receive the committee retainer, but instead receive the committee chair retainer described in Section 3.

## 3. ANNUAL COMMITTEE CHAIR RETAINER

Each non-employee director appointed to serve as chairperson of a standing board committee receives the following annual cash retainer for service as chair of each such committee: Audit Committee Chair: $25,000; Compensation Committee Chair: $20,000; Nominating and Corporate Governance Committee Chair: $15,000. The committee chair retainer is in addition to the board retainer.

## 4. ANNUAL BOARD CHAIRPERSON RETAINER

Any non-employee director appointed to serve as chairperson of the board of directors receives an annual cash retainer of $25,000 for service as board chairperson. The board chairperson retainer is in addition to the board retainer, and is also in addition to any committee retainer or committee chair retainer the chairman may be entitled to receive under Sections 2 or 3.

## 5. ANNUAL LEAD DIRECTOR RETAINER

Any non-employee director appointed to serve as independent lead director of the board of directors receives an annual cash retainer of $75,000 for service as independent lead director. The lead director retainer is in addition to the board retainer, and is also in addition to any committee retainer or committee chair retainer the lead director may be entitled to receive under Sections 2 or 3.

### 6. PRO RATA RETAINERS FOR NEW DIRECTORS

Director compensation is paid for the twelve-month period commencing with each annual shareholders meeting. Directors appointed to board service after the date of the annual shareholders meeting receive a pro rata portion of cash and equity retainers based on the remaining number of days during such compensation year.

### 7. PAYMENT OF RETAINERS

Cash retainers are paid to directors in four equal installments payable within 30 days of each quarterly board meeting for service performed before termination of board service. The grant date for the annual equity retainer is the date of the annual shareholders meeting. Shares in payment of vested equity awards will be delivered within 30 days of the vesting date. Payment of equity is in whole shares and any fractional share is paid in cash. If the director elects to defer all or any portion of the cash and equity retainers, payment is governed by the terms of the applicable deferral arrangement, as discussed below.

### 8. DEFERRAL OPTION FOR EQUITY RETAINER

Directors may choose to defer receipt of all or a portion of their vested RSUs to separation from board service by timely completing a deferral election form pursuant to the terms and conditions of the RSU award agreement under the Company's Omnibus Incentive Plan. Deferred RSUs are paid at the director's election in a lump sum or equal annual installments over a period not to exceed three years. The lump sum or first installment payment will be made within 30 days of separation from board service in the form of shares of Company common stock. During the deferral period, deferred RSUs are credited with dividends, which are paid along with the deferred RSUs at the end of the deferral period in the form of shares of Company common stock.

### 9. OPTION TO CONVERT CASH RETAINERS TO COMPANY STOCK

Directors may choose to convert all or a portion of their cash retainers to deferred stock units (" DSUs ") payable in shares of Company common stock on separation from board service by timely completing an election form pursuant to the terms and conditions of a DSU agreement under the Company's Omnibus Incentive Plan. The number of DSUs is determined by dividing the cash being converted to DSUs by the closing stock price of a share of Company common stock on the date the cash retainers are otherwise payable. DSUs are fully vested at all times and are paid at the director's election in a lump sum or equal annual installments over a period not to exceed three years. The lump sum or first installment payment will be made within 30 days of separation from board service in the form of shares of Company common stock. During the deferral period, deferred DSUs are credited with dividends, which are paid along with the deferred DSUs at the end of the deferral period in the form of shares of Company common stock.

### 10. TRAVEL REIMBURSEMENT

Directors are reimbursed for reasonable travel expenses incurred in connection with attending board and committee meetings, as well as travel on other board business at the request of the Company or the board (such as branch visits or other Company function). Reimbursement is subject to any maximum reimbursement as may be established by the board from time to time.

**11. STOCK OWNERSHIP GUIDELINES**

Directors are obliged to own shares of Company common stock valued at three times(1) the annual cash board retainer, pursuant to the terms of the Stock Ownership Guidelines adopted by the Compensation Committee.

**12. MAXIMUM LIMIT ON DIRECTOR COMPENSATION**

Director compensation shall be subject to a $750,000 maximum limit (both cash and equity awards) for any board compensation year, as set forth in the Company's Omnibus Incentive Plan, or such other amount as may be set forth in any amendment or restatement of the Company's Omnibus Incentive Plan.

**13. MODIFICATION**

The board reserves the right to amend or terminate, in its discretion, any component of director compensation as it deems appropriate, including the underlying plans providing such compensation.

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(1) This provision was subsequently amended to require ownership of Company common stock valued at five times the annual cash board retainer, effective August 16, 2017.

HD SUPPLY
FACILITIES MAINTENANCE

June 5, 2017

William P. Stengel
Atlanta, GA 30339

Dear Will,

Congratulations! We are excited to confirm HD Supply's offer of promotion to you effective June 5, 2017 in the position of President and Chief Executive Officer, HD Supply Facilities Maintenance, reporting directly to me. We are thrilled to have you continue as a part of our team in this new role, driving customer success and value creation!

As you know, HD Supply strives to create a challenging and rewarding environment where our associates can build their best lives. With endless opportunities to grow, we come together as One Team to drive excellence within ourselves and the Company. We are incredibly proud of all HD Supply has accomplished, and we know you are one of the reasons we've been so successful.

Please find below the details of the offer being extended to you.

This position is full time. Your initial base annual salary will be $500,000 payable in equal bi-weekly installments, which will be subject to applicable tax, voluntary and court-ordered withholding.

In addition to your base salary, you will participate in the Annual Incentive Plan for Executive Officers, which provides a target incentive of 75% of your base salary. Your actual payout will be calculated based on performance which may include Company performance, line of business performance and/or individual performance. The incentive, if any, will be prorated based on the number of days in your new posit ion.

In addition to your salary and participation in the Annual Incentive Plan for Executive Officers, you will also have the opportunity to receive long-term incentive awards, which will be granted in such amount and equity mix as determined by the Compensation Committee of the Board of Directors at the time of grant, and which may also be subject to performance. You will be notified when the committee has Approved a grant for you and the terms of the grant. Typically, awards are approved by the committee in March each year.

HD Supply offers a competitive benefits package of health & welfare, financial, paid time-off and work/ life benefit programs for our associates and their eligible dependents that support our focus as an employer of choice. You are eligible to continue your participation in the HD Supply Health and Welfare Plan — which includes medical, dental, pharmacy, vision, medical/dental and dependent care spending accounts, life, accidental death and dismemberment, short and long-term disability and voluntary group benefit programs.

The description in this offer letter of any plans or benefits is based on current terms. HD Supply reserves the right to change or terminate any of its plans or benefits at any time.

**Non-Competition and Non-Solicitation Covenants**

You agree that you will not, for a period of one (1 ) year following the date of the date of your termination of employment with HD Supply (the " Restricted Period "), enter into or maintain an employment , contractual , or other relationship, either directly or indirectly, to provide services in the same or similar manner as you perform for HD Supply Holdings, Inc., HD Supply, Inc., HD Supply Facilities Maintenance, their parents, subsidiaries, affiliates or related entities (collectively, the "Company") to any company or entity engaged in any way in a business that competes directly or indirectly with the Company in the United States, Canada, or any other location in which the Company currently conducts business or may conduct business prior to the expiration of the Restricted Period.

You further agree that during the Restricted Period, you will not directly or indirectly (1) solicit or attempt to solicit any business related to the business of the Company existing as of your termination date from any of the Company's customers or suppliers with whom you had business contact or about whom you received confidential information (collectively, the " Customers and Suppliers ") during the one-year period prior to your termination date; or (2) solicit any person who is an employee of the Company to terminate his or her relationship with the Company.

The above non-competition and non-solicitation provisions shall not apply in the event you are involuntarily terminated for reasons other than for Cause.

**Confidentiality and Trade Secrets**

You acknowledge that through your employment you have acquired and had access to, and will continue to acquire and have access to, the Company's Confidential Information and Trade Secrets. You further acknowledge that the Company has made reasonable efforts under the circumstances to maintain the secrecy of its Trade Secrets. By signing below, you agree to hold in confidence and to not publish, disclose or use any Confidential Information or Trade Secrets for as long as the Confidential Information retains its character as confidential and is not readily available to the public, and in the case of Trade Secrets, for so long as the information remains a Trade Secret, except in connection with the good faith performance of your duties for the Company, provided that following your termination, you will not be able to publish, disclose or use the Confidential Information or Trade Secrets of the Company for any purpose, except that you may disclose Confidential Information to comply with a legal process or governmental inquiry (but only upon prompt written notice to the Company's general counsel to the extent legally permissible). You further agree to return all documents, disks or any other item or source containing Confidential Information or Trade Secrets, or any other Company property (as applicable), to the Company on or before your termination date. Nothing in this offer letter is intended to prohibit you from reporting possible violations of federal law to any governmental agency or entity, or from making other disclosures that are protected under the whistleblower provisions of federal law. You do not need the Company's prior authorization to make any such reports or disclosures and you are not required to notify the Company that such reports or disclosures have been made.

" Confidential Information " shall include any data or information, other than Trade Secrets (defined below), that is valuable to the Company and not generally known to competitors of the Company or other outsiders, regardless of whether the confidential information is in printed, written, or electronic form, retained in your memory, or has been compiled or created by you. This includes, but is not limited to: technical, financial, credit marketing, personnel, staffing, payroll, computer systems, marketing, advertising, merchandising, operations, strategic planning, product, vendor, customer or store planning data, trade secrets, or other information similar to the foregoing.

" Trade Secret " means information, without regard to form, including, but not limited to, any technical or non-technical data, formula, pattern, compilation, program, device, method, technique, drawing, process, financial data, financial plans, strategic plans, product plans, or list of actual or potential customers or suppliers which is not commonly known by or available to the public and which information: (i) derives economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can derive economic value from its disclosure or use and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

You further acknowledge that your breach of any of the covenants contained in this section of the agreement and/or the section above entitled "Non-Competition and Non-Solicitation Covenants" would result in immediate and irreparable harm to the Company that cannot be adequately or reasonably compensated by law. Accordingly, you agree that the Company shall be entitled, if any such breach shall occur or be threatened or attempted, to seek from a court a temporary, preliminary, and permanent injunction, without being required to post a bond, enjoining and restraining such breach or threatened or attempted breach by you. You acknowledge that the Company has informed you, in accordance with 18 U.S.C. § 1833(b), that you may not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret where the disclosure (a) is made (1) in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney; and (2) solely for the purpose of reporting or investigating a suspected violation of law; or (b) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal.

**At-Will Employment**

This offer of employment does not alter your status as an at-will employee, which means that the Company and you each have the absolute power to terminate the employment relationship with or without Cause, and with or without prior notice. This offer letter should not be construed, nor is it intended to be a contract of employment for a specified period of time.

Please review this offer and indicate your acceptance of the terms by signing below and returning to your Human Resources partner, Sarah McDaniel.

We look forward to your continuing contributions as part of the HD Supply team.

Sincerely,

/S/ J. DEANGELO (06-05-2017)
Joe DeAngelo
Chairman & CEO, HD Supply, Inc.

I accept this offer of employment.

/S/ WILLIAM P. STENGEL
William P. Stengel
Date Signed: 6/5/17

**Exhibit 21.1**

SUBSIDIARIES OF THE REGISTRANT

| NAME OF SUBSIDIARY | STATE OR JURISDICTION | D/B/A |
|---|---|---|
| HDS Holding Corporation | Delaware | (Not applicable) |
| HD Supply, Inc. | Delaware | HD Supply |
| HD Supply Holdings, LLC | Florida | (Not applicable) |
| HD Supply Construction Supply Group, Inc. | Delaware | (Not applicable) |
| White Cap Construction Supply, Inc. | Delaware | (Not applicable) |
| HD Supply GP & Management, Inc. | Delaware | (Not applicable) |
| HD Supply Construction Supply, Ltd. | Florida | HD Supply Construction & Industrial — White Cap |
| HD Supply Facilities Maintenance, Ltd. | Florida | HD Supply Facilities Maintenance |
| HD Supply FM Services, LLC | Delaware | (Not applicable) |
| HD Supply International Holdings, Inc. | Delaware | (Not applicable) |
| Solbelt Supply Southwest, S.A. DE C.V. | Mexico | (Not applicable) |
| HD Supply (Hong Kong) Limited | Hong Kong | (Not applicable) |
| HD Supply (Shenzhen) Company Limited | China | (Not applicable) |
| HD Supply Management, Inc. | Florida | (Not applicable) |
| HD Supply Repair & Remodel, LLC | Delaware | HD Supply Home Improvement Solutions |
| HDS IP Holding, LLC | Nevada | (Not applicable) |
| HDS Canada Holdings, ULC | Nova Scotia | (Not applicable) |
| HDS Canada, Inc. | Nova Scotia | HD Supply Canada |
| HD Supply International Holdings II, LLC | Delaware | (Not applicable) |
| HD Supply Support Services, Inc. | Delaware | (Not applicable) |

**Exhibit 31.1**

**CERTIFICATION**

I, Joseph J. DeAngelo, certify that:

1. I have reviewed this periodic report on Form 10-Q of HD Supply Holdings, Inc.;

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

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

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

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

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

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

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

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

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

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

Date: September 5, 2017

/s/ Joseph J. DeAngelo

Joseph J. DeAngelo
Chairman of the Board, President and Chief Executive Officer

**Exhibit 31.2**

**CERTIFICATION**

I, Evan J. Levitt, certify that:

1. I have reviewed this periodic report on Form 10-Q of HD Supply Holdings, Inc.;

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

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

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

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

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

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

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

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

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

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

Date: September 5, 2017

/s/ Evan J. Levitt
Evan J. Levitt
Senior Vice President, Chief Financial Officer and Chief Administrative Officer

**Exhibit 31.3**

**CERTIFICATION**

I, Joseph J. DeAngelo, certify that:

1. I have reviewed this periodic report on Form 10-Q of HD Supply, Inc.;

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

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

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

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

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

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

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

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

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

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

Date: September 5, 2017

/s/ Joseph J. DeAngelo
Joseph J. DeAngelo
Chairman of the Board, President and Chief Executive Officer

**Exhibit 31.4**

# CERTIFICATION

I, Evan J. Levitt, certify that:

1. I have reviewed this periodic report on Form 10-Q of HD Supply, Inc.;

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

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

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

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

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

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

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

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

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

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

Date: September 5, 2017

/s/ Evan J. Levitt
Evan J. Levitt
Senior Vice President, Chief Financial Officer and Chief Administrative Officer

Exhibit 32.1

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350**
**AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to 18 U.S.C. Section 1350, the undersigned Chairman of the Board, President and Chief Executive Officer of HD Supply Holdings, Inc. (the Company), hereby certifies that the Company's Periodic report on Form 10-Q for the period ended July 30, 2017 (the Report) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended, and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: September 5, 2017

/s/ Joseph J. DeAngelo
Joseph J. DeAngelo
Chairman of the Board, President and Chief Executive Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report.

**Exhibit 32.2**

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to 18 U.S.C. Section 1350, the undersigned Senior Vice President and Chief Financial Officer of HD Supply Holdings, Inc. (the Company), hereby certifies that the Company's periodic report on Form 10-Q for the period ended July 30, 2017 (the Report) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended, and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: September 5, 2017

/s/ Evan J. Levitt
Evan J. Levitt
Senior Vice President, Chief Financial Officer and Chief Administrative Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report.

**Exhibit 32.3**

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350**
**AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to 18 U.S.C. Section 1350, the undersigned Chairman of the Board, President and Chief Executive Officer of HD Supply, Inc. (the Company), hereby certifies that the Company's periodic report on Form 10-Q for the period ended July 30, 2017 (the Report) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended, and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: September 5, 2017

/s/ Joseph J. DeAngelo
Joseph J. DeAngelo
Chairman of the Board, President and Chief Executive Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report.

**Exhibit 32.4**

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350**
**AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to 18 U.S.C. Section 1350, the undersigned Senior Vice President and Chief Financial Officer of HD Supply, Inc. (the Company), hereby certifies that the Company's periodic report on Form 10-Q for the period ended July 30, 2017 (the Report) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended, and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: September 5, 2017

/s/ Evan J. Levitt
Evan J. Levitt
Senior Vice President, Chief Financial Officer and Chief Administrative Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report.