



**Part II Organizational Action** (continued)

17 List the applicable Internal Revenue Code section(s) and subsection(s) upon which the tax treatment is based ▶ See attached statement

Multiple horizontal lines for listing applicable Internal Revenue Code sections.

18 Can any resulting loss be recognized? ▶ See attached statement

Multiple horizontal lines for providing information regarding resulting loss recognition.

19 Provide any other information necessary to implement the adjustment, such as the reportable tax year ▶ See attached statement

Multiple horizontal lines for providing other information necessary to implement the adjustment.

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.

**Sign Here**

Signature ▶ Jeffrey Monday Date ▶ 10/4/2017

Print your name ▶ JEFFREY MONDAY Title ▶ VICE PRESIDENT

**Paid Preparer Use Only**

Print/Type preparer's name	Preparer's signature	Date	Check <input type="checkbox"/> if self-employed	PTIN
Firm's name ▶			Firm's EIN ▶	
Firm's address ▶			Phone no.	

HD Supply, Inc.  
EIN: 75-2007383

Form 8937 - Report of Organization Actions  
Affecting Basis of Securities

Part II Organizational Action

14. HD Supply, Inc. (the "Company") had outstanding \$1 billion of 5.75% Senior Notes due 2024 (the "Notes") which were issued on April 11, 2016 at par. On August 17, 2017, the Company launched a consent solicitation to amend the indenture, as amended and supplemented by the first supplemental indenture (together, the "Indenture") among the Company, the subsidiary guarantors party thereto and Wells Fargo Bank, National Association, as trustee, governing the Notes. The Company agreed to make a cash payment in the amount of \$15.00 per \$1,000 in principal amount of Notes (such payments, collectively, the "Consent Payment") to each holder of record who validly delivered and did not revoke a consent to the Proposed Amendments (as defined below) under the terms of the consent solicitation subject to certain conditions. On August 25, 2017, the Company executed the second supplemental indenture implementing the Proposed Amendments. The Proposed Amendments included: (i) expanding the definition of "Permitted Payments" as defined in the Indenture and amending certain other financial covenants included in the Indenture, (ii) increasing the interest rate for the Notes to 7.00% commencing April 15, 2019, to the extent the Notes remain outstanding after April 15, 2019, (iii) excluding the proceeds from certain divestitures from the definition of "New Available Cash" as defined in the Indenture, and (iv) amending certain other definitions included in the Indenture (together, the "Proposed Amendments").
  
15. The Company is treating the implementation of the Proposed Amendments as a significant modification of the Notes. Accordingly, all holders, regardless of consent, will be deemed to exchange the Notes for "New Notes". The Company is treating the exchange of the Notes for the New Notes as a recapitalization transaction that qualifies as a tax-free reorganization pursuant to Internal Revenue Code ("IRC") Section 368(a)(1)(E) with gain being recognized to the extent of "boot" (cash or other property) received by the holders in connection with the deemed exchange. For this purpose, the Company is not treating the Consent Payment as boot received in connection with the recapitalization. Rather, the Company is treating the Consent Payment as a payment in exchange for the holders' consenting to the Proposed Amendments, and thus ordinary income to the consenting holders. Furthermore, the Company is taking the position that the principal amount of the New Notes is equal to the principal amount of the Notes such that there is no gain recognition under Treasury Regulation Section 1.356-3. Under IRC Section 358(a), a holder's aggregate adjusted tax basis in the New Notes is equal to such holder's aggregate adjusted tax basis in the Notes, increased by the gain recognized in the exchange (if any), and decreased by the cash (i.e., boot) received in the exchange. In light of the positions to be taken by the Company,

each holder's adjusted tax basis in New Notes immediately after the deemed exchange should equal such holder's adjusted tax basis in the Notes immediately before the deemed exchange.

**HOLDERS OF THE NOTES SHOULD CONSULT THEIR TAX ADVISORS TO DETERMINE THE TAX CONSEQUENCES OF THE PROPOSED AMENDMENTS AND ANY DEEMED EXCHANGE TO THEM.**

16. See the response to Item 15 above. Under IRC Section 358(a), a holder's aggregate adjusted tax basis in the New Notes is equal to such holder's aggregate adjusted tax basis in the Notes, increased by the gain recognized in the exchange (if any), and decreased by the cash (i.e., boot) received in the exchange. In light of the positions to be taken by the Company, each holder's adjusted tax basis in New Notes immediately after the deemed exchange should equal such holder's adjusted tax basis in the Notes immediately before the deemed exchange.

**HOLDERS OF THE NOTES SHOULD CONSULT THEIR TAX ADVISORS TO DETERMINE THE TAX CONSEQUENCES OF THE PROPOSED AMENDMENTS AND ANY DEEMED EXCHANGE TO THEM.**

17. IRC Sections 61, 1001, 354, 368(a)(1)(E) and 358.
18. No loss can be recognized in conjunction with this organizational action.
19. The reporting taxable year is 2017.

**Holders should consult with a tax advisor regarding the particular tax consequences of the deemed exchange to the holder. The information contained in this document does not constitute tax advice and is not intended or written to be used, and cannot be used, for purposes of avoiding penalties under the IRC.**