HD Supply Holdings, Inc.
Form 10-K
March 18, 2016

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ý **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended January 31, 2016
or
o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transaction 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.** **3100 Cumberland Boulevard, Suite 1480** **Atlanta, Georgia 30339** **(770) 852-9000**	**Delaware**	**26-0486780**
333-159809	**HD SUPPLY, INC.** **3100 Cumberland Boulevard, Suite 1480** **Atlanta, Georgia 30339** **(770) 852-9000**	**Delaware**	**75-2007383**

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

(Title of Each Class)	(Name of Each Exchange on which Registered)
HD Supply Holdings, Inc.: Common stock, par value $0.01 per share	**The NASDAQ Stock Market LLC**
HD Supply, Inc.: None	

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

None
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

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

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 past 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 ý	No o	HD Supply, Inc.	Yes o	No ý

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 ý	No o	HD Supply, Inc.	Yes ý	No o

Indicate by check mark if disclosure of delinquent filers in response to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

HD Supply Holdings, Inc.	ý	HD Supply, Inc.	ý

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

HD Supply Holdings, Inc.			
Large accelerated filer ý	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o
HD Supply, Inc.			
Large accelerated filer o	Accelerated filer o	Non-accelerated filer ý (Do not check if a smaller reporting company)	Smaller reporting company o

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

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

The aggregate market value of the voting common stock held by non-affiliates of the registrant as of July 31, 2015 (the last business day of our most recently completed fiscal second quarter) was $7,136,710,596.

The number of shares of the registrant's common stock outstanding as of March 14, 2016:

HD Supply Holdings, Inc.	200,575,952 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.

HD Supply, Inc. meets the conditions set forth in General Instruction I(1)(a) and (b) of Form 10-K and is therefore filing this Form with the reduced disclosure format applicable to HD Supply, Inc.

Documents incorporated by reference:

Portions of HD Supply Holdings, Inc.'s proxy statement to be filed with the Securities and Exchange Commission in connection with HD Supply Holdings, Inc.'s 2016 annual meeting of stockholders (the "Proxy Statement') are incorporated by reference into Part III hereof. Such Proxy Statement will be filed within 120 days of HD Supply Holdings, Inc.'s fiscal year ended January 31, 2016.

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EXPLANATORY NOTE

This Form 10-K is a combined annual 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 annual 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.

Background Information and Glossary of Certain Defined Terms

The 2007 Transactions

On August 30, 2007, investment funds associated with Clayton, Dubilier & Rice, LLC ("CD&R"), The Carlyle Group ("Carlyle") and Bain Capital Partners, LLC ("Bain", and together with CD&R and Carlyle, the "Equity Sponsors") formed Holdings (previously named HDS Investment Holding, Inc.) and entered into a stock purchase agreement with The Home Depot, Inc. ("Home Depot") pursuant to which Home Depot agreed to sell to Holdings, or to a wholly-owned subsidiary of Holdings, certain intellectual property and all the outstanding common stock of HDS and the Canadian subsidiary CND Holdings, Inc. On August 30, 2007, through a series of transactions, Holdings' direct wholly-owned subsidiary, HDS Holding Corporation, acquired direct control of HDS through the merger of its wholly-owned subsidiary, HDS Acquisition Corp., with and into HDS and CND Holdings, Inc. Through these transactions (the "2007 Transactions"), Home Depot was paid cash of $8.2 billion and 12.5% of Holdings' then outstanding common stock.

Upon completion of Holdings' secondary public offerings in fiscal 2014 and fiscal 2015, the Equity Sponsors and Home Depot sold all of their remaining original investment in Holdings.

Defined Terms for Indebtedness

In this annual report on Form 10-K, unless otherwise indicated or the context otherwise requires:

"2007 Senior Subordinated Notes" refers to HDS's 13.5% Senior Subordinated Notes due 2015.

"2012 First Priority Notes" refers collectively to the April 2012 First Priority Notes and the Additional Notes.

"Additional Notes" refers to HDS's 8 1/8% Senior Secured First Priority Notes due 2019 issued on August 2, 2012 in an aggregate principal amount of $300 million.

"April 2012 First Priority Notes" refers to HDS's 8 1/8% Senior Secured First Priority Notes due 2019 issued on April 12, 2012 in an aggregate principal amount of $950 million.

"April 2012 Second Priority Notes" refers to HDS's 11.0% Senior Secured Second Priority Notes due 2020 issued on April 12, 2012 in an aggregate principal amount of $675 million.

"December 2014 First Priority Notes" refers to HDS's 5.25% Senior Secured First Priority Notes due 2021 issued on December 4, 2014 in an aggregate principal amount of $1,250 million.

"February 2013 Senior Unsecured Notes" refers to HDS's 7.50% Senior Notes due 2020 issued on February 1, 2013 in an aggregate principal amount of $1,275 million.

"January 2013 Senior Subordinated Notes" refers to HDS's 10.5% Senior Subordinated Notes due 2021 issued on January 16, 2013 in an aggregate principal amount of $950 million.

"October 2012 Senior Unsecured Notes" refers to HDS's 11.50% Senior Notes due 2020 issued on October 15, 2012 in an aggregate principal amount of $1,000 million.

"Senior ABL Facility" refers to HDS's asset based lending facility issued on April 12, 2012, providing 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 the borrowing base).

"Senior Credit Facilities" refers collectively to the Senior ABL Facility and the Term Loan Facility.

"Senior Notes" refers collectively to the December 2014 First Priority Notes, October 2012 Senior Unsecured Notes and February 2013 Senior Unsecured Notes.

"Term Loan" refers to the term loans issued under the Term Loan Facility.

"Term Loan Facility" refers to HDS's senior secured credit facility issued on April 12, 2012, providing for Term Loans in an aggregate principal amount of $1,000 million.

Refinancing Transactions

On February 8, 2013, the net proceeds from the January 2013 Senior Subordinated Notes issuance were used to redeem all of the remaining outstanding principal amount of 2007 Senior Subordinated Notes at a price of 103.375%.

On February 15, 2013, HDS modified the Term Loan Facility to lower the applicable borrowing margins and replace the hard call provision applicable to optional prepayment of term loans thereunder with a soft call option.

On June 28, 2013, HDS amended the Senior ABL Facility to reduce the applicable margins, reduce the commitment fee, extend the maturity date, make certain changes to the borrowing base, and reduce the sublimit available for letters of credit.

On August 1, 2013, HDS redeemed all $950 million outstanding aggregate principal amount of the January 2013 Senior Subordinated Notes at a redemption price equal to 103%.

On February 6, 2014, HDS amended the Term Loan Facility to lower the applicable borrowing margins, extend the maturity date, add a soft call provision applicable to optional prepayment of term loans thereunder, and add a provision whereby HDS may withhold up to $150 million from repayments otherwise required to be made with the proceeds of asset sales and use such proceeds to repay any debt, including debt that is junior to the term loans.

On December 4, 2014, HDS issued the December 2014 First Priority Notes at par.

On December 19, 2014, HDS used the net proceeds from the December 2014 First Priority Notes issuance, together with available cash, to redeem all of the outstanding 2012 First Priority Notes.

On August 13, 2015, HDS amended the Term Loan Facility to lower the applicable borrowing margins, extend the maturity date, and prepay in full the tranche of senior secured loans outstanding under the Term Loan Facility.

On October 13, 2015, HDS used the net proceeds from the sale of the Power Solutions business unit to redeem all of the outstanding $675 million aggregate principal amount of its April 2012 Second Priority Notes.

HDS's Senior Credit Facilities, December 2014 First Priority Notes, October 2012 Senior Notes and February 2013 Senior Unsecured Notes are discussed in greater detail in "Item 8. Financial Statements and Supplementary Data Notes to the Consolidated Financial Statements Note 7, Debt" within this annual report on Form 10-K.

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Glossary of Certain Other Terms

AMI	Advanced Meter Infrastructure
AMR	Automated Meter Reading
ASC	Accounting Standards Codification
DCF	Discounted cash flow
DOT	U.S. Department of Transportation
Exchange Act	Securities Exchange Act of 1934
Fiscal 2013	Fiscal year ended February 2, 2014
Fiscal 2014	Fiscal year ended February 1, 2015
Fiscal 2015	Fiscal year ended January 31, 2016
GAAP	Generally accepted accounting principles in the United States of America
Gross margin	Gross profit as a percentage of net sales
HDS	HD Supply, Inc.
HDPE	High-density polyethylene
Holdings	HD Supply Holdings, Inc.
Home Depot	The Home Depot, Inc.
HVAC	Heating, ventilating, and air conditioning
IPVF	Industrial Pipes, Valves and Fittings
MRO	Maintenance, repair and operations
NOLs	Net operating losses
Peachtree	Peachtree Business Products LLC
PIK	Paid-in-kind
PVC	Polyvinyl chlorides
RAMSCO	Rexford Albany Municipal Supply Company, Inc.
SKU	Stock-keeping unit
SEC	U.S. Securities and Exchange Commission
U.S.	United States
Vendor rebates	Vendors providing for inventory purchase rebates

Forward-looking statements and information

This annual report on Form 10-K includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that are based on management's beliefs and assumptions and information currently available to management. 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 reflected in forward-looking statements relating to our

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operations and business, the risks and uncertainties discussed in this annual report on Form 10-K (See Item 1A, Risk Factors) and those described from time to time in our other filings with the SEC. Factors that could cause actual results to differ from those reflected in forward-looking statements relating to our operations and business include:

- inherent risks of the maintenance, repair and operations market, infrastructure spending and the non-residential and residential construction markets;
- our ability to maintain profitability;
- our 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, infrastructure spending 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 annual report on Form 10-K 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 annual report on Form 10-K, and we do not undertake any obligation, other than as may be required by law, to update or revise any forward-looking statements to reflect changes in assumptions, the occurrence of unanticipated events, changes in future operating results over time or otherwise. Comparisons of results for current and any prior periods are not intended to express any future trends or indications of future performance, unless expressed as such, and should only be viewed as historical data.

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PART I

ITEM 1. BUSINESS

Our Company

HD Supply is one of the largest industrial distributors in North America. We believe we have leading positions in the three distinct market sectors in which we specialize: Maintenance, Repair & Operations ("MRO"); Infrastructure; and Specialty Construction. These market sectors are large and fragmented, and we believe they present opportunities for significant growth. We aspire to be the "First Choice" of customers, associates, suppliers and the communities in which we operate. This aspiration drives our relentless focus and is reflected in the customer and market centricity, speed and precision, intense teamwork, process excellence and trusted relationships that define our culture. We believe this aspiration distinguishes us from other distributors and has created value for our shareholders, driven above-market growth and delivered attractive returns on invested capital.

We serve our markets with an integrated go-to-market strategy. We operate through approximately 550 locations across 48 U.S. states and six Canadian provinces. We have approximately 14,000 associates delivering localized, customer-tailored products, services and expertise. We serve approximately 500,000 customers, which include contractors, government entities, maintenance professionals, home builders and industrial businesses. Our broad range of end-to-end product lines and services include approximately 850,000 stock-keeping units ("SKUs") of quality, name-brand and proprietary-brand products as well as value-add services supporting the entire life-cycle of a project from infrastructure and construction to maintenance, repair and operations.

For the fiscal year ended January 31, 2016, or fiscal 2015, we:

- generated $7 billion in Net sales, representing 6.0% growth over the fiscal year ended February 1, 2015, or fiscal 2014;
- generated Net income of $1,472 million in fiscal 2015, as compared to a Net income of $3 million in fiscal 2014;
- generated $878 million of Adjusted EBITDA, representing 13.3% growth over fiscal 2014; and
- generated $351 million of Adjusted net income in fiscal 2015, as compared to $179 million in fiscal 2014.

For a reconciliation of Net income (loss), the most directly comparable financial measure under GAAP, to Adjusted EBITDA and Adjusted net income, see "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Key Business Metrics Adjusted EBITDA and Adjusted Net Income (Loss)."

We believe our long-standing customer relationships and competitive advantage stem from our knowledgeable associates, extensive product and service offerings, national footprint, integrated best-in-class technology, broad purchasing scale and strategic supplier relationships. We believe that our comprehensive supply chain solutions improve the effectiveness and efficiency of our customers' businesses. Our value-add services include customer training, material and product fabrication, kitting, jobsite delivery, will-call pickup options, as well as onsite managed inventory, online material management and emergency response capabilities. Furthermore, we believe our product application knowledge, comprehensive product assortment, and sourcing expertise allow our customers to perform reliably and give them the tools to enhance profitability.

We reach our customers through a variety of sales channels, including professional outside and inside sales forces, call centers and branch-supported direct marketing programs utilizing market-specific product catalogs, and business unit websites. Our distribution network allows us to provide rapid, reliable, on-time delivery and customer pickup throughout the U.S. and Canada. Additionally, we

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believe our highly integrated, best-in-class technology provides leading e-commerce and integrated workflow capabilities for our customers, while providing us unparalleled pricing, budgeting, reporting and analytical capabilities across our Company. We believe customers view us as an integral part of the value chain due to our extensive product knowledge, expansive product availability and the ability to directly integrate with their systems and workflows.

Our Strategy

Since 2007 we have undertaken significant operating and growth initiatives at all levels. We developed and are implementing a multi-year strategy to optimize our business mix. This strategy includes entering new markets and product lines, streamlining and upgrading our process and technology capabilities, acquiring new capabilities and selling non-core business units. At the same time, we attracted what we believe to be "best of the best" talent, capitalizing on relevant experience, teamwork and change navigation.

Each of our businesses invest in high-growth initiatives that align with our five growth plays:

1. Sell More to Existing Customers (i.e., Share of Wallet)
2. Introduce New Products and Services
3. Expand the Channels to Reach Our Customers (e.g., Internet, Catalog, Mobility)
4. Acquire New Customers
5. Enter New Geographies (i.e., Open New Locations)

Through investments in these growth plays, we believe we are well-positioned to grow in excess of the markets in which we operate. Specific initiatives focus on increasing penetration within our existing customer base, including the addition of new sales talent across the Company and a training facility for our Waterworks business to ensure we continue to have a highly trained sales force; and the addition of new products and services, including proprietary brands, primarily in our Facilities Maintenance business. We also continue to invest in mobile technologies and e-commerce, and to acquire new customers, primarily through sales talent acquisition and entering new geographies.

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

Facilities Maintenance. Facilities Maintenance distributes MRO products, provides value-add services and fabricates custom products. Our Facilities Maintenance business unit serves the owners of 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, print catalogs and e-commerce.

Waterworks. Waterworks distributes complete lines of water and wastewater transmission products, serving contractors and municipalities in the water and wastewater industries for non-residential and residential uses. Our Waterworks business unit serves non-residential, residential, water systems, sewage systems and other markets. Waterworks reaches customers through a nationwide network of regionally organized branches and operates a bid-based model, primarily for municipal projects. Products include pipes, fittings, valves, hydrants and meters for use in the construction, maintenance and repair of water and waste-water systems as well as fire-protection systems. Waterworks has complemented its core

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products through additional offerings, including smart meters (AMR/AMI), fusible piping solutions and specific engineered treatment plant products and services. Waterworks' services and capabilities allow us to integrate with our customers and form part of their sourcing and procurement function.

Construction & Industrial White Cap. Construction & Industrial White Cap distributes specialized hardware, tools, engineered materials and safety products to non-residential and residential contractors. Service offerings range from pre-bid assistance and product submittals to engineering and tool repair. Construction & Industrial White Cap reaches customers through a nationwide network of regionally organized branches as well as print catalogs and e-commerce. 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.

Corporate & Other. In addition to the reportable segments, our consolidated financial results include "Corporate & Other." Corporate & Other is comprised of the following operating segments: Home Improvement Solutions and Interior Solutions. Home Improvement Solutions 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. Interior Solutions offers turnkey supply and installation services for multiple interior finish options, including flooring, cabinets, countertops, and window coverings, along with comprehensive design center services for non-residential, residential and senior living projects. Corporate & Other also includes costs related to our centralized support functions, which are comprised of finance, information technology, human resources, legal, supply chain and other support services, and removes inter-segment transactions.

Our Market Sectors

We offer a diverse range of products and services to the Maintenance, Repair & Operations, Infrastructure and Specialty Construction market sectors in the U.S. and Canada. The markets in which we operate have a high degree of customer and supplier fragmentation, with customers that typically demand a high level of service and availability of a broad set of complex products from a large number of suppliers. These market dynamics make the distributor a critical element within the value chain. Net sales for HD Supply outside of the U.S., primarily in Canada, were $125 million, $130 million, and $133 million in fiscal 2015, fiscal 2014, and fiscal 2013, respectively.

Maintenance, Repair & Operations

In the Maintenance, Repair & Operations market sector, our Facilities Maintenance and Home Improvement Solutions business units serve customers across multiple industries by primarily delivering supplies and services needed to maintain and upgrade multifamily, hospitality, healthcare and institutional facilities. Facilities Maintenance is a distribution center-based model, while Home Improvement Solutions operates through retail outlets primarily serving cash and carry customers. We estimate that this market sector currently represents an addressable market in excess of $51 billion annually with demand driven primarily by ongoing maintenance requirements of a broad range of existing structures and traditional repair and remodeling construction activity across multiple industries. We believe Facilities Maintenance customers value speed and product availability over price. We believe our maintenance, repair and operations business focused on living spaces, including apartment units, hotel or motel rooms and senior care living facilities, provides stable demand, particularly in a challenging economic environment, when new construction tends to decrease.

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Infrastructure

In the Infrastructure market sector, our Waterworks business unit supports both established infrastructure and new projects by meeting demand for critical supplies and services used to build and maintain water systems. We estimate that this market sector currently represents an addressable market in excess of $11 billion annually with demand in the U.S. driven primarily by an aging and overburdened national infrastructure and general population growth trends. The broad geographic presence of our Waterworks business unit, through a regionally organized branch distribution network, reduces our exposure to economic factors in any single region. We believe we have the potential to capitalize on a substantial backlog of deferred projects that will need to be addressed in the coming years as a result of our customers delaying much needed upgrades or repairs during the recent economic downturn as well as a continued recovery in the non-residential and residential construction markets.

Specialty Construction

In the Specialty Construction market sector, our Construction & Industrial White Cap and Interior Solutions business units serve professional contractors and trades by meeting their distinct and customized supply needs in non-residential, residential and industrial applications. We estimate that this market sector currently represents an addressable market of approximately $25 billion annually with demand driven primarily by residential construction, non-residential construction, industrial and repair and remodeling construction spending. Construction & Industrial White Cap is our primary business unit serving this sector through the broad national presence of its regionally organized branch distribution network, as well as branches in six Canadian provinces. Interior Solutions serves its market through a network of branches and design centers. We believe we are well-positioned to benefit from the continued recovery from historical lows within the non-residential and residential construction end-markets.

Our History

In March 1997, Home Depot, the former parent of our operating subsidiaries, acquired Maintenance Warehouse / America Corp., a Texas corporation organized on January 26, 1985, and a leading direct marketer of MRO products to the hospitality and multifamily housing markets. Since 1997, our business has grown rapidly, primarily through the acquisition of more than 40 businesses.

From fiscal 2000 to fiscal 2004, we extended our presence into new categories while growing existing businesses through 10 acquisitions. New businesses included plumbing and HVAC (through the acquisition of Apex Supply), flooring products and installation (Floors, Inc., Floorworks, Inc., Arvada Hardwood Floor Company) and specialty hardware, tools and materials for construction contractors (White Cap). Growth at existing businesses was driven organically and through "tuck-in" acquisitions, expanding our presence in the Maintenance, Repair & Operations market sector (N-E Thing Supply, Economy Maintenance Supply) and flooring and design services for professional homebuilders (Creative Touch Interiors).

In fiscal 2005, we accelerated the pace of consolidation by acquiring 18 businesses, the largest of which was National Waterworks, a leading distributor of products used to build, repair and maintain water and wastewater transmission systems. In fiscal 2006, we transformed our business with the acquisition of Hughes Supply, which doubled our Net sales and further established our market leadership in a number of our largest business units, which we supplemented with 11 other strategic acquisitions.

In 2007, investment funds associated with the Equity Sponsors formed Holdings and purchased HDS and the Canadian subsidiary CND Holdings, Inc. from Home Depot. In connection with the 2007

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Transactions, Home Depot obtained a 12.5% interest in the then outstanding common stock of Holdings.

Since 2007, we have focused on extending our presence in key growth sectors and exiting less attractive sectors. In February 2008, we sold our Lumber and Building Materials operations to ProBuild Holdings. In June 2009, we purchased substantially all of the assets of ORCO Construction Supply, the second largest construction materials distributor in the U.S., through Construction & Industrial White Cap. In February 2011, we sold all of the assets of SESCO/QUESCO, an electrical products division of HD Supply Canada, to Sonepar Canada. In May 2011, we purchased all of the assets of RAMSCO, expanding Waterworks in upstate New York. In September 2011, we sold our Plumbing/HVAC operations to Hajoca Corporation. In March 2012, we sold our IPVF business to Shale-Inland Holdings LLC. In June 2012, we acquired Peachtree, which specializes in customizable business and property marketing supplies, to enhance Facilities Maintenance. In December 2012, we purchased substantially all of the assets of Water Products, expanding the geographic footprint of Waterworks.

On July 2, 2013, Holdings completed an initial public offering of 61,170,212 shares of its common stock at a price of $18.00 per share, for an aggregate offering price of $1,039 million, net of underwriters' discounts and commissions and offering expenses of approximately $16 million.

During fiscal 2014, we finalized the disposal of Litemor and sold substantially all of the assets of our Hardware Solutions business. During fiscal 2015, we completed the sale of our Power Solutions business. For additional information on the discontinued operations, see Note 3, "Discontinued Operations," within "Part II. Item 8. Financial Statements and Supplementary Data."

Upon completion of Holdings' secondary public offerings in fiscal 2014 and fiscal 2015, the Equity Sponsors and Home Depot sold all of their remaining original investment in Holdings.

Customers and Suppliers

We maintain a customer base of approximately 500,000 customers, many of whom represent long-term relationships. We are subject to very low customer concentration with our ten largest customers generating approximately 8.8% of our Net sales in fiscal 2015, reducing our exposure to any single customer.

We have developed relationships with approximately 11,000 strategic suppliers, many of which are long-standing. These supplier relationships provide us with reliable access to inventory, volume purchasing benefits and the ability to deliver a diverse product offering on a cost-effective basis. We maintain multiple suppliers for a substantial number of our products, thereby limiting the risk of product shortage for customers.

Competition

We operate in a highly fragmented industry and hold leading positions in multiple market sectors. Competition, including our competitors and specific competitive factors, varies for each market sector. The majority of our competition comes from mid-size regional distributors and small, local distributors; however, we also face competition from a number of national competitors, including Fastenal, Grainger, MSC Industrial, Watsco, Interline Brands (a Division of Home Depot) and Ferguson (a Division of Wolseley plc).

We believe the principal competitive factors for our market sectors include local selling capabilities, availability, breadth and cost of materials and supplies, technical knowledge and expertise, value-add service capabilities, customer and supplier relationships, reliability and accuracy of service, effective use of technology, delivery capabilities and timeliness, pricing of products, and the provision of credit. We believe that our competitive strengths and strategy allow us to compete effectively in our market sectors.

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 and customer deliveries.

Products

***Maintenance, Repair & Operations*:**

Facilities Maintenance: 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.

Home Improvement Solutions: Kitchen cabinets, windows, plumbing materials, masonry, electrical equipment, lumber, flooring and tools and tool rentals for small remodeling, home improvement and do-it-yourself residential projects.

***Infrastructure*:**

Waterworks: Water and wastewater transmission products including pipe (PVC, Ductile Iron, HDPE), fittings, valves, fire protection, metering systems, storm drain, hydrants, fusion machine rental, valve testing and repair.

***Specialty Construction*:**

Construction & Industrial White Cap: Concrete accessories and chemicals, tools, engineered materials and fasteners, safety, erosion and waterproofing.

Interior Solutions: Flooring, cabinets, countertops and window coverings, along with comprehensive design center services, for the interior finish of non-residential, residential and senior living projects.

Intellectual property

Our trademarks and those of our subsidiaries are registered or otherwise legally protected in the U.S., Canada and elsewhere. We, together with our subsidiaries, own approximately 160 trademarks registered worldwide. We also rely upon trade secrets and know-how to develop and maintain our competitive position. We protect intellectual property rights through a variety of methods, including trademark, patent, copyright and trade secret laws, in addition to confidentiality agreements with suppliers, employees, consultants and others who have access to our proprietary information. Generally, registered trademarks have a perpetual life, provided that they are renewed on a timely basis and continue to be used properly as trademarks. We intend to maintain our material trademark registrations so long as they remain valuable to our business. Other than the trademarks HD Supply ®, USABluebook ®, Seasons ®, Brigade ®, Maintenance Warehouse ® and White Cap ®, we do not believe our business is dependent to a material degree on trademarks, patents, copyrights or trade secrets. Other than commercially available software licenses, we do not believe that any of our licenses for third-party intellectual property are material to our business, taken as a whole. See "Risk Factors Risks Relating to Our Business If we are unable to protect our intellectual property rights, or we infringe on the intellectual property rights of others, our ability to compete could be negatively impacted."

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Employees

In domestic and international operations, we had approximately 14,000 employees as of January 31, 2016, consisting of approximately 9,000 hourly personnel and approximately 5,000 salaried employees.

As of January 31, 2016, less than one percent of our hourly workforce was covered by collective bargaining agreements.

Regulation

Our operations are affected by various statutes, regulations and laws in the markets in which we operate, which historically have not had a material effect on our business. While we are not engaged in a regulated industry, we are subject to various laws applicable to businesses generally, including laws affecting land usage, zoning, the environment, health and safety, transportation, labor and employment practices (including pensions), competition, immigration and other matters. Additionally, building codes may affect the products our customers are allowed to use, and consequently, changes in building codes may affect the saleability of our products. The transportation and disposal of many of our products are also subject to federal regulations. The DOT regulates our operations in domestic interstate commerce. We are subject to safety requirements governing interstate operations prescribed by the DOT. Vehicle dimensions and driver hours of service also remain subject to both federal and state regulation. See "Risk Factors Risks Relating to Our Business Our costs of doing business could increase as a result of changes in U.S. federal, state or local regulations."

Environmental, Health and Safety Matters

We are subject to a broad range of foreign, federal, state and local environmental, health and safety laws and regulations, including those pertaining to air emissions, water discharges, the handling, disposal and transport of solid and hazardous materials and wastes, the investigation and remediation of contamination and otherwise relating to health and safety and the protection of the environment and natural resources. As our operations, and those of many of the companies we have acquired, to a limited extent involve and have involved the handling, transport and distribution of materials that are, or could be classified as, toxic or hazardous, there is some risk of contamination and environmental damage inherent in our operations and the products we handle, transport and distribute. Our environmental, health and safety liabilities and obligations may result in significant capital expenditures and other costs, which could negatively impact our business, financial condition and results of operations. We may be fined or penalized by regulators for failing to comply with environmental, health and safety laws and regulations, or we may be held responsible for such failures by companies we have acquired. In addition, contamination resulting from our current or past operations, and those of many of the companies we have acquired, may trigger investigation or remediation obligations, which may have a material adverse effect on our business, financial condition and results of operations.

Available Information

We are subject to the reporting and information requirements of the Exchange Act and, as a result, we file periodic reports and other information with the SEC.

The public may read and copy any such reports or other information that we file with the SEC. Such filings are available to the public over the internet at the SEC's website at http://www.sec.gov. The SEC's website is included in this annual report on Form 10-K as an inactive textual reference only.

In addition, the Company's annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports are available free of charge to the public through the "Investor Relations" portion of the Company's website, www.hdsupply.com, as soon as

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reasonably practical after they are filed with the SEC. We include our website address in this filing only as a textual reference. The information contained on our website is not incorporated by reference into this report. You may also obtain a copy of any information that we file with the SEC at no cost by calling us, or writing to us, at the following address:

HD Supply
3100 Cumberland Boulevard, Suite 1480
Atlanta, Georgia 30339
Attn: General Counsel
(770) 852-9000

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ITEM 1A. RISK FACTORS

Risks Relating to Our Business

We are subject to inherent risks of the maintenance, repair and operations market, infrastructure spending and the non-residential and residential construction markets, including risks related to general economic conditions.

Demand for our products and services depends to a significant degree on spending in our markets. The level of activity in our markets depends on a variety of factors that we cannot control.

Historically, both new housing starts and residential remodeling have decreased in slow economic periods. In addition, residential construction activity can impact the level of non-residential construction activity. Other factors impacting the level of activity in the non-residential and residential construction markets include:

- changes in interest rates;
- unemployment rates;
- high foreclosure rates and unsold/foreclosure inventory;
- unsold new housing inventory;
- availability of financing (including the impact of disruption in the mortgage markets);
- adverse changes in industrial economic outlook;
- a decrease in the affordability of homes;
- vacancy rates;
- capacity utilization;
- capital spending;
- commercial investment;
- corporate profitability;
- local, state and federal government regulation; and
- shifts in populations away from the markets that we serve.

Infrastructure spending depends largely on interest rates, availability and commitment of public funds for municipal spending, capacity utilization and general economic conditions. In the maintenance, repair and operations market, the level of activity depends largely on the number of units and occupancy rates within multifamily, hospitality, healthcare and institutional facilities markets. Because all of our markets are sensitive to changes in the economy, downturns (or lack of substantial improvement) in the economy in any region in which we operate have adversely affected and could continue to adversely affect our business, financial condition and results of operations. For example, we distribute many of our products to waterworks contractors in connection with non-residential building, residential and industrial construction projects. The water and wastewater transmission products industry is affected by changes in economic conditions, including national, regional and local standards in construction activity, and the amount spent by municipalities on waterworks infrastructure. While we operate in many markets in the U.S. and Canada, our business is particularly impacted by changes in the economies of California, Texas and Florida, which represented approximately 19.1%, 11.4% and 9.0%, respectively, of our Net sales for fiscal 2015.

In addition, the markets in which we compete are sensitive to general business and economic conditions in the U.S. and worldwide, including availability of credit, interest rates, fluctuations in capital, credit and mortgage markets and business and consumer confidence. Adverse developments in global financial markets and general business and economic conditions, including through recession, downturn or otherwise, could have a material adverse effect on our business, financial condition, results of operations and cash flows, including our ability and the ability of our customers and suppliers to access capital. There was a significant decline in economic growth, both in the U.S. and worldwide, that began in the second half of 2007 and continued through 2009. In addition, volatility and disruption in the capital markets during that period reached unprecedented levels, with stock markets falling dramatically and credit becoming very expensive or unavailable to many companies without regard to those companies' underlying financial strength. As a result of these developments, many lenders and institutional investors reduced, and in some cases, ceased to provide funding to borrowers. Although there have been some indications of stabilization in the general economy and certain industries and markets in which we operate, there can be no guarantee that any improvement in these areas will continue or be sustained.

We have been, and may continue to be, adversely impacted by the decline in the new residential construction market since its peak in 2005.

Most of our business units are dependent to varying degrees upon the new residential construction market. The homebuilding industry has undergone a significant decline from its peak in 2005. According to the U.S. Census Bureau, actual single family housing starts in the U.S. during 2015 increased 10% from 2014 levels, but remain 58% below their peak in 2005. The multi-year downturn in the homebuilding industry has resulted in a substantial reduction in demand for our products and services, which in turn has had a significant adverse effect on our business and operating results during fiscal years 2008 to 2015, as compared to peak levels. In addition, during this period the mortgage markets experienced disruption and reduced availability of mortgages for potential homebuyers due to more restrictive standards to qualify for mortgages, including with respect to new home construction loans.

We cannot predict the duration of the current housing industry market conditions, or the timing or strength of any future recovery of housing activity in our markets. We also cannot provide any assurances that the homebuilding industry will recover to historical levels, or that the operational strategies we have implemented to address the current market conditions will be successful. Continued weakness in the new residential construction market could have a significant adverse effect on our business, financial condition and operating results. In addition, because of these factors, there may be fluctuations in our operating results, and the results for any historical period may not be indicative of results for any future period.

The non-residential building construction market continues to experience a downturn which could materially and adversely affect our business, liquidity and results of operations.

A number of our business units are dependent on the non-residential building construction market and the slowdown and volatility of the U.S. economy in general is having an adverse effect on our business units that serve this industry. According to the U.S. Census Bureau, actual non-residential building construction put-in-place in the U.S. during 2015 increased 17%, but remains 12% lower than 2008 levels. From time to time, our business units that serve the non-residential building construction market have also been adversely affected in various parts of the country by declines in non-residential building construction starts due to, among other things, changes in tax laws affecting the real estate industry, high interest rates and the level of residential construction activity. Continued uncertainty about current economic conditions will continue to pose a risk to our business units that serve the non-residential building construction market as participants in this industry may postpone spending in response to tighter credit, negative financial news and/or declines in income or asset values, which could have a continued material negative effect on the demand for our products and services.

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We cannot predict the duration of the current market conditions or the timing or strength of any future recovery of non-residential building construction activity in our markets. Continued weakness in the non-residential building construction market would have a significant adverse effect on our business, financial condition and operating results. In addition, because of these factors, there may be fluctuations in our operating results, and the results for any historical period may not be indicative of results for any future period.

Residential renovation and improvement activity levels may not return to historical levels which may negatively impact our business, liquidity and results of operations.

Certain of our business units rely on residential renovation and improvement (including repair and remodeling) activity levels. Unlike most previous cyclical declines in new home construction in which we did not experience comparable declines in our home improvement business units, the recent economic decline adversely affected our home improvement business units as well. Management believes that residential improvement project spending in the U.S. increased 11% in 2015, but remains 29% below its peak level in 2005. Elevated unemployment levels, mortgage delinquency and foreclosure rates, limitations in the availability of mortgage and home improvement financing and lower housing turnover may continue to limit consumers' spending, particularly on discretionary items, and affect their confidence level leading to continued reduced spending on home improvement projects.

We cannot predict the timing or strength of a significant recovery in these markets. Continued depressed activity levels in consumer spending for home improvement and new home construction will continue to adversely affect our business, liquidity, results of operations and our financial position. Furthermore, continued economic weakness may cause unanticipated shifts in consumer preferences and purchasing practices and in the business models and strategies of our customers. Such shifts may alter the nature and prices of products demanded by the end consumer, and, in turn, our customers and could adversely affect our operating performance.

We may be unable to maintain profitability.

We have set goals to progressively improve our profitability over time by growing our sales, increasing our gross margin and reducing our expenses as a percentage of sales. For fiscal years 2015 and 2014, we had net income of $1,472 million and $3 million, respectively. For fiscal year 2013, we had a net loss of $218 million. There can be no assurance that we will achieve our enhanced profitability goals. Factors that could significantly adversely affect our efforts to achieve these goals include, but are not limited to, the failure to:

- grow our revenue through organic growth or through acquisitions;
- improve our revenue mix by investing (including through acquisitions) in businesses that provide higher margins than we have been able to generate historically;
- achieve improvements in purchasing or maintain or increase our rebates from vendors through our vendor consolidation and/or low-cost country initiatives;
- improve our gross margins through the utilization of improved pricing practices and technology and sourcing savings;
- maintain or reduce our overhead and support expenses as we grow;
- effectively evaluate future inventory reserves;
- collect monies owed to us from customers;
- maintain relationships with our significant customers; and
- integrate any businesses acquired.

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Any of these failures or delays may adversely affect our ability to increase our profitability.

We may be required to take impairment charges relating to our operations which could impact our future operating results.

As of January 31, 2016, goodwill represented approximately 48% of our total assets. Goodwill is not amortized and is subject to impairment testing at least annually using a fair value based approach. The identification and measurement of impairment involves the estimation of the fair value of reporting units. The estimates of fair value of reporting units are based on the best information available as of the date of the assessment and incorporate management assumptions about expected future cash flows and other valuation techniques. Future cash flows can be affected by changes in industry or market conditions among other things.

The recoverability of goodwill is evaluated at least annually and when events or changes in circumstances indicate that the fair value of a reporting unit has more likely than not declined below its carrying value. The annual impairment test resulted in no impairment of goodwill during fiscal 2015, fiscal 2014, or fiscal 2013.

We cannot accurately predict the amount and timing of any impairment of assets, and we may be required to take goodwill or other asset impairment charges relating to certain of our reporting units and asset groups, if weakness in the non-residential and/or residential construction markets and/or the general U.S. economy continues. Similarly, certain company transactions could result in goodwill impairment charges being recorded. Any such non-cash charges would have an adverse effect on our financial results.

In view of the general economic downturn in the U.S., we may be required to close under-performing locations.

We may have to close under-performing branches from time to time as warranted by general economic conditions and/or weakness in the industries in which we operate. For example, during fiscal 2014, we closed certain branches and terminated employees as part of our on-going cost savings and profitability enhancement efforts. Any future facility closures could have a significant adverse effect on our financial condition, operating results and cash flows.

We occupy most of our facilities under long-term non-cancelable leases. We may be unable to renew leases on favorable terms or at all. Also, if we close a facility, we may remain obligated under the applicable lease.

Most of our facilities are located in leased premises. Many of our current leases are non-cancelable and typically have terms ranging from 3 to 5 years, with options to renew for specified periods of time. We believe that leases we enter into in the future will likely be long-term and non-cancelable and have similar renewal options. However, there can be no assurance that we will be able to renew our current or future leases on favorable terms or at all which could have an adverse effect on our ability to operate our business and on our results of operations. In addition, if we close or idle a facility, we generally remain committed to perform our obligations under the applicable lease, which include, among other things, payment of the base rent for the balance of the lease term. Over the course of the last three fiscal years, we closed or idled facilities for which we remain liable on the lease obligations. Our obligation to continue making rental payments in respect of leases for closed or idled facilities could have a material adverse effect on our business and results of operations.

The industries in which we operate are highly competitive and fragmented, and demand for our products and services could decrease if we are not able to compete effectively.

The markets in which we operate are fragmented and highly competitive. Our competition includes other distributors and manufacturers that sell products directly to their respective customer base and

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some of our customers that resell our products. To a limited extent, retailers of electrical fixtures and supplies, building materials, maintenance, repair and operations supplies and contractors' tools also compete with us. We also expect that new competitors may develop over time as internet-based enterprises become more established and reliable and refine their service capabilities. Competition varies depending on product line, customer classification and geographic area.

We compete with many local, regional and, in several markets and product categories, other national distributors. Several of our competitors in one or more of our business units have substantially greater financial and other resources than us. No assurance can be given that we will be able to respond effectively to such competitive pressures. Increased competition by existing and future competitors could result in reductions in sales, prices, volumes and gross margins that could materially adversely affect our business, financial condition and results of operations. Furthermore, our success will depend, in part, on our ability to maintain our market share and gain market share from competitors.

In addition, contracts with municipalities are often awarded and renewed through periodic competitive bidding. We may not be successful in obtaining or renewing these contracts, which could be harmful to our business and financial performance.

Our competitors continue to consolidate, which could cause markets to become more competitive and could negatively impact our business.

Our competitors in the U.S. and Canada continue to consolidate. This consolidation is being driven by customer needs and supplier capabilities, which could cause markets to become more competitive as greater economies of scale are achieved by distributors. Customers are increasingly aware of the total costs of fulfillment and of the need to have consistent sources of supply at multiple locations. We believe these customer needs could result in fewer distributors as the remaining distributors become larger and more capable of being consistent sources of supply.

There can be no assurance that we will be able to take advantage effectively of this trend toward consolidation. The trend in our industry toward consolidation could make it more difficult for us to maintain operating margins and could also increase competition for our potential acquisition targets and result in higher purchase price multiples. Furthermore, as our industrial and construction customers face increased foreign competition and potentially lose business to foreign competitors or shift their operations overseas in an effort to reduce expenses, we may face increased difficulty in growing and maintaining our market share and growth prospects in these markets.

The loss of any of our significant customers could adversely affect our financial condition.

Our ten largest customers generated approximately 8.8% of our Net sales in fiscal 2015. We cannot guarantee that we will maintain or improve our relationships with these customers or that we will continue to supply these customers at historical levels. During the economic downturn, some of our customers reduced their operations. For example, some homebuilder customers exited or severely curtailed building activity in certain of our markets. There is no assurance that our customers will determine to increase their operations or return to historic levels. Slow economic recovery could continue to have a significant adverse effect on our financial condition, operating results and cash flows.

In addition, consolidation among customers could also result in a loss of some of our present customers to our competitors. The loss of one or more of our significant customers, a significant customer's decision to purchase our products in significantly lower quantities than they have in the past or deterioration in our relationship with any of our significant customers could significantly affect our financial condition, operating results and cash flows.

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Generally, our customers are not required to purchase any minimum amount of products from us. The contracts into which we have entered with most of our customers typically provide that we supply particular products or services for a certain period of time when and if ordered by the customer. Should our customers purchase our products in significantly lower quantities than they have in the past, such decreased purchases could have a material adverse effect on our financial condition, operating results and cash flows.

The majority of our Net sales are credit sales which are made primarily to customers whose ability to pay is dependent, in part, upon the economic strength of the industry and geographic areas in which they operate, and the failure to collect monies owed from customers could adversely affect our financial condition.

The majority of our Net sales volume in fiscal 2015 was facilitated through the extension of credit to our customers whose ability to pay is dependent, in part, upon the economic strength of the industry in the areas where they operate. Our business units offer credit to customers, either through unsecured credit that is based solely upon the creditworthiness of the customer, or secured credit for materials sold for a specific job where the security lies in lien rights associated with the material going into the job. The type of credit offered depends both on the financial strength of the customer and the nature of the business in which the customer is involved. End users, resellers and other non-contractor customers generally purchase more on unsecured credit than secured credit. The inability of our customers to pay off their credit lines in a timely manner, or at all, would adversely affect our financial condition, operating results and cash flows. Furthermore, our collections efforts with respect to non-paying or slow-paying customers could negatively impact our customer relations going forward.

Because we depend on the creditworthiness of certain of our customers, if the financial condition of our customers declines, our credit risk could increase. Significant contraction in our markets, coupled with tightened credit availability and financial institution underwriting standards, could adversely affect certain of our customers. Should one or more of our larger customers declare bankruptcy, it could adversely affect the collectability of our accounts receivable, bad debt reserves and net income.

We are subject to competitive pricing pressure from our customers.

Certain of our largest customers historically have exerted significant pressure on their outside suppliers to keep prices low because of their market share and their ability to leverage such market share in the highly fragmented building products supply industry. The economic downturn has resulted in increased pricing pressures from our customers. If we are unable to generate sufficient cost savings to offset any price reductions, our financial condition, operating results and cash flows may be adversely affected.

Future strategic transactions could impact our reputation, business, financial position, results of operations and cash flows, and we may not achieve the acquisition component of our growth strategy.

We may pursue strategic transactions in the future, which could involve acquisitions or dispositions of businesses or assets. Any future strategic transaction could involve integration or implementation challenges, business disruption or other risks, or change our business profile significantly. Any inability on our part to successfully implement strategic transactions could have an adverse impact on our reputation, business, financial position, results of operations and cash flows. Any acquisition that we make may not provide us with the benefits that were anticipated when entering into such acquisition. Any future disposition transactions could also impact our business and may subject us to various risks, including failure to obtain appropriate value for the disposed businesses, post-closing claims being levied against us and disruption to our other businesses during the sale process or thereafter.

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In addition, although acquisitions may continue to be an important component of our growth strategy, there can be no assurance that we will be able to continue to grow our business through acquisitions as we have done historically or that any businesses acquired will perform in accordance with expectations or that business judgments concerning the value, strengths and weaknesses of businesses acquired will prove to be correct. Future acquisitions may result in the incurrence of debt and contingent liabilities, an increase in interest expense and amortization expense and significant charges relative to integration costs. Our strategy could be impeded if we do not identify suitable acquisition candidates, and our financial condition and results of operations will be adversely affected if we overpay for acquisitions.

Acquisitions involve a number of special risks, including:

- problems implementing disclosure controls and procedures for the newly acquired business;
- unforeseen difficulties extending internal control over financial reporting and performing the required assessment at the newly acquired business;
- potential adverse short-term effects on operating results through increased costs or otherwise;
- diversion of management's attention and failure to recruit new, and retain existing, key personnel of the acquired business;
- failure to successfully implement infrastructure, logistics and systems integration;
- our business growth could outpace the capability of our systems; and
- the risks inherent in the systems of the acquired business and risks associated with unanticipated events or liabilities, any of which could have a material adverse effect on our business, financial condition and results of operations.

In addition, we may not be able to obtain financing necessary to complete acquisitions on attractive terms or at all.

A range of factors may make our quarterly revenues and earnings variable.

We have historically experienced, and in the future expect to continue to experience, variability in revenues and earnings on a quarterly basis. The factors expected to contribute to this variability include, among others: (i) the cyclical nature of some of the markets in which we compete, including the non-residential and residential construction markets, (ii) general economic conditions in the various local markets in which we compete, (iii) the pricing policies of our competitors, (iv) the production schedules of our customers and (v) the effects of the weather. These factors, among others, make it difficult to project our operating results on a consistent basis, which may affect the value of our securities.

The maintenance, repair and operations market, infrastructure spending and the non-residential and residential construction markets are seasonal and cyclical.

Although weather patterns affect our operating results throughout the year, adverse weather historically has reduced construction and maintenance and repair activity in our first and fourth fiscal quarters. In contrast, our highest volume of Net sales historically has occurred in our second and third fiscal quarters. To the extent that hurricanes, severe storms, floods, other natural disasters or similar events occur in the geographic regions in which we operate, our business may be adversely affected. In addition, most of our business units experience seasonal variation as a result of the dependence of our customers on suitable weather to engage in construction, maintenance and renovation and improvement projects. For example, our Construction & Industrial White Cap business unit sells products used primarily in the non-residential and residential construction industry. Generally, during the winter

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months, construction activity declines due to inclement weather and shorter daylight hours. As a result, operating results for the business units that experience such seasonality may vary significantly from period to period. We anticipate that fluctuations from period to period will continue in the future.

Disruptions at distribution centers or shipping ports, due to events such as work stoppages, as well as disruptions caused by tornadoes, hurricanes, blizzards and other storms and natural disasters from time to time, may affect our ability to both maintain key products in inventory and deliver products to our customers on a timely basis, which may in turn adversely affect our results of operations.

In addition, infrastructure spending and the non-residential and residential construction markets are subject to cyclical market pressures. The length and magnitude of these cycles have varied over time and by market. Prices of the products we sell are historically volatile and subject to fluctuations arising from changes in supply and demand, national and international economic conditions, labor costs, competition, market speculation, government regulation and trade policies, as well as from periodic delays in the delivery of our products. We have a limited ability to control the timing and amount of changes to prices that we pay for our products. In addition, the supply of our products fluctuates based on available manufacturing capacity. A shortage of capacity, or excess capacity, in the industry can result in significant increases or declines in market prices for those products, often within a short period of time. Such price fluctuations can adversely affect our financial condition, operating results and cash flows.

Fluctuating commodity prices may adversely impact our results of operations.

The cost of steel, ductile iron, polyvinyl chlorides ("PVC") and other commodities used in the products we distribute can be volatile. Although we attempt to resist cost increases by our suppliers and to pass on increased costs to our customers, we are not always able to do so quickly or at all. In addition, if prices decrease for commodities used in products we distribute, we may have inventories purchased at higher prices than prevailing market prices. Significant fluctuations in the cost of the commodities used in products we distribute have in the past adversely affected, and in the future may adversely affect, our results of operations and financial condition.

If petroleum prices increase, our results of operations could be adversely affected. Conversely, prolonged weakness in the oil and gas industry could negatively impact our financial condition, results of operations and cash flows.

Petroleum prices have fluctuated significantly in recent years. Prices and availability of petroleum products are subject to political, economic and market factors that are outside our control. Political events in petroleum-producing regions as well as hurricanes and other weather-related events may cause the price of fuel to increase. Within our business units, we deliver products to our customers via our own trucks as well as third-party carriers. Our operating profit will be adversely affected if we are unable to obtain the fuel we require or to fully offset the anticipated impact of higher fuel prices through increased prices or fuel surcharges to our customers. Besides passing fuel costs on to customers, we have not entered into any hedging arrangements that protect against fuel price increases, and we do not have any long-term fuel purchase contracts. If shortages occur in the supply of necessary petroleum products and we are not able to pass along the full impact of increased petroleum prices to our customers, our results of operations would be adversely affected.

A number of our branch locations serve customers that are either direct or indirect participants in the oil & gas industry, such as our Waterworks business unit's supplying of High Density Polyethylene pipe to oil and gas related customers. A number of our branch locations are also geographically located in or near areas where the oil & gas industry is a significant component of the overall local economy, such as in Texas and in the various shale gas producing regions within the U.S. and Canada. If the prices of oil and gas continue to remain relatively low and our customers are negatively impacted, then our customers' demand for our products and services could also be negatively impacted which would have an adverse effect on our financial condition, results of operations and cash flows.

Product shortages may impair our operating results.

Our ability to offer a wide variety of products to our customers is dependent upon our ability to obtain adequate product supply from manufacturers or other suppliers. Generally, our products are obtainable from various sources and in sufficient quantities. However, the loss of, or substantial decrease in the availability of, products from our suppliers, or the loss of our key supplier agreements, could adversely impact our financial condition, operating results and cash flows. In addition, supply interruptions could arise from shortages of raw materials (including petroleum products), labor disputes or weather conditions affecting products or shipments, transportation disruptions or other factors beyond our control. Short- and long-term disruptions in our supply chain would result in a need to maintain higher inventory levels as we replace similar product, a higher cost of product and ultimately a decrease in our Net sales and profitability. A disruption in the timely availability of our products by our key suppliers would result in a decrease in our revenues and profitability, especially in our business units with supplier concentration, such as our Waterworks business. Although in many instances we have agreements with our suppliers, these agreements are generally terminable by either party on limited notice. Failure by our suppliers to continue to supply us with products on commercially reasonable terms, or at all, would put pressure on our operating margins and have a material adverse effect on our financial condition, operating results and cash flows. Short-term changes in the cost of these materials, some of which are subject to significant fluctuations, are sometimes, but not always passed on to our customers. Our inability to pass on material price increases to our customers could adversely impact our financial condition, operating results and cash flows.

We rely on third-party suppliers and long supply chains, and if we fail to identify and develop relationships with a sufficient number of qualified suppliers, or if there is a significant interruption in our supply chains, our ability to timely and efficiently access products that meet our standards for quality could be adversely affected.

We buy our products and supplies from suppliers located throughout the world. These suppliers manufacture and source products from the U.S. and abroad. Our ability to identify and develop relationships with qualified suppliers who can satisfy our standards for quality and our need to access products and supplies in a timely and efficient manner is a significant challenge. We may be required to replace a supplier if their products do not meet our quality or safety standards. In addition, our suppliers could discontinue selling products at any time for reasons that may or may not be in our control or the suppliers' control. Our operating results and inventory levels could suffer if we are unable to promptly replace a supplier who is unwilling or unable to satisfy our requirements with a supplier providing similar products. Our suppliers' ability to deliver products may also be affected by financing constraints caused by credit market conditions, which could negatively impact our revenue and cost of products sold, at least until alternate sources of supply are arranged.

In addition, since some of the products that we distribute are produced in foreign countries, we are dependent on long supply chains for the successful delivery of many of our products. The length and complexity of these supply chains make them vulnerable to numerous risks, many of which are beyond our control, which could cause significant interruptions or delays in delivery of our products. Factors such as political instability, the financial instability of suppliers, suppliers' noncompliance with applicable laws, trade restrictions, labor disputes, currency fluctuations, changes in tariff or import policies, severe weather, terrorist attacks and transport capacity and cost may disrupt these supply chains and our ability to access products and supplies. For example, if the government of China were to reduce or withdraw the tax benefits they provide our Chinese suppliers, the cost of some of our products may increase and our margins could be reduced. We expect more of our products will be

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imported in the future, which will further increase these risks. If we increase the percentage of our products that are sourced from lower-cost countries, these risks will be amplified. Moreover, these risks will be amplified by our ongoing efforts to consolidate our supplier base across our business units. A significant interruption in our supply chains caused by any of the above factors could result in increased costs or delivery delays and result in a decrease in our Net sales and profitability.

We have substantial fixed costs and, as a result, our operating income is sensitive to changes in our Net sales.

A significant portion of our expenses are fixed costs (including personnel), which do not fluctuate with Net sales. Consequently, a percentage decline in our Net sales could have a greater percentage effect on our operating income if we do not act to reduce personnel or take other cost reduction actions. Any decline in our Net sales would cause our profitability to be adversely affected. Moreover, a key element of our strategy is managing our assets, including our substantial fixed assets, more effectively, including through sales or other disposals of excess assets. Our failure to rationalize our fixed assets in the time, and within the costs, we expect could have an adverse effect on our results of operations and financial condition.

A change in our product mix could adversely affect our results of operations.

Our results may be affected by a change in our product mix. Our outlook, budgeting and strategic planning assume a certain product mix of sales. If actual results vary from this projected product mix of sales, our financial results could be negatively impacted.

The impairment or failure of financial institutions may adversely affect us.

We have exposure to counterparties with which we execute transactions, including U.S. and foreign commercial banks, insurance companies, investment banks, investment funds and other financial institutions. Many of these transactions could expose us to risk in the event of the bankruptcy, receivership, default or similar event involving a counterparty. While we have not realized any significant losses to date, the bankruptcy, receivership, default or similar event involving one of our financial institution counterparties could have a material adverse impact on our access to funding or our ability to meet our financing agreement obligations.

The development of alternatives to distributors in the supply chain could cause a decrease in our sales and operating results and limit our ability to grow our business.

Our customers could begin purchasing more of their product needs directly from manufacturers, which would result in decreases in our Net sales and earnings. Our suppliers could invest in infrastructure to expand their own local sales force and sell more products directly to our customers, which also would negatively impact our business. For example, multiple municipalities may outsource their entire waterworks systems to a single company, thereby increasing such company's leverage in the marketplace and its ability to buy directly from suppliers, which may have a material adverse effect on our operating results.

In addition to these factors, our customers may elect to establish their own building products manufacturing and distribution facilities, or give advantages to manufacturing or distribution intermediaries in which they have an economic stake. These changes in the supply chain could adversely affect our financial condition, operating results and cash flows.

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Because our business is working capital intensive, we rely on our ability to manage our product purchasing and customer credit policies.

Our operations are working capital intensive, and our inventories, accounts receivable and accounts payable are significant components of our net asset base. We manage our inventories and accounts payable through our purchasing policies and our accounts receivable through our customer credit policies. If we fail to adequately manage our product purchasing or customer credit policies, our working capital and financial condition may be adversely affected.

Anti-terrorism measures and other disruptions to the transportation network could impact our distribution system and our operations.

Our ability to provide efficient distribution of products to our customers is an integral component of our overall business strategy. In the aftermath of terrorist attacks in the U.S., federal, state and local authorities have implemented and continue to implement various security measures that affect many parts of the transportation network in the U.S. and abroad. Our customers typically need quick delivery and rely on our on-time delivery capabilities. If security measures disrupt or impede the timing of our deliveries, we may fail to meet the needs of our customers, or may incur increased expenses to do so.

The implementation of our technology initiatives could disrupt our operations in the near term, and our technology initiatives might not provide the anticipated benefits or might fail.

We have made, and will continue to make, significant technology investments in each of our business units and in our administrative functions. Our technology initiatives are designed to streamline our operations to allow our associates to continue to provide high quality service to our customers and to provide our customers a better experience, while improving the quality of our internal control environment. The cost and potential problems and interruptions associated with the implementation of our technology initiatives could disrupt or reduce the efficiency of our operations in the near term. In addition, our new or upgraded technology might not provide the anticipated benefits, it might take longer than expected to realize the anticipated benefits or the technology might fail altogether.

Interruptions in the proper functioning of our information technology, or "IT" systems, including from cybersecurity threats, could disrupt operations and cause unanticipated increases in costs or decreases in revenues, or both.

We use our information systems to, among other things, manage our manufacturing operations, manage inventories and accounts receivable, make purchasing decisions and monitor our results of operations, and process, transmit and store sensitive electronic data, including employee, supplier and customer records. As a result, the proper functioning of our IT systems is critical to the successful operation of our business. Our information systems include proprietary systems developed and maintained by us. In addition, we depend on IT systems of third parties, such as suppliers, retailers and OEMs to, among other things, market and distribute products, develop new products and services, operate our website, host and manage our services, store data, process transactions, respond to customer inquiries and manage inventory and our supply chain. Although our IT systems are protected through physical and software safeguards and remote processing capabilities exist, our IT systems or those of third parties whom we depend upon are still vulnerable to natural disasters, power losses, unauthorized access, telecommunication failures and other problems. If critical proprietary or third-party IT systems fail or are otherwise unavailable, including as a result of system upgrades and transitions, our ability to process orders, track credit risk, identify business opportunities, maintain proper levels of inventories, collect accounts receivable, pay expenses and otherwise manage our business would be adversely affected.

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Cyber incidents can result from deliberate attacks or unintentional events. These incidents can include, but are not limited to, gaining unauthorized access to digital systems for purposes of misappropriating assets or sensitive information, corrupting data, or causing operational disruption. Cybersecurity attacks in particular are becoming more sophisticated and include, but are not limited to, malicious software, attempts to gain unauthorized access to data (either directly or through our vendors and customers) and other electronic security breaches. Despite our security measures, our IT systems and infrastructure or those of our third parties may be vulnerable to such cyber incidents. The result of these incidents could include, but are not limited to, disrupted operations, misstated or misappropriated financial data, theft of our intellectual property or other confidential information (including of our customers, suppliers and employees), liability for stolen assets or information, increased cyber security protection costs and reputational damage adversely affecting customer or investor confidence. In addition, if any information about our customers, including payment information, were the subject of a successful cybersecurity attack against us, we could be subject to litigation or other claims by the affected customers. We have incurred costs and may incur significant additional costs in order to implement the security measures we feel are appropriate to protect our IT systems.

Our costs of doing business could increase as a result of changes in U.S. federal, state or local regulations.

Our operations are principally affected by various statutes, regulations and laws in the 48 U.S. states and six Canadian provinces in which we operate. While we are not engaged in a regulated industry, we are subject to various laws applicable to businesses generally, including laws affecting land usage, zoning, the environment, health and safety, transportation, labor and employment practices, competition, immigration and other matters. Additionally, building codes may affect the products our customers are allowed to use, and consequently, changes in building codes may affect the saleability of our products. Changes in U.S. federal, state or local regulations governing the sale of some of our products could increase our costs of doing business. In addition, changes to U.S. federal, state and local tax regulations could increase our costs of doing business. We cannot provide assurance that we will not incur material costs or liabilities in connection with regulatory requirements.

We deliver products to many of our customers through our own fleet of vehicles. The U.S. Department of Transportation (the "DOT") regulates our operations in domestic interstate commerce. We are subject to safety requirements governing interstate operations prescribed by the DOT. Vehicle dimensions and driver hours of service also remain subject to both federal and state regulation. More restrictive limitations on vehicle weight and size, trailer length and configuration, or driver hours of service could increase our costs, which, if we are unable to pass these cost increases on to our customers, would reduce our gross margins, increase our Selling, general and administrative expenses and reduce our Net income (loss).

We cannot predict whether future developments in law and regulations concerning our business units will affect our business, financial condition and results of operations in a negative manner. Similarly, we cannot assess whether our business units will be successful in meeting future demands of regulatory agencies in a manner which will not materially adversely affect our business, financial condition or results of operations.

We are required to evaluate and, if applicable, disclose our use of 'conflict minerals' in certain of the products we distribute, which imposes costs on us and could raise reputational and other risks.

The SEC has promulgated final rules in connection with the Dodd-Frank Wall Street Reform and Consumer Protection Act, regarding disclosure of the use of certain minerals, known as 'conflict minerals', that are mined from the Democratic Republic of the Congo and adjoining countries. Compliance with these rules requires due diligence efforts and disclosure in each fiscal year. There are costs associated with complying with these disclosure requirements, including costs to determine which of our products are subject to the new rules and the source of any 'conflict minerals' used in those

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products. In addition, the implementation of these rules could adversely affect the sourcing, supply, and pricing of materials used in those products. Also, we may face reputational challenges if we are unable to verify the origins for all metals used in products through the procedures we may implement. We may also encounter challenges to satisfy customers that may require all of the components of products purchased to be certified as conflict free. If we are not able to meet customer requirements, customers may choose to disqualify us as a distributor.

The nature of our business exposes us to construction defect and product liability claims as well as other legal proceedings.

We rely on manufacturers and other suppliers to provide us with the products we sell and distribute. As we do not have direct control over the quality of the products manufactured or supplied by such third-party suppliers, we are exposed to risks relating to the quality of the products we distribute and install. It is possible that inventory from a manufacturer or supplier could be sold to our customers and later be alleged to have quality problems or to have caused personal injury, subjecting us to potential claims from customers or third parties. We have been subject to such claims in the past, which have been resolved without material financial impact. We are currently involved in construction defect and product liability claims relating to our various construction trades and the products we distribute and manufacture and relating to products we have installed. In certain situations, we have undertaken to voluntarily remediate any defects, which can be a costly measure. We also operate a large fleet of trucks and other vehicles and therefore face the risk of traffic accidents.

While we currently maintain insurance coverage to address a portion of these types of liabilities, we cannot make assurances that we will be able to obtain such insurance on acceptable terms in the future, if at all, or that any such insurance will provide adequate coverage against potential claims. Further, while we seek indemnification against potential liability for product liability claims from relevant parties, including but not limited to manufacturers and suppliers, we cannot guarantee that we will be able to recover under such indemnification agreements. Moreover, as we increase the number of private label products we distribute, our exposure to potential liability for products liability claims may increase. Product liability claims can be expensive to defend and can divert the attention of management and other personnel for significant time periods, regardless of the ultimate outcome. An unsuccessful product liability defense could be highly costly and accordingly result in a decline in profitability. In addition, uncertainties with respect to the Chinese legal system may adversely affect us in resolving claims arising from our proprietary brand products manufactured in China. Because many laws and regulations are relatively new and the Chinese legal system is still evolving, the interpretations of many laws, regulations and rules are not always uniform. Finally, even if we are successful in defending any claim relating to the products we distribute, claims of this nature could negatively impact customer confidence in our products and our Company.

From time to time, we are also involved in government inquiries and investigations, as well as class action, consumer, employment and tort proceedings, and other litigation. We cannot predict with certainty the outcomes of these legal proceedings and other contingencies, including environmental remediation and other proceedings commenced by government authorities. The outcome of some of these legal proceedings and other contingencies could require us to take, or refrain from taking, actions which could adversely affect our operations or could require us to pay substantial amounts of money. Additionally, defending against these lawsuits and proceedings may involve significant expense and diversion of management's attention and resources from other matters. For example, on September 21, 2015, the Company entered into an Administrative Settlement and Compliance Agreement ("the AS&C Agreement") with the Federal Highway Administration ("FHWA"), an Operating Administration of the United States Department of Transportation. Under the terms of the AS&C Agreement, which is effective for a period of three years from September 2015, HD Supply Waterworks has agreed to undertake, and has already undertaken, certain remedial measures, including (a) commitment to continue to be bound by its Code of Business Conduct and Ethics; (b) a Corporate Compliance Program; (c) appointment of a Corporate Compliance Officer; and (d) retention of an independent monitor to evaluate Waterworks' performance of the AS&C Agreement and to submit periodic reports directly to FHWA. In exchange, the FHWA has agreed not to initiate or pursue any suspension or debarment action against HD Supply Waterworks, the Company, or their affiliated entities unless HD Supply Waterworks materially breaches the AS&C Agreement. While the Company currently expects that HD Supply Waterworks will not materially breach its obligations under the Agreement, there can be no assurances that the FHWA will not initiate or pursue any suspension or debarment proceedings in the future. See "Part I, Item 3. Legal Proceedings" of this annual report on Form 10-K

If we become subject to material liabilities under our self-insured programs, our financial results may be adversely affected.

We provide workers' compensation, automobile and product/general liability coverage through a high deductible insurance program. In addition, we provide medical coverage to some of our employees through a self-insured preferred provider organization. Though we believe that we have adequate insurance coverage in excess of self-insured retention levels, our results of operations and financial condition may be adversely affected if the number and severity of insurance claims increases.

We may see increased costs arising from health care reform.

In March 2010, the U.S. government enacted comprehensive health care reform legislation which, among other things, includes guaranteed coverage requirements, eliminates pre-existing condition exclusions and annual and lifetime maximum limits, restricts the extent to which policies can be rescinded and imposes new and significant taxes on health insurers and health care benefits. The legislation imposes implementation effective dates which began in 2010 and extend through 2020, and many of the changes require additional guidance from government agencies or federal regulations. Therefore, due to the phased-in nature of the implementation and limited interpretive guidance, it is difficult to determine at this time what impact the health care reform legislation will have on our financial results. Possible adverse effects of the health reform legislation include increased costs, exposure to expanded liability and requirements for us to revise ways in which we provide healthcare and other benefits to our employees. As a result, our results of operations, financial condition and cash flows could be materially adversely affected.

Our success depends upon our ability to attract, train and retain highly qualified associates and key personnel.

To be successful, we must attract, train and retain a large number of highly qualified associates while controlling related labor costs. Our ability to control labor costs is subject to numerous external factors, including prevailing wage rates and health and other insurance costs. We compete with other businesses for these associates and invest significant resources in training and motivating them. There is no assurance that we will be able to attract or retain highly qualified associates in the future, including, in particular, those employed by companies we acquire. A very small proportion of our employees are currently covered by collective bargaining or other similar labor agreements. Historically, the effects of collective bargaining and other similar labor agreements on us have not been significant. However, if a larger number of our employees were to unionize, including in the wake of any future legislation that makes it easier for employees to unionize, the effect on us may be negative. Any inability by us to negotiate acceptable new contracts under these collective bargaining arrangements could cause strikes or other work stoppages, and new contracts could result in increased operating costs. If any such strikes or other work stoppages occur, or if other employees become represented by a union, we could experience a disruption of our operations and higher labor costs. Labor relations matters affecting our suppliers of products and services could also adversely affect our business from time to time.

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In addition, our business results depend largely upon our chief executive officer and senior management team as well as our branch managers and sales personnel and their experience, knowledge of local market dynamics and specifications and long-standing customer relationships. We customarily sign employment letters providing for an agreement not to compete with key personnel of companies we acquire in order to maintain key customer relationships and manage the transition of the acquired business. Our inability to retain or hire qualified branch managers or sales personnel at economically reasonable compensation levels would restrict our ability to grow our business, limit our ability to continue to successfully operate our business and result in lower operating results and profitability.

Fluctuations in foreign currency exchange rates may significantly reduce our revenues and profitability.

As an industrial distributor of manufactured products, our profitability is tied to the prices we pay to the manufacturers from which we purchase our products. Some of our suppliers price their products in currencies other than the U.S. dollar or incur costs of production in non-U.S. currencies. Accordingly, depreciation of the U.S. dollar against foreign currencies increases the prices we pay for these products. Even short-term currency fluctuations could adversely impact revenues and profitability if we are unable to pass higher supply costs on to our customers. Our delayed ability to pass on material price increases to our customers could adversely impact our financial condition, operating results and cash flows.

If we are unable to protect our intellectual property rights, or we infringe on the intellectual property rights of others, our ability to compete could be negatively impacted.

Our ability to compete effectively depends, in part, upon our ability to protect and preserve proprietary aspects of our intellectual property, including our trademarks and customer lists. The use of our intellectual property or similar intellectual property by others could adversely impact our ability to compete, cause us to lose Net sales or otherwise harm our business. If it became necessary for us to resort to litigation to protect these rights, any proceedings could be burdensome and costly, and we may not prevail.

Also, we cannot be certain that the products that we sell do not and will not infringe issued patents or other intellectual property rights of others. Further, we are subject to legal proceedings and claims in the ordinary course of our business, including claims of alleged infringement of the trademarks, patents and other intellectual property rights of third parties by us or our customers in connection with their use of the products that we distribute. Should we be found liable for infringement, we (or our suppliers) may be required to enter into licensing agreements (if available on acceptable terms or at all) or pay damages and cease making or selling certain products. Moreover, we may need to redesign or sell different products to avoid future infringement liability. Any of the foregoing could cause us to incur significant costs, prevent us from selling our products or negatively impact our ability to compete.

Income tax payments may ultimately differ from amounts currently recorded by us. Future tax law changes may materially increase our prospective income tax expense.

We are subject to income taxation in many jurisdictions in the U.S. as well as foreign jurisdictions. Judgment is required in determining our worldwide income tax provision and, accordingly, there are many transactions and computations for which our final income tax determination is uncertain. We are routinely audited by income tax authorities in many tax jurisdictions. Although we believe the recorded tax estimates are reasonable, the ultimate outcome from any audit (or related litigation) could be materially different from amounts reflected in our income tax provisions and accruals. Future settlements of income tax audits may have a material effect on earnings between the period of initial recognition of tax estimates in the financial statements and the point of ultimate tax audit settlement. Additionally, it is possible that future income tax legislation in any jurisdiction to which we are subject

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may be enacted that could have a material impact on our worldwide income tax provision beginning with the period that such legislation becomes effective.

Our NOL carryforwards could be limited as a result of an ownership change, as defined in the Internal Revenue Code.

As of January 31, 2016, we had U.S. federal NOL carryforwards of $1,983 million ($694 million on a tax-effected basis). Such NOL carryforwards begin to expire in fiscal 2030. We also had significant state NOL carryforwards, which expire in various years through fiscal 2035. Our ability to deduct these NOL carryforwards against future taxable income could be limited as a result of an "ownership change," as defined in Section 382 of the Internal Revenue Code of 1986, as amended. In general, an ownership change results from transactions increasing the aggregate direct or indirect ownership of certain persons (or groups of persons) in our stock by more than 50 percentage points over a testing period (generally three years). Direct or indirect changes in the ownership of our common stock, including sales or acquisitions of our common stock by stockholders and purchases and issuances of our common stock by us, some of which are not in our control, could result in an ownership change. Any resulting limitation on the use of our NOL carryforwards could result in the payment of taxes above the amounts currently anticipated and have a negative effect on our results of operations and financial position.

We may not be able to identify new products and new product lines and integrate them into our distribution network, which may impact our ability to compete.

Our business depends in part on our ability to identify future products and product lines that complement existing products and product lines and that respond to our customers' needs. We may not be able to compete effectively unless our product selection keeps up with trends in the markets in which we compete or trends in new products. In addition, our ability to integrate new products and product lines into our distribution network could impact our ability to compete. Furthermore, the success of new products and new product lines will depend on market demand and there is a risk that new products and new product lines will not deliver expected results, which could negatively impact our future sales and results of operations. Our expansion into new markets may present competitive, distribution and regulatory challenges that differ from current ones. We may be less familiar with the target customers and may face different or additional risks, as well as increased or unexpected costs, compared to existing operations. Growth into new markets may also bring us into direct competition with companies with whom we have little or no past experience as competitors. To the extent we are reliant upon expansion into new geographic, industry and product markets for growth and do not meet the new challenges posed by such expansion, our future sales growth could be negatively impacted, our operating costs could increase, and our business operations and financial results could be negatively affected.

We could incur significant costs in complying with environmental, health and safety laws or permits or as a result of satisfying any liability or obligation imposed under such laws or permits.

Our operations are subject to various federal, state, local and foreign environmental, health and safety laws and regulations. Among other things, these laws regulate the emission or discharge of materials into the environment, govern the use, storage, treatment, disposal and management of hazardous substances and wastes, protect the health and safety of our employees and the end users of our products, regulate the materials used in and the recycling of products and impose liability for the costs of investigating and remediating, and damages resulting from, present and past releases of hazardous substances. Violations of these laws and regulations or non-compliance with any conditions contained in any environmental permit can result in substantial fines or penalties, injunctive relief, requirements to install pollution or other controls or equipment, civil and criminal sanctions, permit revocations and/or facility shutdowns. We could be held liable for the costs to address contamination of any real property we have ever owned, operated or used as a disposal site. We could also incur fines, penalties, sanctions or be subject to third-party claims for property damage, personal injury or nuisance or otherwise as a result of violations of or liabilities under environmental laws in connection with releases of hazardous or other materials. In addition, changes in, or new interpretations of, existing laws, regulations or enforcement policies, the discovery of previously unknown contamination, or the imposition of other environmental liabilities or obligations in the future, including additional investigation or other obligations with respect to any potential health hazards of our products or business activities or the imposition of new permit requirements, may lead to additional compliance or other costs that could have material adverse effect on our business, financial condition or results of operations. See "Part I, Item 3. Legal Proceedings" of this annual report on Form 10-K.

We may be affected by global climate change or by legal, regulatory or market responses to such potential change.

Concern over climate change, including the impact of global warming, has led to significant federal, state, and international legislative and regulatory efforts to limit greenhouse gas ("GHG") emissions. For example, in the past several years, the U.S. Congress has considered various bills that would regulate GHG emissions. While these bills have not yet received sufficient Congressional support for enactment, some form of federal climate change legislation is possible in the future. Even in the absence of such legislation, the Environmental Protection Agency, spurred by judicial interpretation of the Clean Air Act, may regulate GHG emissions, especially diesel engine emissions, and this could impose substantial costs on us. These costs include an increase in the cost of the fuel and other energy we purchase and capital costs associated with updating or replacing our internal fleet of trucks and other vehicles prematurely. In addition, new laws or future regulation could directly and indirectly affect our customers and suppliers (through an increase in the cost of production or their ability to produce satisfactory products) and our business (through the impact on our inventory availability, cost of sales, operations or demands for the products we sell). Until the timing, scope and extent of any future regulation becomes known, we cannot predict its effect on our cost structure or our operating results. Notwithstanding our dedication to being a responsible corporate citizen, it is reasonably possible that such legislation or regulation could impose material costs on us. Moreover, even without such legislation or regulation, increased awareness and any adverse publicity in the global marketplace about the GHGs emitted by companies involved in the transportation of goods could harm our reputation and reduce customer demand for our products and services.

Our failure to maintain effective disclosure controls and procedures and internal control over financial reporting could adversely affect our business, financial position and results of operations.

We are required to evaluate the effectiveness of our disclosure controls and procedures and internal control over financial reporting on a periodic basis and publicly disclose the results of these evaluations and related matters, in accordance with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002. These reporting and other obligations place significant additional demands on our management and administrative and operational resources, including our accounting resources, which could adversely affect our operations among other things. To comply with these requirements, we have upgraded, and are continuing to upgrade, our systems, including information technology, and we have implemented additional financial and management controls, reporting systems and procedures. We cannot be certain that we will be successful in maintaining adequate control over our financial reporting and financial processes. Furthermore, as we grow our business, our disclosure controls and procedures and internal control over financial reporting will become more complex, and we may require significantly more resources to ensure that these controls and procedures remain effective. If we are unable to continue upgrading our financial and management controls, reporting systems, information technology and procedures in a timely and effective fashion, additional management and

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other resources of the Company may need to be devoted to assist in compliance with the disclosure and financial reporting requirements and other rules that apply to reporting companies, which could adversely affect our business, financial position and results of operations.

Future changes in financial accounting standards may significantly change our reported results of operations.

The accounting principles generally accepted in the United States of America ("GAAP") are subject to interpretation by the Financial Accounting Standards Board ("FASB"), the American Institute of Certified Public Accountants, the SEC and various bodies formed to promulgate and interpret appropriate accounting principles. A change in these principles or interpretations could have a significant effect on our reported financial results and could affect the reporting of transactions completed before the announcement of a change. In addition, the SEC has announced a multi-year plan that could ultimately lead to the use of International Financial Reporting Standards by U.S. issuers in their SEC filings. Any such change could have a significant effect on our reported financial results.

Additionally, our assumptions, estimates and judgments related to complex accounting matters could significantly affect our financial results. GAAP and related accounting pronouncements, implementation guidelines and interpretations with regard to a wide range of matters that are relevant to our business, including, but not limited to, revenue recognition, impairment of long-lived assets, leases and related economic transactions, intangibles, self-insurance, income taxes, property and equipment, litigation and stock-based compensation are highly complex and involve many subjective assumptions, estimates and judgments by us. Changes in these rules or their interpretation or changes in underlying assumptions, estimates or judgments by us (i) could require us to make changes to our accounting systems to implement these changes that could increase our operating costs and (ii) could significantly change our reported or expected financial performance.

On February 25, 2016, the FASB issued Accounting Standards Update ("ASU") 2016-02, "Leases (Topic 842)" ("ASU 2016-02"). ASU 2016-02 is effective for annual and interim periods beginning after December 15, 2018. The lease accounting model is a "right of use" model that assumes that each lease creates an asset (the lessee's right to use the leased asset) and a liability (the future rent payment obligations) which should be reflected on a lessee's balance sheet to fairly represent the lease transaction and the lessee's related financial obligations. We conduct operations primarily under leases that are accounted for as operating leases, with no related assets and liabilities on our balance sheet. ASU 2016-02 requires that substantially all of our operating leases be recognized as assets and liabilities on our balance sheet. Adoption of ASU 2016-02 could have a material impact on our reported results of operations. Interpretations of the new lease accounting rules or changes in underlying assumptions, estimates or judgments by us could significantly change our reported or expected financial performance.

Fulfilling the obligations incident to being a public company, including with respect to the requirements of and related rules under the Sarbanes-Oxley Act of 2002, is expensive and time-consuming, and any delays or difficulties in satisfying these obligations could have a material adverse effect on our future results of operations.

As an issuer of publicly listed equity, we are subject to certain reporting and corporate governance requirements, NASDAQ listing standards and the Sarbanes-Oxley Act of 2002, which impose certain compliance costs and obligations upon us. These requirements result in a significant commitment of additional resources and management oversight which increases our operating costs. These requirements also place significant demands on our finance and accounting and legal staffs and on our financial accounting and information systems. Other expenses associated with being a public company include costs associated with auditing, accounting and legal fees and expenses, investor relations expenses, increased directors' fees and director and officer liability insurance costs, registrar and transfer agent fees and listing fees, as well as other expenses.

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In addition, our independent registered public accounting firm is required to provide an attestation report on the effectiveness of internal controls over financial reporting pursuant to Section 404(b) of the Sarbanes-Oxley Act of 2002. If our independent registered public accounting firm is unable to provide an unqualified report regarding the effectiveness of our internal controls over financial reporting, investors could lose confidence in the reliability of our financial statements. Failure to comply with the Sarbanes-Oxley Act of 2002 could potentially subject us to sanctions or investigations by the SEC, or other regulatory authorities.

Risks Relating to Our Indebtedness

We have substantial debt and may incur substantial additional debt, which could adversely affect our financial health, reduce our profitability, limit our ability to obtain financing in the future and pursue certain business opportunities and reduce the value of your investment.

As of January 31, 2016, we had an aggregate principal amount of $4,311 million of outstanding debt, net of unamortized discounts and unamortized deferred financing costs of $11 million and $51 million, respectively. In fiscal 2015 we incurred $394 million of interest expense.

The amount of our debt or such other obligations could have important consequences for holders of our common stock, including, but not limited to:

- a substantial portion of our cash flow from operations must be dedicated to the payment of principal and interest on our indebtedness, thereby reducing the funds available to us for other purposes;
- our ability to obtain additional financing for working capital, capital expenditures, acquisitions, debt service requirements or general corporate purposes and other purposes may be impaired in the future;
- we are exposed to the risk of increased interest rates because a portion of our borrowings is at variable rates of interest;
- we may be at a competitive disadvantage compared to our competitors with less debt or with comparable debt at more favorable interest rates and that, as a result, may be better positioned to withstand economic downturns;
- our ability to refinance indebtedness may be limited or the associated costs may increase;
- our ability to engage in acquisitions without raising additional equity or obtaining additional debt financing may be impaired in the future;
- it may be more difficult for us to satisfy our obligations to our creditors, resulting in possible defaults on and acceleration of such indebtedness;
- we may be more vulnerable to general adverse economic and industry conditions; and
- our flexibility to adjust to changing market conditions and our ability to withstand competitive pressures could be limited, or we may be prevented from making capital investments that are necessary or important to our operations in general, growth strategy and efforts to improve operating margins of our business units.

If our cash flow and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay capital expenditures, sell assets, seek to obtain additional equity capital or refinance our debt. We cannot make assurances that we will be able to refinance our debt on terms acceptable to us, or at all. In the future, our cash flow and capital resources may not be sufficient for payments of interest on and principal of our debt, and such alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations.

We cannot make assurances that we will be able to refinance any of our indebtedness, or obtain additional financing, particularly because of our high levels of debt and the debt incurrence restrictions imposed by the agreements governing our debt, as well as prevailing market conditions. In the absence of such operating results and resources, we could face substantial liquidity problems and might be required to dispose of material assets or operations to meet our debt service and other obligations. The credit agreements governing our Senior Credit Facilities and the indentures governing our outstanding notes restrict our ability to dispose of assets and how we use the proceeds from any such dispositions. We cannot make assurances that we will be able to consummate those dispositions, or if we do, what the timing of the dispositions will be or whether the proceeds that we realize will be adequate to meet our debt service obligations when due.

Despite our current level of indebtedness, we may still be able to incur substantially more debt. This could further exacerbate the risks to our financial condition.

We may be able to incur significant additional indebtedness in the future, including secured debt. Although the agreements governing our indebtedness contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of qualifications and exceptions, and the additional indebtedness incurred in compliance with these restrictions could be substantial. These restrictions also will not prevent us from incurring obligations that do not constitute indebtedness, including obligations under lease arrangements that are currently recorded as operating leases even if operating leases were to be treated as debt under GAAP. In addition, the Senior ABL Facility provides a commitment of up to $1,500 million subject to a borrowing base. As of January 31, 2016, we were able to borrow an additional $1,149 million under the Senior ABL Facility. If new debt is added to our current debt levels, the related risks that we now face could intensify.

The agreements and instruments governing our debt contain restrictions and limitations that could significantly impact our ability to operate our business and adversely affect the holders of our common stock.

Our Senior ABL Facility and our Term Loan Facility contain covenants that, among other things, restrict or limit our subsidiaries' ability to:

- dispose of assets;
- incur additional indebtedness (including guarantees of additional indebtedness);
- prepay or amend our various debt instruments;
- pay dividends and make certain payments;
- create liens on assets;
- engage in certain asset sales, mergers, acquisitions, consolidations or sales of all, or substantially all, of our assets;
- engage in certain transactions with affiliates; and
- permit consensual restrictions on our subsidiaries' ability to pay dividends.

The indentures governing our outstanding notes contain restrictive covenants that, among other things, limit the ability of our subsidiaries to:

- incur additional debt;

pay dividends, redeem stock or make other distributions;

make certain investments;

create liens;

- transfer or sell assets;
- merge or consolidate with other companies; and
- enter into certain transactions with our affiliates.

Our ability to comply with the covenants and restrictions contained in the Senior Credit Facilities and the indentures governing our outstanding notes may be affected by economic, financial and industry conditions beyond our control. The breach of any of these covenants or restrictions could result in a default under either the Senior Credit Facilities or the indentures governing our outstanding notes that would permit the applicable lenders or noteholders, as the case may be, to declare all amounts outstanding thereunder to be due and payable, together with accrued and unpaid interest. If we are unable to repay indebtedness, lenders having secured obligations, such as the lenders under the Senior Credit Facilities, could proceed against the collateral securing the secured obligations. This could have serious consequences to our financial condition and results of operations and could cause us to become bankrupt or insolvent.

We may have future capital needs and may not be able to obtain additional financing on acceptable terms.

Although we believe that our current cash position and the additional committed funding available under our Senior ABL Facility is sufficient for our current operations, any reductions in our available borrowing capacity, or our inability to renew or replace our debt facilities, when required or when business conditions warrant, could have a material adverse effect on our business, financial condition and results of operations. The economic conditions, credit market conditions and economic climate affecting our industry, as well as other factors, may constrain our financing abilities. Our ability to secure additional financing, if available, and to satisfy our financial obligations under indebtedness outstanding from time to time will depend upon our future operating performance, the availability of credit generally, economic conditions and financial, business and other factors, many of which are beyond our control. The market conditions and the macroeconomic conditions that affect our industry could have a material adverse effect on our ability to secure financing on favorable terms, if at all.

We may be unable to secure additional financing or financing on favorable terms or our operating cash flow may be insufficient to satisfy our financial obligations under the indebtedness outstanding from time to time. Furthermore, if financing is not available when needed, or is available on unfavorable terms, we may be unable to take advantage of business opportunities or respond to competitive pressures, any of which could have a material adverse effect on our business, financial condition and results of operations. If we raise additional funds through further issuances of equity, convertible debt securities or other securities convertible into equity, our existing stockholders could suffer significant dilution in their percentage ownership of the Company, and any new securities we issue could have rights, preferences and privileges senior to those of holders of our common stock.

Increases in interest rates would increase the cost of servicing our debt and could reduce our profitability.

A significant portion of our outstanding debt, including under the Senior Credit Facilities, bears interest at variable rates. As a result, increases in interest rates would increase the cost of servicing our debt and could materially reduce our profitability and cash flows. Each one percentage point increase in interest rates on our variable-rate debt would increase our annual forecasted interest expense by approximately $8 million based on balances as of January 31, 2016 and excluding the effect of the interest rate floor on our Term Loan Facility. Assuming all revolving loans were fully drawn, each one percentage point increase in interest rates would result in a $23 million increase in annual cash interest expense on our Senior Credit Facilities, excluding the effect of the interest rate floor on our Term Loan Facility. The impact of increases in interest rates could be more significant for us than it would be for some other companies because of our substantial indebtedness.

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We may not be able to repurchase our existing notes upon a change of control.

Upon the occurrence of specific kinds of change of control events, we will be required to offer to repurchase all outstanding notes, including our December 2014 First Priority Notes, October 2012 Senior Unsecured Notes and February 2013 Senior Unsecured Notes, until such notes are redeemed in full. Additionally, under the Term Loan Facility and the Senior ABL Facility, a change of control (as defined therein) constitutes an event of default that permits the lenders to accelerate the maturity of borrowings under the respective agreements and terminate their commitments to lend. We may not be able to satisfy the obligations upon a change of control because we may not have sufficient financial resources to purchase all of the debt securities that are tendered upon a change of control and repay our other indebtedness that will become due. Consequently, we may require additional financing from third parties to fund any such purchases, and we may be unable to obtain financing on satisfactory terms or at all. Further, our ability to repurchase our existing notes may be limited by law. In order to avoid the obligations to repurchase our existing notes and events of default and potential breaches of the credit agreement governing the Term Loan Facility, and the credit agreement governing the Senior ABL Facility, we may have to avoid certain change of control transactions that would otherwise be beneficial to us.

Risks Relating to Our Common Stock

Holdings is a holding company with no operations of its own, and it depends on its subsidiaries for cash to fund all of its operations and expenses, including to make future dividend payments, if any.

Our operations are conducted almost entirely through our subsidiaries and our ability to generate cash to meet our debt service obligations or to pay dividends is highly dependent on the earnings and the receipt of funds from our subsidiaries via dividends or intercompany loans. We do not currently expect to declare or pay dividends on our common stock for the foreseeable future. However, to the extent that we determine in the future to pay dividends on our common stock, our Senior Credit Facilities significantly restrict the ability of our subsidiaries to pay dividends or otherwise transfer assets to us. In addition, Delaware law may impose requirements that may restrict our ability to pay dividends to holders of our common stock.

The market price of our common stock may be volatile and could decline in the future.

We cannot assure you that an active public market for our common stock will be sustained. In the absence of a public trading market, you may not be able to liquidate your investment in our common stock. In addition, the market price of our common stock may fluctuate significantly. Among the factors that could affect our stock price are:

- industry or general market conditions;
- domestic and international economic factors unrelated to our performance;
- changes in our customers' preferences;
- new regulatory pronouncements and changes in regulatory guidelines;
- actual or anticipated fluctuations in our quarterly operating results;
- changes in securities analysts' estimates of our financial performance or lack of research and reports by industry analysts;
- actions by institutional stockholders or other large stockholders, including future sales by them of shares of our common stock;
- speculation in the press or investment community;

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- investor perception of us and our industry;
- changes in market valuations or earnings of similar companies;
- announcements by us or our competitors of significant products, contracts, acquisitions, divestitures or strategic partnerships;
- developments or disputes concerning patents or proprietary rights, including increases or decreases in litigation expenses associated with intellectual property lawsuits we may initiate, or in which we may be named as defendants;
- failure to complete significant sales;
- any future sales of our common stock or other securities; and
- additions or departures of key Company personnel.

In particular, we cannot assure you that you will be able to resell your shares of our common stock at or above the price you paid for them. The stock markets have experienced extreme volatility in recent years that has been unrelated to the operating performance of particular companies. These broad market fluctuations may adversely affect the trading price of our common stock. In the past, following periods of volatility in the market price of a company's securities, class action litigation has often been instituted against such company. Any litigation of this type brought against us could result in substantial costs and a diversion of our management's attention and resources, which would harm our business, operating results and financial condition.

Future sales of shares by existing stockholders could cause our stock price to decline.

Sales of substantial amounts of our common stock in the public market, or the perception that these sales could occur, could cause the market price of our common stock to decline. As of January 31, 2016 we had 200,114,706 outstanding shares of common stock, a large portion of which are freely tradeable without restriction under the Securities Act unless held by "affiliates," as that term is defined in Rule 144 under the Securities Act. The remaining shares of common stock outstanding as of January 31, 2016 are restricted securities within the meaning of Rule 144 under the Securities Act, but will be eligible for resale subject, in certain cases, to applicable volume, means of sale, holding period and other limitations of Rule 144 or pursuant to an exception from registration under Rule 701 under the Securities Act. In connection with our initial public offering, we filed registration statements under the Securities Act to register the shares of common stock to be issued under our equity compensation plans and, as a result, all shares of common stock acquired upon exercise of stock options granted under our plans are also freely tradable under the Securities Act, unless purchased by our affiliates. As of January 31, 2016, there were stock options outstanding to purchase a total of approximately 5 million shares of our common stock. In addition, approximately 11 million shares of common stock are reserved for issuance under our omnibus incentive plan and our employee stock purchase plan.

In the future, we may issue additional shares of common stock or other equity or debt securities convertible into common stock in connection with a financing, acquisition, litigation settlement or employee arrangement or otherwise. Any of these issuances could result in substantial dilution to our existing stockholders and could cause the trading price of our common stock to decline.

If securities or industry analysts do not publish research or publish misleading or unfavorable research about our business, our stock price and trading volume could decline.

The trading market for our common stock depends in part on the research and reports that securities or industry analysts publish about us or our business. If one or more of these analysts downgrades our stock or publishes misleading or unfavorable research about our business, our stock price would likely decline. If one or more of these analysts ceases coverage of the Company or fails to

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publish reports on us regularly, demand for our common stock could decrease, which could cause our stock price or trading volume to decline.

Anti-takeover provisions in our charter documents and Delaware law could discourage, delay or prevent a change in control of our company and may affect the trading price of our common stock.

Our amended and restated certificate of incorporation and amended and restated by-laws include a number of provisions that may discourage, delay or prevent a change in our management or control over us that stockholders may consider favorable. For example, our amended and restated certificate of incorporation and amended and restated by-laws:

- authorize the issuance of "blank check" preferred stock that could be issued by our Board of Directors to thwart a takeover attempt;
- establish a classified board of directors, as a result of which our Board of Directors is divided into three classes, with each class serving for staggered three-year terms, which prevents stockholders from electing an entirely new board at an annual meeting;
- limit the ability of stockholders to remove directors;
- provide that vacancies on our Board of Directors, including newly-created directorships, may be filled only by a majority vote of directors then in office;
- prohibit stockholders from calling special meetings of stockholders;
- prohibit stockholder action by written consent, thereby requiring all actions to be taken at a meeting of the stockholders;
- establish advance notice requirements for nominations for election to our Board of Directors or for proposing matters that can be acted upon by stockholders at stockholder meetings; and
- require the approval of holders of at least 75% of the outstanding shares of our voting common stock to amend our amended and restated by-laws and certain provisions of our amended and restated certificate of incorporation.

These provisions may prevent our stockholders from receiving the benefit from any premium to the market price of our common stock offered by a bidder in a takeover context. Even in the absence of a takeover attempt, the existence of these provisions may adversely affect the prevailing market price of our common stock if the provisions are viewed as discouraging takeover attempts in the future.

Our amended and restated certificate of incorporation and amended and restated by-laws may also make it difficult for stockholders to replace or remove our management. These provisions may facilitate management entrenchment that may delay, deter, render more difficult or prevent a change in our control, which may not be in the best interests of our stockholders.

We do not intend to pay dividends on our common stock and, consequently, your ability to achieve a return on your investment will depend on appreciation in the price of our common stock.

We do not intend to declare and pay dividends on our common stock for the foreseeable future. We currently intend to invest our future earnings, if any, to fund our growth and repay our indebtedness. Therefore, you are not likely to receive any dividends on your common stock for the foreseeable future and the success of an investment in shares of our common stock will depend upon any future appreciation in their value. There is no guarantee that shares of our common stock will appreciate in value or even maintain the price at which our stockholders have purchased their shares.

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ITEM 2. PROPERTIES

Properties

As of January 31, 2016, we had a network of approximately 550 locations, of which approximately 50 were owned and 500 were leased. We generally prefer to lease our locations, as it provides the flexibility to expand or relocate our sites as needed to serve evolving markets. Our leased locations comprise approximately 16 million square feet while our owned locations comprise approximately 1 million square feet. Our leases typically have an initial term that ranges from 3 to 5 years, and the leases usually provide for the option to renew. We currently lease approximately 110,000 and 100,000 square feet of office space in Atlanta, Georgia and Orlando, Florida, respectively, for our corporate headquarters. We believe our locations meet our current needs and that additional locations will be available as we expand in the future.

ITEM 3. LEGAL PROCEEDINGS

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

On August 11, 2015, HD Supply Waterworks, Ltd., and the United States of America, acting through the United States Attorney's Office for the Northern District of New York and on behalf of the United States Environmental Protection Agency and the United States Department of Transportation (collectively the "United States") entered into a civil settlement agreement in connection with the previously disclosed investigation of the Company by the United States related to the activities of certain disadvantaged business enterprises, including American Indian Builders and Suppliers, Inc. (the "United States Investigation"). Under the terms of the settlement agreement, the Company, in exchange for a release of certain civil and administrative monetary claims, paid the United States $4.945 million, which is an amount within the Company's previously established reserve for such matter.

In addition, on September 21, 2015 (the "Effective Date"), the Company entered into an Administrative Settlement and Compliance Agreement ("the AS&C Agreement") with the Federal Highway Administration ("FHWA"), an Operating Administration of the United States Department of Transportation, related to the same conduct at issue in the United States Investigation. Under the terms of the AS&C Agreement, which will be effective for a period of three years from the Effective Date, HD Supply Waterworks has agreed to undertake, and has already undertaken, certain remedial measures, including (a) commitment to continue to be bound by its Code of Business Conduct and Ethics; (b) a Corporate Compliance Program; (c) appointment of a Corporate Compliance Officer who was not involved in the conduct at issue in the United States Investigation; and (d) retention of an

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independent monitor to evaluate Waterworks' performance of the AS&C Agreement and to submit periodic reports directly to FHWA. In exchange, the FHWA has agreed not to initiate or pursue any suspension or debarment action against HD Supply Waterworks, the Company, or their affiliated entities, based on the conduct at issue in the United States Investigation unless HD Supply Waterworks materially breaches the AS&C Agreement. While the Company believes that HD Supply Waterworks will not materially breach its obligations under the Agreement, there can be no assurances that the FHWA will not initiate or pursue any suspension or debarment proceedings in the future.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Stock Exchange Information

Holdings' common stock is listed on The NASDAQ Stock Market LLC ("NASDAQ"). As of March 11, 2016, there were approximately 284 holders of record and restricted stock holders of Holdings' common stock and approximately 44,166 additional "street name" holders whose shares are held of record by banks, brokers and other financial institutions. No dividends were declared during fiscal 2015 or fiscal 2014. Holdings' common stock began trading on June 27, 2013.

Holdings' common stock market prices*:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Fiscal Year 2015				
High	**$ 33.74**	**$ 36.69**	**$ 34.99**	**$ 32.17**
Low	**$ 28.06**	**$ 32.23**	**$ 28.10**	**$ 24.84**
Fiscal Year 2014				
High	**$ 26.86**	**$ 28.77**	**$ 29.35**	**$ 30.18**
Low	**$ 20.90**	**$ 25.23**	**$ 23.91**	**$ 27.02**

* Price as of close of business

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Stock Performance Graph

The graph below presents Holdings' cumulative total shareholder returns relative to the performance of the Standard & Poor's 500 Composite Stock Index and the Industrial Select Sector SPDR® Fund (XLI) for our fiscal 2015 and 2014 quarters, commencing June 27, 2013, Holdings' initial day of trading. The graph assumes $100 invested at the opening price of Holdings' common stock on NASDAQ and each index on June 27, 2013 and assumes all dividends were reinvested on the date paid. The points on the graph represent fiscal quarter-end amounts based on the last trading day in each fiscal quarter.

	HD Supply Holdings, Inc.	S&P 500 Index	Industrial Select SPDR® Fund (XLI)
Fiscal 2013			
June 27, IPO	$ 100	$ 100	$ 100
Second Quarter	$ 125	$ 107	$ 107
Third Quarter	$ 110	$ 110	$ 115
Fourth Quarter	$ 119	$ 112	$ 118
Fiscal 2014			
First Quarter	$ 143	$ 119	$ 125
Second Quarter	$ 140	$ 123	$ 123
Third Quarter	$ 160	$ 129	$ 132
Fourth Quarter	$ 160	$ 128	$ 131
Fiscal 2015			
First Quarter	$ 183	$ 136	$ 136
Second Quarter	$ 199	$ 137	$ 132
Third Quarter	$ 166	$ 136	$ 132
Fourth Quarter	$ 146	$ 127	$ 123

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Issuer Purchases of Equity Securities

In the first quarter of fiscal 2014, Holdings' Board of Directors authorized a share repurchase program to be funded from cash proceeds received from exercises of employee stock options. 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. During fiscal 2015, Holdings repurchased approximately 2.3 million shares of its common stock under this program for approximately $72 million.

During fiscal 2015, Holdings retired 2,629,699 shares of its common stock ("Retired Shares") held as Treasury Shares by Holdings in the amount of $82 million. All of these shares were repurchased by Holdings pursuant to the share repurchase program, discussed above, under which proceeds of employee stock option exercises are used to buy back Holdings common stock in the open market. 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.

The number and average price of shares repurchased in each fiscal month of the fourth quarter of fiscal 2015 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)
November 2 - November 29	127,100	$ 30.63	127,100	$ 1,557,844
November 30 - December 28	207,787	29.80	207,787	4,726,014
December 29 - January 31	333,259	27.26	333,259	2,341,318
Total	668,146	$ 28.69	668,146	

(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.

HDS Securities

There is no established public trading market for HDS's common stock. HDS had one record holder of common stock on January 31, 2016, and no equity securities of HDS are authorized for issuance under any equity compensation plan.

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ITEM 6. SELECTED FINANCIAL DATA

The selected consolidated financial data set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the audited consolidated financial statements and related notes appearing elsewhere in this annual report on Form 10-K. Our consolidated financial information may not be indicative of our future performance.

HDS has omitted the information required by this Item pursuant to General Instruction I to the Form 10-K.

During the third quarter of fiscal 2015, HD Supply completed the sale of its Power Solutions business. In fiscal 2014, HD Supply sold substantially all of the assets of its Hardware Solutions business and finalized the disposal of Litemor. In fiscal 2012, HD Supply disposed of its IPVF business. During fiscal 2011, HD Supply disposed of its Plumbing/HVAC and SESCO/QUESCO operations. In accordance with Accounting Standards Codification ("ASC") 205-20, "Discontinued Operations," the results of the Power Solutions, Hardware Solutions, Litemor, IPVF, Plumbing/HVAC and SESCO/QUESCO operations and the gain/loss on disposition of the businesses 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 the businesses, net of tax, as one line item on the Consolidated Statements of Operations. All prior period Consolidated Statements of Operations have been revised to reflect this presentation. For additional information on the discontinued operations, see Note 3, "Discontinued Operations," within "Part II. Item 8. Financial Statements and Supplementary Data."

Selected consolidated financial information

	Fiscal year ended				
	January 31, 2016	**February 1, 2015**	**February 2, 2014**	**February 3, 2013**	**January 29, 2012**
	(Dollars in millions, except per share amounts)				
Statement of income data:					
Net sales	$ 7,388	$ 6,970	$ 6,387	$ 5,861	$ 5,038
Cost of sales	4,932	4,706	4,307	3,980	3,435
Gross profit	2,456	2,264	2,080	1,881	1,603
Operating expenses:					
Selling, general and administrative	1,599	1,510	1,443	1,352	1,234
Depreciation and amortization	111	181	204	281	271
Restructuring	10	6	6		
Total operating expenses	1,720	1,697	1,653	1,633	1,505
Operating income	736	567	427	248	98
Interest expense	394	462	528	658	639
Loss on extinguishment & modification of debt	100	108	87	709	
Other (income) expense, net	1	(3)	20		(1)
Income (loss) from continuing operations before provision for income taxes and discontinued operations	241		(208)	(1,119)	(540)
Provision (benefit) for income taxes	(1,085)	42	44	26	67
Income (loss) from continuing operations	1,326	(42)	(252)	(1,145)	(607)
Income (loss) from discontinued operations, net of tax	146	45	34	(34)	64
Net income (loss)	$ 1,472	$ 3	$ (218)	$ (1,179)	$ (543)

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	Fiscal year ended January 31, 2016	February 1, 2015	February 2, 2014	February 3, 2013	January 29, 2012
	(Dollars in millions, except per share amounts)				
Weighted Average Common Shares Outstanding(1):					
Basic (thousands)	197,011	193,962	166,905	130,561	130,557
Diluted (thousands)	201,308	193,962	166,905	130,561	130,557
Basic Earnings Per Share(1):					
Income (loss) from continuing operations	$ 6.73	$ (0.22)	$ (1.51)	$ (8.77)	$ (4.65)
Income (loss) from discontinued operations	0.74	0.23	0.20	(0.26)	0.49
Net income (loss)	$ 7.47	$ 0.02	$ (1.31)	$ (9.03)	$ (4.16)
Diluted Earnings Per Share(1):					
Income (loss) from continuing operations	$ 6.59	$ (0.22)	$ (1.51)	$ (8.77)	$ (4.65)
Income (loss) from discontinued operations	0.73	0.23	0.20	(0.26)	0.49
Net income (loss)	$ 7.31	$ 0.02	$ (1.31)	$ (9.03)	$ (4.16)
Balance sheet data (end of period):					
Cash and cash equivalents(2)	$ 269	$ 85	$ 115	$ 141	$ 111
Total assets	6,016	5,977	6,227	7,224	6,688
Total debt(3)	4,311	5,174	5,447	7,219	5,412
Total stockholders' equity (deficit)	744	(760)	(764)	(1,591)	(428)
Other financial data (unaudited):					
Working capital(4)	$ 1,112	$ 1,163	$ 1,210	$ 1,120	$ 1,012
Weighted average effective interest rate less deferred financing costs	7.9%	8.2%	8.6%	11.3%	11.6%
Adjusted EBITDA(5)	878	775	658	553	396
Adjusted net income (loss)(5)	351	179	7	(209)	(343)
Capital expenditures	86	119	131	115	115
Depreciation & amortization(6)	116	186	207	284	274
Amortization of acquisition-related intangibles (other than software)	15	80	110	202	202
Statement of cash flows data:					
Cash flows provided by (used in) operating activities, net	$ 422	$ 295	$ (367)	$ (681)	$ (165)
Cash flows provided by (used in) investing activities, net	726	84	820	(800)	(6)
Cash flows provided by (used in) financing activities, net	(962)	(404)	(474)	1,511	(10)

(1) Weighted average shares and earnings per share are for Holdings. May not foot due to rounding.

(2) Cash and cash equivalents as of February 3, 2013 excludes $936 million of cash equivalents that were restricted for the redemption of debt.

(3) Total debt includes current and non-current installments of long-term debt, capital leases and associated discounts, premiums, and deferred financing costs. As of February 3, 2013, debt includes $889 million of 2007 Senior Subordinated Notes that we committed to redeem and did redeem on February 8, 2013. In accordance with the adoption of Accounting Standards Update 2015-03, total debt includes a reduction for deferred financing costs of $51 million, $83 million, $97 million, $110 million, and $50 million for the fiscal years ended January 31, 2016, February 1, 2015, February 2, 2014, February 3, 2013, and January 29, 2012, respectively.

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(4)
We define working capital as current assets (including cash) minus current liabilities, which include the current portion of long-term debt and accrued interest thereon.

(5)
Adjusted EBITDA and Adjusted net income (loss) are not recognized terms under GAAP and do not purport to be alternatives to net income (loss) as measures of operating performance. For additional detail, including a reconciliation from net income (loss), the most directly comparable financial measure under GAAP, to Adjusted EBITDA and Adjusted net income (loss) for the periods presented, see "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Key Business Metrics Adjusted EBITDA and Adjusted Net Income (Loss)."

(6)
Depreciation and amortization includes amounts recorded within Cost of sales in the Consolidated Statements of Operations.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

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

HD Supply is one of the largest industrial distributors in North America. We believe we have leading positions in the three distinct market sectors in which we specialize: Maintenance, Repair & Operations; Infrastructure; and Specialty Construction. We serve these markets with an integrated go-to-market strategy. We operate through approximately 550 locations across 48 U.S. states and six Canadian provinces. We have approximately 14,000 associates delivering localized, customer-tailored products, services and expertise. We serve approximately 500,000 customers, which include contractors, maintenance professionals, home builders, industrial businesses, and government entities. Our broad range of end-to-end product lines and services include approximately 850,000 stock-keeping units ("SKUs") of quality, name-brand and proprietary-brand products as well as value-add services supporting the entire lifecycle of a project from infrastructure and construction to maintenance, repair and operations.

Description of segments

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

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

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

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

In addition to the reportable segments, our consolidated financial results include "Corporate & Other." Corporate & Other is comprised of the following operating segments: Interior Solutions and Home Improvement Solutions. Interior Solutions offers turnkey supply and installation services for multiple interior finish options, including flooring, cabinets, countertops, and window coverings, along with comprehensive design center services for non-residential, residential and senior living projects. Home Improvement Solutions offers light remodeling and construction supplies, kitchen and bath cabinets, windows, plumbing materials, electrical equipment and other products, primarily to small remodeling contractors and trade professionals. Corporate & Other also includes costs related to our centralized support functions, which are comprised of finance, information technology, human resources, legal, supply chain and other support services, and removes inter-segment transactions.

Beginning in the fourth quarter of fiscal 2015, we combined the HD Supply Canada business unit with the Construction & Industrial White Cap business unit, reflecting the continued integration of the Canadian Brafasco business into Construction & Industrial White Cap. All periods presented have been revised to reflect the combined business unit.

Discontinued operations

In October 2015, the Company completed the sale of its Power Solutions business. The Company received cash proceeds of approximately $809 million, net of $16 million of transaction costs and subject to post-closing working capital adjustments. As a result of the sale, the Company recorded a $186 million pre-tax gain.

In January 2015, the Company completed the sale of substantially all of the assets of its Hardware Solutions business. The Company received cash proceeds of approximately $198 million, net of $2 million of transaction costs. As a result of the sale, the Company recorded an $8 million pre-tax gain in fiscal 2014.

In January 2014, the Company approved the disposal of Litemor, a specialty lighting distributor. During fiscal 2014, the Company finalized the disposal process of Litemor through liquidation and branch sales, resulting in a pre-tax loss on disposal of $15 million, which includes cash and non-cash charges.

In accordance with Accounting Standards Codification ("ASC") 205-20, "Discontinued Operations," the results of the Power Solutions, Hardware Solutions, and Litemor operations and the gain/loss on the sales of the businesses are classified as discontinued operations. The presentation of discontinued operations includes revenues and expenses of the discontinued operations and gain on the sales of the businesses, net of tax, as one line item on the Consolidated Statements of Operations and Comprehensive Income (Loss). All Consolidated Statements of Operations and Comprehensive Income (Loss) presented have been revised to reflect this presentation. For additional detail related to the results of operations of the discontinued operations, see "Note 3, Discontinued Operations," in the Notes to the Consolidated Financial Statements within Item 8. Financial Statements and Supplementary Data of this annual report on Form 10-K.

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

Our fiscal year is a 52- or 53-week period ending on the Sunday nearest to January 31. Fiscal year ending January 31, 2016 ("fiscal 2015"), fiscal year ended February 1, 2015 ("fiscal 2014"), and fiscal year ended February 2, 2014 ("fiscal 2013") each included 52 weeks.

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Key business metrics

Net sales

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

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

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

Gross profit

Gross profit primarily represents the difference between the product cost from our suppliers (net of earned rebates and discounts) including the cost of inbound freight and the sale price to our customers. The cost of outbound freight (including internal transfers), 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), rent, insurance, utilities, repair and maintenance and professional fees. In addition, operating expenses include depreciation and amortization, restructuring charges, and goodwill and other intangible asset impairments.

Adjusted EBITDA and Adjusted net income (loss)

We present Adjusted EBITDA because it is a primary measure used by management to evaluate operating performance. We believe the presentation of Adjusted EBITDA enhances investors' overall understanding of the financial performance of our business. Adjusted EBITDA is not a recognized term under accounting principles generally accepted in the United States of America ("GAAP") and does not purport to be an alternative to Net income (loss) as a measure of operating performance. We believe Adjusted EBITDA is helpful in highlighting operating trends, because it 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. In addition, we present Adjusted net income (loss) to measure our overall profitability as we believe it is an important measure of our performance. Adjusted net income (loss) is not a recognized term under GAAP and does not purport to be an alternative to Net income (loss) as a measure of operating performance. Adjusted net income (loss) is defined as Net income (loss) less Income (loss) from discontinued operations, net of tax, further adjusted for certain non-cash, non-recurring or unusual items, net of tax. We further believe that Adjusted EBITDA and Adjusted net income (loss) 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 (loss) 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 (loss) may not be comparable to other similarly titled measures of other companies.

Adjusted EBITDA is based on "Consolidated EBITDA," a measure which is defined in HDS's Term Loan Facility and Senior ABL Facility and used in calculating financial ratios in several material debt covenants. Borrowings under these facilities are a key source of liquidity and our ability to borrow under these facilities depends upon, among other things, our compliance with such financial ratio covenants. In particular, both facilities contain restrictive covenants that can restrict our activities if we do not maintain financial ratios calculated based on Consolidated EBITDA and our Senior ABL Facility requires us to maintain a minimum fixed charge coverage ratio of 1:1 if our specified excess availability (including an amount by which our borrowing base exceeds the outstanding amounts) under the Senior ABL Facility falls below the greater of $150 million and 10% of the aggregate commitments. Adjusted EBITDA is defined as Net income (loss) less Income (loss) from discontinued operations, net of tax, plus (i) Interest expense and Interest income, net, (ii) Provision (benefit) for income taxes, (iii) Depreciation and amortization and further adjusted to exclude non-cash items and certain other adjustments to Consolidated Net Income permitted in calculating Consolidated EBITDA under our Term Loan Facility and our Senior ABL Facility. We believe that presenting Adjusted EBITDA is appropriate to provide additional information to investors about how the covenants in those agreements operate and about certain non-cash and other items. The Term Loan Facility and Senior ABL Facility permit us to make certain additional adjustments to Consolidated Net Income in calculating Consolidated EBITDA, such as projected net cost savings, which are not reflected in the Adjusted EBITDA data presented in this Form 10-K. 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 "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources External Financing."

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

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

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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 (loss), the most directly comparable financial measure under GAAP, to Adjusted EBITDA for the periods presented (amounts in millions):

	Fiscal year ended				
	January 31, 2016	**February 1, 2015**	**February 2, 2014**	**February 3, 2013**	**January 29, 2012**
Net income (loss)	**$ 1,472**	**$ 3**	**$ (218)**	**$ (1,179)**	**$ (543)**
Less income (loss) from discontinued operations, net of tax	**146**	45	34	(34)	64
Income (loss) from continuing operations	**1,326**	(42)	(252)	(1,145)	(607)
Interest expense, net	**394**	462	528	658	639
Provision (benefit) for income taxes(i)	**(1,085)**	42	44	26	67
Depreciation and amortization(ii)	**116**	186	207	284	274
Loss on extinguishment & modification of debt(iii)	**100**	108	87	709	
Restructuring charges(iv)	**10**	6	6		
Stock-based compensation	**16**	17	16	16	20
Management fee & related expenses paid to Equity Sponsors(v)			2	5	5
Costs related to public offerings(vi)	**1**	2	20		
Other		(6)			(2)
Adjusted EBITDA	**$ 878**	$ 775	$ 658	$ 553	$ 396

(i) During the fiscal year ended January 31, 2016, the Company recorded a $1,007 million tax benefit for the reversal of substantially all of the valuation allowance on its U.S. net deferred tax assets and a $189 million tax benefit for the reduction in unrecognized tax benefits as a result of IRS and state audit settlements.

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

(iii) Represents the loss on extinguishment of debt including the premium paid to repurchase or call the debt as well as the write-off of unamortized deferred financing costs and other assets or liabilities associated with such debt. Also includes the costs of debt modification.

(iv) Represents the costs incurred for strategic alignment of workforce and branch closures or consolidations. These costs include occupancy costs, severance, relocation costs, and other costs incurred to exit a location.

(v) The Company entered into consulting agreements with the Equity Sponsors whereby the Company paid the Equity Sponsors a $5 million annual aggregate management fee and related expenses. These consulting agreements were terminated in conjunction with Holdings' initial public offering in the second quarter of fiscal 2013.

(vi) Represents the costs expensed in connection with the Company's public offerings. All of the shares of common stock sold in fiscal 2015 and fiscal 2014 public offerings were sold by certain of the Company's stockholders. The Company did not receive any proceeds from the sale of such shares. Amount in fiscal 2013 represents the costs expensed in connection with the Company's initial public offering, including approximately $18 million paid to the Equity Sponsors in the second

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quarter of fiscal 2013 for termination of the consulting agreements. See "Note 2, Public Offerings," in the Notes to the Consolidated Financial Statements within Item 8. Financial Statements and Supplementary Data.

The following table presents a reconciliation of Net income (loss), the most directly comparable financial measure under GAAP, to Adjusted net income (loss) for the periods presented (amounts in millions):

	Fiscal year ended				
	January 31, 2016	**February 1, 2015**	**February 2, 2014**	**February 3, 2013**	**January 29, 2012**
Net income (loss)	**$ 1,472**	**$ 3**	**$ (218)**	**$ (1,179)**	**$ (543)**
Less income (loss) from discontinued operations, net of tax	146	45	34	(34)	64
Income (loss) from continuing operations	1,326	(42)	(252)	(1,145)	(607)
Plus: Provision (benefit) for income taxes(i)	(1,085)	42	44	26	67
Less: Cash income taxes(ii)	(16)	(12)	(8)	(1)	(5)
Plus: Amortization of acquisition-related intangible assets (other than software)	15	80	110	202	202
Plus: Loss on extinguishment & modification of debt(iii)	100	108	87	709	
Restructuring charges(iv)	10	6	6		
Costs related to public offerings(v)	1	2	20		
Other		(5)			
Adjusted Net Income (Loss)	**$ 351**	**$ 179**	**$ 7**	**$ (209)**	**$ (343)**

(i) During the fiscal year ended January 31, 2016, the Company recorded a $1,007 million tax benefit for the reversal of substantially all of the valuation allowance on its U.S. net deferred tax assets and a $189 million tax benefit for the reduction in unrecognized tax benefits as a result of IRS and state audit settlements.

(ii) Cash paid for income taxes in fiscal 2014 excludes a $27 million payment for the settlement of the IRS's audit of the Company's U.S. federal income tax returns filed for the tax years ended on February 3, 2008 and February 1, 2009.

(iii) Represents the loss on extinguishment of debt including the premium paid to repurchase or call the debt as well as the write-off of unamortized deferred financing costs and other assets or liabilities associated with such debt. Also includes the costs of debt modifications.

(iv) Represents the costs incurred for strategic alignment of workforce and branch closures or consolidations. These costs include occupancy costs, severance, relocation costs, and other costs incurred to exit a location.

(v) Represents the costs expensed in connection with the Company's public offerings. All of the shares of common stock sold in fiscal 2015 and fiscal 2014 public offerings were sold by certain of the Company's stockholders. The Company did not receive any proceeds from the sale of such shares. Amount in fiscal 2013 represents the costs expensed in connection with the Company's initial public offering, including approximately $18 million paid to the Equity Sponsors in the second quarter of fiscal 2013 for termination of the consulting agreements. See "Note 2, Public Offerings," in the Notes to the Consolidated Financial Statements within Item 8. Financial Statements and Supplementary Data.

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Consolidated results of operations

Dollars in millions	Fiscal Year 2015	Fiscal Year 2014	Fiscal Year 2013	Percentage Increase (Decrease) 2015 vs. 2014	Percentage Increase (Decrease) 2014 vs. 2013
Net sales	**$ 7,388**	$ 6,970	$ 6,387	6.0	9.1
Gross profit	**2,456**	2,264	2,080	8.5	8.8
Operating expenses:					
Selling, general & administrative	**1,599**	1,510	1,443	5.9	4.6
Depreciation & amortization	**111**	181	204	(38.7)	(11.3)
Restructuring	**10**	6	6	66.7	
Total operating expenses	**1,720**	1,697	1,653	1.4	2.7
Operating income	**736**	567	427	29.8	32.8
Interest expense	**394**	462	528	(14.7)	(12.5)
Loss on extinguishment & modification of debt	**100**	108	87	(7.4)	24.1
Other (income) expense, net	**1**	(3)	20	*	*
Income (loss) from continuing operations before provision (benefit) for income taxes	**241**		(208)	*	*
Provision (benefit) for income taxes	**(1,085)**	42	44	*	(4.5)
Income (loss) from continuing operations	**1,326**	(42)	(252)	*	(83.3)
Income (loss) from discontinued operations, net of tax	**146**	45	34	*	32.4
Net Income (Loss)	**$ 1,472**	$ 3	$ (218)	*	*
Non-GAAP Financial Data:					
Adjusted EBITDA	**$ 878**	$ 775	$ 658	13.3	17.8
Adjusted net income	**$ 351**	$ 179	$ 7	96.1	*

* not meaningful

	% of Net sales Fiscal Year 2015	% of Net sales Fiscal Year 2014	% of Net sales Fiscal Year 2013	Basis Point Increase (Decrease) 2015 vs. 2014	Basis Point Increase (Decrease) 2014 vs. 2013
Net sales	**100.0%**	100.0%	100.0%		
Gross profit	**33.2**	32.5	32.6	70	(10)
Operating expenses:					
Selling, general & administrative	**21.6**	21.7	22.6	(10)	(90)
Depreciation & amortization	**1.5**	2.6	3.2	(110)	(60)
Restructuring	**0.1**	0.1	0.1		
Total operating expenses	**23.2**	24.4	25.9	(120)	(150)
Operating income	**10.0**	8.1	6.7	190	140

Interest expense	**5.3**	6.6	8.3	(130)	(170)
Loss on extinguishment & modification of debt	**1.4**	1.5	1.4	(10)	10
Other (income) expense, net			0.3		(30)
Income (loss) from continuing operations before provision (benefit) for income taxes	**3.3**		(3.3)	330	330
Provision (benefit) for income taxes	**(14.6)**	0.6	0.6	*	
Income (loss) from continuing operations	**17.9**	(0.6)	(3.9)	*	330
Income (loss) from discontinued operations, net of tax	**2.0**	0.6	0.5	140	10
Net Income (Loss)	**19.9**		(3.4)	*	340
Non-GAAP Financial Data:					
Adjusted EBITDA	**11.9**	11.1	10.3	80	80
Adjusted net income	**4.8**	2.6	0.1	220	250

* Not meaningful

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Fiscal 2015 compared to fiscal 2014

Highlights

Net sales in fiscal 2015 increased $418 million, or 6.0%, compared to fiscal 2014. Each of our three reportable segments realized increases in Net sales. Operating income in fiscal 2015 increased $169 million, or 29.8% to $736 million during fiscal 2015 as compared to fiscal 2014. Our growth initiatives, cost control efforts and the leverage of fixed costs, resulted in an increase to Adjusted EBITDA of $103 million, or 13.3%, in fiscal 2015 as compared to fiscal 2014. Net income in fiscal 2015 was $1,472 million, as compared to $3 million in fiscal 2014. Fiscal 2015 Net income included a $1,007 million tax benefit for the reversal of substantially all of the Company's valuation allowance on its U.S. net deferred tax assets and a $189 million tax benefit for the reduction in unrecognized tax benefits as a result of IRS and state audit settlements. Adjusted net income in fiscal 2015 increased $172 million to $351 million, as compared to $179 million in fiscal 2014. As of January 31, 2016, our liquidity was $1.3 billion. See "Liquidity, capital resources and financial condition" for further information.

In October 2015, we completed the sale of our Power Solutions business. We received cash proceeds of approximately $809 million, net of $16 million of transaction costs. As a resut of the sale, we recorded a $186 million pre-tax gain, reflected in Income from discontinued operations, net of tax, in the Consolidated Statement of Operations. See "Note 3, Discontinued Operations," in the Notes to the Consolidated Financial Statements within Part II, Item 8 of this annual report on Form 10-K.

As a result of the sale of the Power Solutions business unit, management evaluated our talent alignment and functional support strategies. Consequently, during fiscal 2015 we initiated a restructuring plan to strategically align our leadership and functional support teams, recording a restructuring charge of $10 million, primarily for severance, relocation, and related costs at Facilities Maintenance and Waterworks. We expect to incur an additional $5 million to $10 million over the next nine months and expect a payback via a permanent reduction in cost over the next two years. Payments for these initial charges are expected to be substantially complete in the next twelve months. For additional information, see "Note 12, Restructuring Activities," in the Notes to the Consolidated Financial Statements within Part II, Item 8 of this annual report on Form 10-K.

Net sales

Net sales increased $418 million, or 6.0% to $7,388 million during fiscal 2015 as compared to fiscal 2014.

Each of our reportable segments reported an increase in Net sales during fiscal 2015 as compared to fiscal 2014. The Net sales increases were primarily due to growth initiatives at each of our businesses and, to a lesser extent, increases in market volume. Growth initiatives contributed approximately $240 million in fiscal 2015. The Net sales increase was partially offset by an unfavorable Canadian exchange rate impact, resulting in a $19 million reduction to Net sales in fiscal 2015.

Gross profit

Gross profit increased $192 million, or 8.5%, to $2,456 million during fiscal 2015 as compared to fiscal 2014.

Each of our reportable segments experienced an increase in Gross profit in fiscal 2015 as compared to fiscal 2014. The increase in Gross profit is primarily due to sales growth from initiatives and market volume.

Gross profit as a percentage of Net sales ("gross margin") increased approximately 70 basis points to 33.2% in fiscal 2015 as compared to 32.5% in fiscal 2014. The improvement in gross margin was

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primarily driven by our category management initiatives and mix of products and services, partially offset by the competitive environment.

Operating expenses

Operating expenses increased $23 million, or 1.4%, to $1,720 million during fiscal 2015 as compared to fiscal 2014.

Selling, general and administrative expenses increased $89 million, or 5.9% to $1,599 million during fiscal 2015 as compared to fiscal 2014. The increase was primarily a result of increases in variable expenses due to higher sales volume and investments in growth initiatives. Depreciation and amortization expense decreased $70 million, or 38.7% to $111 million in fiscal 2015 as compared to fiscal 2014 as certain acquisition-related intangible assets became fully amortized during fiscal 2014. Restructuring charges increased $4 million, to $10 million during fiscal 2015 as compared to fiscal 2014, as the Company initiated restructuring activities to strategically align its workforce during fiscal 2015 in conjunction with the sale of Power Solutions.

Operating expenses as a percentage of Net sales decreased approximately 120 basis points to 23.2%, in fiscal 2015 as compared to fiscal 2014. The decrease was driven by a reduction in Depreciation and amortization expense as a percentage of Net sales, which decreased approximately 110 basis points to 1.5%. Selling, general and administrative expenses as a percentage of Net sales, decreased approximately 10 basis points to 21.6%. The improvement in Selling, general and administrative expenses as a percentage of Net sales was primarily due to our cost control efforts, including the restructuring actions initiated during fiscal 2015 and fiscal 2014, and the leverage of fixed costs through sales volume increases, partially offset by investments in the business.

Operating income

Operating income increased $169 million, or 29.8% to $736 million during fiscal 2015 as compared to fiscal 2014, primarily due to higher Net sales and Gross profit partially offset by higher operating expenses.

Operating income as a percentage of Net sales increased approximately 190 basis points in fiscal 2015 as compared to fiscal 2014. The improvement was driven by a reduction in operating expenses as a percentage of Net sales and improvements in gross margins.

Interest expense

Interest expense decreased $68 million, or 14.7%, during fiscal 2015 as compared to fiscal 2014. The decrease in fiscal 2015 was due to a lower average interest rate on our outstanding indebtedness and a lower average outstanding balance due to the redemption of debt in fiscal 2015.

Loss on extinguishment & modification of debt

During fiscal 2015, our debt refinancing and redemption activities resulted in charges of $100 million recorded in accordance with ASC 470-50, "Debt-Modifications and Extinguishments."

In the third quarter of fiscal 2015, HDS redeemed all of the outstanding $675 million aggregate principal of its April 2012 Second Priority Notes, incurring an $80 million loss on extinguishment of debt, which includes a $72 million make-whole premium payment and a write-off of $8 million of unamortized deferred financing costs.

Also in the third quarter of fiscal 2015, HDS amended its Term Loan Facility to reduce the applicable margin for borrowings by 25 basis points, with the LIBOR floor to remain at 1.00%. The amendment also extended the maturity of the Term Loans by approximately three years, to August 13,

2021. See "Liquidity,capital resources and financial condition External financing" for further information.

As a result of the amendment, the Company recorded a $20 million loss on extinguishment and modification of debt, which included a $15 million write-off of pro-rata portions of the unamortized original issue discount and the unamortized deferred financing costs for the portion of the amendment considered an extinguishment in accordance with GAAP.

During fiscal 2014, our debt refinancing and redemption activities resulted in charges of $108 million recorded in accordance with ASC 470-50, "Debt-Modifications and Extinguishments."

In the fourth quarter of fiscal 2014, HDS redeemed all of the outstanding $1,250 million aggregate principal amount of its 2012 First Priority Notes. As a result, in the fourth quarter of fiscal 2014 HDS incurred a $106 million loss on extinguishment of debt, which includes a $106 million make-whole premium payment to redeem the 2012 First Priority Notes and the write-off of $15 million of unamortized deferred financing costs, offset by the write-off of $15 million of unamortized premium on the 2012 First Priority Notes.

In the first quarter of fiscal 2014, HDS amended its Term Loan Facility to reduce the applicable margin for borrowings by 25 basis points and reduce the LIBOR floor from 1.25% to 1.00%. The amendment also added a new soft call provision applicable to optional prepayment of the Term Loans and extended the maturity of the Term Loans by approximately nine months, to June 28, 2018. A portion of the amendment was considered an extinguishment, resulting in a $1 million loss on extinguishment of debt for the write-off of pro-rata portions of the unamortized original issue discount and the unamortized deferred financing costs. The portion of the amendment considered a modification resulted in a charge of approximately $1 million.

Other (income) expense, net

During fiscal 2015, in connection with secondary public offerings by certain of Holdings' stockholders, we incurred approximately $1 million in related fees and expenses. During fiscal 2014, in connection with secondary public offerings by certain of Holdings' stockholders, we incurred approximately $2 million in related fees and expenses. For additional information, see "Note 2, Public Offerings," in the Notes to the Consolidated Financial Statements within Part II, Item 8 of this annual report on Form 10-K.

Provision (benefit) for income taxes

The provision for income taxes from continuing operations in fiscal 2015 was a benefit of $1,085 million compared to an expense of $42 million in fiscal 2014. The effective rate for continuing operations for fiscal 2015 was a benefit of 450.2% which was primarily due to a tax benefit of $1,007 million related to a reversal of substantially all of the valuation allowance on the Company's U.S. net deferred tax assets, as discussed further below. All of the income tax benefit generated by the reversal of the valuation allowance was recorded to continuing operations since the valuation allowance decrease was from our change in the assessment that the beginning-of-year deferred tax assets would be realized. The benefit from reversing the valuation allowance was partially offset by the utilization of $104 million of such deferred assets to offset current year income. The effective rate was further impacted by a decrease of $189 million in the Company's unrecognized U.S. federal and state tax benefits related to the February 19, 2015 approval and finalization of the Tentative Settlement (as defined in "Note 13, Commitment and Contingencies" in the Notes to the Consolidated Financial Statements within Part II, Item 8 of this annual report on Form 10-K) by the Joint Committee of Taxation.

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The provision for income taxes from continuing operations in fiscal 2014 was an expense of $42 million. Since pre-tax income was zero, the effective rate for continuing operations for fiscal 2014 was not meaningful. Tax expense on continuing operations reflects an increase in the valuation allowance, which was partially offset by the utilization of deferred tax assets which had previously been subject to a valuation allowance, the increasing of the deferred tax liability for U.S. goodwill amortization for tax purposes, and the accrual of income taxes for foreign and certain state jurisdictions. The U.S. valuation allowance for fiscal 2014 includes an increase of $33 million related to deferred tax liabilities generated by indefinite life intangibles. The deferred tax liability associated with indefinite life intangibles is not available as a source of taxable income to support the realization of deferred tax assets created by other deductible temporary timing differences.

At February 1, 2015, the valuation allowance on our U.S. deferred tax assets was approximately $1,013 million. Since fiscal 2010, we had maintained a full valuation allowance on our U.S. net deferred tax asset position. In each reporting period we assessed the available positive and negative evidence to estimate if sufficient future taxable income would be generated to utilize the existing deferred tax assets. Through fiscal 2014, our history of U.S. operating losses limited the weight we applied to other subjective evidence such as our projections for future profitability.

At January 31, 2016, our U.S. operations were in a position of cumulative consolidated pre-tax income for the most recent three-year period. We concluded, as a consequence of our consolidated three-year cumulative pre-tax income, generating taxable income in fiscal 2014 and fiscal 2015, our long net operating loss carryforward periods, a significant reduction in our recent interest expense, a projected further reduction in our future interest expense, and our business plan for fiscal 2016 and beyond showing continued profitability, that it is more likely than not that substantially all of our U.S. deferred tax assets will be realized. Accordingly, in the fourth quarter of 2015, we reversed substantially all of our valuation allowance on our net U.S. deferred tax assets, resulting in a $1,007 million benefit in our provision for income taxes. The benefit from reversing the valuation allowance was partially offset by the utilization of $104 million of such deferred assets to offset current year income. The minimum amount of future taxable income that needs to be generated to realize the deferred tax assets is approximately $2,163 million for U.S. Federal tax purposes and $3,177 million for U.S. State tax purposes. The current level of pre-tax earnings for financial reporting purposes is sufficient to generate the minimum amount of future taxable income to realize our U.S. Federal and State tax deferred assets prior to their expiration. At January 31, 2016, after the reversal of the valuation allowance, the Company's remaining valuation allowance on its U.S. deferred tax assets was approximately $6 million.

Based upon our current geographical presence and income tax statutes, for fiscal year 2016 we expect to record income tax expense with an effective rate of approximately 38.5%. As of January 31, 2016, we have more than $802 million of tax-effected Federal and State NOL carryforwards that can be used to offset cash income taxes due on future earnings.

Adjusted EBITDA

Adjusted EBITDA increased $103 million, or 13.3%, in fiscal 2015 as compared to fiscal 2014. Each of our reportable segments experienced an increase in Adjusted EBITDA in fiscal 2015 as compared to fiscal 2014.

The increase in Adjusted EBITDA in fiscal 2015 was primarily due to the increases in Net sales and Gross profit. Adjusted EBITDA as a percentage of Net sales increased approximately 80 basis points to 11.9% in fiscal 2015 as compared to fiscal 2014, primarily due to gross margin improvements and, to a lesser extent, a reduction in Selling, general and administrative expenses as a percentage of Net sales.

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Adjusted net income

Adjusted net income increased $172 million, to $351 million, in fiscal 2015 as compared to fiscal 2014. The increase in Adjusted net income was attributable to sales growth, improving gross margins, and lower interest expense.

Fiscal 2014 compared to fiscal 2013

Highlights

Net sales increased $583 million, or 9.1%, as compared to fiscal 2013. Each of our three reportable segments realized increases in Net sales. Operating income in fiscal 2014 increased $140 million, or 32.8% to $567 million during fiscal 2014 as compared to fiscal 2013. Our growth initiatives, cost control efforts and the leverage of fixed costs, resulted in an increase to Adjusted EBITDA of $117 million, or 17.8%, in fiscal 2014 as compared to fiscal 2013. Net income in fiscal 2014 was $3 million, as compared to a $218 million net loss in fiscal 2013. Adjusted net income in fiscal 2014 increased $172 million to $179 million, as compared to $7 million in fiscal 2013. The increase in Adjusted net income was attributable to sales growth and the leverage of fixed costs. As of February 1, 2015, our liquidity was $1.2 billion.

Net sales

Net sales increased $583 million, or 9.1% to $6,970 million during fiscal 2014 as compared to fiscal 2013.

Each of our reportable segments experienced an increase in Net sales in fiscal 2014 as compared to fiscal 2013. The increase in Net sales during the year was primarily due to growth initiatives at each of our businesses and, to a lesser extent, increase in market volume. The Net sales increase was partially offset by an unfavorable Canadian exchange rate impact, resulting in a $9 million reduction to Net sales in fiscal 2014. Additionally, fiscal 2014 was negatively impacted by severe winter weather during the first quarter.

Gross profit

Gross profit increased $184 million, or 8.8% to $2,264 million during fiscal 2014 as compared to fiscal 2013.

Each of our reportable segments experienced an increase in Gross profit in fiscal 2014 as compared to fiscal 2013. The increase in Gross profit was primarily due to sales growth initiatives and increased market volume.

Gross margin decreased approximately 10 basis points to 32.5% in fiscal 2014 as compared to 32.6% in fiscal 2013. The decline in gross margin was primarily driven by a competitive environment and mix of products and services, partially offset by our category management initiatives.

Operating expenses

Operating expenses increased $44 million, or 2.7% to $1,697 million during fiscal 2014 as compared to fiscal 2013.

Selling, general and administrative expenses increased $67 million, or 4.6% to $1,510 million during fiscal 2014 as compared to fiscal 2013. The increase was primarily a result of increases in variable expenses due to higher sales volume and investments in growth initiatives. Depreciation and amortization expense decreased $23 million, or 11.3% to $181 million in fiscal 2014 as compared to fiscal 2013 as certain acquisition-related intangible assets became fully amortized during the year, partially offset by an increase in depreciation as a result of new locations, distribution center expansions and investments in technology. Restructuring charges were $6 million for both fiscal 2014 and fiscal 2013, as the Company completed restructuring activities during the first half of fiscal 2014 that began in the fourth quarter of fiscal 2013.

Operating expenses as a percentage of Net sales decreased approximately 150 basis points to 24.4% in fiscal 2014 as compared to fiscal 2013. The decrease was driven by a reduction in Selling, general and administrative expenses as a percentage of Net sales, which decreased approximately 90 basis points to 21.7%, and Depreciation and amortization expense as a percentage of Net sales, which decreased approximately 60 basis points to 2.6%. The improvement in Selling, general and administrative expenses as a percentage of Net sales was primarily due to our cost control efforts, including the restructuring actions initiated during fiscal 2013, and the leverage of fixed costs through sales volume increases.

Operating income

Operating income increased $140 million, or 32.8% to $567 million during fiscal 2014 as compared to fiscal 2013, primarily due to higher Net sales and Gross profit, partially offset by higher operating expenses.

Operating income as a percentage of Net sales increased approximately 140 basis points to 8.1% in fiscal 2014 as compared to fiscal 2013. The improvement was primarily driven by a reduction in operating expenses as a percentage of Net sales.

Interest expense

Interest expense decreased $66 million, or 12.5%, during fiscal 2014 as compared to fiscal 2013. The decrease in fiscal 2014 as compared to fiscal 2013 was primarily due to a lower average outstanding balance, due to the repayment of debt with the net proceeds from Holdings' initial public offering in fiscal 2013, and to a lesser extent, a lower average interest rate.

Loss on extinguishment & modification of debt

During fiscal 2014, our debt refinancing and redemption activities resulted in charges of $108 million recorded in accordance with ASC 470-50, "Debt-Modifications and Extinguishments."

In the fourth quarter of fiscal 2014, HDS redeemed all of the outstanding $1,250 million aggregate principal amount of its 2012 First Priority Notes. As a result, in the fourth quarter of fiscal 2014 HDS incurred a $106 million loss on extinguishment of debt, which includes a $106 million make-whole premium payment to redeem the 2012 First Priority Notes and the write-off of $15 million of unamortized deferred financing costs, offset by the write-off of $15 million of unamortized premium on the 2012 First Priority Notes.

In the first quarter of fiscal 2014, HDS amended its Term Loan Facility to reduce the applicable margin for borrowings by 25 basis points and reduce the LIBOR floor from 1.25% to 1.00%. The amendment also added a new soft call provision applicable to optional prepayment of the Term Loans and extended the maturity of the Term Loans by approximately nine months, to June 28, 2018. A portion of the amendment was considered an extinguishment, resulting in a $1 million loss on extinguishment of debt for the write-off of pro-rata portions of the unamortized original issue discount and the unamortized deferred financing costs. The portion of the amendment considered a modification resulted in a charge of approximately $1 million.

During fiscal 2013, our debt refinancing and redemption activities resulted in charges of $87 million recorded in accordance with ASC 470-50, "Debt-Modifications and Extinguishments."

In the second quarter of fiscal 2013, we redeemed all $950 million outstanding aggregate principal amount of HDS's January 2013 Senior Subordinated Notes at a redemption price equal to 103% of the principal amount thereof. As a result, in second quarter 2013, HDS incurred a $44 million loss on extinguishment of debt, which included a $29 million premium payment to redeem the January 2013 Senior Subordinated Notes and approximately $15 million to write off the unamortized deferred financing costs.

Also in the second quarter of fiscal 2013, we amended HDS's Senior ABL Facility to, among other things, lower the borrowing margin by 25 basis points and extend the maturity date of the Senior ABL Facility to June 28, 2018 (or the maturity date under HDS's Term Loan Facility, if earlier). In connection with the amendment, HDS recognized an approximately $3 million loss on extinguishment of debt for the write-off of pro-rata unamortized deferred financing costs for the portion of the amendment considered an extinguishment.

In the first quarter of fiscal 2013, we redeemed all of the remaining $889 million outstanding 2007 Senior Subordinated Notes at redemption price of 103.375% of the principal amount thereof. As a result, HDS incurred a $34 million loss on extinguishment of debt, which included a $30 million premium payment to redeem the 2007 Senior Subordinated Notes and approximately $4 million to write off the unamortized deferred financing costs.

In addition, during the first quarter of fiscal 2013, we amended HDS's Term Loan Facility to lower the borrowing margin by 275 basis points and replace the hard call provision applicable to optional prepayment of Term Loans thereunder with a soft call option. A portion of the amendment was considered an extinguishment, resulting in a $5 million loss on extinguishment of debt, which included approximately $2 million of fees, $2 million to write off the pro-rata portion of unamortized original issue discount, and $1 million to write off the pro-rata portion of unamortized deferred financing costs. A significant portion of the amendment of HDS's Term Loan Facility was considered a modification. As a result, HDS incurred approximately $1 million in financing fees that were expensed.

For additional information on our debt-related activity, see "Liquidity, capital resources and financial condition External financing" within this section of this annual report on Form 10-K.

Other (income) expense, net

During fiscal 2014, in connection with secondary public offerings by certain of Holdings' stockholders, we incurred approximately $2 million in related fees and expenses. Additionally, we recognized a $5 million credit associated with the tax-sharing agreement with Home Depot. During fiscal 2013, and in connection with Holdings' initial public offering, we incurred approximately $20 million in related fees and expenses, including an aggregate fee of approximately $18 million paid to the Equity Sponsors to terminate our consulting agreements with them. For additional information, see "Note 2, Public Offerings," in the Notes to the Consolidated Financial Statements within Part II, Item 8 of this annual report on Form 10-K.

Provision (benefit) for income taxes

The provision for income taxes from continuing operations in fiscal 2014 was $42 million compared to $44 million in fiscal 2013. Since pre-tax income was zero, the effective rate for continuing operations for fiscal 2014 was not meaningful. Tax expense from continuing operations reflects an increase in the valuation allowance, which was partially offset by the utilization of deferred tax assets which had previously been subject to a valuation allowance, the increasing of the deferred tax liability for U.S. goodwill amortization for tax purposes, and the accrual of income taxes for foreign and certain state jurisdictions. The U.S. valuation allowance for fiscal 2014 includes an increase of $33 million related to deferred tax liabilities generated by indefinite life intangibles. The deferred tax liability associated with

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indefinite life intangibles is not available as a source of taxable income to support the realization of deferred tax assets created by other deductible temporary timing differences.

The provision for income taxes from continuing operations in fiscal 2013 was an expense of $44 million. The effective rate for continuing operations for fiscal 2013 was negative 20.9%, reflecting the impact of a $118 million increase in the U.S. valuation allowance on deferred tax assets driven by the uncertainty regarding our ability to utilize the NOL for fiscal 2013. The U.S. valuation allowance for fiscal 2013 includes an increase of $33 million related to deferred tax liabilities generated by indefinite life intangibles for continuing operations. The deferred tax liability associated with indefinite life intangibles is not available as a source of taxable income.

Adjusted EBITDA

Adjusted EBITDA increased $117 million, or 17.8%, in fiscal 2014 as compared to fiscal 2013. Each of our reportable segments experienced an increase in Adjusted EBITDA in fiscal 2014 as compared to fiscal 2013.

The increase in Adjusted EBITDA in fiscal 2014 was primarily due to the increases in Net sales and Gross profit. Adjusted EBITDA as a percentage of Net sales increased approximately 80 basis points to 11.1% in fiscal 2014 as compared to fiscal 2013, primarily due to a reduction in Selling, general and administrative expenses as a percentage of Net sales.

Adjusted net income

Adjusted net income increased $172 million, to $179 million, in fiscal 2014 as compared to fiscal 2013. The increase in Adjusted net income was attributable to sales growth, the leverage of fixed costs and the positive impact of lower interest expense.

Results of operations by reportable segment

Facilities Maintenance

	Fiscal Year			Increase (Decrease)	
	2015	**2014**	**2013**	**2015 vs. 2014**	**2014 vs. 2013**
	(Dollars in millions)				
Net sales	**$ 2,690**	**$ 2,510**	**$ 2,331**	*7.2%*	*7.7%*
Operating income (loss)	**$ 474**	**$ 382**	**$ 307**	*24.1%*	*24.4%*
% of Net sales	*17.6%*	*15.2%*	*13.2%*	*240 bps*	*200 bps*
Depreciation and amortization	49	107	126	*(54.2)%*	*(15.1)%*
Restructuring	6	2	1	*	*
Adjusted EBITDA	**$ 529**	**$ 491**	**$ 434**	*7.7%*	*13.1%*
% of Net sales	*19.7%*	*19.6%*	*18.6%*	*10 bps*	*100 bps*

* not meaningful

Fiscal 2015 compared to fiscal 2014

Net Sales

Net sales increased $180 million, or 7.2%, in fiscal 2015 as compared to fiscal 2014.

The increase in Net sales was primarily due to growth initiatives. These growth initiatives consist of investments in sales personnel, products, and technology aligned with our customers' multifamily, hospitality, and healthcare industries. The Net sales increase was partially offset by an unfavorable

Canadian exchange rate impact, resulting in a $6 million reduction to Net sales in fiscal 2015. In addition, fiscal 2015 was negatively affected by unfavorable weather impacts during the first quarter.

Adjusted EBITDA

Adjusted EBITDA increased $38 million, or 7.7%, in fiscal 2015 as compared to fiscal 2014.

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

Adjusted EBITDA as a percentage of Net sales increased approximately 10 basis points in fiscal 2015 as compared to fiscal 2014. The increase was primarily driven by a decline in Selling, general and administrative expenses as a percentage of Net sales, partially offset by a $5 million inventory impairment charge recorded in the fourth quarter of fiscal 2015. Selling, general and administrative expenses as a percentage of Net sales declined slightly in fiscal 2015 as compared to fiscal 2014 due to the leverage of fixed costs through sales volume increases and cost control efforts. The inventory impairment charge was recorded based on management's intent to reduce excess inventory thereby decongesting the Company's distribution centers and improving the efficiency of the supply chain.

Fiscal 2014 compared to fiscal 2013

Net sales

Net sales increased $179 million, or 7.7%, in fiscal 2014 as compared to fiscal 2013.

Growth initiatives contributed approximately $125 million of the year-over-year increase. These growth initiatives consist of investments in sales personnel, products, and technology aligned with our customers' multifamily, hospitality, and healthcare industries. The Net sales increase was partially offset by an unfavorable Canadian exchange rate impact, resulting in a $3 million reduction to Net sales in fiscal 2014.

Adjusted EBITDA

Adjusted EBITDA increased $57 million, or 13.1%, in fiscal 2014 as compared to fiscal 2013.

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

Adjusted EBITDA as a percentage of Net sales increased approximately 100 basis points in fiscal 2014 as compared to fiscal 2013. The increase was primarily driven by a decline in Selling, general and administrative expenses as a percentage of Net sales. Selling, general and administrative expenses as a percentage of Net sales declined approximately 110 basis points in fiscal 2014 as compared to fiscal 2013 due to the leverage of fixed costs through sales volume increases and cost control efforts.

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Waterworks

	Fiscal Year 2015	Fiscal Year 2014	Fiscal Year 2013	Increase (Decrease) 2015 vs. 2014	Increase (Decrease) 2014 vs. 2013
	(Dollars in millions)				
Net sales	**$ 2,510**	**$ 2,427**	**$ 2,227**	*3.4%*	*9.0%*
Operating income (loss)	**$ 208**	**$ 184**	**$ 159**	*13.0%*	*15.7%*
% of Net sales	*8.3%*	*7.6%*	*7.1%*	*70 bps*	*50 bps*
Depreciation and amortization	13	14	14	*(7.1)%*	
Restructuring	1			*	*
Adjusted EBITDA	**$ 222**	**$ 198**	**$ 173**	*12.1%*	*14.5%*
% of Net sales	*8.8%*	*8.2%*	*7.8%*	*60 bps*	*40 bps*

* not meaningful

Fiscal 2015 compared to fiscal 2014

Net Sales

Net sales increased $83 million, or 3.4%, during fiscal 2015 as compared to fiscal 2014.

Growth initiatives, including fusible piping solutions, storm drainage, treatment plant initiatives, and new locations ("greenfields"), contributed to the increase in fiscal 2015. Net sales was also positively impacted by higher sales volume due to end-market improvements.

Adjusted EBITDA

Adjusted EBITDA increased $24 million, or 12.1%, in fiscal 2015 as compared to fiscal 2014.

The increase in fiscal 2015, was due to growth initiatives, partially offset by increased Selling, general and administrative expenses, primarily personnel related to growth initiative investments and variable costs due to the increased volume and inflation.

Adjusted EBITDA as a percentage of Net sales increased approximately 60 basis points in fiscal 2015 as compared to fiscal 2014. The improvement was primarily a result of improvements in gross margins due to our category management initiatives and product mix, including fewer large low margin projects as a result of a sluggish municipal market, partially offset by an increase in Selling, general and administrative expenses as a percentage of Net sales as we continue to invest for future growth.

Fiscal 2014 compared to fiscal 2013

Net Sales

Net sales increased $200 million, or 9.0%, during fiscal 2014 as compared to fiscal 2013.

Growth initiatives, including fusible piping solutions, storm drainage, treatment plant initiatives, and greenfields, contributed approximately $106 million in fiscal 2014. Net sales was also positively impacted by higher sales volume due to end-market improvements.

Adjusted EBITDA

Adjusted EBITDA increased $25 million, or 14.5%, in fiscal 2014 as compared to fiscal 2013.

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The increase in fiscal 2014, was due to growth initiatives, partially offset by increased Selling, general and administrative expenses, primarily personnel related to growth initiative investments and variable costs due to the increased volume and inflation.

Adjusted EBITDA as a percentage of Net sales increased approximately 40 basis points in fiscal 2014 as compared to fiscal 2013. The improvement was due to a reduction in Selling, general and administrative expenses as a percentage of Net sales due to leverage of fixed costs through sales volume increases.

Construction & Industrial White Cap

	Fiscal Year			Increase (Decrease)	
	2015	2014	2013	2015 vs. 2014	2014 vs. 2013
	(Dollars in millions)				
Net sales	**$ 1,733**	**$ 1,570**	**$ 1,381**	*10.4%*	*13.7%*
Operating income (loss)	**$ 133**	**$ 78**	**$ 48**	*70.5%*	*62.5%*
% of Net sales	*7.7%*	*5.0%*	*3.5%*	*270 bps*	*150 bps*
Depreciation and amortization	27	36	37	*(25.0)%*	*(2.7)%*
Restructuring		2	1		
Adjusted EBITDA	**$ 160**	**$ 116**	**$ 86**	*37.9%*	*34.9%*
% of Net sales	*9.2%*	*7.4%*	*6.2%*	*180 bps*	*120 bps*

* not meaningful

Fiscal 2015 compared to fiscal 2014

Net Sales

Net sales increased $163 million, or 10.4%, in fiscal 2015 as compared to fiscal 2014.

Growth initiatives contributed to the increase in Net sales in in fiscal 2015 driven by our greenfields, Managed Sales Approach ("MSA") and direct marketing initiatives. MSA is a structured approach to drive revenue at a regional level through analysis, tools and sales management. In addition, Net sales were positively impacted by end-market improvement in both non-residential and residential housing markets. The Net sales increase was partially offset by an unfavorable Canadian exchange rate impact, resulting in a $13 million reduction to Net sales in fiscal 2015.

Adjusted EBITDA

Adjusted EBITDA increased $44 million, or 37.9%, in fiscal 2015 as compared to fiscal 2014.

The increase in Adjusted EBITDA in fiscal 2015 as compared to fiscal 2014 was primarily driven by growth initiatives and market volume. This increase was partially offset by increased Selling, general and administrative expenses related to variable expenses and the hiring of additional associates to support the expanding business and drive future growth.

Adjusted EBITDA as a percentage of Net sales increased approximately 180 basis points in fiscal 2015 as compared to fiscal 2014. This improvement was primarily driven by improvements in gross margins, due to product mix and category management initiatives, and a decrease in Selling, general and administrative expenses as a percentage of Net sales due to the leverage of fixed costs through sales volume increases and cost control efforts.

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Fiscal 2014 compared to fiscal 2013

Net Sales

Net sales increased $189 million, or 13.7%, in fiscal 2014 as compared to fiscal 2013.

Growth initiatives contributed approximately $107 million in fiscal 2014 driven by our greenfields, MSA, and direct marketing initiatives. In addition, Construction & Industrial Net sales in fiscal 2014 was positively impacted by improvements in non-residential construction and the residential housing market. The Net sales increase was partially offset by an unfavorable Canadian exchange rate impact, resulting in a $6 million reduction to Net sales in fiscal 2014.

Adjusted EBITDA

Adjusted EBITDA increased $30 million, or 34.9%, in fiscal 2014 as compared to fiscal 2013.

The increase in Adjusted EBITDA in fiscal 2014 as compared to fiscal 2013 was primarily driven by growth initiatives and market volume. This increase was partially offset by increased Selling, general and administrative expenses related to variable expenses and the hiring of additional associates to support the expanding business and drive future growth.

Adjusted EBITDA as a percentage of Net sales increased approximately 120 basis points in fiscal 2014 as compared to fiscal 2013. This improvement was primarily driven by a decrease in Selling, general and administrative expenses as a percentage of Net sales due to the leverage of fixed costs through sales volume increases and cost control efforts.

Liquidity, capital resources and financial condition

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 fiscal 2015, the Company's receipt of cash was primarily driven by cash receipts from operations, proceeds from the sale of Power Solutions and stock option exercises offset by the payment of interest on debt and net debt repayments, capital expenditures and purchases of treasury shares.

As of January 31, 2016, our combined liquidity of approximately $1,311 million was comprised of $269 million in cash and cash equivalents and $1,042 million of additional available borrowings (excluding $107 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):

	Fiscal 2015	Fiscal 2014	Fiscal 2013
	Amounts in millions		
Operating activities	**$ 422**	$ 295	$ (367)
Investing activities	**726**	84	820
Financing activities	**(962)**	(404)	(474)

Working capital

Working capital, excluding cash and cash equivalents, was $843 million as of January 31, 2016, decreasing $235 million as compared to $1,078 million as of February 1, 2015. Excluding the impact of discontinued operations, working capital, excluding cash and cash equivalents, increased $46 million. The increase was primarily driven by an increase in Receivables reflecting higher sales volumes and a decrease in Current installments of long-term debt due to the Incremental Agreement, as defined below.

Operating activities

During fiscal 2015 cash provided by operating activities was $422 million compared to $295 million in fiscal 2014. Cash interest paid in fiscal 2015 was $397 million, compared to $456 million in fiscal 2014. Cash flows from operating activities in fiscal 2015 included a payment of $12 million of original issue discount related to the extinguishment of a portion of the Term Loans. Cash flows from operating activities during fiscal 2014 included a payment of $1 million of original issue discount related to the extinguishment of a portion of the Term Loans. Cash flows from operating activities for discontinued operations were $2 million and $89 million during the fiscal 2015 and fiscal 2014, respectively. Excluding the cash interest payments in both periods and original issue discounts paid, cash flows from operating activities for continuing operations increased approximately $166 million in fiscal 2015 as compared to fiscal 2014. The increase in operating cash flows excluding interest, original issue discount, and discontinued operations is attributable to growth in earnings of continuing operations and working capital efficiency.

During fiscal 2014 cash provided by operating activities was $295 million compared with a use of $367 million in fiscal 2013. The use of cash in fiscal 2013 was driven by the payment of $364 million of original issue discounts and PIK interest related to the extinguishment of the 2007 Senior Subordinated Notes and a portion of the Term Loans. Cash interest paid in fiscal 2014 was $456 million, compared to $527 million in fiscal 2013. Excluding the cash interest payments, including PIK interest and original issue discounts paid, in both periods, cash flow from operating activities increased approximately $228 million in fiscal 2014 as compared to fiscal 2013. The increase in operating cash flows excluding interest is attributable to growth in earnings of continuing operations and cost control efforts.

Investing activities

During fiscal 2015, cash provided by investing activities was $726 million, primarily comprised of $809 million of cash received from the sale of our Power Solutions business, net of transaction costs, offset by $86 million of capital expenditures.

During fiscal 2014, cash provided by investing activities was $84 million, primarily due to the net proceeds of $198 million from the sale of our Hardware Solutions business, partially offset by $119 million of capital expenditures.

During fiscal 2013, cash provided by investing activities was $820 million, primarily due to the proceeds of $936 million from the sale of short-term investments of cash restricted for the extinguishment of the 2007 Senior Subordinated Notes, partially offset by $131 million of capital expenditures.

Financing activities

During fiscal 2015, cash used in financing activities was $962 million, primarily due to net debt repayments of $961 million, including $72 million of contractually required premiums to extinguish the April 2012 Second Priority Notes prior to maturity and purchase of treasury shares of $71 million partially offset by $74 million of proceeds from employee stock option exercises.

During fiscal 2014, cash used in financing activities was $404 million, primarily due to net debt repayments of $379 million, including $106 million of contractually required premiums paid to extinguish the 2012 First Priority Notes prior to maturity, purchases of $52 million of treasury shares and payments of $21 million for debt issuance and modification costs, partially offset by proceeds of $48 million from employee stock option exercises.

During fiscal 2013, cash used in financing activities was $474 million, primarily due to net debt payments of $1,485 million, including an aggregate $59 million in contractually required premiums paid to extinguish the 2007 Senior Subordinated Notes and January 2013 Senior Subordinated Notes prior to maturity, and payments of $34 million for debt issuance and modification costs. This was substantially offset by $1,039 million in net proceeds from the initial public offering of our common stock.

External financing

As of January 31, 2016, HDS had an aggregate principal amount of $4,311 million of outstanding debt, net of unamortized discounts and unamortized deferred financing costs of $11 million and $51 million, respectively, and an additional $1,149 million of available borrowings under its Senior ABL Facility (after giving effect to the borrowing base limitations and approximately $34 million in letters of credit issued and including $107 million of borrowings available on qualifying cash balances). We may from time to time repurchase or otherwise retire or extend our debt and/or take other steps to reduce our debt or otherwise improve our financial position. These actions may include open market debt repurchases, negotiated repurchases, other retirements of outstanding debt, and/or opportunistic refinancing of debt. The amount of debt that may be repurchased or otherwise retired or refinanced, if any, will depend on market conditions, trading levels of our debt, our cash position, compliance with debt covenants and other considerations. Our affiliates may also purchase our debt from time to time, through open market purchases or other transactions. In such cases, our debt may not be retired, in which case we would continue to pay interest in accordance with the terms of the debt, and we would continue to reflect the debt as outstanding in our consolidated statements of financial position.

During the fourth quarter of fiscal 2015, we adopted Accounting Standards Update ("ASU") No. 2015-03, "Interest Imputation of Interest, Simplifying the Presentation of Debt Issuance Costs" which requires the presentation of deferred financing costs as a direct deduction to the carrying value of long-term debt in the consolidated balance sheets for all periods presented. The amortization of such costs will continue to be recorded as interest expense. In accordance with ASU No. 2015-15, "Interest Imputation of Interest, Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line of Credit Arrangements, Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting," we continue to present deferred financing costs related to our revolving Senior ABL Facility as an asset in the consolidated balance sheets.

On October 13, 2015, HDS used proceeds from the sale of the Power Solutions business unit to redeem all of the outstanding $675 million aggregate principal of its April 2012 Second Priority Notes, and pay a $72 million make-whole premium calculated in accordance with the terms of the indenture governing such notes and $37 million of accrued but unpaid interest to the redemption date. As a result, the Company recorded an $80 million loss on extinguishment of debt, which includes the $72 million make-whole premium payment to redeem the April 2012 Second Priority Notes and the write-off of $8 million unamortized deferred financing costs, in accordance with ASC 470-50, "Debt Modifications and Extinguishments."

On August 13, 2015, HDS entered into an incremental amendment (the "Incremental Agreement") to the credit agreement governing its Term Loan Facility, pursuant to which HDS requested a borrowing of a new $850 million tranche of senior secured term loans, the proceeds of which, together with cash on hand and available borrowings under the Senior ABL Facility, were used to prepay in full the tranche of senior secured term loans then outstanding under the Term Loan

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Facility, as of the date of the Incremental Agreement. Following the Incremental Agreement, the Term Loan Facility will mature on August 13, 2021 and bears interest at the reduced applicable margin for borrowings of 2.75% for LIBOR borrowings and 1.75% for base rate borrowings (down from, respectively, 3.00% and 2.00% applicable to the redeemed Term Loans), with the LIBOR floor to remain at 1.00%. The Term Loans amortize in equal quarterly installments in aggregate annual amounts equal to 1.00% of the original principal amount of such Term Loans, beginning in December 2015 with the balance payable on such Term Loans' maturity date.

In connection with the Incremental Agreement, the Company recorded a modification and extinguishment charge of approximately $20 million, which includes financing fees and other costs of approximately $5 million and $15 million to write off a portion of the related unamortized discount and deferred financing costs, in accordance with ASC 470-50, "Debt Modifications and Extinguishments."

For additional information, see "Note 6, Debt," in the Notes to the Consolidated Financial Statements within "Part II. Item 8. Financial Statements and Supplementary Data" of this annual report on Form 10-K.

Rating agency actions

In August 2015, Moodys Investor Services ("Moody's") upgraded HDS's corporate family rating to B2, from B3, and revised its rating outlook to positive from stable. Moody's cited our solid operating performance and lower level of balance sheet debt. In a related rating action, Moody's raised HDS's Speculative Grade Liquidity Rating to SGL-2 from SGL-3, citing their expectations of increasing free cash flows and the amount of revolving credit facility available. Also in August 2015, Standard & Poor's ("S&P") raised HDS's corporate credit rating to 'B+' from 'B'. The S&P outlook remains stable.

Commodity and interest rate risk

Commodity risk

We are aware of the potentially unfavorable effects inflationary pressures may create through higher asset replacement costs and related depreciation, higher interest rates and higher material costs. In addition, our operating performance is affected by price fluctuations in the commodity based products that we purchase and sell, which contain commodities such as steel, PVC, petroleum and other commodities. We are also exposed to fluctuations in petroleum costs as we deliver a substantial portion of the products we sell by truck. We seek to minimize the effects of inflation and changing prices through economies of purchasing and inventory management resulting in cost reductions and productivity improvements as well as price increases to maintain reasonable gross margins.

As discussed above, our results of operations were favorably or negatively impacted by fluctuating commodity prices based on our ability or inability to pass increases in the prices of certain commodity based products to our customers. Such commodity price fluctuations have from time to time produced volatility in our financial performance and could do so in the future.

Interest rate risk related to debt

We are subject to interest rate risk associated with our debt. While changes in interest rates impact the fair value of the fixed-rate debt, there is no impact to earnings and cash flow. Alternatively, while changes in interest rates do not affect the fair value of our variable-rate debt, they do affect future earnings and cash flows.

HDS's Senior ABL Facility and Term Loan Facility bear variable interest rates.

The Senior ABL Facility bears interest (i) in the case of U.S. dollar denominated loans, either at LIBOR or the Prime Rate, at the option of the Company, plus applicable borrowing margins

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and (ii) in the case of Canadian dollar denominated loans, either at the BA Rate or the Canadian Prime Rate, at the option of the Company, plus applicable borrowing margins. The borrowing margins are defined by a pricing grid, as included in the ABL Facility agreement, based on average excess availability for the previous quarter.

The Term Loans bear interest at the applicable margin for borrowings of 2.75% for LIBOR borrowings and 1.75% for base rate borrowings, with the LIBOR floor at 1.00%.

A 1% increase in interest rates on our variable-rate debt would increase our annual forecasted interest expense by approximately $8 million (based on our borrowings as of January 31, 2016 and excluding the effect of the interest rate floor on our Term Loan Facility).

Off-balance sheet arrangements

In accordance with generally accepted accounting principles in the United States of America, operating leases for a portion of our real estate and other assets are not reflected in our Consolidated Balance Sheets.

Contractual obligations

The following table discloses aggregate information about our contractual obligations as of January 31, 2016 and the periods in which payments are due (amounts in millions):

		Payments due by period			
	Total	**Fiscal 2016**	**Fiscal 2017 - 2018**	**Fiscal 2019 - 2020**	**Fiscal years after 2020**
Long-term debt	$ 4,373	$ 9	$ 17	$ 2,292	$ 2,055
Interest on long-term debt(i)	1,508	308	615	498	87
Operating leases	554	139	219	125	71
Purchase obligations(ii)	399	399			
Total contractual cash obligations(iii)(iv)	$ 6,834	$ 855	$ 851	$ 2,915	$ 2,213

(i) The interest rates for the Senior ABL Facility are calculated based on the rates as of January 31, 2016. The interest on long-term debt includes payments for agent administration fees.

(ii) Purchase obligations include various commitments with vendors to purchase goods and services, primarily inventory. These purchase obligations are generally cancelable, but the Company has no intent to cancel.

(iii) The contractual obligations table excludes $2 million of unrecognized tax benefits due to uncertainty regarding the timing of future cash payments, if any, related to the liabilities recorded in accordance with the GAAP guidance for uncertain tax positions.

(iv) On February 4, 2016, the Company entered into an agreement for the lease of a leadership development and headquarters facility in Atlanta, Georgia. The lease commences upon completion of construction of the facility, which is anticipated to be January 2018. The initial term of the lease is twenty years with an initial base rent of approximately $5 million, escalating at 1.85% per year.

Recent accounting pronouncements

Leases In February 2016, The Financial Accounting Standards Board ("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.

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Income Taxes In November 2015, the FASB issued ASU No. 2015-17, "Income Taxes, Balance Sheet Classification of Deferred Taxes" ("ASU 2015-17"). The new guidance requires that deferred tax assets and liabilities be classified as non-current on the balance sheet, as opposed to current guidance which requires a net current asset or liability and net non-current asset or liability on the balance sheet. The new standard is effective for financial statements issued for fiscal years beginning after December 15, 2016. The new standard may be applied either prospectively or retrospectively to all periods presented. Early adoption is permitted. The Company adopted this new standard for its fiscal year 2015 financial statements and applied the new guidance on a prospective basis.

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

Interest imputation of interest In April 2015, the FASB issued ASU No. 2015-03, "Interest Imputation of Interest, Simplifying the Presentation of Debt Issuance Costs" ("ASU 2015-03"). The update requires that all costs incurred to issue debt be presented in the balance sheet as a direct deduction from the carrying value of the debt. In August 2015, the FASB issued ASU No. 2015-15, "Interest Imputation of Interest, Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line of Credit Arrangements, Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting" ("ASU 2015-15"), to clarify that an entity may elect to present debt issuance costs related to a line-of-credit arrangement as an asset, regardless of whether or not there are any outstanding borrowings on the line-of-credit arrangement. The ASU's are effective for fiscal years, and interim periods, beginning after December 15, 2015. Early adoption is permitted.

We adopted ASU 2015-03 and ASU 2015-15 as of January 31, 2016, electing to continue to present debt issuance costs related to our Senior ABL Facility as an asset, and as a result, have presented prior-period amounts for debt issuance costs related to all other long-term debt in a manner that conforms to the current-period presentation. The amortization of such costs will continue to be reported as interest expense. The adoption of this standard did not affect our results of operations or cash flows in either the current or prior interim or annual periods. For additional information, see "Note 6, Debt," in the Notes to the Consolidated Financial Statements within Part II, Item 8 of this annual report on Form 10-K

Discontinued operations In April 2014, the FASB issued ASU No. 2014-08, "Reporting discontinued operations and disclosure of disposals of components of an entity" ("ASU 2014-08"). The amended guidance requires that a disposal representing a strategic shift that has (or will have) a major effect on an entity's financial results or a business activity classified as held for sale should be reported as discontinued operations. The amendment also expands the disclosure requirements for discontinued operations and adds new disclosures for individually significant dispositions that do not qualify as discontinued operations. During the first quarter of fiscal 2015, the Company adopted ASU 2014-08. The adoption required additional disclosures regarding the Company's discontinued operations, but did not impact the Company's financial position or results of operations.

Revenue recognition In May 2014, the FASB issued ASU No. 2014-09, "Revenue from contracts with customers" ("ASU 2014-09"). The amended guidance outlines a single comprehensive revenue model for entities to use in accounting for revenue arising from contracts with customers. The guidance supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that "an entity recognizes revenue to depict the transfer of promised

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goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services." Entities have the option of using either a full retrospective or modified approach to adopt the guidance. In July 2015, the FASB decided on 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 interim and annual periods beginning after December 15, 2016. The Company is currently evaluating the impact of adopting ASU 2014-09.

Critical accounting policies

Our critical accounting policies include:

Revenue recognition

We recognize revenue when persuasive evidence of an agreement exists, delivery has occurred or services have been rendered, the price to the buyer is fixed and determinable and collectability is reasonably assured. We ship products to customers predominantly by internal fleet and to a lesser extent by third-party carriers. Revenues, net of sales tax and allowances for returns and discounts, are recognized from product sales when title to the products is passed to the customer, which generally occurs at the point of destination for products shipped by internal fleet and at the point of shipping for products shipped by third-party carriers.

Allowance for doubtful accounts

We evaluate the collectability of accounts receivable based on numerous factors, including past transaction history with customers, their credit worthiness and an assessment of our lien and bond rights. Initially, we estimate an allowance for doubtful accounts as a percentage of aged receivables. This estimate is periodically adjusted when we become aware of a specific customer's inability to meet its financial obligations (e.g., bankruptcy filing) or as a result of changes in our historical collection patterns. While we have a large customer base that is geographically dispersed, a slowdown in the markets in which we operate may result in higher than expected uncollectible accounts, and therefore, the need to revise estimates for bad debts. To the extent historical credit experience is not indicative of future performance or other assumptions used by management do not prevail, the allowance for doubtful accounts could differ significantly, resulting in either higher or lower future provisions for doubtful accounts.

Inventories

Inventories consist primarily of finished goods and are carried at the lower of cost or market. The cost of substantially all of our inventories is determined by the moving or weighted average cost method. We evaluate our inventory value at the end of each quarter to ensure that it is carried at the lower of cost or market. This evaluation includes an analysis of historical physical inventory results, a review of potential excess and obsolete inventories based on inventory aging and anticipated future demand. Periodically, each branch's perpetual inventory records are adjusted to reflect any declines in net realizable value below inventory carrying cost. To the extent historical physical inventory results are not indicative of future results and if future events impact, either favorably or unfavorably, the saleability of our products or our relationship with certain key vendors, our inventory reserves could differ significantly, resulting in either higher or lower future inventory provisions.

Consideration received from vendors

We enter into agreements with many of our vendors providing for inventory purchase rebates ("vendor rebates") upon achievement of specified volume purchasing levels. We accrue the receipt of

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vendor rebates as part of our cost of sales for products sold based on progress towards earning the vendor rebates, taking into consideration cumulative purchases of inventory to date and projected purchases through the end of the year. An estimate of vendor rebates is included in the carrying value of inventory at each period end for vendor rebates to be received on products not yet sold. While we believe we will continue to receive consideration from vendors in fiscal 2016 and thereafter, there can be no assurance that vendors will continue to provide comparable amounts of vendor rebates in the future.

Impairment of long-lived assets

Long-lived assets, including property and equipment, are reviewed for possible impairment whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. To analyze recoverability, we project undiscounted future cash flows over the remaining life of the asset. If these projected cash flows are less than the carrying amount, an impairment loss is recognized based on the fair value of the asset less any costs of disposition. Our judgment regarding the existence of impairment indicators are based on market and operational performance. Future events could cause us to conclude that impairment indicators exist and that assets are impaired. Evaluating the impairment also requires us to estimate future operating results and cash flows that require judgment by management. If different estimates were used, the amount and timing of asset impairments could be affected.

Goodwill

Goodwill represents the excess of the purchase price paid over the fair value of the net assets acquired in connection with business acquisitions. ASC 350, "Intangibles Goodwill and Other," requires entities to periodically assess the carrying value of goodwill by reviewing the fair value of the net assets underlying all acquisition-related goodwill on a reporting unit basis, as defined by ASC 350. We assess the recoverability of goodwill in the fourth quarter of each fiscal year.

We also use judgment in assessing whether we need to test goodwill more frequently for impairment than annually given factors such as unexpected adverse economic conditions, competition, product changes and other events. If the carrying amount of a reporting unit that contains goodwill exceeds fair value, a possible impairment would be indicated.

We determine the fair value of a reporting unit using a discounted cash flow ("DCF") analysis and a market comparable method, with each method being equally weighted in the calculation.

Determining fair value requires the exercise of significant judgment, including judgment about appropriate discount rates, the amount and timing of expected future cash flows, as well as relevant comparable company earnings multiples for the market comparable approach. The cash flows employed in the DCF analyses are based on the Company's most recent long-range forecast and, for years beyond the forecast, the Company's estimates, which are based on estimated exit multiples times the final forecasted year earnings before interest, taxes, depreciation and amortization. The discount rates used in the DCF analyses are intended to reflect the risks inherent in the future cash flows of the respective reporting units. For the market comparable approach, the Company evaluated comparable company public trading values, using earnings multiples and sales multiples that are used to value the reporting units.

For our annual goodwill impairment testing during the fourth quarter of fiscal 2015, we tested the four reporting units with goodwill balances. In accordance with ASC 350, we elected to first assess qualitative factors on three reporting units; Facilities Maintenance, Construction & Industrial White Cap, and Home Improvement Solutions, to determine whether it is more likely than not that the fair value of each of these reporting units is less than its carrying amount. Based on this assessment, we determined that it was not necessary to calculate the fair value using the DCF and market comparable approach for these three reporting units. We bypassed the qualitative analysis on the remaining reporting unit, Waterworks, and proceeded with the calculation of the fair value of this reporting unit using the DCF and market comparable approach. There was no indication of impairment in any of the Company's reporting units in the fourth quarter 2015 goodwill impairment test.

There was no indication of impairment in any of the Company's reporting units in the fiscal 2014 and fiscal 2013 annual tests.

The Company's DCF model is based on our expectation of future market conditions for each of the reporting units, as well as discount rates that would be used by market participants in an arms-length transaction. Future events could cause the Company to conclude that market conditions have declined or discount rates have increased to the extent that the Company's goodwill could be further impaired. It is not possible at this time to determine if any such future impairment charge would result.

Income Taxes

Income taxes are determined under the asset and liability method as required by ASC 740, "Income Taxes." Income tax expense or benefit is based on pre-tax financial accounting income. Deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

This measurement is reduced, if necessary, by a valuation allowance based on the amount of tax benefits that, based on available evidence, are not "more likely than not" to be realized. The Company recorded a valuation allowance related to its U.S. continuing operations of $33 million and $118 million in fiscal 2014 and fiscal 2013, respectively, as it believed it is "more likely than not" all of the U.S. deferred income tax assets will not be realized. In addition, the Company recorded a $4 million valuation allowance increase and a $1 million valuation allowance decrease related to its U.S. discontinued operations for fiscal 2014 and fiscal 2013, respectively.

At the end of fiscal 2015, the Company concluded that it is more likely than not that substantially all of our U.S. deferred tax assets would be realized. The conclusion was based upon the Company achieving three-year cumulative consolidated pre-tax income, generating taxable income in fiscal 2014 and fiscal 2015, long net operating loss carryforward periods, a reduction in current and future interest expense, and our business plan for fiscal 2016 and beyond showing continued profitability. Accordingly, in the fourth quarter of fiscal 2015, the Company reversed substantially all of our valuation allowance on our net U.S. deferred tax assets, resulting in a $1,007 million benefit in our provision for income taxes. Consistent with ASC 740, the Company evaluated the sources of realization for the deferred tax assets and considered the appropriate component of income to record the income tax benefit. Based on such analysis, approximately $1,007 million was recorded to continuing operations since the valuation allowance decrease was from our change in the assessment that the beginning-of-year deferred tax assets would be realized.

The Company follows the GAAP guidance for uncertain tax positions within ASC 740, "Income Taxes". ASC 740 provides guidance related to the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. The standard prescribes the minimum recognition threshold that a tax position is required to meet before being recognized in the financial statements. ASC 740 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods and disclosure. Initial recognition, derecognition and measurement is based on management's judgment given the facts, circumstances and information available at the reporting date. If these judgments are not accurate then future income tax expense or benefit could be different.

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In November 2015, the FASB issued authoritative guidance on the balance sheet classification of deferred tax assets (ASU 2015-17). The new guidance requires that deferred tax assets and liabilities be classified as non-current on the balance sheet, as opposed to previous guidance which required a net current asset or liability and net non-current asset or liability on the balance sheet. The new standard is effective for financial statements issued for fiscal years beginning after December 15, 2016, with early adoption permitted. The new standard may be applied either prospectively or retrospectively to all periods presented. The Company adopted this new standard as of January 31, 2016 and applied the new guidance on a prospective basis.

Self-insurance

We have a high deductible insurance program for most losses related to general liability, product liability, environmental liability, automobile liability, workers' compensation, and we are self-insured for medical claims and certain legal claims. The expected ultimate cost for claims incurred as of the balance sheet date is not discounted and is recognized as a liability. Self-insurance losses for claims filed and claims incurred but not reported are accrued based upon estimates of the aggregate liability for uninsured claims using loss development factors and actuarial assumptions followed in the insurance industry and historical loss development experience. To the extent the projected future development of the losses resulting from environmental, workers' compensation, automobile, general and product liability claims incurred as of January 31, 2016 differs from the actual development of such losses in future periods, our insurance reserves could differ significantly, resulting in either higher or lower future insurance expense.

Management estimates

Management believes the assumptions and other considerations used to estimate amounts reflected in our consolidated financial statements are appropriate. However, if actual experience differs from the assumptions and other considerations used in estimating amounts reflected in our consolidated financial statements, the resulting changes could have a material adverse effect on our consolidated results of operations, and in certain situations, could have a material adverse effect on our financial condition.

Stock-Based Compensation

Our stock option expense is estimated at the grant date based on an award's fair value as calculated by the Black-Scholes option-pricing model and is recognized as expense over the requisite service period. The Black-Scholes model requires various highly judgmental assumptions including expected volatility and option life. If any of the assumptions used in the Black-Scholes model changes significantly, stock-based compensation expense may differ materially in the future from that recorded in the current period. In addition, we estimate an expected forfeiture rate on all of our stock-based compensation awards and only recognize expense for those awards expected to vest. We estimate the forfeiture rate based on historical experience. To the extent our actual forfeiture rate is different from our estimate, stock-based compensation expense is adjusted accordingly. See "Note 9 Stock Based Compensation and Employee Benefit Plans" in the Notes to the Consolidated Financial Statements within Item 8. Financial Statements and Supplementary Data of this annual report on Form 10-K.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

The information required by this Item is included under "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" under the caption "Commodity and interest rate risk."

HD SUPPLY

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Index to financial statements

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
HD Supply Holdings, Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations and comprehensive income (loss), of stockholders' equity (deficit) and of cash flows present fairly, in all material respects, the financial position of HD Supply Holdings, Inc. and its subsidiaries at January 31, 2016 and February 1, 2015, and the results of their operations and their cash flows for each of the three years in the period ended January 31, 2016 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(c) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 31, 2016, based on criteria established in *Internal Control Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our audits (which were integrated audits in 2014 and 2015.) We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 1 to the consolidated financial statements, the Company changed the manner in which it classifies deferred tax assets and liabilities and debt issuance costs on the consolidated balance sheet in 2015.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
Atlanta, GA
March 18, 2016

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholder of
HD Supply, Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations and comprehensive income (loss), of stockholder's equity (deficit) and of cash flows present fairly, in all material respects, the financial position of HD Supply, Inc. and its subsidiaries at January 31, 2016 and February 1, 2015, and the results of their operations and their cash flows for each of the three years in the period ended January 31, 2016 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(c) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 31, 2016, based on criteria established in *Internal Control Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our audits (which were integrated audits in 2014 and 2015.) We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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/s/ PricewaterhouseCoopers LLP
Atlanta, GA
March 18, 2016

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HD SUPPLY HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

Amounts in millions, except share and per share data

	Fiscal Year Ended		
	January 31, 2016	**February 1, 2015**	**February 2, 2014**
Net Sales	**$ 7,388**	$ 6,970	$ 6,387
Cost of sales	**4,932**	4,706	4,307
Gross Profit	**2,456**	2,264	2,080
Operating expenses:			
Selling, general and administrative	**1,599**	1,510	1,443
Depreciation and amortization	**111**	181	204
Restructuring	**10**	6	6
Total operating expenses	**1,720**	1,697	1,653
Operating Income	**736**	567	427
Interest expense	**394**	462	528
Loss on extinguishment & modification of debt	**100**	108	87
Other (income) expense, net	**1**	(3)	20
Income (Loss) from Continuing Operations Before Provision (Benefit) for Income Taxes	**241**		(208)
Provision (benefit) for income taxes	**(1,085)**	42	44
Income (Loss) from Continuing Operations	**1,326**	(42)	(252)
Income from discontinued operations, net of tax	**146**	45	34
Net Income (Loss)	**$ 1,472**	$ 3	$ (218)
Other comprehensive income (loss) foreign currency translation adjustment	**12**	(13)	(13)
Total Comprehensive Income (Loss)	**$ 1,484**	$ (10)	$ (231)
Weighted Average Common Shares Outstanding (thousands)			
Basic	**197,011**	193,962	166,905
Diluted	**201,308**	193,962	166,905
Basic Earnings Per Share(1):			
Income (Loss) from Continuing Operations	**$ 6.73**	$ (0.22)	$ (1.51)
Income from Discontinued Operations	**$ 0.74**	$ 0.23	$ 0.20
Net Income (Loss)	**$ 7.47**	$ 0.02	$ (1.31)

Diluted Earnings Per Share(1):						
Income (Loss) from Continuing Operations	**$**	**6.59**	$	(0.22)	$	(1.51)
Income from Discontinued Operations	**$**	**0.73**	$	0.23	$	0.20
Net Income (Loss)	**$**	**7.31**	$	0.02	$	(1.31)

(1) May not foot due to rounding.

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

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HD SUPPLY HOLDINGS, INC.

CONSOLIDATED BALANCE SHEETS

Amounts in millions, except share and per share data

	January 31, 2016	February 1, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 269**	$ 85
Receivables, less allowance for doubtful accounts of $14 and $14	**903**	868
Inventories	**781**	784
Deferred tax asset		9
Current assets of discontinued operations		509
Other current assets	**30**	43
Total current assets	**1,983**	2,298
Property and equipment, net	**326**	340
Goodwill	**2,869**	2,869
Intangible assets, net	**130**	145
Deferred tax asset	**685**	1
Non-current assets of discontinued operations		295
Other assets	**23**	29
Total assets	**$ 6,016**	$ 5,977
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	**$ 508**	$ 510
Accrued compensation and benefits	**145**	144
Current installments of long-term debt	**9**	34
Current liabilities of discontinued operations		217
Other current liabilities	**209**	230
Total current liabilities	**871**	1,135
Long-term debt, excluding current installments	**4,302**	5,140
Deferred tax liabilities		166
Other liabilities	**99**	296
Total liabilities	**5,272**	6,737
Stockholders' equity (deficit):		
Common stock, par value $0.01; 1 billion shares authorized; 200.1 million and 196.0 million shares issued and outstanding at January 31, 2016 and February 1, 2015, respectively	**2**	2
Paid-in capital	**3,909**	3,818
Accumulated deficit	**(3,150)**	(4,540)
Accumulated other comprehensive loss	**(16)**	(28)
Treasury stock, at cost, 0.06 million and 0.4 million shares at January 31, 2016 and February 1, 2015, respectively	**(1)**	(12)

Total stockholders' equity (deficit)		**744**		(760)
Total liabilities and stockholders' equity (deficit)	**$**	**6,016**	$	5,977

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

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HD SUPPLY HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

Dollars in millions, shares in thousands

	Shares		Amounts					
	Common Stock	**Treasury**	**Common Stock**	**Treasury Stock**	**Paid-in Capital**	**Accumulated Deficit**	**Accumulated Other Comprehensive Income (Loss)(1)**	**Total Equity**
Balance at February 3, 2013	**130,584**	**(6)**	**$ 1**	**$**	**$ 2,695**	**$ (4,285)**	**$ (2)**	**$ (1,591)**
Net loss						(218)		(218)
Other comprehensive income (loss):								
Foreign currency translation adjustment							(13)	(13)
Sale of common stock	61,170		1		1,038			1,039
Shares issued under employee benefit plans	628				4			4
Stock-based compensation					16			16
Other					(1)			(1)
Balance at February 2, 2014	**192,382**	**(6)**	**$ 2**	**$**	**$ 3,752**	**$ (4,503)**	**$ (15)**	**$ (764)**
Net income						3		3
Other comprehensive income (loss):								
Foreign currency translation adjustment							(13)	(13)
Purchase of common stock		(1,870)		(52)				(52)
Shares issued under employee benefit plans	5,539				48			48
Stock-based compensation					17			17
Share retirement(2)	(1,470)	1,470		40		(40)		
Other					1			1
Balance at February 1, 2015	**196,451**	**(406)**	**$ 2**	**$ (12)**	**$ 3,818**	**$ (4,540)**	**$ (28)**	**$ (760)**
Net income						1,472		1,472
Other comprehensive income (loss):								
Foreign currency translation adjustment							12	12
Purchase of common stock		(2,282)		(72)				(72)
Shares issued under employee benefit plans	**6,351**				74			74
Stock-based compensation					16			16
Share retirement(2)	**(2,630)**	2,630		82		(82)		
Other				1	1			2
Balance at January 31, 2016	**200,172**	**(58)**	**$ 2**	**$ (1)**	**$ 3,909**	**$ (3,150)**	**$ (16)**	**$ 744**

(1) Accumulated Other Comprehensive Income (Loss) is comprised of cumulative foreign currency translation adjustments, net.

(2) The majority of these retired shares were re-acquired by Holdings, pursuant to its previously announced share repurchase program. Holdings reinstated the Retired Shares to the status of authorized but unissued shares of the Company's common stock, par value $0.01 per share, effective as of the date of retirement.

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

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HD SUPPLY HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Amounts in millions

	Fiscal Year Ended January 31, 2016	Fiscal Year Ended February 1, 2015	Fiscal Year Ended February 2, 2014
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	**$ 1,472**	$ 3	$ (218)
Reconciliation of net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	**134**	226	246
Provision for uncollectibles	**8**	7	4
Non-cash interest expense	**23**	25	30
Payment of PIK interest & discounts upon extinguishment of debt	**(12)**	(1)	(364)
Loss on extinguishment & modification of debt	**100**	108	87
Gain on sales of businesses	**(186)**	(8)	
Stock-based compensation expense	**16**	17	16
Deferred income taxes	**(839)**	55	54
Other	**(4)**		3
Changes in assets and liabilities, net of the effects of acquisitions & dispositions:			
(Increase) decrease in receivables	**(63)**	(90)	(68)
(Increase) decrease in inventories	**(38)**	(71)	(101)
(Increase) decrease in other current assets	**11**	18	
(Increase) decrease in other assets			
Increase (decrease) in accounts payable and accrued liabilities	**(14)**	1	(64)
Increase (decrease) in other long-term liabilities	**(186)**	5	8
Net cash provided by (used in) operating activities	**422**	295	(367)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	**(86)**	(119)	(131)
Proceeds from sales of property and equipment	**3**	5	8
Proceeds from sale of investments			936
Proceeds from sales of businesses	**809**	198	4
Settlements for business acquired, net of cash acquired			3
Net cash provided by (used in) investing activities	**726**	84	820
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from sale of common stock in initial public offering, net of transaction fees			1,039
Proceeds from issuance of common stock under employee benefit plans	**74**	48	4
Purchase of treasury shares	**(71)**	(52)	
Borrowings of long-term debt	**287**	1,270	79
Repayments of long-term debt	**(1,152)**	(1,385)	(1,624)
Borrowings on long-term revolver debt	**784**	878	858
Repayments on long-term revolver debt	**(880)**	(1,142)	(798)
Debt issuance and modification costs	**(6)**	(21)	(34)
Other financing activities	**2**		2
Net cash provided by (used in) financing activities	**(962)**	(404)	(474)
Effect of exchange rates on cash and cash equivalents	**(2)**	(5)	(5)

Increase (decrease) in cash and cash equivalents	**$ 184**	$ (30)	$ (26)
Cash and cash equivalents at beginning of period	**85**	115	141
Cash and cash equivalents at end of period	**$ 269**	$ 85	$ 115

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

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HD SUPPLY, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

Amounts in millions

	Fiscal Year Ended		
	January 31, 2016	**February 1, 2015**	**February 2, 2014**
Net Sales	**$ 7,388**	$ 6,970	$ 6,387
Cost of sales	**4,932**	4,706	4,307
Gross Profit	**2,456**	2,264	2,080
Operating expenses:			
Selling, general and administrative	**1,599**	1,510	1,443
Depreciation and amortization	**111**	181	204
Restructuring	**10**	6	6
Total operating expenses	**1,720**	1,697	1,653
Operating Income	**736**	567	427
Interest expense	**394**	462	528
Loss on extinguishment & modification of debt	**100**	108	87
Other (income) expense, net	**1**	(3)	20
Income (Loss) from Continuing Operations Before Provision (Benefit) for Income Taxes	**241**		(208)
Provision (benefit) for income taxes	**(1,085)**	42	44
Income (Loss) from Continuing Operations	**1,326**	(42)	(252)
Income from discontinued operations, net of tax	**146**	45	34
Net Income (Loss)	**$ 1,472**	$ 3	$ (218)
Other comprehensive income (loss) foreign currency translation adjustment	**12**	(13)	(13)
Total Comprehensive Income (Loss)	**$ 1,484**	$ (10)	$ (231)

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

HD SUPPLY, INC.

CONSOLIDATED BALANCE SHEETS

Amounts in millions, except share and per share data

	January 31, 2016	February 1, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 266**	$ 85
Receivables, less allowance for doubtful accounts of $14 and $14	**903**	868
Inventories	**781**	784
Deferred tax asset		9
Current assets of discontinued operations		509
Other current assets	**30**	43
Total current assets	**1,980**	2,298
Property and equipment, net	**326**	340
Goodwill	**2,869**	2,869
Intangible assets, net	**130**	145
Deferred tax asset	**685**	1
Non-current assets of discontinued operations		295
Other assets	**23**	29
Total assets	**$ 6,013**	$ 5,977
LIABILITIES AND STOCKHOLDER'S EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	**$ 508**	$ 510
Accrued compensation and benefits	**145**	144
Current installments of long-term debt	**9**	34
Current liabilities of discontinued operations		217
Other current liabilities	**208**	230
Total current liabilities	**870**	1,135
Long-term debt, excluding current installments	**4,302**	5,140
Deferred tax liabilities		166
Other liabilities	**99**	296
Total liabilities	**5,271**	6,737
Stockholder's equity (deficit):		
Common stock, par value $0.01; authorized 1,000 shares; issued and outstanding 1,000 shares at January 31, 2016 and February 1, 2015		
Paid-in capital	**3,786**	3,768
Accumulated deficit	**(3,028)**	(4,500)
Accumulated other comprehensive loss	**(16)**	(28)
Total stockholder's equity (deficit)	**742**	(760)

Total liabilities and stockholder's equity (deficit)	**$**	**6,013**	$	5,977

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

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HD SUPPLY, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY (DEFICIT)

Amounts in millions

	Common Stock	Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)(1)	Total Equity
Balance at February 3, 2013	**$**	**$ 2,696**	**$ (4,285)**	**$ (2)**	**$ (1,591)**
Net loss			(218)		(218)
Other comprehensive income (loss):					
Foreign currency translation adjustment				(13)	(13)
Equity contribution		1,039			1,039
Stock-based compensation		16			16
Other		(1)			(1)
Balance at February 2, 2014	**$**	**$ 3,750**	**$ (4,503)**	**$ (15)**	**$ (768)**
Net income			3		3
Other comprehensive income (loss):					
Foreign currency translation adjustment				(13)	(13)
Sale of common stock					
Stock-based compensation		17			17
Other		1			1
Balance at February 1, 2015	**$**	**$ 3,768**	**$ (4,500)**	**$ (28)**	**$ (760)**
Net income			1,472		1,472
Other comprehensive income (loss):					
Foreign currency translation adjustment				12	12
Equity contribution					
Stock-based compensation		16			16
Other		2			2
Balance at January 31, 2016	**$**	**$ 3,786**	**$ (3,028)**	**$ (16)**	**$ 742**

(1) Accumulated Other Comprehensive Income (Loss) is comprised of cumulative foreign currency translation adjustments, net.

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

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HD SUPPLY, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Amounts in millions

	Fiscal Year Ended January 31, 2016	Fiscal Year Ended February 1, 2015	Fiscal Year Ended February 2, 2014
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	**$ 1,472**	$ 3	$ (218)
Reconciliation of net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	**134**	226	246
Provision for uncollectibles	**8**	7	4
Non-cash interest expense	**23**	25	30
Payment of PIK interest and discounts upon extinguishment of debt	**(12)**	(1)	(364)
Loss on extinguishment & modification of debt	**100**	108	87
Gain on sale of business	**(186)**	(8)	
Stock-based compensation expense	**16**	17	16
Deferred income taxes	**(839)**	55	54
Other	**(4)**		3
Changes in assets and liabilities, net of the effects of acquisitions & dispositions:			
(Increase) decrease in receivables	**(63)**	(90)	(68)
(Increase) decrease in inventories	**(38)**	(71)	(101)
(Increase) decrease in other current assets	**11**	18	
(Increase) decrease in other assets			
Increase (decrease) in accounts payable and accrued liabilities	**(14)**	1	(64)
Increase (decrease) in other long-term liabilities	**(186)**	5	8
Net cash provided by (used in) operating activities	**422**	295	(367)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	**(86)**	(119)	(131)
Proceeds from sales of property and equipment	**3**	5	8
Proceeds from sale of investments			936
Proceeds from sales of businesses	**809**	198	4
Settlements for business acquired, net of cash acquired			3
Net cash provided by (used in) investing activities	**726**	84	820
CASH FLOWS FROM FINANCING ACTIVITIES:			
Equity contribution			1,039
Borrowings of long-term debt	**287**	1,270	79
Repayments of long-term debt	**(1,152)**	(1,385)	(1,624)
Borrowings on long-term revolver debt	**784**	878	858
Repayments on long-term revolver debt	**(880)**	(1,142)	(798)
Debt issuance and modification costs	**(6)**	(21)	(34)
Other financing activities	**2**		2
Net cash provided by (used in) financing activities	**(965)**	(400)	(478)
Effect of exchange rates on cash and cash equivalents	**(2)**	(5)	(5)
Increase (decrease) in cash and cash equivalents	**$ 181**	$ (26)	$ (30)
Cash and cash equivalents at beginning of period	**85**	111	141

Cash and cash equivalents at end of period	**$ 266**	$ 85	$ 111

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

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HD SUPPLY HOLDINGS, INC. AND SUBSIDIARIES
HD SUPPLY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

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

Holdings, together with its direct and indirect subsidiaries, including HDS ("HD Supply" or the "Company"), is one of the largest industrial distribution companies in North America. The Company specializes in three distinct market sectors: Maintenance, Repair & Operations; Infrastructure; and Specialty Construction. Through approximately 550 locations across 48 U.S. states and six Canadian provinces, the Company serves these markets with an integrated go-to-market strategy. HD Supply has approximately 14,000 associates delivering localized, customer-tailored products, services and expertise. The Company serves approximately 500,000 customers, which include contractors, maintenance professionals, home builders, industrial businesses, and government entities. HD Supply's broad range of end-to-end product lines and services includes approximately 850,000 stock-keeping units ("SKUs") of quality, name-brand and proprietary-brand products as well as value-add services supporting the entire life-cycle of a project from infrastructure and construction to maintenance, repair and operations.

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

Basis of Presentation

On June 12, 2013, Holdings effected a 1-for-2 reverse stock split of Holdings' common stock. Holdings' accompanying consolidated financial statements and notes to consolidated financial statements give retroactive effect to the reverse stock split for all periods presented. As of the date of this report, there is no preferred stock issued or outstanding.

Principles of Consolidation

The consolidated financial statements of HD Supply Holdings, Inc. present the results of operations, financial position and cash flows of HD Supply Holdings, Inc. and its wholly-owned subsidiaries, including HD Supply, Inc. The consolidated financial statements of HD Supply, Inc. present the results of operations, financial position and cash flows of HD Supply, Inc. 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.

Fiscal Year

HD Supply's fiscal year is a 52- or 53-week period ending on the Sunday nearest to January 31. Fiscal year ended January 31, 2016 ("fiscal 2015"), fiscal year ended February 1, 2015 ("fiscal 2014"), and fiscal year ended February 2, 2014 ("fiscal 2013") each included 52 weeks.

HD SUPPLY HOLDINGS, INC. AND SUBSIDIARIES
HD SUPPLY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1 NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 accounting principles generally accepted in the United States of America ("GAAP"). Actual results could differ from these estimates.

Cash and Cash Equivalents

HD Supply considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

Allowance for Doubtful Accounts

Accounts receivable are evaluated for collectability based on numerous factors, including past transaction history with customers, their credit worthiness, and an assessment of lien and bond rights. An allowance for doubtful accounts is estimated as a percentage of aged receivables. This estimate is periodically adjusted when management becomes aware of specific customer's inability to meet its financial obligations (e.g., bankruptcy filing) or as a result of changes in historical collection patterns.

Inventories

Inventories consist primarily of finished goods and are carried at the lower of cost or market. The cost of substantially all inventories is determined by the moving or weighted average cost method. Inventory value is evaluated at each balance sheet date to ensure that it is carried at the lower of cost or market. This evaluation includes an analysis of historical physical inventory results, a review of excess and obsolete inventories based on inventory aging, and anticipated future demand. Periodically, perpetual inventory records are adjusted to reflect declines in net realizable value below inventory carrying cost.

Consideration Received From Vendors

HD Supply enters into agreements with many of its vendors providing for inventory purchase rebates ("vendor rebates") upon achievement of specified volume purchasing levels. Vendor rebates are accrued as part of cost of sales for products sold based on progress towards earning the vendor rebates, taking into consideration cumulative purchases of inventory to date and projected purchases through the end of the year. An estimate of unearned vendor rebates is included in the carrying value of inventory at each period end for vendor rebates recognized on products not yet sold. At January 31, 2016 and February 1, 2015, vendor rebates due to HD Supply were $76 million and $75 million, respectively. These receivables are included in Receivables in the accompanying Consolidated Balance Sheets.

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HD SUPPLY HOLDINGS, INC. AND SUBSIDIARIES
HD SUPPLY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1 NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

Property and equipment are recorded at cost and depreciated using the straight-line method based on the following estimated useful lives of the assets:

Buildings and improvements	5 - 45 years
Transportation equipment	5 - 7 years
Furniture, fixtures and equipment	3 - 10 years

Capitalized Software Costs

HD Supply capitalizes certain software costs, which are being amortized on a straight-line basis over the estimated useful lives of the software, ranging from three to seven years. At January 31, 2016 and February 1, 2015, capitalized software costs totaled $45 million and $61 million, respectively, net of accumulated amortization of $215 million and $186 million, respectively. Amortization of capitalized software costs totaled $39 million, $40 million, and $38 million, in fiscal 2015, fiscal 2014, and fiscal 2013, respectively.

Goodwill

Goodwill represents the excess of purchase price over fair value of net assets acquired. HD Supply does not amortize goodwill, but does assess the recoverability of goodwill on an annual basis or whenever events or circumstances indicate that it is "more likely than not" that the fair value of a reporting unit has dropped below its carrying value. For the annual impairment tests where Step 1 is utilized, the fair values of HD Supply's identified reporting units were estimated using a discounted cash flow ("DCF") analysis and a market comparable method, with each method being equally weighted in the calculation. Determining fair value requires the exercise of significant judgment, including judgment about appropriate discount rates, the amount and timing of expected future cash flows, as well as relevant comparable company earnings multiples for the market comparable approach. There were no goodwill impairment charges recorded in fiscal 2015, fiscal 2014, or fiscal 2013.

Impairment of Long-Lived Assets

Long-lived assets, including property and equipment, are reviewed for possible impairment whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. To analyze recoverability, undiscounted future cash flows over the remaining life of the asset are projected. If these projected cash flows are less than the carrying amount, an impairment loss is recognized to the extent the fair value of the asset less any costs of disposition is less than the carrying amount of the asset. Judgments regarding the existence of impairment indicators are based on market and operational performance. Evaluating potential impairment also requires estimates of future operating results and cash flows.

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 is self-insured

HD SUPPLY HOLDINGS, INC. AND SUBSIDIARIES
HD SUPPLY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1 NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

for medical claims and certain legal claims. The expected ultimate cost for claims incurred as of the balance sheet date is not discounted and is recognized as a liability. Self-insurance losses for claims filed and claims incurred but not reported are accrued based upon estimates of the aggregate liability for uninsured claims using loss development factors and actuarial assumptions followed in the insurance industry and historical loss development experience. At January 31, 2016 and February 1, 2015, reserves totaled approximately $84 million and $92 million, respectively.

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable, accrued compensation and benefits and other current liabilities approximate fair value due to the short-term nature of these financial instruments. The Company's long-term financial assets and liabilities are recorded at historical costs. See "Note 7, Fair Value Measurements," for information on the fair value of long-term financial instruments.

Revenue Recognition

HD Supply recognizes revenue when persuasive evidence of an agreement exists, delivery has occurred or services have been rendered, the price to the buyer is fixed and determinable and collectability is reasonably assured.

HD Supply ships products to customers by internal fleet and third party carriers. Revenues, net of sales tax and allowances for returns and discounts, are recognized from product sales when title to the products is passed to the customer, which generally occurs at the point of destination for products shipped by internal fleet and at the point of shipping for products shipped by third party carriers. Revenues related to services are recognized in the period the services are performed and totaled $36 million, $29 million, and $29 million in fiscal 2015, fiscal 2014 and fiscal 2013, respectively.

Shipping and Handling Fees and Costs

HD Supply includes 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 and totaled $99 million, $98 million, and $92 million in fiscal 2015, fiscal 2014, and fiscal 2013, respectively.

Concentration of Credit Risk

The majority of HD Supply's sales are credit sales which are made primarily to customers whose ability to pay is dependent, in part, upon the economic strength of industries and the areas where they operate. Concentration of credit risk with respect to trade accounts receivable is limited by the large number of customers comprising HD Supply's customer base. HD Supply performs ongoing credit evaluations of its customers.

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HD SUPPLY HOLDINGS, INC. AND SUBSIDIARIES
HD SUPPLY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1 NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases

Leases are reviewed for capital or operating classification at their inception under the guidance of Accounting Standards Codification ("ASC") 840, Leases. The Company uses its incremental borrowing rate in the assessment of lease classification and assumes the initial lease term includes renewal options that are reasonably assured. HD Supply conducts operations primarily under operating leases. For leases classified as operating leases, the Company records rent expense on a straight-line basis, over the lease term beginning with the date the Company has access to the property which in some cases is prior to commencement of lease payments. Accordingly, the amount of rental expense recognized in excess of lease payments is recorded as a deferred rent liability and is amortized to rental expense over the remaining term of the lease.

Advertising

Advertising costs are charged to expense as incurred except for the costs of producing and distributing certain direct response sales catalogs, which are capitalized and charged to expense over the life of the related catalog. Advertising expenses were approximately $35 million, $32 million, and $34 million in fiscal 2015, fiscal 2014, and fiscal 2013, respectively. Capitalized advertising costs related to direct response advertising were not material.

Income Taxes

The Company provides for federal, state and foreign income taxes currently payable, as well as for those deferred due to temporary differences between reporting income and expenses for financial statement purposes versus tax purposes. Federal, state and foreign tax benefits are recorded as a reduction of income taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in income tax rates is recognized as income or expense in the period that includes the enactment date.

The Company consists of corporations, limited liability companies and partnerships. All income tax expense (benefit) of the Company is recorded in the accompanying Consolidated Statements of Operations and Comprehensive Income (Loss) with the offset recorded through the Company's current tax accounts, deferred tax accounts, or stockholder's equity account as appropriate.

Comprehensive Income (Loss)

Comprehensive income (loss) includes Net income (loss) adjusted for certain revenues, expenses, gains and losses that are excluded from net income under GAAP. Adjustments to net income are for foreign currency translation adjustments.

HD SUPPLY HOLDINGS, INC. AND SUBSIDIARIES
HD SUPPLY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1 NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign Currency Translation

Assets and liabilities of foreign subsidiaries with a functional currency other than the U. S. dollar, primarily Canadian dollars, are translated into U.S. dollars at the current rate of exchange on the last day of the reporting period. Revenues and expenses are translated at a monthly average exchange rate and equity transactions are translated using either the actual exchange rate on the day of the transaction or a monthly average exchange rate.

Stock-Based Compensation

On June 26, 2013, the Board of Directors and shareholders of Holdings approved the HD Supply Holdings, Inc. 2013 Omnibus Incentive Plan (the "Plan"). The Plan provides for stock-based awards to employees, consultants and directors, including stock options, stock purchase rights, restricted stock, restricted stock units, deferred stock units, performance shares, performance units, stock appreciation rights, dividend equivalents and other stock-based awards. The Plan replaces and succeeds the HDS Investment Holding, Inc. Stock Incentive Plan, as amended effective April 11, 2011 (the "Stock Incentive Plan"), and, from and after June 26, 2013, no further awards will be made under the Stock Incentive Plan. Both plans are accounted for under ASC 718, Compensation Stock Compensation, which requires the recognition of share-based compensation costs in the financial statements. The Company includes these costs in Selling, general and administrative expense in the Consolidated Statements of Operations and Comprehensive Income (Loss).

On July 2, 2013, HD Supply registered 12.5 million shares for issuance pursuant to awards under the Plan and registered 14.8 million shares for issuance pursuant to outstanding awards under the Stock Incentive Plan as of June 26, 2013.

Recent Accounting Pronouncements

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

Income Taxes In November 2015, the FASB issued ASU No. 2015-17, "Income Taxes, Balance Sheet Classification of Deferred Taxes" ("ASU 2015-17"). The new guidance requires that deferred tax assets and liabilities be classified as non-current on the balance sheet, as opposed to current guidance which requires a net current asset or liability and net non-current asset or liability on the balance sheet. The new standard is effective for financial statements issued for fiscal years beginning after December 15, 2016. The new standard may be applied either prospectively or retrospectively to all periods presented. Early adoption is permitted. The Company adopted this new standard for its fiscal year 2015 financial statements and applied the new guidance on a prospective basis.

HD SUPPLY HOLDINGS, INC. AND SUBSIDIARIES
HD SUPPLY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1 NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Interest imputation of interest In April 2015, the FASB issued ASU No. 2015-03, "Interest Imputation of Interest, Simplifying the Presentation of Debt Issuance Costs" ("ASU 2015-03"). The update requires that all costs incurred to issue debt be presented in the balance sheet as a direct deduction from the carrying value of the debt. In August 2015, the FASB issued ASU No. 2015-15, "Interest Imputation of Interest, Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line of Credit Arrangements, Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting" ("ASU 2015-15"), to clarify that an entity may elect to present debt issuance costs related to a line-of-credit arrangement as an asset, regardless of whether or not there are any outstanding borrowings on the line-of-credit arrangement. The ASU's are effective for fiscal years, and interim periods, beginning after December 15, 2015. Early adoption is permitted.

The Company adopted both ASU 2015-03 and ASU 2015-15 as of January 31, 2016, electing to continue to present deferred financing costs related to the Senior ABL Facility, as defined in "Note 6, Debt," as an asset. All periods presented have been revised to reflect the adoption. The amortization of such costs will continue to be reported as interest expense. The adoption of this standard did not affect our results of operations or cash flows in either the current or prior periods. See "Note 6 Debt" for more information about the presentation of deferred financing costs.

Discontinued operations In April 2014, the FASB issued ASU No. 2014-08, "Reporting discontinued operations and disclosure of disposals of components of an entity" ("ASU 2014-08"). The amended guidance requires that a disposal representing a strategic shift that has (or will have) a major effect on an entity's financial results or a business activity classified as held for sale should be reported as discontinued operations. The amendment also expands the disclosure requirements for discontinued operations and adds new disclosures for individually significant dispositions that do not qualify as discontinued operations. During the first quarter of fiscal 2015, the Company adopted ASU 2014-08. The adoption required additional disclosures regarding the Company's discontinued operations, but did not impact the Company's financial position or results of operations.

Revenue recognition In May 2014, the FASB issued ASU No. 2014-09, "Revenue from contracts with customers" ("ASU 2014-09"). The amended guidance outlines a single comprehensive revenue model for entities to use in accounting for revenue arising from contracts with customers. The guidance supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that "an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services." Entities have the option of using either a full retrospective or modified approach to adopt the guidance. In July 2015, the FASB provided a one-year

HD SUPPLY HOLDINGS, INC. AND SUBSIDIARIES
HD SUPPLY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1 NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 interim and annual periods beginning after December 15, 2016. The Company is currently evaluating the impact of adopting ASU 2014-09.

NOTE 2 PUBLIC OFFERINGS

Initial Public Offering

On June 26, 2013, Holdings' Registration Statement (File No. 333-187872) was declared effective by the U.S. Securities and Exchange Commission ("SEC") for an initial public offering of its Common Stock. Holdings registered the offering and sale of 53,191,489 shares of Common Stock and an additional 7,978,723 shares of Common Stock sold to the underwriters for the offering pursuant to their over-allotment option at a price of $18.00 per share. On July 2, 2013, Holdings completed the offering of 61,170,212 shares of Common Stock at a price of $18.00 per share, for an aggregate offering price of $1,039 million, net of underwriters' discounts and commissions and offering expenses of approximately $16 million.

The net proceeds from the initial public offering were used to (1) redeem all $950 million of HDS's outstanding 10.50% Senior Subordinated Notes due 2021 (the "January 2013 Senior Subordinated Notes"), including the payment of a $29 million redemption premium and $29 million of accrued interest through the redemption date, and (2) pay related fees and expenses, including the payment to the Equity Sponsors of an aggregate fee of approximately $18 million to terminate the consulting agreements (See "Note 4, Related Parties"). The remaining net proceeds were used for general corporate purposes.

Secondary Offering

On July 28, 2015, certain of Holdings' stockholders, including an investment fund associated with Bain Capital Partners, LLC, and THD Holdings, LLC (collectively, the "Selling Stockholders"), completed the sale of 30,539,550 shares of Holdings' Common Stock, under the previously filed and effective shelf registration statement (including a prospectus), at a price to the Selling Stockholders of $35.44 per share. The Company did not receive any of the proceeds from the sale of these shares and no shares were sold by the Company. As a result of the sale, the investment fund associated with Bain Capital Partners, LLC, and THD Holdings, LLC sold their remaining original investment in Holdings' Common Stock. In connection with the offering, the Company incurred approximately $1 million of fees, reflected in Other income (expense), net within the Consolidated Statements of Operations and Comprehensive Income (Loss).

NOTE 3 DISCONTINUED OPERATIONS

In October 2015, the Company completed the sale of its Power Solutions business. The Company received cash proceeds of approximately $809 million, net of $16 million of transaction costs. The Company realized approximately $20 million in cumulative currency translation losses related to the Canadian operations of the Power Solutions business unit. As a result of the sale, the Company recorded a $186 million pre-tax gain.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 3 DISCONTINUED OPERATIONS (Continued)

In January 2015, the Company completed the sale of substantially all of the assets of its Hardware Solutions business. The Company received cash proceeds of approximately $198 million, net of $2 million of transaction costs. As a result of the sale, the Company recorded an $8 million pre-tax gain in fiscal 2014.

In January 2014, the Company approved the disposal of Litemor, a specialty lighting distributor within the Company's HD Supply Canada business. During fiscal 2014, the Company finalized the disposal process of Litemor through liquidation and branch sales, resulting in a pre-tax loss on disposal of $15 million, which includes cash and non-cash charges.

Summary Financial Information

In accordance with ASC 205-20, "Discontinued Operations" and ASU 2014-08, "Reporting discontinued operations and disclosure of disposals of components of an entity," the results of Power Solutions, Hardware Solutions, and Litemor operations and the gains/losses on sales of the businesses 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 (Loss). All Consolidated Statements of Operations and Comprehensive Income (Loss) presented have been revised to reflect this presentation.

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

	Fiscal Year Ended		
	January 31, 2016	**February 1, 2015**	**February 2, 2014**
Net sales	**$ 1,391**	$ 2,198	$ 2,182
Cost of sales	**1,185**	1,783	1,772
Gross Profit	**206**	415	410
Operating expenses:			
Selling, general and administrative	**154**	303	317
Depreciation and amortization	**18**	41	38
Restructuring		1	3
Total operating expenses	**172**	345	358
Operating Income	**34**	70	52
(Gain) loss on disposal of discontinued operations	**(186)**	7	
Other (income) expense, net	**1**	(3)	
Income (loss) before provision for income taxes	**219**	66	52
Provision (benefit) for income taxes	**73**	21	18
Income (loss) from discontinued operations, net of tax	**$ 146**	$ 45	$ 34

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 3 DISCONTINUED OPERATIONS (Continued)

At January 31, 2016 and February 1, 2015, the carrying amounts of major classes of assets and liabilities of discontinued operations in the Consolidated Balance Sheets were as follows (amounts in millions):

	January 31, 2016	February 1, 2015
Current assets:		
Receivables, less allowance for doubtful accounts of $0 and $1	$	$ 221
Inventories		284
Other current assets		4
Total current assets		509
Goodwill		202
Intangible assets, net		55
Other non-current assets		38
Total assets of discontinued operations	$	$ 804
Current Liabilities:		
Accounts payable	$	178
Accrued compensation and benefits		18
Other current liabilities		21
Total liabilities of discontinued operations	$	$ 217

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

	Fiscal Year Ended		
	January 31, 2016	February 1, 2015	February 2, 2014
Net cash flows from operating activities	**$ 2**	**$ 89**	**$ 55**
Cash flows from investing activities:			
Capital expenditures	(2)	(19)	(24)
Proceeds from sale of a business	809	198	4
Net cash flows provided by (used in) investing activities	**$ 807**	**$ 179**	**$ (20)**

HD SUPPLY HOLDINGS, INC. AND SUBSIDIARIES
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 4 RELATED PARTIES

On August 30, 2007, investment funds associated with Clayton, Dubilier & Rice, LLC ("CD&R"), The Carlyle Group ("Carlyle") and Bain Capital Partners, LLC ("Bain", and together with CD&R and Carlyle the "Equity Sponsors") formed Holdings (previously named HDS Investment Holding, Inc.) and entered into a stock purchase agreement with The Home Depot Inc. ("Home Depot") pursuant to which Home Depot agreed to sell to Holdings, or to a wholly-owned subsidiary of Holdings, certain intellectual property and all the outstanding common stock of HDS and the Canadian subsidiary CND Holdings, Inc. On August 30, 2007, through a series of transactions, Holdings' direct wholly-owned subsidiary, HDS Holding Corporation, acquired direct control of HDS through the merger of its wholly-owned subsidiary, HDS Acquisition Corp., with and into HDS and CND Holdings, Inc. Through these transactions (the "2007 Transactions"), Home Depot was paid cash of $8.2 billion and 12.5% of Holdings' then outstanding common stock.

Upon completion of Holdings' secondary public offerings in fiscal 2015 and fiscal 2014, Home Depot and the Equity Sponsors sold all of their remaining original investments in Holdings.

Consulting Agreements In connection with the closing of the 2007 Transactions, HD Supply entered into consulting agreements with the Equity Sponsors, pursuant to which the Equity Sponsors provided HD Supply with financial advisory and management consulting services and HD Supply paid the Equity Sponsors a $5 million annual aggregate fee ("Sponsor Management Fee") and an aggregate fee equal to a specified percentage of the transaction value of certain types of transactions that HD Supply completes ("Sponsor Transaction Fee"), plus out-of-pocket expenses. The original term of these agreements ran through August 2017.

As specified in the agreements, HD Supply paid the Equity Sponsors a Sponsor Transaction Fee of approximately $11 million as a result of HD Supply's initial public offering on July 2, 2013. The Sponsor Transaction Fee was considered an offering expense and, therefore, is presented as a reduction of proceeds from the initial public offering in the consolidated financial statements.

On July 2, 2013, in connection with the initial public offering, HD Supply paid the Equity Sponsors an aggregate fee of approximately $18 million to terminate the consulting agreements. The termination fee represents the estimated net present value of the Sponsor Management Fee payments over the remaining term of the consulting agreements. This charge is included in Other (income) expense, net in the Consolidated Statements of Operations and Comprehensive Income (Loss) for fiscal 2013.

During fiscal 2013, the Company recorded $2 million of Sponsor Management Fees and related expenses, which are included in Selling, general and administrative expense in the Consolidated Statements of Operations and Comprehensive Income (Loss).

Debt On February 8, 2013, HDS redeemed its remaining $889 million outstanding aggregate principle of its 2007 Senior Subordinated Notes, as defined in Note 6, Debt, at a redemption price equal to 103.375% of the principal amount thereof and paid accrued and unpaid interest thereon through the redemption date. Certain affiliates of the Equity Sponsors owned a portion of the 2007 Senior Subordinated Notes at the time of redemption.

Purchases HD Supply purchased product from affiliates of Bain for $8 million in fiscal 2015. HD Supply purchased product from affiliates of the Equity Sponsors for approximately $52 million and

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 4 RELATED PARTIES (Continued)

$45 million in fiscal 2014 and fiscal 2013, respectively. Management believes these transactions were conducted at prices that an unrelated third party would pay.

Sales In May 2015, an independent Board member of the Company acquired a minority interest in an HD Supply customer. HD Supply sold product to the customer totaling $4 million, $3 million, and $1 million in fiscal 2015, fiscal 2014, and fiscal 2013, respectively. Management believes these transactions were conducted at prices that an unrelated third party would pay.

NOTE 5 GOODWILL AND INTANGIBLE ASSETS

Goodwill

The carrying amount of goodwill by reporting unit is as follows (amounts in millions):

	As of January 31, 2016			As of February 1, 2015		
	Gross Goodwill	Accumulated Impairments	Net Goodwill	Gross Goodwill	Accumulated Impairments	Net Goodwill
Facilities Maintenance	**$ 1,603**	**$**	**$ 1,603**	$ 1,603	$	$ 1,603
Waterworks	**1,877**	**(815)**	**1,062**	1,877	(815)	1,062
Construction & Industrial	**183**	**(74)**	**109**	183	(74)	109
Home Improvement Solutions	**125**	**(30)**	**95**	125	(30)	95
Interior Solutions	**67**	**(67)**		67	(67)	
Total goodwill	**$ 3,855**	**$ (986)**	**$ 2,869**	$ 3,855	$ (986)	$ 2,869

Goodwill represents the excess of purchase price over fair value of net assets acquired. HD Supply does not amortize goodwill, but does assess the recoverability of goodwill on an annual basis, in the fourth quarter of each fiscal year. If an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value, an interim impairment test would be performed between annual tests.

HD Supply performed the annual goodwill impairment testing during the fourth quarter of fiscal 2015 (as of November 1, 2015). There was no indication of impairment in any of the Company's reporting units in the fiscal 2015 annual test or in the fiscal 2014 and fiscal 2013 annual tests. The Company's analysis was based, in part, on HD Supply's expectation of future market conditions for each of the reporting units, as well as, discount rates that would be used by market participants in an arms-length transaction. Future events could cause the Company to conclude that market conditions have declined to the extent that the Company's goodwill could be impaired.

During fiscal 2015, the Company completed the sale of Power Solutions which held $202 million of goodwill as of the date of the sale. During fiscal 2014, the Company completed the sale of Hardware Solutions which held approximately $65 million of goodwill as of the date of the sale. See "Note 3, Discontinued Operations."

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 5 GOODWILL AND INTANGIBLE ASSETS (Continued)

Intangible Assets

HD Supply's intangible assets as of January 31, 2016 and February 1, 2015 consisted of the following (amounts in millions):

	As of January 31, 2016			As of February 1, 2015		
	Gross Intangible	Accumulated Amortization	Net Intangible	Gross Intangible	Accumulated Amortization	Net Intangible
Customer relationships	**$ 69**	**$ (24)**	**$ 45**	$ 737	$ (685)	$ 52
Trade names	**148**	**(63)**	**85**	151	(58)	93
Other	**2**	**(2)**		2	(2)	
Total	**$ 219**	**$ (89)**	**$ 130**	$ 890	$ (745)	$ 145

During fiscal 2015, the Company wrote-off approximately $671 million of gross, fully amortized intangible assets. This consisted of $668 million of gross customer relationships and approximately $3 million of gross trade names and other intangible assets.

During fiscal 2015, the Company completed the sale of Power Solutions which held $42 million of net customer relationship intangible assets as of the sale date. During fiscal 2014, the Company completed the sale of Hardware Solutions which held $32 million of net other intangible assets as of the sale date. See "Note 3, Discontinued Operations."

Amortization expense for continuing operations related to intangible assets was $15 million, $80 million, and $110 million, in fiscal 2015, fiscal 2014, and fiscal 2013, respectively. Estimated future amortization expense for continuing operations for intangible assets recorded as of January 31, 2016 is $14 million, $14 million, $13 million, $13 million and $13 million for fiscal years 2016 through 2020, respectively.

NOTE 6 DEBT

During the fourth quarter of fiscal 2015, the Company adopted ASU 2015-03, which requires the presentation of deferred financing costs as a direct deduction to Long-Term Debt in the Consolidated Balance Sheets for all periods presented. The amortization of such costs will continue to be reported as interest expense. In accordance with ASU 2015-15, the Company continued to present deferred financing costs related to HDS' revolving Senior Asset Based Lending Facility ("Senior ABL Facility") as an asset in the Consolidated Balance Sheets.

On October 13, 2015, HDS used proceeds from the sale of the Power Solutions business unit to redeem all of the outstanding $675 million aggregate principal amount of its April 2012 Second Priority Notes, as defined below, and paid a $72 million make-whole premium calculated in accordance with the terms of the indenture governing such notes and $37 million of accrued but unpaid interest to the redemption date. As a result, the Company recorded an $80 million loss on extinguishment of debt, which includes the $72 million make-whole premium and the write-off of $8 million of unamortized deferred financing costs, in accordance with ASC 470-50, "Debt Modifications and Extinguishments."

On August 13, 2015, HDS entered into an incremental amendment (the "Incremental Agreement") to the credit agreement governing its Term Loan Facility, as defined below, pursuant to

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 6 DEBT (Continued)

which HDS requested a borrowing of a new $850 million tranche of senior secured term loans ("Term Loans"), the proceeds of which, together with cash on hand and available borrowings under HDS's Senior ABL Facility, were used to prepay in full the tranche of senior secured term loans outstanding under the Term Loan Facility, as defined below, as of the date of the Incremental Agreement. Pursuant to the Incremental Agreement, the Term Loans will mature on August 13, 2021 and bear interest at the reduced applicable margin for borrowings of 2.75% for LIBOR borrowings and 1.75% for base rate borrowings (down from, respectively, 3.00% and 2.00% applicable to the redeemed term loans), with the LIBOR floor to remain at 1.00%. The Term Loans amortize in equal quarterly installments in aggregate annual amounts equal to 1.00% of the original principal amount of such Term Loans, beginning in December 2015 with the balance payable on such Term Loans' maturity date.

In connection with the amendment, the Company recorded a modification and extinguishment charge of $20 million, which includes financing fees of $5 million and $15 million to write off a portion of the related unamortized discount and deferred financing costs, in accordance with ASC 470-50, "Debt Modifications and Extinguishments."

HDS's long-term debt as of January 31, 2016 and February 1, 2015 consisted of the following (dollars in millions):

	January 31, 2016		February 1, 2015	
	Outstanding Principal	Interest Rate %(1)	Outstanding Principal	Interest Rate %(1)
Senior ABL Facility due 2018	**$**		$ 96	2.02
Term Loans due 2021	**848**	**3.75**	975	4.00
December 2014 First Priority Notes due 2021	**1,250**	**5.25**	1,250	5.25
April 2012 Second Priority Notes due 2020			675	11.00
October 2012 Senior Unsecured Notes due 2020	**1,000**	**11.50**	1,000	11.50
February 2013 Senior Unsecured Notes due 2020	**1,275**	**7.50**	1,275	7.50
Total gross long-term debt	**$ 4,373**		$ 5,271	
Less unamortized discount	**(11)**		(14)	
Less unamortized deferred financing costs	**(51)**		(83)	
Total net long-term debt	**$ 4,311**		$ 5,174	
Less current installments	**(9)**		(34)	
Total net long-term debt, excluding current installments	**$ 4,302**		$ 5,140	

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

Senior Credit Facilities

Asset Based Lending Facility

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 will be limited by a borrowing base calculated

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HD SUPPLY HOLDINGS, INC. AND SUBSIDIARIES
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 6 DEBT (Continued)

periodically based on specified percentages of the value of eligible inventory and eligible accounts receivable, subject to certain reserves and other adjustments. As of January 31, 2016, HDS had $1,149 million of available borrowings under the Senior ABL Facility (after giving effect to the borrowing base limitations and approximately $34 million in letters of credit issued and including $107 million of borrowings available on qualifying cash balances).

A portion of the Senior ABL Facility is available for letters of credit and swingline loans. The Senior ABL Facility also includes a sub-facility for loans and letters of credit in Canadian dollars. The Senior ABL Facility also permits HDS to add one or more incremental term loans, revolving or letter of credit facilities to be included in the Senior ABL Facility up to an aggregate maximum amount of $1,900 million for the total commitments under the Senior ABL Facility (including all incremental commitments).

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 LIBOR plus an applicable margin or Prime Rate plus an applicable margin and (ii) in the case of Canadian dollar-denominated loans, either the 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 Senior ABL Facility agreement, 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 agreement) then in effect for LIBOR Loans and an unused commitment fee subject to a pricing grid, as included in the Senior ABL Facility agreement, based on the Average Daily Used Percentage (as defined in the agreement).

The Senior ABL Facility will mature on June 28, 2018, unless the individual applicable lenders agree to extend the maturity of their respective loans under the Senior ABL Facility upon HDS's request and without the consent of any other applicable lender.

Prepayments

The Senior ABL Facility may be prepaid at HDS's option at any time without premium or penalty and will be subject to mandatory prepayment if the outstanding Senior ABL Facility exceeds either the aggregate commitments with respect thereto or the current borrowing base, in an amount equal to such excess. Mandatory prepayments do not result in a permanent reduction of the lenders' commitments under the Senior ABL Facility.

Guarantees; Security

The Senior ABL Facility is senior secured indebtedness of HDS and ranks equal in right of payment with all of HDS's existing and future senior indebtedness and senior in right of payment to all of HDS's existing and future subordinated indebtedness.

HDS, and at HDS's option, certain of HDS's subsidiaries, including HD Supply Canada, Inc., a Canadian subsidiary (the "Canadian Borrower"), are the borrowers under the Senior ABL Facility. Each of HDS's existing and future direct and indirect wholly owned domestic subsidiaries, in each case to the extent permitted by applicable law, regulation and contractual provision and subject to certain exceptions (the "Subsidiary Guarantors") guarantees HDS's payment obligations under the Senior ABL

HD SUPPLY HOLDINGS, INC. AND SUBSIDIARIES
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 6 DEBT (Continued)

Facility (and, in the case of Canadian obligations, each existing and future direct and indirect wholly owned Canadian subsidiary, in each case to the extent permitted by applicable law, regulation and contractual provision and subject to certain exceptions (the "Canadian Guarantors") guarantee the Canadian Borrower's payment obligations under the Senior ABL Facility).

HDS's obligations under the Senior ABL Facility and the guarantees thereof are secured in favor of the U.S. ABL collateral agent (i) on a first-priority basis by substantially all accounts receivable, inventory and other related assets owned by HDS and each Subsidiary Guarantor and all proceeds thereof, in each case to the extent permitted by applicable law and subject to certain exceptions (the "ABL Priority Collateral"), subject to permitted liens, and (ii) (x) all of the capital stock of HDS, all capital stock of all domestic subsidiaries directly owned by HDS and the Subsidiary Guarantors and 65% of the capital stock of any foreign subsidiary held directly by HDS or any Subsidiary Guarantor (with foreign subsidiary holding companies being deemed foreign subsidiaries) and (y) substantially all tangible and intangible assets owned by HDS and each Subsidiary Guarantor, other than the ABL Priority Collateral, and all proceeds thereof, in each case to the extent permitted by applicable law and subject to certain exceptions (the "Cash Flow Priority Collateral" and, together with the ABL Priority Collateral, the "Collateral"); in each case, subject to the priority of liens among the Term Loan Facility (as defined below), the December 2014 First Priority Notes (as defined below), and the Senior ABL Facility.

The Canadian obligations under the Senior ABL Facility are also secured by liens on substantially all assets of the Canadian Borrower and the Canadian Guarantors, subject to certain exceptions.

Covenants

The Senior ABL Facility contains a number of covenants that, among other things, limit or restrict HDS's ability and, in certain cases, HDS's subsidiaries to make acquisitions, mergers, consolidations, dividends, and to prepay certain indebtedness (including the December 2014 First Priority Notes, the October 2012 Senior Unsecured Notes, and the February 2013 Senior Unsecured Notes), in each case to the extent any such transaction would reduce availability under the Senior ABL Facility below a specified amount.

In addition, if HDS's specified excess availability (including an amount by which HDS's borrowing base exceeds the existing commitments) under the Senior ABL Facility falls below the greater of $150 million and 10% of the aggregate commitments (a "Liquidity Event"), HDS will be required to maintain a Fixed Charge Coverage Ratio of at least 1.0:1.0, as defined in the credit agreement governing the Senior ABL Facility.

The Senior ABL Facility also contains certain affirmative covenants, including financial and other reporting requirements. HDS is in compliance with all such covenants.

Senior Secured Term Loan Facility

The Term Loan Facility consists of a senior secured term loan facility (the "Term Loan Facility"; the term loans thereunder, the "Term Loans") providing for a Term Loan in an original aggregate principal amount of $850 million. The Term Loan Facility will mature on August 13, 2021 (the "Term Loan Maturity Date"). The Term Loans amortize in equal quarterly installments in aggregate annual

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 6 DEBT (Continued)

amounts equal to 1.00% of the original principal amount of the Term Loan Facility beginning December 2015 with the balance payable on the Term Loan Maturity Date. The Term Loans bear interest at the applicable margin for borrowings of 2.75% for LIBOR borrowings and 1.75% for base rate borrowings, with the LIBOR floor at 1.00%.

During the first quarter of fiscal 2015 and in accordance with the annual excess cash flow ("ECF") provisions of the Term Loan Facility, the Company offered a prepayment of $34 million based on the ECF calculation for fiscal 2014. The lenders in the Term Loan Facility accepted $16 million, which the Company paid on March 30, 2015. In accordance with the Incremental Agreement, the ECF provisions are applicable beginning with the fiscal year ending on January 29, 2017 (fiscal 2016) and each fiscal year thereafter. The ECF provision is not applicable to fiscal 2015.

The Term Loan Facility is senior secured indebtedness of HDS and ranks equal in right of payment with all of HDS's existing and future senior indebtedness and senior in right of payment to all of HDS's existing and future subordinated indebtedness.

The Term Loan Facility is guaranteed, on a senior secured basis, by the Subsidiary Guarantors. These guarantees are subject to release under customary circumstances. The guarantee of each Subsidiary Guarantor is a senior secured obligation of that Subsidiary Guarantor and ranks equal in right of payment with all existing and future senior indebtedness of that Subsidiary Guarantor and senior in right of payment to all existing and future subordinated indebtedness of such Subsidiary Guarantor.

Collateral

The Term Loan Facility 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, in which the Term Loan Facility and the related guarantees have a second priority security interest), including pledges of all Capital Stock of the 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 (as defined in the credit agreement governing the Term Loan Facility (the "Term Loan Credit Agreement")) and Excluded Subsidiary Securities (as defined in the Term Loan Credit Agreement) (the "Cash Flow Priority Collateral"), subject to permitted liens. In addition, the Term Loan Facility and the related guarantees are secured by a second-priority security interest in the ABL Priority Collateral, subject to permitted liens.

Prepayment

The Term Loans may be prepaid at any time without premium or penalty. Under certain circumstances and subject to certain exceptions, the Term Loan Facility will be subject to mandatory prepayment in an amount equal to:

- 100% of the net proceeds (other than those that are used to purchase certain assets or to repay certain other indebtedness) of certain asset sales and certain insurance recovery events; and

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 6 DEBT (Continued)

50% of annual excess cash flow for any fiscal year, such percentage to decrease to 0% depending on the attainment of certain secured leverage ratio targets.

Guarantee

HDS is the borrower under the Term Loan Facility. The Subsidiary Guarantors guarantee HDS's payment obligations under the Term Loan Facility.

HDS's obligations under the Term Loan Facility and the guarantees thereof are secured in favor of the collateral agent by (i) all of the capital stock of HDS, all capital stock of all domestic subsidiaries directly owned by HDS and the Subsidiary Guarantors and 65% of the capital stock of any foreign subsidiary owned directly by HDS or any Subsidiary Guarantors (it being understood that a foreign subsidiary holding company will be deemed a foreign subsidiary) and (ii) substantially all other tangible and intangible assets owned by HDS and each Subsidiary Guarantor, in each case to the extent permitted by applicable law and subject to certain exceptions and subject to the priority of liens between the Term Loan Facility, the December 2014 First Priority Notes, and the Senior ABL Facility.

Covenants

The Term Loan Facility contains a number of covenants that, among other things, limit the ability of HDS and its restricted subsidiaries, as described in the Term Loan Credit Agreement, to: incur more indebtedness; pay dividends, redeem stock or make other distributions; make investments; create restrictions on the ability of HDS's restricted subsidiaries to pay dividends to HDS or make other intercompany transfers; create liens securing indebtedness; transfer or sell assets; merge or consolidate; enter into certain transactions with HDS's affiliates; and prepay or amend the terms of certain indebtedness.

The Term Loan Facility also contains certain affirmative covenants, including financial and other reporting requirements. HDS is in compliance with all such covenants.

Events of Default under the Senior ABL Facility and Term Loan Facility

The Senior ABL Facility and Term Loan Facility also provide for customary events of default, including non-payment of principal, interest or fees, violation of covenants, material inaccuracy of representations or warranties, specified cross default and cross acceleration to other material indebtedness, certain bankruptcy events, certain ERISA events, material invalidity of guarantees or security interest, material judgments and changes of control.

5.25% Senior Secured First Priority Notes due 2021

HDS issued $1,250 million of 5.25% Senior Secured First Priority Notes ("December 2014 First Priority Notes") due 2021 under an Indenture, dated December 4, 2014 (the "December 2014 First Priority Indenture") among HDS, the Subsidiary Guarantors, the Trustee, and the Note Collateral Agent. The December 2014 First Priority Notes bear interest at a rate of 5.25% per annum and will mature on December 15, 2021. Interest is paid semi-annually in arrears on June 15th and December 15th of each year.

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HD SUPPLY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 6 DEBT (Continued)

The December 2014 First Priority Indenture, 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 SEC pursuant to Rule 3-16 of Regulation S-X (as in effect from time to time).

The December 2014 First Priority Notes are senior secured indebtedness of HDS and rank equal in right of payment with all of HDS's existing and future senior indebtedness and senior in right of payment to all of HDS's existing and future subordinated indebtedness.

The December 2014 First Priority Notes are guaranteed, on a senior secured basis, by each of HDS's Wholly Owned Domestic Subsidiaries (as defined in the December 2014 First Priority Indenture) (other than an Excluded Subsidiary (as defined in the December 2014 First Priority Indenture)), and each other Domestic Subsidiary (as defined in the December 2014 First Priority Indenture) that is a borrower under the Senior ABL Facility or that guarantees payment of HDS's indebtedness under any Credit Facility or Capital Markets Securities (each as defined in the December 2014 First Priority Indenture). The guarantees are subject to release under customary circumstances as stipulated in the December 2014 First Priority Indenture.

Collateral

The December 2014 First Priority Notes and the related guarantees are secured by a first priority security interest in the Cash Flow Priority Collateral.

In addition, the December 2014 First Priority Notes and the related guarantees are secured by a second priority security interest in the ABL Priority Collateral.

The security interests in the Collateral may be released without the consent of the holders of the December 2014 First Priority Notes if Collateral is disposed of in a transaction that complies with the December 2014 First Priority Indenture and security documents, and will be released: (i) so long as any ABL Obligations are outstanding, with respect to the ABL Priority Collateral, upon the release of all liens thereon securing the ABL Obligations (as defined in the December 2014 First Priority Indenture) and (ii) so long as any Term Obligations are outstanding, with respect to the Cash Flow Priority Collateral, upon the release of all liens thereon securing the Term Obligations (as defined in the December 2014 First Priority Indenture).

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 December 2014 First Priority 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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 6 DEBT (Continued)

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	103.398%
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 in respect 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 the December 2014 First Priority Notes must remain outstanding immediately after each such redemption of December 2014 First Priority Notes.

$8^1/_8$% Senior Secured First Priority Notes due 2019

HDS issued $950 million of First Priority Notes under an Indenture, dated, and amended, as of April 12, 2012 (the "April 2012 First Priority Indenture") among HDS, the Subsidiary Guarantors, the Trustee, and the Note Collateral Agent. On August 2, 2012, HDS issued $300 million additional aggregate principal amount of its April 2012 First Priority Notes (the "Additional Notes") at a premium of 107.5%, collectively the "2012 First Priority Notes". The 2012 First Priority Notes bore interest at a rate of $8^1/_8$% per annum and were scheduled to mature on April 15, 2019. Interest was to be paid semi-annually in arrears on April 15th and October 15th of each year. On December 19, 2014, HDS redeemed all of the outstanding $1,250 million aggregate principal amount of its 2012 First Priority Notes.

11% Senior Secured Second Priority Notes due 2020

HDS's 11% Senior Secured Second Priority Notes due 2020 (the "April 2012 Second Priority Notes") bore interest at 11% per annum and were set to mature on April 15, 2020. Interest was paid semi-annually in arrears on April 15th and October 15th of each year, prior to the October 13, 2015 redemption.

11.5% Senior Unsecured Notes due 2020

HDS issued $1,000 million aggregate principal amount of 11.5% Senior Notes ("October 2012 Senior Unsecured Notes") under an Indenture, dated, and amended, as of October 15, 2012 ("October 2012 Senior Notes Indenture") among HDS, certain subsidiaries of HDS as guarantors (the "Subsidiary Guarantors") and the Trustee. The October 2012 Senior Unsecured Notes bear interest at a rate of 11.5% per annum and will mature on July 15, 2020. Interest is paid semi-annually in arrears on April 15th and October 15th of each year.

HD SUPPLY HOLDINGS, INC. AND SUBSIDIARIES
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 6 DEBT (Continued)

The October 2012 Senior Unsecured Notes are unsecured senior indebtedness of HDS and rank equal in right of payment with all of HDS's existing and future senior indebtedness, senior in right of payment to all of HDS's existing and future subordinated indebtedness, and effectively subordinated to all of HDS's existing and future secured indebtedness, including, without limitation, indebtedness under the Senior Credit Facilities and the December 2014 First Priority Notes, to the extent of the value of the collateral securing such indebtedness.

The October 2012 Senior Unsecured Notes are guaranteed, on a senior unsecured basis, by each of HDS's direct and indirect domestic existing and future subsidiaries that is a wholly owned domestic subsidiary (other than certain excluded subsidiaries), and by each other domestic subsidiary that is a borrower under the Senior ABL Facility or that guarantees HDS's obligations under any credit facility or capital markets securities. These guarantees are subject to release under customary circumstances as stipulated in the October 2012 Senior Notes Indenture.

Redemption

HDS may redeem the October 2012 Senior Unsecured Notes, in whole or in part, at any time (1) prior to October 15, 2016, at a price equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date, plus the applicable make-whole premium set forth in the 11.5% Senior Notes Indenture and (2) on and after October 15, 2016, at the applicable redemption price set forth below (expressed as a percentage of principal amount), plus accrued and unpaid interest, if any, to the relevant redemption date, if redeemed during the 12-month period commencing on October 15 of the year set forth below.

Year	Percentage
2016	105.750%
2017	102.875%
2018 and thereafter	100.000%

7.5% Senior Unsecured Notes due 2020

HDS issued $1,275 million aggregate principal amount of 7.5% Senior Unsecured Notes ("February 2013 Senior Unsecured Notes") under an Indenture, dated, and amended, as of February 1, 2013 ("February 2013 Senior Notes Indenture") among HDS, certain subsidiaries of HDS as guarantors (the "Subsidiary Guarantors") and the Trustee. The February 2013 Senior Unsecured Notes bear interest at a rate of 7.5% per annum and will mature on July 15, 2020. Interest is paid semi-annually in arrears on April 15th and October 15th of each year.

The February 2013 Senior Unsecured Notes are unsecured senior indebtedness of HDS and rank equal in right of payment with all of HDS's existing and future senior indebtedness, senior in right of payment to all of HDS's existing and future subordinated indebtedness, and effectively subordinated to all of HDS's existing and future secured indebtedness, including, without limitation, indebtedness under the Senior Credit Facilities and the December 2014 First Priority Notes, to the extent of the value of the collateral securing such indebtedness.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 6 DEBT (Continued)

The February 2013 Senior Unsecured Notes are guaranteed, on a senior unsecured basis, by each of HDS's direct and indirect domestic existing and future subsidiaries that is a wholly owned domestic subsidiary (other than certain excluded subsidiaries), and by each other domestic subsidiary that is a borrower under the ABL Facility or that guarantees HDS's obligations under any credit facility or capital markets securities. These guarantees are subject to release under customary circumstances as stipulated in the February 2013 Senior Notes Indenture.

Redemption

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

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

December 2014 First Priority Notes, October 2012 Senior Unsecured Notes and February 2013 Senior Unsecured Notes (collectively the "Senior Notes")

Offer to Repurchase

In the event of certain events that constitute a Change of Control (as defined in the December 2014 First Priority Indenture, the October 2012 Senior Unsecured Notes Indenture, and the February 2013 Senior Unsecured Notes Indenture, collectively the "Senior Indentures"), HDS must offer to repurchase all of the Senior Notes (unless otherwise redeemed) at a price equal to 101% of their principal amount, plus accrued and unpaid interest, if any, to the repurchase date. If HDS sells assets under certain circumstances, HDS must use the proceeds to make an offer to purchase the Senior Notes at a price equal to 100% of their principal amount, plus accrued and unpaid interest, if any, to the date of purchase.

Covenants

The Senior Indentures contain covenants that, among other things, limit the ability of HDS and its restricted subsidiaries to: incur more indebtedness; pay dividends, redeem stock or make other distributions; make investments; create restrictions on the ability of HDS's restricted subsidiaries to pay dividends to HDS or make other intercompany transfers; create liens securing indebtedness; transfer or sell assets; merge or consolidate; and enter into certain transactions with HDS's affiliates. Most of these covenants will cease to apply for so long as the Senior Notes have investment grade ratings from both Moody's Investment Services, Inc. and Standard & Poor's. HDS is in compliance with all such covenants.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 6 DEBT (Continued)

Events of Default

The Senior Indentures also provide for events of default, which, if any of them occurs, would permit or require the principal, premium, if any, interest and other monetary obligations on all the then outstanding Senior Notes to be due and payable immediately. The Senior Indentures also provide for specified cross default and cross acceleration to other material indebtedness.

Debt Maturities

Maturities of long-term debt outstanding, in principal amounts, at January 31, 2016 are summarized below (amounts in millions):

	Fiscal Year						
	2016	2017	2018	2019	2020	Thereafter	Total
Principal maturities	$ 9	$ 8	$ 9	$ 8	$ 2,284	$ 2,055	$ 4,373

Fiscal 2014 and Fiscal 2013 Transactions

On December 19, 2014, HDS used the net proceeds from the December 2014 First Priority Notes issuance, together with available cash, to redeem all of the outstanding $1,250 million aggregate principal amount of its 2012 First Priority Notes, and pay a $106 million make-whole premium calculated in accordance with the terms of the indenture governing such notes and $18 million of accrued but unpaid interest to the redemption date. As a result, the Company incurred a $106 million loss on extinguishment of debt, which includes the $106 million make-whole premium payment to redeem the 2012 First Priority Notes and the write-off of $15 million of unamortized deferred financing costs, offset by the write-off of $15 million of unamortized premium on the 2012 First Priority Notes.

On December 4, 2014, HDS issued $1,250 million of the December 2014 First Priority Notes at par. At closing, HDS received approximately $1,232 million, net of transaction fees. As a result of the issuance, HDS incurred and paid $18 million in deferred financing costs, which will be amortized into interest expense over the term of the notes.

On February 6, 2014, HDS amended its Term Loan Facility, as defined above, to reduce the applicable margin for borrowings from 3.25% for LIBOR borrowings and 2.25% for base rate borrowings to 3.00% for LIBOR borrowings and 2.00% for base rate borrowings, and reduced the LIBOR floor to 1.00%. The Term Loan may be repaid at any time without penalty or premium. In addition, the amendment provided that HDS may withhold up to $150 million from repayments otherwise required to be made with the proceeds of asset sales and use such proceeds to repay any debt, including debt that is junior to the Term Loans. The amendment also extended the maturity of the Term Loans by approximately nine months, to June 28, 2018.

In connection with the amendment, HDS paid approximately $1 million in financing costs, which will be amortized into interest expense over the remaining term of the amended facility in accordance with ASC 470-50, Debt-Modifications and Extinguishments. A portion of the amendment was considered an extinguishment, resulting in a $1 million loss on extinguishment of debt for the write-off of pro-rata portions of the unamortized original issue discount and the unamortized deferred financing

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 6 DEBT (Continued)

costs. The portion of the amendment considered a modification resulted in a charge of approximately $1 million.

On August 1, 2013, HDS redeemed all $950 million outstanding aggregate principal amount of its January 2013 Senior Subordinated Notes at a redemption price equal to 103% of the principal amount thereof and paid accrued and unpaid interest thereon through the redemption date. As a result, in fiscal 2013 and in accordance with ASC 470-50, HDS incurred a $44 million loss on extinguishment, which included a $29 million premium payment to redeem the January 2013 Senior Subordinated Notes and approximately $15 million to write off the unamortized deferred financing costs.

On June 28, 2013, HDS amended its Senior ABL Facility to (i) reduce the applicable margin for borrowings under the Senior ABL Facility by 0.25%; (ii) reduce the commitment fee applicable thereunder by 0.125%; (iii) extend the maturity date of the Senior ABL Facility to June 28, 2018 (or the maturity date under HDS's Term Loan Facility, if earlier); (iv) make certain changes to the borrowing base and (v) reduce the sublimit available for letters of credit under the Senior ABL Facility from $400 million to $250 million. In connection with the amendment, HDS paid approximately $2 million in financing costs which will be amortized into interest expense over the remaining term of the amended facility in accordance with ASC 470-50. A portion of the amendment was considered an extinguishment, resulting in an approximately $3 million loss on extinguishment of debt for the write-off of the pro-rata portion of unamortized deferred financing costs.

On February 15, 2013, HDS amended its Term Loan Facility to lower the borrowing margin by 275 basis points. The Term Loans were subject to an interest rate equal to LIBOR (subject to a floor of 1.25%) plus a borrowing margin of 3.25% or Prime plus a borrowing margin of 2.25% at HDS's election. The amendment also replaced the hard call provision applicable to optional prepayment of Term Loans thereunder with a soft call option, which expired on August 15, 2013. In connection with the amendment, HDS paid approximately $30 million in financing costs, of which approximately $27 million will be amortized into interest expense over the remaining term of the amended facility in accordance with ASC 470-50. A portion of the amendment was considered an extinguishment, resulting in a $5 million loss on extinguishment of debt, which included approximately $2 million of fees, $2 million to write off the pro-rata portion of unamortized original issue discount, and $1 million to write off the pro-rata portion of unamortized deferred financing costs. The portion of the amendment considered a modification resulted in a charge of $1 million.

On February 8, 2013, HDS redeemed its remaining $889 million outstanding aggregate principal amount of its 2007 Senior Subordinated Notes at a redemption price equal to 103.375% of the principal amount thereof and paid accrued and unpaid interest thereon through the redemption date. As a result, in fiscal 2013, HDS incurred a $34 million loss on extinguishment of debt, which included a $30 million premium payment to redeem the 2007 Senior Subordinated Notes and approximately $4 million to write off the unamortized deferred financing costs.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 7 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 balance sheet were as follows as of January 31, 2016 and February 1, 2015 (amounts in millions):

	As of January 31, 2016		As of February 1, 2015	
	Recorded Amount(1)	Estimated Fair Value	Recorded Amount(1)	Estimated Fair Value
Senior ABL Facility	$	$	$ 96	$ 95
Term Loans and Notes	**4,373**	**4,560**	5,175	5,504
Total	**$ 4,373**	**$ 4,560**	$ 5,271	$ 5,599

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

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

NOTE 8 INCOME TAXES

The components of Income (Loss) from Continuing Operations before Provision (Benefit) for Income Taxes are as follows (amounts in millions):

	Fiscal Year Ended		
	January 31, 2016	February 1, 2015	February 2, 2014
United States	$ 237	$	$ (207)
Foreign	4		(1)
Total	$ 241	$	$ (208)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 8 INCOME TAXES (Continued)

The Provision (Benefit) for Income Taxes consisted of the following (amounts in millions):

	Fiscal Year Ended		
	January 31, 2016	February 1, 2015	February 2, 2014
Current:			
Federal	$ (165)	$ 9	$ 8
State	(12)	(1)	4
Foreign	4		
	(173)	8	12
Deferred:			
Federal	(829)	31	29
State	(84)	3	3
Foreign	1		
	(912)	34	32
Total	$ (1,085)	$ 42	$ 44

The Company's combined federal, state and foreign effective tax rate for continuing operations for fiscal 2015, fiscal 2014, and fiscal 2013 was approximately (450.2%), was not meaningful since pretax income was zero, and 21%, respectively.

The Company's effective tax rate will vary based on a variety of factors, including overall profitability, the geographical mix of income before taxes and the related tax rates in the jurisdictions where it operates, restructuring and other one-time charges, as well as discrete events, such as settlements of future audits. The Company's fiscal 2015 was impacted by reversing substantially all of the valuation allowance on its net U.S. deferred income taxes and a decrease in the Company's unrecognized tax position. The Company's fiscal 2014 and fiscal 2013 effective tax rates were significantly impacted by the recording of a valuation allowance on its net U.S. deferred tax assets. The fiscal 2014 and fiscal 2013 valuation allowance was directly impacted by the increasing of the deferred tax liability for U.S. goodwill amortization for tax purposes. The deferred tax liability related to the Company's U.S. tax deductible goodwill must be considered as a liability related to an asset with an indefinite life. Therefore, the deferred tax liability does not amortize and is not available as a source of taxable income to support the realization of deferred tax assets created by other deductible temporary timing differences.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 8 INCOME TAXES (Continued)

The reconciliation of the provision (benefit) for income taxes from continuing operations at the federal statutory rate of 35% to the actual tax provision (benefit) for fiscal 2015, fiscal 2014, and fiscal 2013 is as follows (amounts in millions):

	Fiscal Year Ended		
	January 31, 2016	February 1, 2015	February 2, 2014
Income taxes at federal statutory rate	$ 84	$	$ (73)
State income taxes, net of federal income tax benefit	13		(7)
Foreign rate differential	(1)		(2)
Non-deductible interest	14		
Valuation allowance	(1,007)	33	118
Adjustments to tax reserves	(189)	7	8
Other, net	1	2	
Total provision (benefit)	$ (1,085)	$ 42	$ 44

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities as of January 31, 2016 and February 1, 2015 were as follows (amounts in millions):

	January 31, 2016	February 1, 2015
Deferred Tax Assets:		
Accrued compensation	$ 26	$ 32
Accrued self-insurance liabilities	17	18
Other accrued liabilities	24	25
Deferred revenue		7
Restructuring liabilities	23	27
Net operating loss	751	960
Fixed assets	25	20
Allowance for doubtful accounts	6	7
Inventory	35	37
Tax credit carryforward	14	6
Other	5	24
Valuation allowance	(6)	(1,013)
Noncurrent deferred tax assets	920	150
Deferred Tax Liabilities:		
Prepaid expense	$ (1)	$ (1)
Deferred financing costs	(9)	(27)
Software costs	(12)	(17)
Intangible assets	(166)	(194)
Income from discharge of indebtedness	(47)	(63)
Noncurrent deferred tax liabilities	(235)	(302)
Deferred tax assets (liabilities), net	$ 685	$ (152)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 8 INCOME TAXES (Continued)

The Company reported $4 million of long-term deferred tax assets related to its Canadian business within other assets on its Consolidated Balance Sheet as of February 1, 2015.

At January 31, 2016, the Company's U.S. operations were in a position of cumulative consolidated pre-tax income for the most recent three-year period. Management concluded that as a consequence of the Company's three-year cumulative consolidated pre-tax income, generating taxable income in fiscal 2014 and 2015, the Company's long net operating loss carryforward periods, a significant reduction in the Company's recent interest expense, a projected further reduction in the Company's future interest expense, and the Company's business plan for fiscal 2016 and beyond showing continued profitability, that it is more likely than not that substantially all of the Company's U.S. deferred tax assets will be realized. Accordingly, in the fourth quarter of fiscal 2015, the Company reversed substantially all of its valuation allowance on its net U.S. deferred tax assets, resulting in a $1,007 million benefit in its provision for income taxes. The benefit from reversing the valuation allowance was partially offset by the utilization of $104 million of such deferred tax assets to offset current year income. At February 1, 2016, after the reverse of the valuation allowance, the Company's remaining valuation allowance on its U.S. deferred tax assets was approximately $6 million.

In fiscal 2014, the Company recorded a valuation allowance on its total U.S. operations of $33 million net income tax expense related to continuing operations and $4 million net income tax benefit related to discontinued operations. In fiscal 2013, the Company recorded a valuation allowance on its total U.S. operations of $118 million of net income tax expense related to continuing operations and $1 million of net income tax benefit for discontinued operations.

The Company has designated the undistributed earnings of certain aspects of its foreign operations as not permanently reinvested. As of January 31, 2016, deferred taxes have not been provided as the Company's tax basis exceeds its financial reporting book basis with respect to its foreign subsidiary. In fiscal 2015, the Company repatriated $92 million of cash and property to the U.S. which, to the extent of current earnings and profits, resulted in $10 million income tax expense in the U.S. In fiscal 2014, the Company did not repatriate cash from its foreign operations to the U.S. In fiscal 2014, if the Company had repatriated cash to the U.S., no additional income tax expense would have been generated.

As of January 31, 2016, the Company had tax-effected U.S. federal net operating loss carryforwards of $694 million which expire beginning in fiscal 2030. The Company also had $108 million of tax effected state net operating loss carryforwards which expire in various years between fiscal 2016 and fiscal 2035. The Company also had $9 million of U.S. federal alternative minimum tax credits which have an indefinite carryforward period, $2 million of U.S. federal research and development credits which expire between fiscal 2031 and fiscal 2035, and $3 million of tax-effected state tax credits which expire in various years between fiscal 2019 and fiscal 2024.

The future utilization of the Company's Net Operating Loss carryforwards could be limited if the Company experiences an "ownership change," as defined in Section 382 of the Internal Revenue Code of 1986, as amended. In general, an ownership change may result from transactions increasing the aggregate direct or indirect ownership of certain persons (or groups of persons) in the Company's stock by more than 50 percentage points over a testing period (generally 3 years). Future direct or indirect changes in the ownership of the Company's common stock, including sales or acquisitions of the Company's common stock by stockholders and purchases and issuances of the Company's common

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stock by the Company, some of which are not in our control, could result in an ownership change. Any resulting limitation on the use of the Company's NOL carryforwards could result in the payment of taxes above the amounts currently anticipated and have a negative effect on the Company's future results of operations and financial position.

Deferred tax assets relating to tax benefits of employee stock option grants have been reduced to reflect exercises in fiscal 2015 and fiscal 2014. Some exercises resulted in tax deductions in excess of previously recorded benefits based on the option value at the time of grant ("windfalls"). Although these additional tax benefits or "windfalls" are reflected in the Company's net operating taxable loss carryforwards, pursuant to ASC 718, the additional tax benefit associated with the windfall is not recognized until the deduction reduces taxes payable. Accordingly, since the tax benefit did not reduce the Company's current taxes payable in fiscal 2015 or fiscal 2014 due to net operating loss carryforwards, these "windfall" tax benefits are not reflected in the Company's net operating losses in deferred tax assets for fiscal 2015 or fiscal 2014. Windfalls included in net operating loss carryforwards but not reflected in deferred tax assets for fiscal 2015 and fiscal 2014 were $48 million and $16 million, respectively.

For fiscal 2015, the Company recorded a $69 million net income tax expense related to its U.S. business and a $4 million net income tax expense related to its Canadian business in discontinued operations. For fiscal 2014, the Company recorded an $18 million net income tax expense related to its U.S. business and a $3 million net income tax expense related to its Canadian business in discontinued operations. For fiscal 2013, the Company recorded a $13 million net income tax expense related to its U.S. business and a $5 million net income tax expense related to its Canadian business in discontinued operations.

Federal, state and foreign income taxes net current receivable total $3 million and $3 million as of fiscal 2015 and fiscal 2014, respectively.

Accounting for uncertain tax positions

The Company follows the U.S. GAAP guidance for uncertain tax positions within ASC 740, Income Taxes. ASC 740 requires application of a "more likely than not" threshold to the recognition and de-recognition of tax positions. It further requires that a change in judgment related to prior years' tax positions be recognized in the quarter of such change. A reconciliation of the beginning and ending

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 8 INCOME TAXES (Continued)

amount of unrecognized tax benefits for continuing operations for fiscal 2015, fiscal 2014, and fiscal 2013 is as follows (amounts in millions):

	Fiscal Year Ended		
	January 31, 2016	February 1, 2015	February 2, 2014
Unrecognized Tax Benefits beginning of period	$ 187	$ 192	$ 193
Gross increases for tax positions in current period	1	1	
Gross increases for tax positions in prior period	5		
Gross decreases for tax positions in prior period	(2)	(1)	
Settlements	(181)	(5)	
Lapse of statutes	(1)		(1)
Unrecognized Tax Benefits end of period	$ 9	$ 187	$ 192

There are $9 million, $187 million, and $192 million of unrecognized tax benefits included in the balance at fiscal 2015, fiscal 2014, and fiscal 2013, respectively, whose resolution could affect the annual effective income tax rate.

The Company decreased its accrual for net interest and penalties related to unrecognized tax benefits by $29 million for fiscal 2015. The Company accrued $2 million and $5 million of net interest and penalties related to unrecognized tax benefits for fiscal 2014 and fiscal 2013, respectively. The Company's ending net accrual for interest and penalties related to unrecognized tax benefits at fiscal 2015, fiscal 2014, and fiscal 2013, was zero, $29 million, and $27 million, respectively. The Company's accounting policy is to classify interest and penalties as components of income tax expense. Accrued interest and penalties from unrecognized tax benefits are included as a component of other liabilities on the Consolidated Balance Sheet.

The Company is subject to audits and examinations of its tax returns by tax authorities in various jurisdictions, including the Internal Revenue Service ("IRS"). Management regularly assesses the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of provisions for income taxes. Certain of the Company's tax years 2007 and forward remain open for audit by the IRS and various state governments.

The decrease in the Company's fiscal 2015 unrecognized U.S. federal and state tax benefits including gross interest accrual was driven by an income tax benefit of approximately $189 million from the approval and finalization of the Tentative Settlement (as defined in Note 13, Commitments and Contingencies).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 9 STOCK-BASED COMPENSATION AND EMPLOYEE BENEFIT PLANS

Stock-Based Compensation Plans

On June 26, 2013, the Board of Directors and shareholders of Holdings approved the HD Supply Holdings, Inc. 2013 Omnibus Incentive Plan (the "Plan"). The Plan provides for stock-based awards to employees, consultants and directors, including stock options, stock purchase rights, restricted stock, restricted stock units, deferred stock units, performance shares, performance units, stock appreciation rights, dividend equivalents and other stock-based awards. The Plan replaces and succeeds the HDS Investment Holding, Inc. Stock Incentive Plan, as amended effective April 11, 2011 (the "Stock Incentive Plan"), and, from and after June 26, 2013, no further awards will be made under the Stock Incentive Plan. On July 2, 2013, HD Supply registered 12.5 million shares for issuance pursuant to awards under the Plan and registered 14.8 million shares for issuance pursuant to outstanding awards under the Stock Incentive Plan as of June 26, 2013. As of January 31, 2016, approximately 9 million registered shares were available for issuance under the Plan.

On June 26, 2013, the Board of Directors and shareholders of Holdings approved the HD Supply Holdings, Inc. Employee Stock Purchase Plan (the "ESPP"), which permits HD Supply's eligible associates to purchase Holdings common stock at a 5% discount on the closing stock price at the end of each offering period. There are two six-month offering periods during a calendar year beginning each January and July, with the first offering period commenced on January 1, 2014. Two million shares are authorized for issuance under the ESPP, and these shares were registered on July 2, 2013. During fiscal 2015 and fiscal 2014, eligible associates purchased approximately 117,000 shares and 114,000 shares, respectively, under the ESPP. As of January 31, 2016, approximately 1.8 million registered shares were available for issuance under the ESPP.

Stock Options

Under the terms of the Plan and the Stock Incentive Plan (collectively, the "HDS Plans"), non-qualified stock options are to carry exercise prices at, or above, the fair market value of Holdings' stock on the date of the grant. Prior to Holdings' initial public offering, the fair market value of the stock was determined by the Board of Directors of Holdings based on such factors as it deemed appropriate, including but not limited to the earnings and other financial and operating information of the Company in recent periods, the potential value of the Company as a whole, the future prospects of the Company and the industries in which it competes, the history and management of the Company, the general condition of the securities markets, the fair market value of securities of companies engaged in businesses similar to those of the Company, and any recent valuation of the common stock of Holdings that was performed by an independent valuation firm (although the Board of Directors of Holdings was not obligated to obtain such a valuation).

The non-qualified stock options under the HDS Plans generally vest at the rate of 20% per year commencing on the first anniversary date of the grant or 100% on the third anniversary of the grant and expire on the tenth anniversary date of the grant.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 9 STOCK-BASED COMPENSATION AND EMPLOYEE BENEFIT PLANS (Continued)

A summary of option activity under the HDS Plans is presented below (shares in thousands):

	Number of Shares	Weighted Average Option Price
Outstanding at February 3, 2013	14,818	$ 13.00
Granted	930	18.00
Exercised	(312)	12.02
Forfeited	(426)	13.91
Outstanding at February 2, 2014	15,010	$ 13.30
Granted		
Exercised	(4,076)	10.97
Forfeited	(495)	15.94
Outstanding at February 1, 2015	10,439	$ 14.08
Granted		
Exercised	**(5,647)**	**12.50**
Forfeited	**(55)**	**15.28**
Outstanding at January 31, 2016	**4,737**	**$ 15.95**

The total intrinsic value of options exercised was approximately $110 million, $65 million, and $4 million in fiscal 2015, fiscal 2014, and fiscal 2013, respectively. As of January 31, 2016, there were approximately 4.7 million stock options outstanding with a weighted average remaining life of 4.8 years and an aggregate intrinsic value of approximately $49 million. As of January 31, 2016, there were approximately 3.7 million options exercisable with a weighted average exercise price of $15.62, a weighted average remaining life of 4.4 years and an aggregate intrinsic value of approximately $40 million. As of January 31, 2016, there were approximately 4.5 million options vested or expected to ultimately vest with a weighted average exercise price of $15.87, a weighted average remaining life of 4.7 years, and an aggregate intrinsic value of approximately $47 million.

The estimated fair value of the options when granted is amortized to expense over the options' vesting or required service period. The fair value for these options was estimated by management, after considering a third-party valuation specialist's assessment, at the date of grant based on the expected life of the option and historical exercise experience, using a Black-Scholes option pricing model with the following weighted-average assumptions:

	Fiscal Year Ended		
	January 31, 2016	**February 1, 2015**	**February 2, 2014**
Risk-free interest rate			1.8%
Dividend yield			0.0%
Expected volatility factor			58.3%
Expected option life in years			6.5

The risk free interest rate was determined based on an analysis of U.S. Treasury zero-coupon market yields as of the date of the option grant for issues having expiration lives similar to the expected option life. The expected volatility was based on an analysis of the historical volatility of HD Supply's competitors over the expected life of the HD Supply options. These volatilities were weighted

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 9 STOCK-BASED COMPENSATION AND EMPLOYEE BENEFIT PLANS (Continued)

by the respective HD Supply segment against which they compete, resulting in an overall industry-based volatility for HD Supply and then adjusted to reflect the leverage of HD Supply. As insufficient data exists to determine the historical life of options issued under the HDS Plans, the expected option life was determined based on the vesting schedule of the options and their contractual life taking into consideration the expected time in which the share price of Holdings would exceed the exercise price of the option. No options were granted during fiscal 2015 or fiscal 2014. The weighted-average fair value of each option granted during fiscal 2013 was $10.25. HD Supply recognized $5 million, $8 million, and $16 million of stock-based compensation expense related to stock options during fiscal 2015, fiscal 2014, and fiscal 2013, respectively. As of January 31, 2016 the unamortized compensation expense related to stock options was $2 million, which is expected to be recognized over a weighted-average period of 1.1 years.

Restricted Stock and Restricted Stock Units

Restricted stock awards ("RSAs") and restricted stock unit awards ("RSUs") granted under the Plan are settled by issuing shares of common stock at the vesting date. Generally, the RSAs and RSUs granted to employees vest on a pro rata basis on each of the first four or five anniversaries of the grant, except in the case of death or disability, in which case the RSAs and RSUs vest as of the date of the event. Generally, the RSAs granted to members of the Company's Board of Directors vest on the earliest of the one-year anniversary of the grant date, the next annual meeting after the grant date, or a change in control. The grant date fair value of the RSAs and RSUs is expensed over the vesting period. The shares represented by restricted stock awards are considered outstanding at the grant date, as the recipients are entitled to dividends and voting rights, which are subject to the same restrictions (including the risk of forfeiture) as the restricted stock awards.

A summary of RSA and RSU activity under the HDS Plans is presented below (shares in thousands):

	Number of Shares	Weighted Average Grant Date Fair Value
Non-vested at February 3, 2013		$
Granted	353	18.18
Vested		
Forfeited		
Non-vested at February 2, 2014	353	$ 18.18
Granted	1,508	24.32
Vested	(131)	20.04
Forfeited	(125)	24.40
Non-vested at February 1, 2015	1,605	$ 23.32
Granted	**1,147**	**29.05**
Vested	**(440)**	**23.59**
Forfeited	**(581)**	**26.02**
Non-vested at January 31, 2016	**1,731**	**$ 26.08**

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NOTE 9 STOCK-BASED COMPENSATION AND EMPLOYEE BENEFIT PLANS (Continued)

HD Supply recognized $11 million, $9 million, and $1 million of stock-based compensation expense related to RSAs and RSUs during fiscal 2015, fiscal 2014, and fiscal 2013, respectively. As of January 31, 2016 the unamortized compensation expense related to RSAs and RSUs was $30 million, which is expected to be recognized over a weighted-average period of 2.7 years.

Employee Benefit Plans

HD Supply offers a comprehensive Health & Welfare Benefits Program which allows employees who satisfy certain eligibility requirements to choose among different levels and types of coverage. The Health & Welfare Benefits program provides employees healthcare coverage in which the employer and employee share costs. In addition, the program offers employees the opportunity to participate in various voluntary coverages, including flexible spending accounts.

HD Supply maintains a 401(k) defined contribution plan that is qualified under Sections 401(a) and 501(a) of the Internal Revenue Code. Employees who satisfy the plan's eligibility requirements may elect to contribute a portion of their compensation to the plan on a pre-tax basis. HD Supply may match a percentage of the employees' contributions to the plan based on approval from the Board of Directors. Matching contributions are generally made shortly after the end of each pay period or after the Company's fiscal year-end if an additional annual matching contribution based on the Company's fiscal-year financial results is approved. HD Supply paid matching contributions of $19 million, $19 million, and $17 million during fiscal 2015, fiscal 2014, and fiscal 2013, respectively.

NOTE 10 BASIC AND DILUTED WEIGHTED-AVERAGE COMMON SHARES

Basic earnings (loss) per common share is computed by dividing net income (loss) by the weighted-average common shares outstanding during the respective periods. Diluted earnings (loss) per common share is computed by dividing net income (loss) by the sum of the weighted-average common shares outstanding and all dilutive potential common shares outstanding during the respective periods. Diluted earnings (loss) per common share equals basic earnings (loss) per common share for certain periods, as the effect of stock options, restricted stock, and restricted stock units (collectively "stock plan securities") are anti-dilutive because the Company incurred losses from continuing operations in those periods.

The following basic and diluted weighted-average common shares information is provided for HD Supply Holdings, Inc.

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HD SUPPLY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 10 BASIC AND DILUTED WEIGHTED-AVERAGE COMMON SHARES (Continued)

The reconciliation of basic to diluted weighted-average common shares for fiscal 2015, fiscal 2014, and fiscal 2013 is as follows (in thousands):

	Fiscal Year Ended		
	January 31, 2016	February 1, 2015	February 2, 2014
Weighted-average common shares	197,011	193,962	166,905
Effect of potentially dilutive stock plan securities	4,297		
Diluted weighted-average common shares	201,308	193,962	166,905
Stock plan securities excluded from dilution(1)	792	12,044	15,373

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

NOTE 11 SUPPLEMENTAL BALANCE SHEET AND CASH FLOW INFORMATION

Receivables

Receivables as of January 31, 2016 and February 1, 2015 consisted of the following (amounts in millions):

	January 31, 2016	February 1, 2015
Trade receivables, net of allowance for doubtful accounts	$ 815	$ 784
Vendor rebate receivables	76	75
Other receivables	12	9
Total receivables, net	$ 903	$ 868

Property and Equipment

Property and equipment as of January 31, 2016 and February 1, 2015 consisted of the following (amounts in millions):

	January 31, 2016	February 1, 2015
Land	$ 33	$ 33
Buildings and improvements	243	219
Transportation equipment	74	71
Furniture, fixtures and equipment	276	267
Capitalized software	260	247
Construction in progress	33	33
	919	870
Less accumulated depreciation & amortization	(593)	(530)

Property and equipment, net	**$ 326**	**$ 340**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 11 SUPPLEMENTAL BALANCE SHEET AND CASH FLOW INFORMATION (Continued)

Other Current Liabilities

Other current liabilities as of January 31, 2016 and February 1, 2015 consisted of the following (amounts in millions):

	HD Supply Holdings, Inc.		HD Supply, Inc.	
	January 31, 2016	February 1, 2015	January 31, 2016	February 1, 2015
Accrued interest	$ 73	$ 98	$ 73	$ 98
Accrued non-income taxes	33	29	33	29
Other	103	103	102	103
Total other current liabilities	$ 209	$ 230	208	230

Supplemental Cash Flow Information

Cash paid for interest in fiscal 2015, fiscal 2014, and fiscal 2013 was approximately $397 million, $456 million, and $527 million, respectively. During fiscal 2015, the Company paid $12 million of original issue discounts related to the portion of the Incremental Agreement considered an extinguishment under ASC 470-50, "Debt Modifications and Extinguishments." During fiscal 2014, the Company paid $1 million of original issue discounts related to the portion of the Term Loan amendment considered an extinguishment under ASC 470-50. During fiscal 2013, the Company paid $364 million of original issue discounts and paid-in-kind ("PIK") interest related to the extinguishments of $889 million of 2007 Senior Subordinated Notes and a portion of the Term Loans.

Cash paid for income taxes, net of refunds, in fiscal 2015, fiscal 2014, and fiscal 2013 was approximately $16 million, $39 million, and $8 million, respectively. Cash paid for income taxes in fiscal 2014 includes a $27 million payment for the tentative settlement of the IRS's audit of the Company's U.S. federal income tax returns filed for the tax years ended on February 3, 2008 and February 1, 2009.

NOTE 12 RESTRUCTURING ACTIVITIES

Fiscal 2015 Plan

In conjunction with the sale of the Power Solutions business unit, management evaluated the Company's talent alignment and functional support strategies. Consequently, during fiscal 2015, the Company initiated a restructuring plan to strategically align its leadership and functional support teams, recording a restructuring charge of $10 million. This charge reflects costs primarily for severance and other employee-related costs at Facilities Maintenance and Waterworks. The Company expects to incur an additional $5 million to $10 million over the next nine months primarily for severance, relocation and related costs, anticipating the completion of the restructuring plan in the second half of fiscal 2016, and expects a payback via a permanent reduction in cost over the next two years.

As of January 31, 2016, the liability balances for these restructuring activities was $7 million and is included in Other current liabilities in the Consolidated Balance Sheet. Payments for these initial charges are expected to be substantially complete in the next twelve months.

HD SUPPLY HOLDINGS, INC. AND SUBSIDIARIES
HD SUPPLY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 12 RESTRUCTURING ACTIVITIES (Continued)

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

	Severance	Relocation & Other Costs	Total
Balance February 1, 2015	$	$	**$**
Charges	7	3	**10**
Cash payments	(1)	(2)	**(3)**
Balance January 31, 2016	**$ 6**	**$ 1**	**$ 7**

Fiscal 2013 Plan

During the fourth quarter of fiscal 2013, management evaluated the cost structure of the Company and identified opportunities to reduce costs across its businesses, primarily through a workforce reduction in the global support center and, to a lesser extent, its business units. As a result, the Company recorded a restructuring charge of $6 million in fiscal 2013 for employee-related charges, primarily severance. During fiscal 2014, the Company continued restructuring activities under this plan, resulting in a restructuring charge of $6 million in fiscal 2014 for additional workforce reductions of approximately 130 employees, primarily at Facilities Maintenance, and the consolidation of six Construction & Industrial White Cap branches into three branches. These charges were recorded to operating expenses within the Consolidated Statements of Operations and Comprehensive Income (Loss). During fiscal 2014, the Company completed the restructuring activities under this plan. No further charges are expected under this plan.

NOTE 13 COMMITMENTS AND CONTINGENCIES

Lease Commitments

HD Supply occupies certain facilities and operates certain equipment and vehicles under leases that expire at various dates through the year 2026. In addition to minimum rentals, there are certain executory costs such as real estate taxes, insurance, and common area maintenance on most of its facility leases. Expense under these leases totaled $146 million, $132 million, and $122 million in fiscal 2015, fiscal 2014, and fiscal 2013, respectively. Capital leases currently in effect are not material.

Future minimum aggregate rental payments under non-cancelable operating leases as of January 31, 2016 are as follows (amounts in millions):

	Fiscal Year						
	2016	**2017**	**2018**	**2019**	**2020**	**Thereafter**	**Total**
Operating Leases	$ 139	119	100	76	49	71	$ 554

The Company subleases certain leased facilities to third parties. In addition, the Company leases certain owned facilities to third parties. Total future minimum rentals to be received under non-cancelable subleases and leases as of January 31, 2016 are approximately $36 million. These subleases and leases expire at various dates through the year 2025.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 13 COMMITMENTS AND CONTINGENCIES (Continued)

On February 4, 2016, the Company entered into an agreement for the lease of a leadership development and headquarters facility in Atlanta, Georgia. The lease commences upon completion of construction of the facility, which is anticipated to be January 2018. The initial term of the lease is twenty years with an initial base rent of approximately $5 million, escalating at 1.85% per year.

Purchase Obligations

As of January 31, 2016, the Company has agreements in place with various vendors to purchase goods and services, primarily inventory, in the aggregate amount of $399 million. These purchase obligations are generally cancelable, but the Company has no intent to cancel. Payment is due during fiscal 2016 for these obligations.

Internal Revenue Service

The Company carried back tax net operating losses ("NOL") from its tax years ended on February 3, 2008 and February 1, 2009 to tax years during which it was a member of The Home Depot Inc.'s ("Home Depot") U.S. federal consolidated tax group. As a result of those NOL carrybacks, Home Depot received cash refunds from the IRS in the amount of approximately $354 million. Under an agreement (the "Agreement") between the Company and Home Depot, Home Depot paid the Company the refund proceeds resulting from the NOL carrybacks.

In January 2013 in connection with an audit of the Company's U.S. federal income tax returns filed for the tax years ended on February 3, 2008 and February 1, 2009, the IRS issued a Revenue Agent's Report ("RAR") which proposed to disallow certain deductions claimed by the Company and a significant portion of the corresponding cash refunds resulting from the Company's NOL carrybacks. Pursuant to the terms of the Agreement, the Company would be required to reimburse Home Depot an amount equal to the disallowed refunds plus related interest. In collaboration with Home Depot, the Company challenged the proposed adjustments of the RAR by filing a formal protest with the IRS Office of Appeals. In July 2014, the Company reached a tentative settlement ("Tentative Settlement") for approximately $27 million with the IRS Office of Appeals on the outstanding RAR. In order to stop the accrual of interest on the Tentative Settlement amount and as required under the Agreement, in August 2014 the Company made a payment of approximately $27 million to Home Depot which Home Depot then paid to the IRS. As a result of the Tentative Settlement, the Company's deferred tax assets increased by approximately $12 million before the impact of the valuation allowance.

The Tentative Settlement and the carryback claims were subject to review by the Joint Committee on Taxation ("JCT"). Accordingly, the Tentative Settlement would not become effective, nor were the carryback claims finalized, until the JCT reviewed them without objection or the IRS Office of Appeals executed such settlement, whichever comes first. The JCT is required to review refunds in excess of $2 million.

On February 19, 2015, the Company received notification the Tentative Settlement was approved by the JCT. As a result of the approval and finalization of the Tentative Settlement, the tax years ending February 3, 2008 and February 1, 2009 are settled and closed to any further adjustments.

See "Note 8, Income Taxes," for further disclosures on the Company's income taxes.

HD SUPPLY HOLDINGS, INC. AND SUBSIDIARIES
HD SUPPLY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 13 COMMITMENTS AND CONTINGENCIES (Continued)

Legal Matters

On August 11, 2015, HD Supply Waterworks, Ltd., and the United States of America, acting through the United States Attorney's Office for the Northern District of New York and on behalf of the United States Environmental Protection Agency and the United States Department of Transportation (collectively the "United States") entered into a civil settlement agreement in connection with the previously disclosed investigation of the Company by the United States related to the activities of certain disadvantaged business enterprises, including American Indian Builders and Suppliers, Inc (the "United States Investigation"). Under the terms of the settlement agreement, the Company, in exchange for a release of certain civil and administrative monetary claims, paid the United States $4.945 million, which is an amount within the Company's previously established reserve for such matter.

In addition, on September 21, 2015 (the "Effective Date"), the Company entered into an Administrative Settlement and Compliance Agreement (the "AS&C Agreement") with the Federal Highway Administration ("FHWA"), an Operating Administration of the United States Department of Transportation, related to the same conduct at issue in the United States Investigation. Under the terms of the agreement, which will be effective for a period of three years from the Effective Date, HD Supply Waterworks has agreed to undertake, and has already undertaken, certain remedial measures, including (a) commitment to continue to be bound by its Code of Business Conduct and Ethics; (b) a Corporate Compliance Program; (c) appointment of a Corporate Compliance Officer who was not involved in the conduct at issue in the United States Investigation; and (d) retention of an independent monitor to evaluate Waterworks' performance of the AS&C Agreement and to submit periodic reports directly to FHWA. In exchange, the FHWA has agreed not to initiate or pursue any suspension or debarment action against HD Supply Waterworks, the Company, or their affiliated entities, based on the conduct at issue in the United States Investigation unless HD Supply Waterworks materially breaches the AS&C Agreement. While the Company believes that HD Supply Waterworks will not materially breach its obligations under the AS&C Agreement, there can be no assurances that the FHWA will not initiate or pursue any suspension or debarment proceedings in the future.

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, including the government matters described above, are believed to be adequately reserved for or covered by insurance and are not expected to have a material adverse effect on the Company's consolidated financial condition, results of operations or cash flows. For all other matters, except as noted below, management believes the possibility of losses from such matters is not probable, the potential loss from such matters is not reasonably estimable, or such matters, if disposed of unfavorably to the Company, are of such kind or involve such amounts that would not have a material adverse effect on the financial position, results of operations or cash flows of the Company. For material matters that are reasonably possible and reasonably estimable, including matters that are probable and estimable but for which the amount that is reasonably possible is in excess of the amount that the Company has accrued for, management has estimated the aggregate range of potential loss as $0 to $15 million. If a material loss is probable or reasonably possible, and in either case estimable, the Company has considered it in the analysis and it is included in the discussion set forth above.

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HD SUPPLY HOLDINGS, INC. AND SUBSIDIARIES
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 14 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 the reportable segments in accordance with the principles of segment reporting within ASC 280, Segment Reporting. For purposes of evaluation under these segment reporting principles, the Chief Operating Decision Maker for HD Supply assesses HD Supply's ongoing performance, based on the periodic review and evaluation of Net sales, Adjusted EBITDA, and certain other measures for each of the operating segments.

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

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

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

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

In addition to the reportable segments, the Company's consolidated financial results include "Corporate & Other." Corporate & Other is comprised of the following operating segments: Interior Solutions and Home Improvement Solutions. Interior Solutions offers turnkey supply and installation services for multiple interior finish options, including flooring, cabinets, countertops, and window coverings, along with comprehensive design center services for residential, commercial and senior living projects. Home Improvement Solutions offers light remodeling and construction supplies, kitchen and bath cabinets, windows, plumbing materials, electrical equipment and other products, primarily to small remodeling contractors and trade professionals. Corporate & Other also includes costs related to our centralized support functions, which are comprised of finance, information technology, human resources, legal, supply chain and other support services, and removes inter-segment transactions.

Beginning in the fourth quarter of fiscal 2015, management combined the HD Supply Canada business unit with the Construction & Industrial White Cap business unit, reflecting the continued integration of the Canadian Brafasco business into Construction & Industrial White Cap. All periods presented have been revised to reflect the combined business unit.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 14 SEGMENT INFORMATION (Continued)

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

	Fiscal Year 2015				
	Facilities Maintenance	Waterworks	Construction & Industrial White Cap	Corporate & Other(2)	Total Continuing Operations
Net sales	$ 2,690	2,510	1,733	455	**$ 7,388**
Adjusted EBITDA	$ 529	222	160	(33)	**$ 878**
Depreciation(1) & Software Amortization	$ 43	11	26	21	**$ 101**
Other Intangible Amortization	$ 6	2	1	6	**$ 15**
Total Assets	$ 2,358	1,636	633	1,389	**$ 6,016**
Capital Expenditures	$ 20	10	28	28	**$ 86**

	Fiscal Year 2014				
	Facilities Maintenance	Waterworks	Construction & Industrial White Cap	Corporate & Other(2)	Total Continuing Operations
Net sales	$ 2,510	2,427	1,570	463	**$ 6,970**
Adjusted EBITDA	$ 491	198	116	(30)	**$ 775**
Depreciation(1) & Software Amortization	$ 50	11	22	23	**$ 106**
Other Intangible Amortization	$ 57	3	14	6	**$ 80**
Total Assets	$ 2,390	1,640	617	1,330	**$ 5,977**
Capital Expenditures	$ 32	15	30	42	**$ 119**

	Fiscal Year 2013				
	Facilities Maintenance	Waterworks	Construction & Industrial White Cap	Corporate & Other(2)	Total Continuing Operations
Net sales	$ 2,331	2,227	1,381	448	**$ 6,387**
Adjusted EBITDA	$ 434	173	86	(35)	**$ 658**
Depreciation(1) & Software Amortization	$ 45	10	17	25	**$ 97**
Other Intangible Amortization	$ 81	4	20	5	**$ 110**
Total Assets	$ 2,433	1,585	590	1,619	**$ 6,227**
Capital Expenditures	$ 42	12	25	52	**$ 131**

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

(2) Total Assets and capital expenditures include amounts attributable to discontinued operations for the periods prior to the dispositions.

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HD SUPPLY HOLDINGS, INC. AND SUBSIDIARIES
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 14 SEGMENT INFORMATION (Continued)

Reconciliation to Consolidated Financial Statements

	Fiscal 2015	Fiscal 2014	Fiscal 2013
Total Adjusted EBITDA	**$ 878**	**$ 775**	**$ 658**
Depreciation and amortization	116	186	207
Stock-based compensation	16	17	16
Management fees and expenses			2
Restructuring	10	6	6
Other		(1)	
Operating income	**736**	**567**	**427**
Interest expense	394	462	528
Loss on extinguishment & modification of debt	100	108	87
Other (income) expense, net	1	(3)	20
Income (Loss) from Continuing Operations Before Provision (Benefit) for Income Taxes	**241**		**(208)**
Provision (benefit) for income taxes	(1,085)	42	44
Income (loss) from continuing operations	**$ 1,326**	**$ (42)**	**$ (252)**

Net sales for HD Supply outside the United States, primarily Canada, were $125 million, $130 million, and $133 million in fiscal 2015, fiscal 2014, and fiscal 2013, respectively. Long-lived assets of HD Supply outside the United States, primarily Canada, were $6 million and $13 million as of January 31, 2016 and February 1, 2015, respectively.

NOTE 15 GUARANTOR SUBSIDIARIES

As of January 31, 2016, HDS (the "Debt Issuer") had outstanding December 2014 First Priority Notes, October 2012 Senior Unsecured Notes, and February 2013 Senior Unsecured Notes (collectively the "Notes") guaranteed by certain of its subsidiaries (the "Subsidiary Guarantors"). The Subsidiary Guarantors are direct or indirect wholly-owned domestic subsidiaries of HDS. The subsidiaries of HDS that do not guarantee the Notes ("Non-guarantor Subsidiaries") are direct or indirect wholly-owned subsidiaries of HDS and primarily include HDS's operations in Canada.

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

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

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

(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;

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 15 GUARANTOR SUBSIDIARIES (Continued)

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

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

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

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

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

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

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

Holdings

Under the terms of the agreements governing the Notes issued by HDS, the Term Loan Facility entered into by HDS, and the Senior ABL Facility entered into by HDS and certain of its subsidiaries, HDS and substantially all of its existing and future 100%-owned U.S. subsidiaries are significantly restricted from making dividend payments, loans or advances to Holdings. These restrictions result in substantially all of the net assets of Holdings' 100%-owned U.S. subsidiaries being restricted (as defined in Rule 4-08(e)(3) of Regulation S-X).

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HD SUPPLY HOLDINGS, INC. AND SUBSIDIARIES
HD SUPPLY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 15 GUARANTOR SUBSIDIARIES (Continued)

In lieu of Schedule I, the condensed statements of operations and comprehensive income (loss), the condensed balance sheets, and the condensed statements of cash flows of Holdings are included in the tables below.

The condensed parent company financial information of Holdings has been provided in accordance with the rules and regulations of the SEC and should be read in conjunction with the Consolidated Financial Statements of Holdings and its subsidiaries. Pursuant to the SEC rules and regulations, the condensed parent company financial information does not include all of the financial information and notes normally included with financial statements prepared in accordance with GAAP.

The condensed parent company financial information has been prepared using the same accounting policies as described in Note 1 of Notes to Consolidated Financial Statements of Holdings and subsidiaries included herein, except for the investment in subsidiary. For the purposes of this schedule, Holdings' investment in HDS, its wholly-owned subsidiary, is stated at cost plus equity in undistributed earnings of subsidiaries since the date of acquisition. Holdings' share of net income of its unconsolidated subsidiaries is included in consolidated income using the equity method. Holdings did not receive any dividends or distributions from subsidiaries during fiscal 2015, fiscal 2014 or fiscal 2013.

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HD SUPPLY HOLDINGS, INC. AND SUBSIDIARIES
HD SUPPLY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 15 GUARANTOR SUBSIDIARIES (Continued)

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

Amounts in millions

	Fiscal Year 2015					
	Debt Issuer	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Total HDS	Holdings
Net Sales	**$**	**$ 7,269**	**$ 121**	**$ (2)**	**$ 7,388**	**$**
Cost of sales		4,868	65	(1)	4,932	
Gross Profit		**2,401**	**56**	**(1)**	**2,456**	
Operating expenses:						
Selling, general and administrative	73	1,482	45	(1)	1,599	
Depreciation and amortization	15	95	1		111	
Restructuring	3	7			10	
Total operating expenses	91	1,584	46	(1)	1,720	
Operating Income (Loss)	**(91)**	**817**	**10**		**736**	
Interest expense	399	243	1	(249)	394	
Interest (income)	(243)	(6)		249		
Net (earnings) loss of equity affiliates	(354)			354		(1,472)
Loss on extinguishment & modification of debt	100				100	
Other (income) expense, net	1				1	
Income (Loss) from Continuing Operations Before Provision (Benefit) for Income Taxes	6	580	9	(354)	241	1,472
Provision (benefit) for income taxes	(1,349)	260	4		(1,085)	
Income (Loss) from Continuing Operations	**1,355**	**320**	**5**	**(354)**	**1,326**	1,472
Income (loss) from discontinued operations, net of tax	117	21	8		146	
Net Income (Loss)	**$ 1,472**	**$ 341**	**$ 13**	**$ (354)**	**$ 1,472**	**$ 1,472**
Other comprehensive income foreign currency translation adjustment	12		12	(12)	12	12
Total Comprehensive Income (Loss)	**$ 1,484**	**$ 341**	**$ 25**	**$ (366)**	**$ 1,484**	**$ 1,484**

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HD SUPPLY HOLDINGS, INC. AND SUBSIDIARIES
HD SUPPLY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 15 GUARANTOR SUBSIDIARIES (Continued)

	Fiscal Year 2014					
	Debt Issuer	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Total HDS	Holdings
Net Sales	$	$ **6,842**	$ **130**	$ **(2)**	$ **6,970**	$
Cost of sales		4,635	72	(1)	4,706	
Gross Profit		**2,207**	**58**	**(1)**	**2,264**	
Operating expenses:						
Selling, general and administrative	61	1,395	55	(1)	1,510	
Depreciation and amortization	17	163	1		181	
Restructuring	1	5			6	
Total operating expenses	79	1,563	56	(1)	1,697	
Operating Income (Loss)	**(79)**	**644**	**2**		**567**	
Interest expense	464	242	1	(245)	462	
Interest (income)	(241)	(4)		245		
Net (earnings) loss of equity affiliates	(410)			410		(3)
Loss on extinguishment & modification of debt	108				108	
Other (income) expense, net	(3)				(3)	
Income (Loss) from Continuing Operations Before Provision (Benefit) for Income Taxes	**3**	**406**	**1**	**(410)**		**3**
Provision (benefit) for income taxes	(3)	45			42	
Income (Loss) from Continuing Operations	**6**	**361**	**1**	**(410)**	**(42)**	**3**
Income (loss) from discontinued operations, net of tax	(3)	43	5		45	
Net Income (Loss)	$ **3**	$ **404**	$ **6**	$ **(410)**	$ **3**	$ **3**
Other comprehensive income foreign currency translation adjustment	(13)		(13)	13	(13)	(13)
Total Comprehensive Income (Loss)	$ **(10)**	$ **404**	$ **(7)**	$ **(397)**	$ **(10)**	$ **(10)**

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HD SUPPLY HOLDINGS, INC. AND SUBSIDIARIES
HD SUPPLY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 15 GUARANTOR SUBSIDIARIES (Continued)

	Fiscal Year 2013					
	Debt Issuer	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Total HDS	Holdings
Net Sales	$	$ **6,264**	$ **125**	$ **(2)**	$ **6,387**	$
Cost of sales		4,240	68	(1)	4,307	
Gross Profit		**2,024**	**57**	**(1)**	**2,080**	
Operating expenses:						
Selling, general and administrative	61	1,327	56	(1)	1,443	
Depreciation and amortization	16	186	2		204	
Restructuring charge	3	3			6	
Total operating expenses	80	1,516	58	(1)	1,653	
Operating Income (Loss)	**(80)**	**508**	**(1)**		**427**	
Interest expense	530	243		(245)	528	
Interest (income)	(242)	(3)		245		
Net (earnings) loss of equity affiliates	(331)			331		**218**
Loss on extinguishment & modification of debt	87				87	
Other (income) expense, net	20				20	
Income (Loss) from Continuing Operations Before Provision (Benefit) for Income Taxes	**(144)**	**268**	**(1)**	**(331)**	**(208)**	**(218)**
Provision (benefit) for income taxes	101	(57)			44	
Income (Loss) from Continuing Operations	**(245)**	**325**	**(1)**	**(331)**	**(252)**	**(218)**
Income (loss) from discontinued operations, net of tax	27	(10)	17		34	
Net Income (Loss)	$ **(218)**	$ **315**	$ **16**	$ **(331)**	$ **(218)**	$ **(218)**
Other comprehensive income foreign currency translation adjustment	(13)		(13)	13	(13)	(13)
Total Comprehensive Income (Loss)	$ **(231)**	$ **315**	$ **3**	$ **(318)**	$ **(231)**	$ **(231)**

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HD SUPPLY HOLDINGS, INC. AND SUBSIDIARIES
HD SUPPLY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 15 GUARANTOR SUBSIDIARIES (Continued)

CONDENSED CONSOLIDATING BALANCE SHEETS

Amounts in millions

	As of January 31, 2016					
	Debt Issuer	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Total HDS	Holdings
ASSETS						
Current assets:						
Cash and cash equivalents	$ 233	$ 18	$ 15	$	$ 266	$ 3
Receivables, net	5	883	15		903	
Inventories		764	17		781	
Other current assets	9	20	1		30	
Total current assets	247	1,685	48		1,980	3
Property and equipment, net	55	269	2		326	
Goodwill		2,869			2,869	
Intangible assets, net		128	2		130	
Deferred tax asset	759		2	(76)	685	
Investment in subsidiaries	2,623			(2,623)		742
Intercompany notes receivable	2,192	627		(2,819)		
Other assets	20	3			23	
Total assets	**$ 5,896**	**$ 5,581**	**$ 54**	**$ (5,518)**	**$ 6,013**	**$ 745**
LIABILITIES AND STOCKHOLDER'S EQUITY (DEFICIT)						
Current liabilities:						
Accounts payable	$ 12	$ 487	$ 9	$	$ 508	$
Accrued compensation and benefits	38	104	3		145	
Current installments of long-term debt	9				9	
Other current liabilities	93	108	7		208	
Total current liabilities	152	699	19		870	
Long-term debt, excluding current installments	4,302				4,302	
Deferred tax liabilities		76		(76)		
Intercompany notes payable	627	2,192		(2,819)		
Other liabilities	73	23	3		99	
Total liabilities	**5,154**	**2,990**	**22**	**(2,895)**	**5,271**	
Stockholders' equity (deficit)	742	2,591	32	(2,623)	742	745

Total liabilities and stockholders' equity (deficit)	**$**	**5,896**	**$**	**5,581**	**$**	**54**	**$**	**(5,518)**	**$**	**6,013**	**$**	**745**

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HD SUPPLY HOLDINGS, INC. AND SUBSIDIARIES
HD SUPPLY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 15 GUARANTOR SUBSIDIARIES (Continued)

	As of February 1, 2015					
	Debt Issuer	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Total HDS	Holdings
ASSETS						
Current assets:						
Cash and cash equivalents	$ 28	$ 25	$ 32	$	$ 85	$
Receivables, net	1	850	17		868	
Inventories		768	16		784	
Deferred tax asset		66	2	(59)	9	
Current assets of discontinued operations		455	54		509	
Other current assets	12	29	2		43	
Total current assets	41	2,193	123	(59)	2,298	
Property and equipment, net	55	283	2		340	
Goodwill		2,868	1		2,869	
Intangible assets, net		143	2		145	
Deferred tax asset	8		1	(8)	1	
Non-current assets of discontinued operations		288	7		295	
Investment in subsidiaries	3,216			(3,216)		(760)
Intercompany notes receivable	2,191	611		(2,802)		
Other assets	26	3			29	
Total assets	**$ 5,537**	**$ 6,389**	**$ 136**	**$ (6,085)**	**$ 5,977**	**$ (760)**
LIABILITIES AND STOCKHOLDER'S EQUITY (DEFICIT)						
Current liabilities:						
Accounts payable	$ 14	$ 488	$ 8	$	$ 510	$
Accrued compensation and benefits	50	90	4		144	
Current installments of long-term debt	34				34	
Deferred tax liabilities	59			(59)		
Current liabilities of discontinued operations		197	20		217	
Other current liabilities	124	97	9		230	
Total current liabilities	281	872	41	(59)	1,135	
Long-term debt, excluding current installments	5,140				5,140	
Deferred tax liabilities		174		(8)	166	
Intercompany notes payable	611	2,191		(2,802)		
Other liabilities	265	26	5		296	
Total liabilities	**6,297**	**3,263**	**46**	**(2,869)**	**6,737**	
Stockholders' equity (deficit)	(760)	3,126	90	(3,216)	(760)	(760)

Total liabilities and stockholders' equity (deficit)	**$ 5,537**	**$ 6,389**	**$ 136**	**$ (6,085)**	**$ 5,977**	**$ (760)**

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HD SUPPLY HOLDINGS, INC. AND SUBSIDIARIES
HD SUPPLY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 15 GUARANTOR SUBSIDIARIES (Continued)

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

Amounts in millions

	Fiscal Year 2015					
	Debt Issuer	**Subsidiary Guarantors**	**Non-Guarantor Subsidiaries**	**Eliminations**	**Total HDS**	**Holdings**
Net cash flows from operating activities	**$ 329**	**$ 75**	**$ 18**	**$**	**$ 422**	**$**
Cash flows from investing activities						
Capital expenditures	(18)	(67)	(1)		(86)	
Proceeds from sale of property and equipment		3			3	
Proceeds from sale of a business	809				809	
(Investments in) return of capital in equity affiliates	34			(34)		
Proceeds from (payments of) intercompany notes		(16)		16		
Net cash flows from investing activities	**$ 825**	**$ (80)**	**$ (1)**	**$ (18)**	**$ 726**	**$**
Cash flows from financing activities						
Proceeds from stock options exercised						74
Purchase of treasury shares						(71)
Equity contribution (return of capital)		(2)	(32)	34		
Borrowings from (repayments to) intercompany notes	16			(16)		
Borrowings of long-term debt	287				287	
Repayments of long-term debt	(1,152)				(1,152)	
Borrowings on long-term revolver	784				784	
Repayments on long-term revolver	(880)				(880)	
Debt issuance and modification fees	(6)				(6)	
Other financing activities	2				2	
Net cash flows from financing activities	**(949)**	**(2)**	**(32)**	**18**	**(965)**	**$ 3**
Effect of exchange rates on cash			**(2)**		**(2)**	
Net increase (decrease) in cash & cash equivalents	**$ 205**	**$ (7)**	**$ (17)**	$	**$ 181**	**$ 3**
Cash and cash equivalents at beginning of period	28	25	32		85	
Cash and cash equivalents at end of period	**$ 233**	**$ 18**	**$ 15**	$	**$ 266**	**$ 3**

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HD SUPPLY HOLDINGS, INC. AND SUBSIDIARIES
HD SUPPLY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 15 GUARANTOR SUBSIDIARIES (Continued)

	Fiscal Year 2014					
	Debt Issuer	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Total HDS	Holdings
Net cash flows from operating activities	**$ 191**	**$ 81**	**$ 23**	**$**	**$ 295**	**$**
Cash flows from investing activities						
Capital expenditures	(17)	(102)			(119)	
Proceeds from sale of property and equipment	1	4			5	
Proceeds from sale of a business	198				198	
(Investments in) return of capital in equity affiliates	27			(27)		
Proceeds from (payments of) intercompany notes		25		(25)		
Net cash flows from investing activities	**$ 209**	**$ (73)**	**$**	**$ (52)**	**$ 84**	$
Cash flows from financing activities						
Proceeds from stock options exercised						48
Purchase of treasury shares						(52)
Equity contribution (return of capital)			(27)	27		
Borrowings (repayments) of intercompany notes	(25)			25		
Borrowings of long-term debt	1,270				1,270	
Repayments of long-term debt	(1,385)				(1,385)	
Borrowings on long-term revolver	878				878	
Repayments of long-term revolver	(1,142)				(1,142)	
Debt issuance and modification fees	(21)				(21)	
Net cash flows from financing activities	**$ (425)**	**$**	**$ (27)**	**$ 52**	**$ (400)**	**$ (4)**
Effect of exchange rates on cash			(5)		(5)	
Net increase (decrease) in cash & cash equivalents	**$ (25)**	**$ 8**	**$ (9)**	**$**	**$ (26)**	**$ (4)**
Cash and cash equivalents at beginning of period	53	17	41		111	4
Cash and cash equivalents at end of period	**$ 28**	**$ 25**	**$ 32**	**$**	**$ 85**	$

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HD SUPPLY HOLDINGS, INC. AND SUBSIDIARIES
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 15 GUARANTOR SUBSIDIARIES (Continued)

	Fiscal Year 2013					
	Debt Issuer	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Total HDS	Holdings
Net cash flows from operating activities	**$ (452)**	**$ 72**	**$ 13**	**$**	**$ (367)**	**$**
Cash flows from investing activities						
Capital expenditures	(20)	(109)	(2)		(131)	
Proceeds from sale of property and equipment		8			8	
Proceeds from sale of a business	4				4	
Settlement of acquisition of a business		3			3	
Proceeds from sale of investments	936				936	
(Investments in) return of capital of equity affiliates	2			(2)		(1,039)
Proceeds from (payments of) intercompany notes		30		(30)		
Net cash flows from investing activities	**$ 922**	**$ (68)**	**$ (2)**	**$ (32)**	**$ 820**	**$ (1,039)**
Cash flows from financing activities						
Proceeds from sale of common stock in initial public offering, net of transaction fees						1,039
Proceeds from stock options exercised						4
Equity contribution (return of capital)	1,039	(2)		2	1,039	
Borrowings (repayments) of intercompany notes	(30)			30		
Borrowings of long-term debt	79				79	
Repayments of long-term debt	(1,624)				(1,624)	
Borrowings on long-term revolver	858				858	
Repayments of long-term revolver	(798)				(798)	
Debt issuance and modification fees	(34)				(34)	
Other financing activities	2				2	
Net cash flows from financing activities	**$ (508)**	**$ (2)**	**$**	**$ 32**	**$ (478)**	**$ 1,043**
Effect of exchange rates on cash			(5)		(5)	
Net increase (decrease) in cash & cash equivalents	**$ (38)**	**$ 2**	**$ 6**	**$**	**$ (30)**	**$ 4**
Cash and cash equivalents at beginning of period	91	15	35		141	
Cash and cash equivalents at end of period	**$ 53**	**$ 17**	**$ 41**	**$**	**$ 111**	**$ 4**

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HD SUPPLY HOLDINGS, INC. AND SUBSIDIARIES
HD SUPPLY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 16 QUARTERLY FINANCIAL DATA (UNAUDITED)

The following is a summary of the quarterly consolidated results of operations for the fiscal years ended January 31, 2016 and February 1, 2015 (amounts in millions):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	TOTAL
Fiscal Year 2015					
Net sales	$ 1,722	$ 2,006	$ 2,012	$ 1,648	$ 7,388
Gross profit	574	665	666	551	2,456
Income (loss) from continuing operations	232	102	15	977	1,326
Income (loss) from discontinued operations	10	7	235	(106)	146
Net income (loss)	242	109	250	871	1,472
Basic earnings (loss) per share(1)					
Income (loss) from continuing operations	$ 1.19	$ 0.52	$ 0.08	$ 4.93	$ 6.73
Income (loss) from discontinued operations	0.05	0.04	1.19	(0.53)	0.74
Net income (loss)	1.24	0.55	1.27	4.39	7.47
Diluted earnings (loss) per share(1)					
Income (loss) from continuing operations	$ 1.16	$ 0.51	$ 0.07	$ 4.86	$ 6.59
Income (loss) from discontinued operations	0.05	0.03	1.17	(0.53)	0.73
Net income (loss)	1.21	0.54	1.24	4.33	7.31
Fiscal Year 2014					
Net sales	$ 1,633	$ 1,880	$ 1,914	$ 1,543	$ 6,970
Gross profit	531	611	615	507	2,264
Income (loss) from continuing operations	(11)	31	40	(102)	(42)
Income (loss) from discontinued operations	(1)	17	20	9	45
Net income (loss)	(12)	48	60	(93)	3
Basic earnings (loss) per share(1)					
Income (loss) from continuing operations	$ (0.06)	$ 0.16	$ 0.21	$ (0.52)	$ (0.22)
Income (loss) from discontinued operations	(0.01)	0.09	0.10	0.05	0.23
Net income (loss)	(0.06)	0.25	0.31	(0.48)	0.02
Diluted earnings (loss) per share(1)					
Income (loss) from continuing operations	$ (0.06)	$ 0.15	$ 0.20	$ (0.52)	$ (0.22)
Income (loss) from discontinued operations	(0.01)	0.08	0.10	0.05	0.23
Net income (loss)	(0.06)	0.24	0.30	(0.48)	0.02

(1) Basic and Diluted earnings (loss) per share are based on shares outstanding for Holdings. Quarterly earnings per share amounts may not foot due to rounding. In addition, quarterly earnings per share amounts may not add to full-year earnings per share amounts due to the difference in weighted-average common shares for the quarters versus the weighted-average common shares for the year.

Income (loss) from continuing operations and Net income (loss) in the first quarter of fiscal 2015 includes a $189 million tax settlement with the IRS. Income (loss) from continuing operations and Net income (loss) in the second quarter of fiscal 2015 includes a loss on extinguishment and modification of debt of $100 million. Income (loss) from continuing operations and Net income (loss) in the fourth

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HD SUPPLY HOLDINGS, INC. AND SUBSIDIARIES
HD SUPPLY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 16 QUARTERLY FINANCIAL DATA (UNAUDITED) (Continued)

quarter of fiscal 2015 includes a $1,007 million benefit in provision for income taxes from the reversal of the valuation allowance on the Company's net U.S. deferred tax assets.

Income (loss) from continuing operations and Net income (loss) in the fourth quarter of fiscal 2014 includes a loss on extinguishment of debt of $106 million.

There is no tax impact related to the losses on extinguishment of debt due to the Company's valuation allowance position. See Note 8, "Income Taxes," for further information on the Company's taxes.

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

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 January 31, 2016 (the end of the period covered by this report).

HD Supply, Inc.

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

Change in Internal Control over Financial Reporting

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 fourth quarter of fiscal 2015 that have materially affected, or are reasonably likely to materially affect, Holdings' or HDS's internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting

Management of Holdings and HDS are responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Securities Exchange Act of 1934 Rule 13a-15(f). Holdings' and HDS' internal control over financial reporting is a process designed 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. Holdings' and HDS' internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of Holdings and HDS; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of Holdings and HDS are being made only in accordance with authorizations of management and directors of Holdings and HDS; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of Holdings' and HDS' assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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The management of Holdings and HDS assessed the effectiveness of Holdings' and HDS' internal control over financial reporting as of January 31, 2016 based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control Integrated Framework (2013). Based on that assessment, management concluded that, as of January 31, 2016, Holdings' and HDS' internal control over financial reporting is effective based on the criteria established in Internal Control Integrated Framework (2013).

Holdings' and HDS' internal control over financial reporting as of January 31, 2016 has been audited by PricewaterhouseCoopers, LLP, an independent registered public accounting firm, as stated in their accompanying report which expresses an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of January 31, 2016.

ITEM 9B. OTHER INFORMATION

None.

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PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item for Holdings will be set forth in Holdings' Proxy Statement for the 2016 Annual Meeting of Stockholders which information is hereby incorporated herein by reference.

HDS has omitted the information required by this Item pursuant to General Instruction I to the Form 10-K.

Item 11. EXECUTIVE COMPENSATION

The information required by this Item for Holdings will be set forth in Holdings' Proxy Statement for the 2016 Annual Meeting of Stockholders which information is hereby incorporated herein by reference.

HDS has omitted the information required by this Item pursuant to General Instruction I to the Form 10-K.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item for Holdings will be set forth in Holdings' Proxy Statement for the 2016 Annual Meeting of Stockholders which information is hereby incorporated herein by reference.

HDS has omitted the information required by this Item pursuant to General Instruction I to the Form 10-K.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item for Holdings will be set forth in Holdings' Proxy Statement for the 2016 Annual Meeting of Stockholders which information is hereby incorporated herein by reference.

HDS has omitted the information required by this Item pursuant to General Instruction I to the Form 10-K.

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Aggregate fees billed to us for the fiscal years ended January 31, 2016 and February 1, 2015 by our independent registered public accountants, PricewaterhouseCoopers LLP and its respective affiliates were:

Fees Billed	**Fiscal 2015**	**Fiscal 2014**
Audit Fee(1)	$ 3.1 million	$ 3.4 million
Audited-Related Fees(2)	$ 2.6 million	N/A
Tax Fees(3)	$ 1.0 million	$ 0.9 million
All Other Fees(4)	$ 0.2 million	N/A
Total	$ 6.9 million	$ 4.3 million

(1) Includes fees and expenses for the audit of our annual financial statements, review of our quarterly financial statements, statutory audits of foreign subsidiary financial statements and services associated with securities filings.

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(2) Includes fees and expenses for assurance and related services that are not included in Audit Fees. These fees principally include services in connection with the divestiture of certain businesses.

(3) Includes fees and expenses for tax planning, consultation, and compliance services.

(4) Includes fees and expenses for services related to due diligence and other permissible advisory services not included in in the above categories.

The Audit Committee's policy is to pre-approve all audit and permissible non-audit services (including the fees and terms thereof) performed for us by the independent registered certified public accounting firm, subject to the de minimis exceptions for non-audit services described by the Exchange Act and the rules and regulations thereunder which are approved by the Audit Committee prior to the completion of the audit. The Audit Committee approved all services provided by PricewaterhouseCoopers LLP during fiscal 2015 and fiscal 2014.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1) Financial Statements

The following financial statements are set forth in Item 8 hereof:

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(b)

Exhibit Index

The following exhibits are filed or furnished with this annual report:

Exhibit Number	Exhibit Description
2.1	Purchase and Sale Agreement, dated as of June 19, 2007, among The Home Depot, Inc., THD Holdings, LLC, Home Depot International, Inc., Homer TLC, Inc. and Pro Acquisition Corporation.(1)
2.2	Letter Agreement, dated August 14, 2007, among The Home Depot, Inc., THD Holdings, LLC, Home Depot International, Inc., Homer TLC, Inc. and Pro Acquisition Corporation.(1)
2.3	Amendment, dated as of August 27, 2007, among The Home Depot, Inc., THD Holdings, LLC, Home Depot International, Inc., Homer TLC, Inc. and HDS Investment Holding, Inc. and HDS Acquisition Subsidiary, Inc.(1)
2.4	Purchase Agreement, dated as of July 15, 2015, among HD Supply, Inc., HD Supply Holdings, LLC, HD Supply GP & Management, Inc., HD Supply Power Solutions Group, Inc., Brafasco Holdings II, Inc. and Anixter Inc.(24)
3.1	Second Amended and Restated Certificate of Incorporation of HD Supply Holdings, Inc.(15)
3.2	Third Amended and Restated By-Laws of HD Supply Holdings, Inc.(15)
3.3	Certificate of Incorporation of HD Supply, Inc.(1)
3.4	Certificate of Amendment of Certificate of Incorporation of HD Supply, Inc.(18)
3.5	Amended and Restated By-Laws of HD Supply, Inc.(18)
4.1	Indenture, dated as of December 4, 2014, among HD Supply, Inc., as issuer, the Subsidiary Guarantors from time to time parties thereto, and Wilmington Trust, National Association, as trustee and note collateral agent, relating to the 5.25% Senior Secured First Priority Notes due 2021.(21)
4.2	First Supplemental Indenture, dated as of December 4, 2014, among HD Supply, Inc., as issuer, the Subsidiary Guarantors named therein, and Wilmington Trust, National Association, as trustee, relating to the 5.25% Senior Secured First Priority Notes due 2021.(21)
4.3	Indenture, dated as of October 15, 2012, among HD Supply, Inc., as issuer, the Subsidiary Guarantors from time to time parties thereto, and Wells Fargo Bank, National Association, as trustee, relating to the 11.50% Senior Notes due 2020.(9)
4.4	First Supplemental Indenture, dated as of October 15, 2012, among HD Supply, Inc., as issuer, the Subsidiary Guarantors from time to time parties thereto, and Wells Fargo Bank, National Association, as trustee, relating to the 11.50% Senior Notes due 2020.(9)
4.5	Second Supplemental Indenture, dated as of February 6, 2014, among HD Supply, Inc., as issuer, HD Supply FM Services, LLC, as subsidiary guarantor, and Wells Fargo Bank, National Association, as trustee, relating to the 11.50% Senior Notes due 2020.(19)
4.6	Indenture, dated as of February 1, 2013, among HD Supply, Inc., as issuer, the Subsidiary Guarantors from time to time parties thereto, and Wells Fargo Bank, National Association, as trustee, relating to the 7.50% Senior Notes due 2020.(11)

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Exhibit Number	Exhibit Description
4.7	First Supplemental Indenture, dated as of February 1, 2013, among HD Supply, Inc., as issuer, the Subsidiary Guarantors named therein, and Wells Fargo Bank, National Association, as trustee, relating to the 7.50% Senior Notes due 2020.(11)
4.8	Second Supplemental Indenture, dated as of February 6, 2014, among HD Supply, Inc., as issuer, HD Supply FM Services, LLC, as subsidiary guarantor, and Wells Fargo Bank, National Association, as trustee, relating to the 7.50% Senior Notes due 2020.(19)
4.9	Form of 5.25% Senior Secured First Priority Note due 2021.(21)
4.10	Form of 11.50% Senior Note due 2020.(21)
4.11	Form of 7.50% Senior Note due 2020.(21)
4.12	Form of Common Stock Certificate.(13)
10.1	Credit Agreement, dated as of April 12, 2012, among HD Supply, Inc., as borrower, the several lenders and financial institutions from time to time parties thereto, Bank of America, N.A., as administrative agent and collateral agent for the lenders party thereto, and the other parties thereto.(7)
10.2	Amendment No. 1 to Credit Agreement, dated as of February 15, 2013, among HD Supply, Inc., as borrower, Bank of America, N.A., as administrative agent and the several lenders and financial institutions party thereto.(11)
10.3	Amendment No. 2 to Credit Agreement, dated as of February 6, 2014, among HD Supply, Inc., as borrower, Bank of America, N.A., as administrative agent and the several lenders and financial institutions party thereto.(19)
10.4	Incremental Agreement No. 1, dated as of August 13, 2015, among HD Supply, Inc., as borrower, the subsidiary guarantor parties named therein, Bank of America, N.A., as administrative agent and incremental term loan lender, and the other lenders party thereto.(23)
10.5	Guarantee and Collateral Agreement, dated as of April 12, 2012 among HD Supply, Inc., the Subsidiary Guarantors named therein, in favor of Bank of America, N.A., as administrative agent and collateral agent for the banks and other financial institutions from time to time parties to the Credit Agreement.(7)
10.6	Assumption Agreement, dated as of July 27, 2012, made by Varsity AP Holding Corporation, GCP Amerifile Coinvest Inc., Varsity AP Holdings LLC, Amerifile, LLC, Peachtree Business Products, LLC and AP RE LLC in favor of Bank of America, N.A., as collateral agent and administrative for the lenders party to the Credit Agreement, and the other parties thereto.(8)
10.7	Supplemental Agreement, dated as of July 27, 2012, made by HD Supply Holdings, LLC in favor of Bank of America, N.A., as collateral agent and administrative for the lenders party to the Credit Agreement, and the other parties thereto.(8)
10.8	Assumption Agreement, dated as of February 6, 2014, made by HD Supply FM Services, LLC in favor of Bank of America, N.A., as collateral agent and administrative for the lenders party to the Credit Agreement, and the other parties thereto.(19)

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Exhibit Number	Exhibit Description
10.9	Supplemental Agreement, dated as of February 6, 2014, made by HD Supply Holdings, LLC and HD Supply Facilities Maintenance, Ltd.in favor of Bank of America, N.A., as collateral agent and administrative for the lenders party to the Credit Agreement, and the other parties thereto.(19)
10.10	Holding Pledge Agreement, dated as of April 12, 2012, by HDS Holding Corporation in favor of Bank of America, N.A., as collateral agent and administrative agent for the banks and other financial institutions from time to time parties to the Credit Agreement.(7)
10.11	ABL Credit Agreement, dated as of April 12, 2012, among HD Supply, Inc., as parent borrower, the Subsidiary Borrowers from time to time parties thereto, HD Supply Canada, Inc., as Canadian borrower, the several lenders and financial institutions from time to time parties thereto, Wells Fargo Bank, National Association (as successor in interest to General Electric Capital Corporation), as administrative agent and U.S. ABL collateral agent for the lenders party thereto, Wells Fargo Capital Finance Corporation Canada (as successor in interest to GE Canada Finance Holding Company), as Canadian agent and Canadian collateral agent for the lenders party thereto, and the other parties thereto.(7)
10.12	Amendment No. 1 to ABL Credit Agreement, dated as of June 28, 2013, by and among the HD Supply, Inc., the other borrowers party thereto, the lenders party thereto, Wells Fargo Bank, National Association (as successor in interest to General Electric Capital Corporation), as administrative agent and U.S. ABL collateral agent, and Wells Fargo Capital Finance Corporation Canada (as successor in interest to GE Canada Finance Holding Company), as Canadian agent and Canadian collateral agent.(16)
10.13	ABL Joinder Agreement, dated as of July 27, 2012, among HD Supply, Inc., as parent borrower, certain operating subsidiaries of the Parent Borrower signatory thereto and consented to by the other Loan Parties, Wells Fargo Bank, National Association (as successor in interest to General Electric Capital Corporation), as administrative agent and U.S. ABL collateral agent for the lenders party to the ABL Credit Agreement, Wells Fargo Capital Finance Corporation Canada (as successor in interest to GE Canada Finance Holding Company), as Canadian agent and Canadian collateral agent for the lenders party to the ABL Credit Agreement.(8)
10.14	ABL Joinder Agreement, dated as of February 6, 2014, among HD Supply, Inc., as parent borrower, HD Supply FM Services, LLC and consented to by the other Loan Parties, Wells Fargo Bank, National Association (as successor in interest to General Electric Capital Corporation), as administrative agent and U.S. ABL collateral agent for the lenders party to the ABL Credit Agreement, Wells Fargo Capital Finance Corporation Canada (as successor in interest to GE Canada Finance Holding Company), as Canadian agent and Canadian collateral agent for the lenders party to the ABL Credit Agreement.(19)
10.15	U.S. Guarantee and Collateral Agreement, dated as of April 12, 2012, among HD Supply, Inc., the Subsidiary Borrowers named therein, the Subsidiary Guarantors named therein, in favor of Wells Fargo Bank, National Association (as successor in interest to General Electric Capital Corporation), as U.S. ABL administrative agent and U.S. ABL collateral agent for the banks and other financial institutions from time to time parties to the ABL Credit Agreement.(7)

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Exhibit Number	Exhibit Description
10.16	Assumption Agreement, dated as of July 27, 2012, made by Varsity AP Holding Corporation, GCP Amerifile Coinvest Inc., Varsity AP Holdings LLC, Amerifile, LLC, Peachtree Business Products, LLC and AP RE LLC in favor of Wells Fargo Bank, National Association (as successor in interest to General Electric Capital Corporation), as administrative agent and U.S. ABL collateral agent for the lenders party to the ABL Credit Agreement, and the other parties thereto.(8)
10.17	Supplemental Agreement, dated as of July 27, 2012, made by HD Supply Holdings, LLC in favor of Wells Fargo Bank, National Association (as successor in interest to General Electric Capital Corporation), as administrative agent and U.S. ABL collateral agent for the lenders party to the ABL Credit Agreement, and the other parties thereto.(8)
10.18	Assumption Agreement, dated as of February 6, 2014, made by HD Supply FM Services, LLC in favor of Wells Fargo Bank, National Association (as successor in interest to General Electric Capital Corporation), as administrative agent and U.S. ABL collateral agent for the lenders party to the ABL Credit Agreement, and the other parties thereto.(19)
10.19	Supplemental Agreement, dated as of February 6, 2014, made by HD Supply Holdings, LLC and HD Supply Facilities Maintenance, Ltd. in favor of Wells Fargo Bank, National Association (as successor in interest to General Electric Capital Corporation), as administrative agent and U.S. ABL collateral agent for the lenders party to the ABL Credit Agreement, and the other parties thereto.(19)
10.20	ABL Holding Pledge Agreement, dated as of April 12, 2012, by HDS Holding Corporation in favor of Wells Fargo Bank, National Association (as successor in interest to General Electric Capital Corporation), as administrative agent and collateral agent for the banks and other financial institutions from time to time parties to the ABL Credit Agreement.(7)
10.21	Collateral Agreement, dated as of December 4, 2014, made by HD Supply, Inc. and the Subsidiaries named therein in favor of Wilmington Trust, National Association, as note collateral agent, relating to the 5.25% Senior Secured First Priority Notes due 2021.(21)
10.22	Intercreditor Agreement, dated as of April 12, 2012, among the Bank of America, N.A., as collateral agent for the banks and other financial institutions party to the Credit Agreement, Wells Fargo Bank, National Association (as successor in interest to General Electric Capital Corporation), as collateral agent for the banks and other financial institutions party to the ABL Credit Agreement, Wilmington Trust, National Association, as note collateral agent for the $8^1/_8$% Senior Secured First Priority Notes due 2019, and Wilmington Trust, National Association, as note collateral agent for the 11% Senior Secured Second Priority Notes due 2020.(7)
10.23	Joinder to the Intercreditor Agreement, dated as of December 4, 2014, among Wells Fargo Bank, National Association (as successor in interest to General Electric Capital Corporation), as collateral agent for the banks and other financial institutions party to the ABL Credit Agreement, Bank of America, N.A., as collateral agent for the banks and other financial institutions party to the Credit Agreement, Wilmington Trust, National Association, as note collateral agent for the $8^1/_8$% Senior Secured First Priority Notes due 2019, Wilmington Trust, National Association, as note collateral agent for the 11% Senior Secured Second Priority Notes due 2020, and Wilmington Trust, National Association, as note collateral agent for the 5.25% Senior Secured First Priority Notes due 2012.(21)

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Exhibit Number	Exhibit Description
10.24	Cash Flow Intercreditor Agreement, dated as of April 12, 2012, among Bank of America, N.A., as collateral agent for the banks and other financial institutions party to the Credit Agreement, Wilmington Trust, National Association, as note collateral agent for the 8 1/8% Senior Secured First Priority Notes due 2019, and Wilmington Trust, National Association, as note collateral agent for the 11% Senior Secured Second Priority Notes due 2020.(7)
10.25	Joinder to the Cash Flow Intercreditor Agreement, dated as of December 4, 2014, among Bank of America, N.A., as collateral agent for the banks and other financial institutions party to the Credit Agreement, Wilmington Trust, National Association, as note collateral agent for the 8 1/8% Senior Secured First Priority Notes due 2019, Wilmington Trust, National Association, as note collateral agent for the 11% Senior Secured Second Priority Notes due 2020, and Wilmington Trust, National Association, as note collateral agent for the 5.25% Senior Secured First Priority Notes due 2021.(21)
10.26	Term Notice and Confirmation of Grant of Security Interest in Trademarks, dated as of December 4, 2014, made by subsidiaries of HD Supply, Inc. named therein in favor of Bank of America, N.A., as administrative agent and collateral agent for the banks and other financial institutions that are parties to the Credit Agreement.(21)
10.27	Grant of Security Interest in Copyrights, dated as of April 12, 2012, made by subsidiaries of HD Supply, Inc. named therein in favor of Bank of America, N.A., as administrative agent and collateral agent for the banks and other financial institutions that are parties to the Credit Agreement.(7)
10.28	ABL Notice and Confirmation of Grant of Security Interest in Trademarks, dated as of December 4, 2014, made by subsidiaries of HD Supply, Inc. named therein in favor of Wells Fargo Bank, National Association (as successor in interest to General Electric Capital Corporation), as administrative agent and collateral agent for the banks and other financial institutions that are parties to the ABL Credit Agreement.(21)
10.29	ABL Grant of Security Interest in Copyrights, dated as of April 12, 2012, made by subsidiaries of HD Supply, Inc. named therein in favor of Wells Fargo Bank, National Association (as successor in interest to General Electric Capital Corporation), as administrative agent and collateral agent for the banks and other financial institutions that are parties to the ABL Credit Agreement.(7)
10.30	First Lien Secured Note Notice and Confirmation of Grant of Security Interest in Trademarks, dated as of December 4, 2014, made by subsidiaries of HD Supply, Inc. named therein in favor of Wilmington Trust, National Association, as note collateral agent, relating to the 5.25% Senior Secured First Priority Notes due 2021.(21)
10.31	First Lien Secured Note Grant of Security Interest in Copyrights, dated as of December 4, 2014, made by subsidiaries of HD Supply, Inc. named therein in favor of Wilmington Trust, National Association, as note collateral agent, relating to the 5.25% Senior Secured First Priority Notes due 2021.(21)
10.32#	HDS Investment Holding, Inc. Stock Incentive Plan.(5)
10.33#	Home Depot Retention Agreement with Joseph DeAngelo, effective August 30, 2007.(1)
10.34#	Letter of Continued Employment, dated as of August 10, 2007, by Pro Acquisition Corporation in favor of Joseph J. DeAngelo.(3)
10.35#	Letter of Continued Employment, dated as of August 10, 2007, by Pro Acquisition Corporation in favor of Anesa T. Chaibi.(3)

Exhibit Number	Exhibit Description
10.36#	Separation Agreement & Release of Claims, dated as of September 23, 2015, among HD Supply, Inc., HD Supply Holdings, Inc. and Anesa T. Chaibi.(22)
10.37#	Separation Agreement & Release of Claims, dated as of November 17, 2015, among HD Supply, Inc., HD Supply Holdings, Inc. and Jerry Webb.(22)
10.38#	Letter of Employment, dated as of December 9, 2013, by and between HD Supply, Inc. and Evan J. Levitt.(19)
10.39#	Letter of Employment, dated as of March 27, 2010, by and between HD Supply, Inc. and John Stegeman.(3)
10.40	Tax Sharing Agreement, dated as of August 30, 2007, by and among HDS Investment Holding, Inc., HDS Acquisition Subsidiary, Inc. (which has been merged into HD Supply, Inc.), HDS Holding Corporation and HD Supply, Inc.(1)
10.41	Indemnification Agreement, dated as of August 30, 2007, by and among Bain Capital Integral Investors 2006, LLC, Bain Capital Partners, LLC, HDS Investment Holding, Inc. and HD Supply, Inc.(1)
10.42	Indemnification Agreement, dated as of August 30, 2007, by and among Carlyle Partners V, L.P., Carlyle Partners V-A, L.P., CP V Coinvestment A, L.P., CP V Coinvestment B, L.P., TC Group V, L.L.C., HDS Investment Holding, Inc. and HD Supply, Inc.(1)
10.43	Amended and Restated Indemnification Agreement, dated as of November 23, 2009, by and among Clayton, Dubilier & Rice Fund VII, L.P., CD&R Parallel Fund VII, L.P., Clayton, Dubilier & Rice Fund VII (Co-Investment), L.P., Clayton, Dubilier & Rice, Inc., Clayton, Dubilier & Rice, LLC, Clayton, Dubilier & Rice Holdings, L.P., HDS Investment Holding, Inc. and HD Supply, Inc.(14)
10.44	Indemnification Agreement, dated as of August 30, 2007, by and among The Home Depot, Inc., HDS Investment Holding, Inc. and HD Supply, Inc.(1)
10.45	Form of Director Indemnification Agreement.(16)
10.46	Schedule of Signatories to a Director Indemnification Agreement.(25)
10.47#	Form of Employee Stock Option Agreement.(3)
10.48#	Form of HD Supply Holdings, Inc. Employee Stock Option Agreement.(13)
10.49#	Form of Employee Stock Option Agreement (November 2015).(22)
10.50#	HD Supply Holdings, Inc. 2013 Omnibus Incentive Plan.(13)
10.51#	HD Supply Holdings, Inc. Annual Incentive Plan.(13)
10.52#	HD Supply Holdings, Inc. Employee Stock Purchase Plan.(13)
10.53#	Form of Director Restricted Stock Unit Agreement.(13)
10.54#	Form of Director Deferred Stock Unit Agreement.(13)
10.55#	Board of Directors Compensation Policy (Revised Effective March 11, 2015).(21)
10.56#	Form of Restricted Stock Agreement for Executive Officers And Associates.(19)
10.57#	Form of Employee Restricted Stock Agreement (November 2015).(22)

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Exhibit Number	Exhibit Description
12.1	Computation of Ratio of Earnings to Fixed Charges.(25)
21.1	List of Subsidiaries.(25)
23.1	Consent of PricewaterhouseCoopers LLP.(25)
31.1	Certification of President and Chief Executive Officer of HD Supply Holdings, Inc. pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.(25)
31.2	Certification of Senior Vice President and Chief Financial Officer of HD Supply Holdings, Inc. pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.(25)
31.3	Certification of President and Chief Executive Officer of HD Supply, Inc. pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.(25)
31.4	Certification of Senior Vice President and Chief Financial Officer of HD Supply, Inc. pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.(25)
32.1	Certification of 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.(25)
32.2	Certification of Senior Vice President and Chief Financial Officer of HD Supply Holdings, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.(25)
32.3	Certification of 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.(25)
32.4	Certification of Senior Vice President and Chief Financial Officer of HD Supply, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.(25)
101	Interactive data files pursuant to Rule 405 of Regulation S-T.(25)

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

(2) Previously filed in Amendment No. 2 to Form S-4 of HD Supply, Inc. (File No. 333-159809) filed on July 27, 2009.

(3) Previously filed in Form 10-K of HD Supply, Inc. (File No. 333-159809) filed on April 13, 2010.

(4) Previously filed in Form 10-Q of HD Supply, Inc. (File No. 333-159809) filed on June 11, 2010.

(5) Previously filed in Form 10-K of HD Supply, Inc. (File No. 333-159809) filed on April 14, 2011.

(6) Previously filed in Form 10-K of HD Supply, Inc. (File No. 333-159809) filed on March 23, 2012.

(7) Previously filed in Form 10-Q of HD Supply, Inc. (File No. 333-159809) filed on June 7, 2012.

(8)

Previously filed in Form 10-Q of HD Supply, Inc. (File No. 333-159809) filed on September 4, 2012.

(9)
Previously filed in Form S-4 of HD Supply, Inc. (File No. 333-185158) filed on November 27, 2012.

(10)
Previously filed in Amendment No. 2 to Form S-4 of HD Supply, Inc. (File No. 333-185158) filed on January 18, 2013.

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(11) Previously filed in Form 10-K of HD Supply, Inc. (File No. 333-159809) filed on April 16, 2013.

(12) Previously filed in Form 8-K of HD Supply, Inc. (File No. 333-159809) filed on June 4, 2013.

(13) Previously filed in Amendment No. 3 to Form S-1 of HD Supply Holdings, Inc. (File No. 333-187-872) filed on June 13, 2013.

(14) Previously filed in Amendment No. 2 to Form S-1 of HD Supply Holdings, Inc. (File No. 333-187-872) filed on June 4, 2013.

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

(16) Previously filed in Form 10-Q of HD Supply Holdings, Inc. (File No. 001-35979) and HD Supply, Inc. (File No. 333-159809) filed on September 10, 2013.

(17) Previously filed in Form 8-K of HD Supply Holdings, Inc. (File No. 001-35979) filed on November 14, 2013.

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

(19) Previously filed in Form 10-K of HD Supply Holdings, Inc. (File No. 001-35979) and HD Supply, Inc. (File No. 333-159809) filed on March 25, 2014.

(20) Previously filed in Form 10-Q of HD Supply Holdings, Inc. (File No. 001-35979) and HD Supply, Inc. (File No. 333-159809) filed on December 9, 2014.

(21) Previously filed in Form 10-K of HD Supply Holdings, Inc. (File No. 001-35979) and HD Supply, Inc. (File No. 333-159809) filed on March 25, 2015.

(22) Previously filed in Form 10-Q of HD Supply Holdings, Inc. (File No. 001-35979) and HD Supply, Inc. (File No. 333-159809) filed on December 8, 2015.

(23) Previously filed in Form 10-Q of HD Supply Holdings, Inc. (File No. 001-35979) and HD Supply, Inc. (File No. 333-159809) filed on September 9, 2015.

(24) Previously filed in Form 8-K of HD Supply Holdings, Inc. (File No. 001-35979) and HD Supply, Inc. (File No. 333-159809) filed on July 22, 2015.

(25) Filed herewith.

\# Management contract or compensatory plan or arrangement.

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(c)

Financial Statement Schedules

HD SUPPLY

SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS
(Amounts in millions)

Accounts Receivable Allowance for Doubtful Accounts:

	Balance at Beginning of Period	Acquisition or Disposition of Business Adjustment	Charges to Expense / (Income)	Doubtful Accounts Written Off, Net	Other Adjustments	Balance at End of Period
Fiscal Year ended:						
February 2, 2014	$ 23	(1)	4	(8)		$ 18
February 1, 2015	$ 18		6	(8)		$ 16
January 31, 2016	$ 16	(1)	7	(8)		$ 14

Deferred Tax Valuation Allowances:

	Balance at Beginning of Period	Charges to Expense (Benefit)	Balance at End of Period
Fiscal Year ended:			
February 2, 2014	$ 925	71	$ 996
February 1, 2015	$ 996	17	$ 1,013
January 31, 2016	$ 1,013	(1,007)	$ 6

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, hereunto duly authorized.

HD Supply Holdings, Inc.

By: /s/ JOSEPH J. DEANGELO

Name: Joseph J. DeAngelo
Title: *President and Chief Executive Officer*
Date: March 18, 2016

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Capacity	Date
/s/ JOSEPH J. DEANGELO Joseph J. DeAngelo	President and Chief Executive Officer, Chairman (Principal Executive Officer)	March 18, 2016
/s/ EVAN J. LEVITT Evan J. Levitt	Senior Vice President and Chief Financial Officer (Principal Financial Officer & Principal Accounting Officer)	March 18, 2016
/s/ KATHLEEN J. AFFELDT Kathleen J. Affeldt	Director	March 18, 2016
/s/ JOHN W. ALDEN John W. Alden	Director	March 18, 2016
/s/ BETSY S. ATKINS Betsy S. Atkins	Director	March 18, 2016
/s/ PETER A. LEAV Peter A. Leav	Director	March 18, 2016
/s/ PATRICK R. MCNAMEE Patrick R. McNamee	Director	March 18, 2016

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Signature	Capacity	Date
/s/ CHARLES W. PEFFER Charles W. Peffer	Director	March 18, 2016
/s/ JAMES A. RUBRIGHT James A. Rubright	Independent Lead Director	March 18, 2016

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, hereunto duly authorized.

HD Supply, Inc.

By: /s/ JOSEPH J. DEANGELO

Name: Joseph J. DeAngelo
Title: *President and Chief Executive Officer*
Date: March 18, 2016

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Capacity	Date
/s/ JOSEPH J. DEANGELO Joseph J. DeAngelo	President and Chief Executive Officer, Chairman (Principal Executive Officer)	March 18, 2016
/s/ EVAN J. LEVITT Evan J. Levitt	Senior Vice President and Chief Financial Officer (Principal Financial Officer & Principal Accounting Officer)	March 18, 2016
/s/ KATHLEEN J. AFFELDT Kathleen J. Affeldt	Director	March 18, 2016
/s/ JOHN W. ALDEN John W. Alden	Director	March 18, 2016
/s/ BETSY S. ATKINS Betsy S. Atkins	Director	March 18, 2016
/s/ PETER A. LEAV Peter A. Leav	Director	March 18, 2016
/s/ PATRICK R. MCNAMEE Patrick R. McNamee	Director	March 18, 2016

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Signature	Capacity	Date
/s/ CHARLES W. PEFFER Charles W. Peffer	Director	March 18, 2016
/s/ JAMES A. RUBRIGHT James A. Rubright	Independent Lead Director	March 18, 2016