

HD Supply Holdings, Inc.
Form 10-Q
December 08, 2015
[Table of Contents](#)

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended November 1, 2015

- OR -

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

For the transition period from to

**Commission File
Number**

**Exact name of Registrant as specified in its
charter, Address of principal executive offices**

**State of
incorporation**

**I.R.S. Employer
Identification**

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	and Telephone number		Number
001-35979	HD SUPPLY HOLDINGS, INC.	Delaware	26-0486780

3100 Cumberland Boulevard, Suite 1480

Atlanta, Georgia 30339

(770) 852-9000

333-159809	HD SUPPLY, INC.	Delaware	75-2007383
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3100 Cumberland Boulevard, Suite 1480

Atlanta, Georgia 30339

(770) 852-9000

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

HD Supply Holdings, Inc. Yes ☒ No ☐

HD Supply, Inc. Yes ☐ No ☒

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

HD Supply Holdings, Inc. Yes ☒ No ☐

HD Supply, Inc. Yes ☒ No ☐

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

HD Supply Holdings, Inc.

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

(Do not check if a smaller reporting company)

HD Supply, Inc.

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

(Do not check if a smaller reporting company)

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

HD Supply Holdings, Inc. Yes ☐ No ☒

HD Supply, Inc. Yes ☐ No ☒

The number of shares of the registrant's common stock outstanding as of December 4, 2015:

HD Supply Holdings, Inc. 200,136,455 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.

Table of Contents

INDEX TO FORM 10-Q

	Page
<u>Explanatory Note</u>	3
<u>Forward-looking statements and information</u>	3
<u>Part I.</u>	
<u>Item 1.</u>	
<u>Financial Information</u>	
<u>Financial Statements</u>	
<u>HD Supply Holdings, Inc.</u>	
<u>Consolidated Statements of Operations and Comprehensive Income for the Three and Nine Months ended November 1, 2015 and November 2, 2014 (unaudited)</u>	5
<u>Consolidated Balance Sheets as of November 1, 2015 and February 1, 2015 (unaudited)</u>	6
<u>Consolidated Statements of Cash Flows for the Nine Months ended November 1, 2015 and November 2, 2014 (unaudited)</u>	7
<u>HD Supply, Inc.</u>	
<u>Consolidated Statements of Operations and Comprehensive Income for the Three and Nine Months ended November 1, 2015 and November 2, 2014 (unaudited)</u>	8
<u>Consolidated Balance Sheets as of November 1, 2015 and February 1, 2015 (unaudited)</u>	9
<u>Consolidated Statements of Cash Flows for the Nine Months ended November 1, 2015 and November 2, 2014 (unaudited)</u>	10
<u>Notes to Consolidated Financial Statements (unaudited)</u>	11
<u>Item 2.</u>	
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	35
<u>Item 3.</u>	
<u>Quantitative and Qualitative Disclosures about Market Risk</u>	52
<u>Item 4.</u>	
<u>Controls and Procedures</u>	52
<u>Part II.</u>	
<u>Other Information</u>	
<u>Item 1.</u>	
<u>Legal Proceedings</u>	52
<u>Item 1A.</u>	
<u>Risk Factors</u>	53
<u>Item 2</u>	
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	54
<u>Item 6.</u>	
<u>Exhibits</u>	55
<u>Signatures</u>	56

Table of Contents

EXPLANATORY NOTE

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

Forward-looking statements and information

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

Forward-looking statements are subject to known and unknown risks and uncertainties, many of which may be beyond our control. We caution you that forward-looking statements are not guarantees of future performance and that our actual results of operations, financial condition and liquidity, and the development of the industries in which we operate may differ materially from those made in or suggested by the forward-looking statements contained in this report. In addition, even if our results of operations, financial condition and liquidity, and the development of the industries in which we operate are consistent with the forward-looking statements contained in this report, those results or developments may not be indicative of results or developments in subsequent periods. A number of important factors could cause actual results to differ materially from those contained in or implied by the forward-looking statements, including those factors discussed in Item 1A, Risk Factors in our annual report on Form 10-K, for the fiscal year ended February 1, 2015 and those described from time to time in our other filings with the U.S. Securities and Exchange Commission (SEC). Factors that could cause actual results to differ from those reflected in forward-looking statements relating to our operations 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;
- cyclical and seasonality of the maintenance, repair and operations market, infrastructure spending and the non-residential and residential construction markets;

Table of Contents

- 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;
- our ability to identify and integrate new products; and
- failures in or breaches of our operational or information security systems, or those of our third-party service providers, as a result of cyber attacks or information security breaches.

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

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****HD SUPPLY HOLDINGS, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME***Amounts in millions, except share and per share data, unaudited*

	Three Months Ended		Nine Months Ended	
	November 1, 2015	November 2, 2014	November 1, 2015	November 2, 2014
Net Sales	\$ 2,012	\$ 1,914	\$ 5,740	\$ 5,427
Cost of sales	1,346	1,299	3,835	3,670
Gross Profit	666	615	1,905	1,757
Operating expenses:				
Selling, general and administrative	405	390	1,211	1,152
Depreciation and amortization	28	46	84	152
Restructuring	4		4	6
Total operating expenses	437	436	1,299	1,310
Operating Income	229	179	606	447
Interest expense	99	115	311	347
Loss on extinguishment & modification of debt	100		100	2
Other (income) expense, net		(4)	1	(3)
Income from Continuing Operations Before Provision for Income Taxes	30	68	194	101
Provision (benefit) for income taxes	15	28	(155)	41
Income from Continuing Operations	15	40	349	60
Income from discontinued operations, net of tax	235	20	252	36
Net Income	\$ 250	\$ 60	\$ 601	\$ 96
Other comprehensive income (loss) foreign currency translation adjustment	18	(3)	16	(1)
Total Comprehensive Income	\$ 268	\$ 57	\$ 617	\$ 95
Weighted Average Common Shares Outstanding (thousands)				
Basic	197,529	194,288	196,589	193,806
Diluted	201,546	200,151	201,354	199,689
Basic Earnings Per Share(I):				
Income from Continuing Operations	\$ 0.08	\$ 0.21	\$ 1.78	\$ 0.31
Income from Discontinued Operations	\$ 1.19	\$ 0.10	\$ 1.28	\$ 0.19
Net Income	\$ 1.27	\$ 0.31	\$ 3.06	\$ 0.50
Diluted Earnings Per Share(I):				
Income from Continuing Operations	\$ 0.07	\$ 0.20	\$ 1.73	\$ 0.30

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Income from Discontinued Operations	\$	1.17	\$	0.10	\$	1.25	\$	0.18
Net Income	\$	1.24	\$	0.30	\$	2.98	\$	0.48

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

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

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

	November 1, 2015	February 1, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 77	\$ 85
Receivables, less allowance for doubtful accounts of \$13 and \$14	1,092	868
Inventories	868	784
Deferred tax asset	4	9
Current assets of discontinued operations		509
Other current assets	37	43
Total current assets	2,078	2,298
Property and equipment, net	327	340
Goodwill	2,869	2,869
Intangible assets, net	134	145
Non-current assets of discontinued operations		295
Other assets	78	113
Total assets	\$ 5,486	\$ 6,060
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	\$ 651	\$ 510
Accrued compensation and benefits	129	144
Current installments of long-term debt	9	34
Current liabilities of discontinued operations		217
Other current liabilities	188	230
Total current liabilities	977	1,135
Long-term debt, excluding current installments	4,385	5,223
Deferred tax liabilities	142	166
Other liabilities	108	296
Total liabilities	5,612	6,820
Stockholders' equity (deficit):		
Common stock, par value \$0.01; 1 billion shares authorized; 199.4 million and 196.0 million shares issued and outstanding at November 1, 2015 and February 1, 2015, respectively	2	2
Paid-in capital	3,887	3,818
Accumulated deficit	(4,002)	(4,540)
Accumulated other comprehensive loss	(12)	(28)
Treasury stock, at cost, 0.04 million and 0.4 million shares at November 1, 2015 and February 1, 2015, respectively	(1)	(12)
Total stockholders' equity (deficit)	(126)	(760)
Total liabilities and stockholders' equity (deficit)	\$ 5,486	\$ 6,060

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

	Nine Months Ended	
	November 1, 2015	November 2, 2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 601	\$ 96
Reconciliation of net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	106	187
Provision for uncollectibles	5	6
Non-cash interest expense	18	19
Payment of discounts upon extinguishment of debt	(12)	(1)
Loss on extinguishment & modification of debt	100	2
Gain on sale of business	(186)	
Stock-based compensation expense	14	12
Deferred income taxes	(15)	43
Other	(2)	
Changes in assets and liabilities:		
(Increase) decrease in receivables	(248)	(264)
(Increase) decrease in inventories	(124)	(96)
(Increase) decrease in other current assets	4	26
Increase (decrease) in accounts payable and accrued liabilities	93	85
Increase (decrease) in other long-term liabilities	(181)	6
Net cash provided by (used in) operating activities	173	121
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(61)	(92)
Proceeds from sales of property and equipment	2	3
Proceeds from sale of business, net	810	
Net cash provided by (used in) investing activities	751	(89)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock under employee benefit plans	55	40
Purchase of treasury shares	(51)	(40)
Borrowings of long-term debt	287	20
Repayments of long-term debt	(1,150)	(27)
Borrowings on long-term revolver debt	784	524
Repayments on long-term revolver debt	(850)	(554)
Debt issuance and modification costs	(6)	(3)
Other financing activities	1	
Net cash provided by (used in) financing activities	(930)	(40)
Effect of exchange rates on cash and cash equivalents	(2)	
Increase (decrease) in cash and cash equivalents	\$ (8)	\$ (8)
Cash and cash equivalents at beginning of period	85	115
Cash and cash equivalents at end of period	\$ 77	\$ 107

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

	Three Months Ended		Nine Months Ended	
	November 1, 2015	November 2, 2014	November 1, 2015	November 2, 2014
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Cost of sales	1,346	1,299	3,835	3,670
Gross Profit	666	615	1,905	1,757
Operating expenses:				
Selling, general and administrative	405	390	1,211	1,152
Depreciation and amortization	28	46	84	152
Restructuring	4		4	6
Total operating expenses	437	436	1,299	1,310
Operating Income	229	179	606	447
Interest expense	99	115	311	347
Loss on extinguishment & modification of debt	100		100	2
Other (income) expense, net		(4)	1	(3)
Income from Continuing Operations Before Provision for Income Taxes	30	68	194	101
Provision (benefit) for income taxes	15	28	(155)	41
Income from Continuing Operations	15	40	349	60
Income from discontinued operations, net of tax	235	20	252	36
Net Income	\$ 250	\$ 60	\$ 601	\$ 96
Other comprehensive income (loss) foreign currency translation adjustment	18	(3)	16	(1)
Total Comprehensive Income	\$ 268	\$ 57	\$ 617	\$ 95

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

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

	November 1, 2015	February 1, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 73	\$ 85
Receivables, less allowance for doubtful accounts of \$13 and \$14	1,092	868
Inventories	868	784
Deferred tax asset	4	9
Current assets of discontinued operations		509
Other current assets	37	43
Total current assets	2,074	2,298
Property and equipment, net	327	340
Goodwill	2,869	2,869
Intangible assets, net	134	145
Non-current assets of discontinued operations		295
Other assets	78	113
Total assets	\$ 5,482	\$ 6,060
LIABILITIES AND STOCKHOLDER S EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	\$ 651	\$ 510
Accrued compensation and benefits	129	144
Current installments of long-term debt	9	34
Current liabilities of discontinued operations		217
Other current liabilities	186	230
Total current liabilities	975	1,135
Long-term debt, excluding current installments	4,385	5,223
Deferred tax liabilities	142	166
Other liabilities	108	296
Total liabilities	5,610	6,820
Stockholder s equity (deficit):		
Common stock, par value \$0.01; 1,000 shares authorized; 1,000 shares issued and outstanding		
Paid-in capital	3,783	3,768
Accumulated deficit	(3,899)	(4,500)
Accumulated other comprehensive loss	(12)	(28)
Total stockholder s equity (deficit)	(128)	(760)
Total liabilities and stockholder s equity (deficit)	\$ 5,482	\$ 6,060

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

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

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Net income	\$ 601	\$ 96
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Depreciation and amortization	106	187
Provision for uncollectibles	5	6
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Payment of discounts upon extinguishment of debt	(12)	(1)
Loss on extinguishment & modification of debt	100	2
Gain on sale of a business	(186)	
Stock-based compensation expense	14	12
Deferred income taxes	(15)	43
Other	(2)	
Changes in assets and liabilities:		
(Increase) decrease in receivables	(248)	(264)
(Increase) decrease in inventories	(124)	(96)
(Increase) decrease in other current assets	4	26
Increase (decrease) in accounts payable and accrued liabilities	93	85
Increase (decrease) in other long-term liabilities	(181)	6
Net cash provided by (used in) operating activities	173	121
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(61)	(92)
Proceeds from sales of property and equipment	2	3
Proceeds from sale of business, net	810	
Net cash provided by (used in) investing activities	751	(89)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings of long-term debt	287	20
Repayments of long-term debt	(1,150)	(27)
Borrowings on long-term revolver debt	784	524
Repayments on long-term revolver debt	(850)	(554)
Debt issuance and modification costs	(6)	(3)
Other financing activities	1	
Net cash provided by (used in) financing activities	(934)	(40)
Effect of exchange rates on cash and cash equivalents	(2)	
Increase (decrease) in cash and cash equivalents	\$ (12)	\$ (8)
Cash and cash equivalents at beginning of period	85	111
Cash and cash equivalents at end of period	\$ 73	\$ 103

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

Table of Contents

HD SUPPLY HOLDINGS, INC. AND SUBSIDIARIES

HD SUPPLY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 NATURE OF BUSINESS AND BASIS OF PRESENTATION

Nature of Business

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

Holdings, together with its direct and indirect subsidiaries, including HDS (HD Supply or the Company), is one of the largest industrial distribution companies in North America. The Company specializes in three distinct market sectors: Maintenance, Repair & Operations; Infrastructure; and Specialty Construction. Through approximately 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 over 800,000 stock-keeping units (SKUs) of quality, name-brand and proprietary-brand products as well as value-add services supporting the entire life-cycle of a project from infrastructure and construction to maintenance, repair and operations.

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

Basis of Presentation

In management's opinion, the unaudited financial information for the interim periods presented includes all adjustments necessary for a fair statement of the results of operations, financial position, and cash flows. All adjustments are of a normal recurring nature unless otherwise disclosed. Revenues, expenses, assets and liabilities can vary during each quarter of the year. Therefore, the results and trends in these interim financial statements may not be the same as those for the full year. For a more complete discussion of the Company's significant accounting policies and other information, you should read this report in conjunction with its annual report on Form 10-K, for the year ended February 1, 2015, which includes all disclosures required by generally accepted accounting principles in the United States of America (GAAP). Certain amounts in the prior-period financial statements have been reclassified to conform to the current period's presentation.

Fiscal Year

HD Supply's fiscal year is a 52- or 53-week period ending on the Sunday nearest to January 31. Fiscal years ending January 31, 2016 (fiscal 2015) and February 1, 2015 (fiscal 2014) both include 52 weeks. The three months ended November 1, 2015 (third quarter 2015) and November 2, 2014 (third quarter 2014) both include 13 weeks. The nine months ended November 1, 2015 and November 2, 2014 both include 39 weeks.

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.

Table of Contents

HD SUPPLY HOLDINGS, INC. AND SUBSIDIARIES

HD SUPPLY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Estimates

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

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 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 November 1, 2015 and February 1, 2015, self-insurance reserves totaled approximately \$90 million and \$92 million, respectively.

NOTE 2 PUBLIC OFFERINGS

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 no longer own any shares of 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.

During the nine months ended November 2, 2014 and in connection with fiscal 2014 public offerings, the Company incurred \$2 million of fees, reflected in Other income (expense), net within the Consolidated Statements of Operations and Comprehensive Income.

NOTE 3 DISCONTINUED OPERATIONS

In October 2015, the Company completed the sale of its Power Solutions business. The Company received cash proceeds of approximately \$810 million, net of \$15 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.

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 Accounting Standards Codification (ASC) 205-20, Discontinued Operations and Accounting Standards Update (ASU) 2014-08, Reporting discontinued operations and disclosure of disposals of components of an entity, the results of Power Solutions are classified as a discontinued operation. The results of the Hardware Solutions and Litemor operations and the gains/losses on sales of the businesses are also

Table of Contents**HD SUPPLY HOLDINGS, INC. AND SUBSIDIARIES****HD SUPPLY, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)**

classified as discontinued operations. The presentation of discontinued operations includes revenues and expenses of the discontinued operations and gain/loss on the disposition of businesses, net of tax, as one line item on the Consolidated Statements of Operations and Comprehensive Income. All Consolidated Statements of Operations and Comprehensive Income presented have been revised to reflect this presentation.

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

	Three Months Ended		Nine Months Ended	
	November 1, 2015	November 2, 2014	November 1, 2015	November 2, 2014
Net Sales	\$ 367	\$ 574	\$ 1,391	\$ 1,686
Cost of sales	313	463	1,185	1,364
Gross Profit	54	111	206	322
Operating expenses:				
Selling, general and administrative	39	77	155	245
Depreciation and amortization	5	10	18	32
Restructuring				1
Total operating expenses	44	87	173	278
Gain on sale of business	186		186	
Other (income) expense, net	3		3	
Income before provision for income taxes	\$ 193	\$ 24	\$ 216	\$ 44
Provision (benefit) for income taxes	(42)	4	(36)	8
Income from discontinued operations, net of tax	\$ 235	\$ 20	\$ 252	\$ 36

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

	November 1, 2015	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

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Current liabilities:		
Accounts payable	\$	\$ 178
Accrued compensation and benefits		18
Other current liabilities		21
Total liabilities of discontinued operations	\$	\$ 217

For the nine months ended November 1, 2015, net cash provided by operating and investing activities, related to discontinued operations, were approximately \$30 million and \$808 million, respectively. Fiscal 2015 investing activities are inclusive of \$810 million of net sales proceeds related to the Power Solutions transaction. For the

Table of Contents**HD SUPPLY HOLDINGS, INC. AND SUBSIDIARIES****HD SUPPLY, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)**

nine months ended November 2, 2014, net cash provided by operating activities and used in investing activities, related to discontinued operations, were approximately \$101 million and \$16 million, respectively.

NOTE 4 DEBT

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

	November 1, 2015		February 1, 2015	
	Outstanding Principal	Interest Rate %(1)	Outstanding Principal	Interest Rate %(1)
Senior ABL Facility due 2018	\$ 30	1.70	\$ 96	2.02
Term Loans due 2021, net of unamortized discount of \$11 million and \$14 million	839	3.75	961	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 long-term debt	\$ 4,394		\$ 5,257	
Less current installments	(9)		(34)	
Long-term debt, excluding current installments	\$ 4,385		\$ 5,223	

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

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 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

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prepay in full the tranche of senior secured term loans outstanding under the Term Loan Facility 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. The Incremental Agreement also provides for a prepayment premium equal to 1.00% of the aggregate principal amount of Term Loans being prepaid if, on or prior to February 13, 2016, the Company enters into certain repricing transactions.

Table of Contents

HD SUPPLY HOLDINGS, INC. AND SUBSIDIARIES

HD SUPPLY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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.

Senior Credit Facilities

Asset Based Lending Facility

HDS's Senior Asset Based Lending Facility (Senior ABL Facility) provides for senior secured revolving loans and letters of credit of up to a maximum aggregate principal amount of \$1,500 million (subject to availability under a borrowing base). Extensions of credit under the Senior ABL Facility are limited by a borrowing base calculated periodically based on specified percentages of the value of eligible inventory and eligible accounts receivable, subject to certain reserves and other adjustments. A portion of the Senior ABL Facility is available for letters of credit and swingline loans. As of November 1, 2015, HDS had \$1,225 million of additional available borrowings under the Senior ABL Facility (after giving effect to the borrowing base limitations and approximately \$34 million in letters of credit issued and including \$44 million of borrowings available on qualifying cash balances).

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

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

Senior Secured Term Loan Facility

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

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 or about February 1, 2017 (fiscal 2016) and each fiscal year thereafter. The ECF provision is not applicable to fiscal 2015.

For additional information on our Senior Credit Facilities, including guarantees and security, please refer to Management's Discussion and Analysis of Financial Condition and Results of Operations in our Form 10-K, for the fiscal year ended February 1, 2015.

Table of Contents

HD SUPPLY HOLDINGS, INC. AND SUBSIDIARIES

HD SUPPLY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Secured Notes

5.25% Senior Secured First Priority Notes due 2021

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

Redemption

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

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

In addition, at any time prior to December 15, 2017, HDS may redeem on one or more occasions up to 40% of the aggregate principal amount of the December 2014 First Priority Notes with the proceeds of certain equity offerings at a redemption price of 105.25% of the principal amount 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 December 2014 First Priority Notes equal to at least 50% of the original aggregate principal amount of December 2014 First Priority Notes must remain outstanding immediately after each such redemption of December 2014 First Priority Notes.

Collateral

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

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

For additional information on the December 2014 First Priority Notes, including guarantees and security, please refer to Management's Discussion and Analysis of Financial Condition and Results of Operations in our Form 10-K, for the fiscal year ended February 1, 2015.

Table of Contents

HD SUPPLY HOLDINGS, INC. AND SUBSIDIARIES

HD SUPPLY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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.

Unsecured Notes

11.5% Senior Unsecured Notes due 2020

HDS's 11.5% Senior Unsecured Notes due 2020 (the "October 2012 Senior Unsecured Notes") bear interest at 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.

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 indenture governing the October 2012 Senior Unsecured Notes and (2) on and after October 15, 2016, at the applicable redemption price set forth below (expressed as a percentage of principal amount), plus accrued and unpaid interest, if any, to the relevant redemption date, if redeemed during the 12-month period commencing on October 15 of the year set forth below.

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

7.5% Senior Unsecured Notes due 2020

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

Redemption

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

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

Debt covenants

HDS's outstanding debt agreements contain various restrictive covenants including, but not limited to, limitations on additional indebtedness and dividend payments and stipulations regarding the use of proceeds from asset dispositions. As of November 1, 2015, HDS was in compliance with all such covenants that were in effect on such date.

NOTE 5 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

Table of Contents**HD SUPPLY HOLDINGS, INC. AND SUBSIDIARIES****HD SUPPLY, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)**

requirements about fair value measurements. These principles define a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

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

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

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

The Company's financial instruments that are not reflected at fair value on the Consolidated Balance Sheets were as follows as of November 1, 2015 and February 1, 2015 (amounts in millions):

	As of November 1, 2015		As of February 1, 2015	
	Recorded Amount(1)	Estimated Fair Value	Recorded Amount(1)	Estimated Fair Value
Senior ABL Facility	\$ 30	\$ 30	\$ 96	\$ 95
Term Loans and Notes	4,375	4,652	5,175	5,504
Total	\$ 4,405	\$ 4,682	\$ 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 or premiums.*

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 6 INCOME TAXES

The Company's combined federal, state, and foreign effective tax rate for continuing operations for the first nine months of fiscal 2015 is an 80% benefit. The benefit was mainly driven 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 10, Commitment and Contingencies) by the Joint Committee of Taxation. In addition, the Company's rate was impacted by the utilization of deferred tax assets which had previously been subject to a valuation allowance, increasing the deferred tax liability for U.S. goodwill amortization for tax purposes, and the accrual of income taxes for foreign and certain state jurisdictions. 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.

An increase in U.S. pre-tax book income resulted in the utilization of net deferred tax assets including U.S. tax net operating losses that were subject to a valuation allowance. The overall decrease in the valuation allowance was partially offset by an increase 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 is considered 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. The Company does not believe it is more likely than not that it will realize its U.S. deferred tax assets equal to the deferred liability created by tax deductible goodwill. During the three and nine months ended November 1, 2015, the impact of the tax amortization of the indefinite lived intangibles on tax expense was an \$11 million and \$26 million increase, respectively.

As of February 1, 2015, the Company's unrecognized tax benefits in accordance with the income taxes principles of GAAP (ASC 740, Income Taxes) were \$187 million. During the nine months ended November 1,

Table of Contents**HD SUPPLY HOLDINGS, INC. AND SUBSIDIARIES****HD SUPPLY, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)**

2015, the Company's unrecognized tax benefits decreased by \$179 million to \$8 million primarily driven by IRS and state audit settlements. During the three and nine months ended November 1, 2015, the Company's interest accrual related to unrecognized tax benefits remained unchanged. The Company's ending net accrual for interest and penalties related to unrecognized tax benefits as of February 1, 2015 was \$29 million and decreased to \$1 million as of November 1, 2015. 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. Over the next twelve months, it is reasonably possible that the Company's unrecognized tax benefits will decrease by up to \$1 million.

At November 1, 2015 and February 1, 2015, the Company's valuation allowance on its U.S. deferred tax assets was approximately \$845 million and \$1,013 million, respectively. Each reporting period we assess available positive and negative evidence and estimate if sufficient future taxable income will be generated to utilize the existing deferred tax assets. Through fiscal 2013, the Company's history of U.S. operating losses limited the weight applied to other subjective evidence such as the Company's projections for future profitability. With the Company's fiscal 2014 U.S. pretax income, long carryforward periods in its U.S. federal tax losses and similar carryforward periods in a significant portion of its state tax losses, and projected fiscal 2015 and fiscal 2016 U.S. pretax income, management believes it is reasonably possible that sufficient positive evidence will exist during the next twelve months to release all or a significant portion of the valuation allowance on the Company's U.S. deferred tax assets.

See Note 10, Commitments and Contingencies, for discussion of the IRS audit of the Company's U.S. federal income tax returns.

NOTE 7 BASIC AND DILUTED WEIGHTED AVERAGE COMMON SHARES

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

The reconciliation of basic to diluted weighted average common shares for the three and nine months ended November 1, 2015 and November 2, 2014 was as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	November 1, 2015	November 2, 2014	November 1, 2015	November 2, 2014
Weighted average common shares	197,529	194,288	196,589	193,806
Effect of potentially dilutive securities:				
Stock plans	4,017	5,863	4,765	5,883

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Diluted weighted average common shares	201,546	200,151	201,354	199,689
Stock plan securities excluded from dilution (1)	49	50	719	429

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

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

[Table of Contents](#)**HD SUPPLY HOLDINGS, INC. AND SUBSIDIARIES****HD SUPPLY, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****NOTE 8 SUPPLEMENTAL BALANCE SHEET AND CASH FLOW INFORMATION****Receivables**

Receivables consisted of the following (amounts in millions):

	November 1, 2015		February 1, 2015	
Trade receivables, net of allowance for doubtful accounts	\$	1,001	\$	784
Vendor rebate receivables		77		75
Other receivables		14		9
Total receivables, net	\$	1,092	\$	868

Other Current Liabilities

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

	HD Supply Holdings, Inc.		HD Supply, Inc.	
	November 1, 2015	February 1, 2015	November 1, 2015	February 1, 2015
Accrued interest	\$ 37	\$ 98	\$ 37	\$ 98
Accrued non-income taxes	45	29	45	29
Other	106	103	104	103
Total other current liabilities	\$ 188	\$ 230	\$ 186	\$ 230

Supplemental Cash Flow Information

Cash paid for interest in the nine months ended November 1, 2015 and November 2, 2014 was \$354 million and \$426 million, respectively. During the nine months ended November 1, 2015, the Company paid \$12 million of original issue discounts related to the portion of the August 2015 Term Loan amendment considered an extinguishment under ASC 470-50, Debt Modifications and Extinguishments. Additionally,

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during the nine months ended November 2, 2014, the Company paid \$1 million of original issue discounts related to the portion of the February 2014 Term Loan amendment considered an extinguishment under ASC 470-50.

Cash paid for income taxes, net of refunds, in the nine months ended November 1, 2015 and November 2, 2014 was approximately \$14 million and \$37 million, respectively.

Significant Non-Cash Transactions

During the three and nine months ended November 1, 2015, Holdings retired 1,384,622 and 1,976,053 shares, respectively, of its common stock (Retired Shares) held as Treasury Shares by Holdings in the amounts of \$46 million and \$63 million, respectively. All of these shares were repurchased by Holdings pursuant to the share repurchase program previously authorized. Holdings reinstated the Retired Shares to the status of authorized but unissued shares of common stock, par value \$0.01 per share, effective as of the date of retirement. In accordance with ASC 505-30, Equity-Treasury Stock, Holdings reversed the \$0.01 par value of the Retired Shares and the excess of the cost of the Retired Shares over par value to Retained Earnings.

NOTE 9 RESTRUCTURING ACTIVITIES

As a result of the sale of the Power Solutions business unit, management evaluated the Company's talent alignment and functional support strategies. Consequently, the Company expects to take a \$10 million to \$20 million charge over the next twelve months and expects a payback via a permanent reduction in cost over the next two years. This charge reflects costs primarily for severance, relocation and related costs. During the three and nine months ended November 1, 2015, the Company recorded \$4 million of the expected charges, primarily related to severance and other employee-related costs at Facilities Maintenance and Waterworks. Payments for these initial charges are expected to be substantially complete in the next twelve months. As of November 1,

Table of Contents

HD SUPPLY HOLDINGS, INC. AND SUBSIDIARIES

HD SUPPLY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

2015, the liability balances for these restructuring activities was \$4 million and is included in Other current liabilities in the Consolidated Balance Sheets.

NOTE 10 COMMITMENTS AND CONTINGENCIES

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) and the Tentative Settlement does not become effective nor are the carryback claims finalized until the JCT reviews them without objection or the IRS Office of Appeals executes 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 6, Income Taxes, for further disclosures on the Company's income taxes.

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. 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 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, 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

Table of Contents

HD SUPPLY HOLDINGS, INC. AND SUBSIDIARIES

HD SUPPLY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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 \$10 million. If a material loss is probable or reasonably possible, and in either case estimable, the Company has considered it in the analysis and it is included in the discussion set forth above.

NOTE 11 SEGMENT INFORMATION

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

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

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

institutional facilities.

- *Waterworks* Waterworks distributes complete lines of water and wastewater transmission products, serving contractors and municipalities in the water and wastewater industries for non-residential and residential uses.
- *Construction & Industrial - White Cap* Construction & Industrial - White Cap distributes specialized hardware, tools, engineered materials and safety products to non-residential and residential contractors.

In addition to the reportable segments, the Company's consolidated financial results include Corporate & Other. Corporate & Other is comprised of the following operating segments: Interior Solutions, Home Improvement Solutions and HD Supply Canada. 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

Table of Contents**HD SUPPLY HOLDINGS, INC. AND SUBSIDIARIES****HD SUPPLY, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)**

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. HD Supply Canada is an industrial distributor that primarily focuses on servicing fasteners/industrial supplies markets operating across six Canadian provinces. 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.

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

	Facilities Maintenance	Waterworks	Construction & Industrial - White Cap	Corporate & Other	Total Continuing Operations
Three Months Ended November 1, 2015					
Net Sales	\$ 716	\$ 705	\$ 451	\$ 140	\$ 2,012
Adjusted EBITDA	149	70	48	(2)	265
Depreciation(1) & Software Amortization	11	3	5	6	25
Other Intangible Amortization	1	1	1	1	4
Three Months Ended November 2, 2014					
Net Sales	\$ 660	\$ 695	\$ 411	\$ 148	\$ 1,914
Adjusted EBITDA	139	64	35	(8)	230
Depreciation(1) & Software Amortization	12	2	5	8	27
Other Intangible Amortization	16	1	4		21
Nine Months Ended November 1, 2015					
Net Sales	\$ 2,084	\$ 1,977	\$ 1,270	\$ 409	\$ 5,740
Adjusted EBITDA	427	181	123	(20)	711
Depreciation(1) & Software Amortization	34	8	18	17	77
Other Intangible Amortization	4	2	1	4	11
Nine Months Ended November 2, 2014					
Net Sales	\$ 1,950	\$ 1,911	\$ 1,144	\$ 422	\$ 5,427
Adjusted EBITDA	387	162	90	(19)	620
Depreciation(1) & Software Amortization	37	7	16	20	80
Other Intangible Amortization	56	3	14	3	76

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

Table of Contents

HD SUPPLY HOLDINGS, INC. AND SUBSIDIARIES

HD SUPPLY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Reconciliation to Consolidated Financial Statements

	Three Months Ended		Nine Months Ended	
	November 1, 2015	November 2, 2014	November 1, 2015	November 2, 2014
Total Adjusted EBITDA	\$ 265	\$ 230	\$ 711	\$ 620
Depreciation and amortization (1)	29	48	88	156
Stock-based compensation	4	3	14	12
Restructuring	4		4	6
Other	(1)		(1)	(1)
Operating income	229	179	606	447
Interest expense, net	99	115	311	347
Loss on extinguishment & modification of debt (2)	100		100	2
Other (income) expense, net (3)		(4)	1	(3)
Income from Continuing Operations Before Provision for Income Taxes	30	68	194	101
Provision (benefit) for income taxes (4)	15	28	(155)	41
Income from continuing operations	15	40	349	60
Income from discontinued operations, net of tax	235	20	252	36
Net Income	\$ 250	\$ 60	\$ 601	\$ 96

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

(2) Represents the loss on extinguishment of debt including the premium paid to 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.

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

(4) *During the nine months ended November 1, 2015, the Company recorded a reduction in unrecognized tax benefits as a result of IRS and state audit settlements. See Note 6, Income Taxes and Note 10, Commitments and Contingencies for discussion of the IRS audit settlement.*

NOTE 12 SUBSIDIARY GUARANTORS

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

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

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

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

(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;

Table of Contents

HD SUPPLY HOLDINGS, INC. AND SUBSIDIARIES

HD SUPPLY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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

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

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

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

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

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

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balance sheets, and the condensed statements of cash flows for the Debt Issuer, for the Subsidiary Guarantors and the Non-guarantor Subsidiaries and total consolidated Debt Issuer and subsidiaries (amounts in millions).

Table of Contents**HD SUPPLY HOLDINGS, INC. AND SUBSIDIARIES****HD SUPPLY, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME**

	Three Months Ended November 1, 2015					
	Debt Issuer	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Total HDS	
Net Sales	\$	\$ 1,982	\$ 31	\$ (1)	\$ 2,012	
Cost of sales		1,330	16		1,346	
Gross Profit		652	15	(1)	666	
Operating expenses:						
Selling, general and administrative	17	378	11	(1)	405	
Depreciation and amortization	4	24			28	
Restructuring Charge		4			4	
Total operating expenses	21	406	11	(1)	437	
Operating Income (Loss)	(21)	246	4		229	
Interest expense	100	61		(62)	99	
Interest (income)	(60)	(2)		62		
Loss on extinguishment & modification of debt	100				100	
Other (income) expense, net						
Net (earnings) loss of equity affiliates	(343)			343		
Income From Continuing Operations Before Provision (Benefit) for Income Taxes						
Taxes	182	187	4	(343)	30	
Provision (benefit) for income taxes	157	(145)	3		15	
Income from Continuing Operations	25	332	1	(343)	15	
Income (loss) from discontinued operations, net of tax	225	13	(3)		235	
Net Income (Loss)	\$ 250	\$ 345	\$ (2)	\$ (343)	\$ 250	
Other comprehensive income (loss) foreign currency translation adjustment	18		18	(18)	18	
Total Comprehensive Income (Loss)	\$ 268	\$ 345	\$ 16	\$ (361)	\$ 268	

Table of Contents**HD SUPPLY HOLDINGS, INC. AND SUBSIDIARIES****HD SUPPLY, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (CONTINUED)**

	Three Months Ended November 2, 2014				
	Debt Issuer	Subsidiary Guarantors	Non- Guarantor Subsidiaries	Eliminations	Total HDS
Net Sales	\$	\$ 1,881	\$ 35	\$ (2)	\$ 1,914
Cost of sales		1,282	18	(1)	1,299
Gross Profit		599	17	(1)	615
Operating expenses:					
Selling, general and administrative	20	356	14		390
Depreciation and amortization	3	42	1		46
Total operating expenses	23	398	15		436
Operating Income (Loss)	(23)	201	2	(1)	179
Interest expense	117	61		(63)	115
Interest (income)	(59)	(3)		62	
Other (income) expense, net	(4)				(4)
Net (earnings) loss of equity affiliates	(105)			105	
Income (Loss) From Continuing Operations Before Provision (Benefit) for Income Taxes	28	143	2	(105)	68
Provision (benefit) for income taxes	(33)	62	(1)		28
Income (Loss) from Continuing Operations	61	81	3	(105)	40
Income (loss) from discontinued operations, net of tax	(1)	19	2		20
Net Income (Loss)	\$ 60	\$ 100	\$ 5	\$ (105)	\$ 60
Other comprehensive income (loss) foreign currency translation adjustment	(3)		(3)	3	(3)
Total Comprehensive Income (Loss)	\$ 57	\$ 100	\$ 2	\$ (102)	\$ 57

Table of Contents

HD SUPPLY HOLDINGS, INC. AND SUBSIDIARIES

HD SUPPLY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (CONTINUED)

	Nine Months Ended November 1, 2015				
	Debt Issuer	Subsidiary Guarantors	Non- Guarantor Subsidiaries	Eliminations	Total HDS
Net Sales	\$	\$ 5,648	\$ 94	\$ (2)	\$ 5,740
Cost of sales		3,786	50	(1)	3,835
Gross Profit		1,862	44	(1)	1,905
Operating expenses:					
Selling, general and administrative	60	1,118	34	(1)	1,211
Depreciation and amortization	11	72	1		84
Restructuring charge		4			4
Total operating expenses	71	1,194	35	(1)	1,299
Operating Income (Loss)	(71)	668	9		606
Interest expense	315	182		(186)	311
Interest (income)	(182)	(4)		186	
Loss on extinguishment & modification of debt	100				100
Other (income) expense, net	1				1
Net (earnings) loss of equity affiliates	(493)			493	
Income (Loss) From Continuing Operations Before Provision (Benefit) for Income Taxes	188	490	9	(493)	194
Provision (benefit) for income taxes	(188)	29	4		(155)
Income (Loss) from Continuing Operations	376	461	5	(493)	349
Income from discontinued operations, net of tax	225	22	5		252
Net Income (Loss)	\$ 601	\$ 483	\$ 10	\$ (493)	\$ 601
Other comprehensive income (loss) foreign currency translation adjustment	16		16	(16)	16
Total Comprehensive Income (Loss)	\$ 617	\$ 483	\$ 26	\$ (509)	\$ 617

Table of Contents**HD SUPPLY HOLDINGS, INC. AND SUBSIDIARIES****HD SUPPLY, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (CONTINUED)**

	Nine Months Ended November 2, 2014				
	Debt Issuer	Subsidiary Guarantors	Non- Guarantor Subsidiaries	Eliminations	Total HDS
Net Sales	\$	\$ 5,329	\$ 100	\$ (2)	\$ 5,427
Cost of sales		3,616	55	(1)	3,670
Gross Profit		1,713	45	(1)	1,757
Operating expenses:					
Selling, general and administrative	53	1,061	39	(1)	1,152
Depreciation and amortization	12	139	1		152
Restructuring	1	5			6
Total operating expenses	66	1,205	40	(1)	1,310
Operating Income (Loss)	(66)	508	5		447
Interest expense	349	182		(184)	347
Interest (income)	(181)	(3)		184	
Loss on extinguishment & modification of debt	2				2
Other (income) expense, net	(3)				(3)
Net (earnings) loss of equity affiliates	(234)			234	
Income (Loss) From Continuing Operations Before Provision (Benefit) for Income Taxes	1	329	5	(234)	101
Provision (benefit) for income taxes	(101)	143	(1)		41
Income (Loss) from Continuing Operations	102	186	6	(234)	60
Income (loss) from discontinued operations, net of tax	(6)	44	(2)		36
Net Income (Loss)	\$ 96	\$ 230	\$ 4	\$ (234)	\$ 96
Other comprehensive income (loss) foreign currency translation adjustment	(1)		(1)	1	(1)
Total Comprehensive Income (Loss)	\$ 95	\$ 230	\$ 3	\$ (233)	\$ 95

Table of Contents**HD SUPPLY HOLDINGS, INC. AND SUBSIDIARIES****HD SUPPLY, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****CONDENSED CONSOLIDATING BALANCE SHEETS**

	As of November 1, 2015					
	Debt Issuer	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Total HDS	
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 43	\$ 18	\$ 12	\$	\$ 73	
Receivables, net	4	1,069	19		1,092	
Inventories		848	20		868	
Deferred tax asset		57	2	(55)	4	
Other current assets	11	25	1		37	
Total current assets	58	2,017	54	(55)	2,074	
Property and equipment, net	48	276	3		327	
Goodwill		2,869			2,869	
Intangible assets, net		132	2		134	
Deferred tax asset			1		1	
Investment in subsidiaries	2,740			(2,740)		
Intercompany notes receivable	2,192	594		(2,786)		
Other assets	74	3			77	
Total assets	\$ 5,112	\$ 5,891	\$ 60	\$ (5,581)	\$ 5,482	
LIABILITIES AND STOCKHOLDER S EQUITY (DEFICIT)						
Current liabilities:						
Accounts payable	\$ 10	\$ 627	\$ 14	\$	\$ 651	
Accrued compensation and benefits	38	89	2		129	
Current installments of long-term debt	9				9	
Deferred tax liabilities	55			(55)		
Other current liabilities	57	120	9		186	
Total current liabilities	169	836	25	(55)	975	
Long-term debt, excluding current installments	4,385				4,385	
Deferred tax liabilities	13	129			142	
Intercompany notes payable	594	2,192		(2,786)		
Other liabilities	79	26	3		108	
Total liabilities	5,240	3,183	28	(2,841)	5,610	
Stockholder s equity (deficit)	(128)	2,708	32	(2,740)	(128)	
	\$ 5,112	\$ 5,891	\$ 60	\$ (5,581)	\$ 5,482	

**Total liabilities and stockholders'
equity (deficit)**

30

Table of Contents**HD SUPPLY HOLDINGS, INC. AND SUBSIDIARIES****HD SUPPLY, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****CONDENSED CONSOLIDATING BALANCE SHEETS (CONTINUED)**

	As of February 1, 2015				
	Debt Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total HDS
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 28	\$ 25	\$ 32	\$	\$ 85
Receivables, net	1	851	16		868
Inventories		767	17		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)	
Intercompany notes receivable	2,191	611		(2,802)	
Other assets	109	3			112
Total assets	\$ 5,620	\$ 6,389	\$ 136	\$ (6,085)	\$ 6,060
LIABILITIES AND STOCKHOLDER S EQUITY (DEFICIT)					
Current liabilities:					
Accounts payable	\$ 14	\$ 485	\$ 11	\$	\$ 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		200	17		217
Other current liabilities	124	97	9		230
Total current liabilities	281	872	41	(59)	1,135
Long-term debt, excluding current installments	5,223				5,223
Deferred tax liabilities		174		(8)	166
Intercompany notes payable	611	2,191		(2,802)	

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Other liabilities	265	26	5		296
Total liabilities	6,380	3,263	46	(2,869)	6,820
Stockholder's equity (deficit)	(760)	3,126	90	(3,216)	(760)
Total liabilities and stockholder's equity (deficit)	\$ 5,620	\$ 6,389	\$ 136	\$ (6,085)	\$ 6,060

[Table of Contents](#)
HD SUPPLY HOLDINGS, INC. AND SUBSIDIARIES
HD SUPPLY, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
CONDENSED CONSOLIDATING CASH FLOW STATEMENTS

	Nine Months Ended November 1, 2015				
	Debt Issuer	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Total HDS
Net cash flows from operating activities	\$ 130	\$ 29	\$ 14	\$	\$ 173
Cash flows from investing activities					
Capital expenditures	(9)	(52)			(61)
Proceeds from sale of property and equipment		2			2
Proceeds from sale of a business	810				810
Investments in equity affiliates - Return of capital	34			(34)	
Proceeds from (payments of) intercompany notes		16		(16)	
Other investing activities					
Net cash flows from investing activities	835	(34)		(50)	751
Cash flows from financing activities					
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	(1,150)				(1,150)
Borrowings on long-term revolver	784				784
Repayments on long-term revolver	(850)				(850)
Debt issuance and modification fees	(6)				(6)
Other financing activities	1				1
Net cash flows from financing activities	(950)	(2)	(32)	50	(934)
Effect of exchange rates on cash			(2)		(2)
Net increase (decrease) in cash & cash equivalents	\$ 15	\$ (7)	\$ (20)	\$	\$ (12)
Cash and cash equivalents at beginning of period	28	25	32		85
Cash and cash equivalents at end of period	\$ 43	\$ 18	\$ 12	\$	\$ 73

Table of Contents**HD SUPPLY HOLDINGS, INC. AND SUBSIDIARIES****HD SUPPLY, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****CONDENSED CONSOLIDATING CASH FLOW STATEMENTS (CONTINUED)**

	Nine Months Ended November 2, 2014				
	Debt Issuer	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Eliminations	Total HDS
Net cash flows from operating activities	\$ 41	\$ 55	\$ 25	\$	\$ 121
Cash flows from investing activities					
Capital expenditures	(11)	(79)	(2)		(92)
Investments in equity affiliates - Return of capital	27			(27)	
Proceeds from sale of property and equipment		3			3
Proceeds from (payments of) intercompany notes		25		(25)	
Other investing activities	1			(1)	
Net cash flows from investing activities	17	(51)	(2)	(53)	(89)
Cash flows from financing activities					
Equity contribution (return of capital)			(27)	27	
Borrowings (repayments) of intercompany notes	(25)			25	
Borrowings of long-term debt	20				20
Repayments of long-term debt	(27)				(27)
Borrowings on long-term revolver	524				524
Repayments of long-term revolver	(554)				(554)
Debt issuance and modification fees	(3)				(3)
Other financing activities	(1)			1	
Net cash flows from financing activities	(66)		(27)	53	(40)
Effect of exchange rates on cash					
Net increase (decrease) in cash & cash equivalents	\$ (8)	\$ 4	\$ (4)	\$	\$ (8)
Cash and cash equivalents at beginning of period	53	17	41		111
Cash and cash equivalents at end of period	\$ 45	\$ 21	\$ 37	\$	\$ 103

NOTE 13 RECENT ACCOUNTING PRONOUNCEMENTS

Inventory In July 2015, The Financial Accounting Standards Board (FASB) issued Accounting Standards Update 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

Table of Contents

HD SUPPLY HOLDINGS, INC. AND SUBSIDIARIES

HD SUPPLY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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 adoptions of the ASU's are not expected to have a material impact on the Company's financial position or results of operations.

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 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.

Table of Contents

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

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

Overview

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

Holdings, together with its direct and indirect subsidiaries, including HDS, 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 over 800,000 stock-keeping units (SKUs) of quality, name-brand and proprietary-brand products as well as value-add services supporting the entire life-cycle of a project from infrastructure and construction to maintenance, repair and operations.

Description of segments

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

Facilities Maintenance. Facilities Maintenance distributes Maintenance, Repair and Operations (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), fusible piping solutions 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, 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, Home Improvement Solutions and HD Supply Canada. 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. HD Supply Canada is an industrial distributor that primarily focuses on servicing fastener/industrial supply markets operating across six Canadian provinces. Corporate & Other also includes

Table of Contents

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.

Public offerings

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 no longer own any shares of 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.

During the nine months ended November 2, 2014 and in connection with fiscal 2014 public offerings, the Company incurred \$2 million of fees, reflected in Other income (expense), net within the Consolidated Statements of Operations and Comprehensive Income.

Discontinued operations

In October 2015, the Company completed the sale of its Power Solutions business. The Company received cash proceeds of approximately \$810 million, net of \$15 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 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.

The presentation of discontinued operations includes revenues and expenses of the discontinued operations, net of tax, as one line item on the Consolidated Statements of Operations and Comprehensive Income. Prior periods presented have been revised to reflect this presentation. For additional detail related to the results of operations of the discontinued operations, see Note 3, Discontinued Operations, in the Notes to the Consolidated Financial Statements within Item 1 of this quarterly report on Form 10-Q.

Seasonality

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

Fiscal Year

HD Supply's fiscal year is a 52- or 53-week period ending on the Sunday nearest to January 31. Fiscal years ending January 31, 2016 (fiscal 2015) and February 1, 2015 (fiscal 2014) both include 52 weeks. The three months ended November 1, 2015 (third quarter 2015) and November 2, 2014 (third quarter 2014) both include 13 weeks. The nine months ended November 1, 2015 and November 2, 2014 both include 39 weeks.

Table of Contents

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 by internal fleet and 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, and restructuring charges.

Adjusted EBITDA and Adjusted net income

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 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 to measure our overall profitability as we believe it is an important measure of our performance. Adjusted net income is not a recognized term under GAAP and does not purport to be an alternative to Net income as a measure of operating performance. Adjusted net income is defined as Net income less Income 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 are frequently used by securities analysts, investors and other interested parties in their evaluation of companies, many of which present an Adjusted EBITDA or Adjusted net income measure when reporting their results. We compensate for the limitations of using non-GAAP financial measures by using them to supplement GAAP.

Table of Contents

results to provide a more complete understanding of the factors and trends affecting the business than GAAP results alone. Because not all companies use identical calculations, our presentation of Adjusted EBITDA and Adjusted net income may not be comparable to other similarly titled measures of other companies.

Adjusted EBITDA 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 less Income from discontinued operations, net of tax, plus (i) Interest expense and Interest income, net, (ii) Provision (benefit) for income taxes, (iii) Depreciation and amortization and further adjusted to exclude 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 quarterly report on Form 10-Q. We may in the future reflect such permitted adjustments in our calculations of Adjusted EBITDA. These covenants are important to the Company as failure to comply with certain covenants would result in a default under our Senior Credit Facilities. The material covenants in our Senior Credit Facilities are discussed in our annual report on Form 10-K for the fiscal year ended February 1, 2015.

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

- Adjusted EBITDA and Adjusted net income do not reflect changes in, or cash requirements for, our working capital needs;
- Adjusted EBITDA does not reflect our interest expense, or the requirements necessary to service interest or principal payments on our debt;
- Adjusted EBITDA does not reflect our income tax expenses or the cash requirements to pay our taxes;
- Adjusted EBITDA and Adjusted net income do not reflect historical cash expenditures or future requirements for capital expenditures or contractual commitments; and
- although depreciation and amortization charges are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and Adjusted EBITDA does not reflect any cash requirements

for such replacements.

Table of Contents

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

	Three Months Ended		November 2,		Nine Months Ended		November 2,	
	November 1,	2015	November 1,	2014	November 1,	2015	November 1,	2014
Net income	\$	250	\$	60	\$	601	\$	96
Less income from discontinued operations, net of tax		235		20		252		36
Income from continuing operations	\$	15	\$	40	\$	349	\$	60
Interest expense		99		115		311		347
Depreciation and amortization (1)		29		48		88		156
Provision (benefit) for income taxes (2)		15		28		(155)		41
Stock-based compensation		4		3		14		12
Restructuring (3)		4				4		6
Loss on extinguishment & modification of debt (4)		100				100		2
Costs related to public offerings (5)				1		1		2
Other		(1)		(5)		(1)		(6)
Adjusted EBITDA	\$	265	\$	230	\$	711	\$	620

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

(2) During the nine months ended November 1, 2015, the Company recorded a reduction in unrecognized tax benefits as a result of IRS and state audit settlements. See Note 6, Income Taxes and Note 10, Commitments and Contingencies in the Notes to the Consolidated Financial Statements within Item 1 of this quarterly report on Form 10-Q for discussion of the IRS audit settlement.

(3) Represents severance, relocation costs, and other costs incurred to strategically align the Company's workforce.

(4) 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.

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

Table of Contents

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

	Three Months Ended		Nine Months Ended	
	November 1, 2015	November 2, 2014	November 1, 2015	November 2, 2014
Net income	\$ 250	\$ 60	\$ 601	\$ 96
Less income from discontinued operations, net of tax	235	20	252	36
Income from continuing operations	15	40	349	60
Provision (benefit) for income taxes (1)	15	28	(155)	41
Cash paid for income taxes	(5)	(3)	(14)	(10)
Amortization of acquisition-related intangible assets (other than software)	4	21	11	76
Restructuring (2)	4		4	6
Loss on extinguishment & modification of debt (3)	100		100	2
Costs related to public offerings (4)		1	1	2
Other		(5)		(5)
Adjusted net income	\$ 133	\$ 82	\$ 296	\$ 172

(1) During the nine months ended November 1, 2015, the Company recorded a reduction in unrecognized tax benefits as a result of IRS and state audit settlements. See Note 6, Income Taxes and Note 10, Commitments and Contingencies in the Notes to the Consolidated Financial Statements within Item 1 of this quarterly report on Form 10-Q for discussion of the IRS audit settlement.

(2) Represents severance, relocation costs, and other costs incurred to strategically align the Company's workforce.

(3) 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.

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

[Table of Contents](#)
Consolidated results of operations
Dollars in millions

	Three Months Ended		Percentage Increase (Decrease)	Nine Months Ended		Percentage Increase (Decrease)
	November 1, 2015	November 2, 2014		November 1, 2015	November 2, 2014	
Net Sales	\$ 2,012	\$ 1,914	5.1%	\$ 5,740	\$ 5,427	5.8%
Gross Profit	666	615	8.3	1,905	1,757	8.4
Operating expenses:						
Selling, general and administrative	405	390	3.8	1,211	1,152	5.1
Depreciation and amortization	28	46	(39.1)	84	152	(44.7)
Restructuring	4		*	4	6	(33.3)
Total operating expenses	437	436	0.2	1,299	1,310	(0.8)
Operating Income	229	179	27.9	606	447	35.6
Interest expense	99	115	(13.9)	311	347	(10.4)
Loss on extinguishment & modification of debt	100		*	100	2	*
Other (income) expense, net		(4)	*	1	(3)	*
Income from Continuing Operations Before Income Taxes	30	68	(55.9)	194	101	92.1
Provision (benefit) for income taxes	15	28	(46.4)	(155)	41	*
Income from Continuing Operations	15	40	(62.5)	349	60	*
Income from discontinued operations, net of tax	235	20	*	252	36	*
Net Income	\$ 250	\$ 60	*	\$ 601	\$ 96	*
Non-GAAP financial data:						
Adjusted EBITDA	\$ 265	\$ 230	15.2%	\$ 711	\$ 620	14.7%
Adjusted net income	\$ 133	\$ 82	62.2%	\$ 296	\$ 172	72.1%

* Not meaningful

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Table of Contents

	% of Net Sales Three Months Ended		Basis Point Increase (Decrease)	% of Net Sales Nine Months Ended		Basis Point Increase (Decrease)
	November 1, 2015	November 2, 2014		November 1, 2015	November 2, 2014	
Net Sales	100.0%	100.0%		100.0%	100.0%	
Gross Profit	33.1	32.1	100	33.2	32.4	80
Operating expenses:						
Selling, general and administrative	20.1	20.4	(30)	21.1	21.2	(10)
Depreciation and amortization	1.4	2.3	(90)	1.5	2.8	(130)
Restructuring	0.2		20		0.2	(20)
Total operating expenses	21.7	22.7	(100)	22.6	24.2	(160)
Operating Income	11.4	9.4	200	10.6	8.2	240
Interest expense	4.9	6.0	(110)	5.4	6.4	(100)
Loss on extinguishment & modification of debt	5.0		500	1.8		180
Other (income) expense, net		(0.2)	20			10
Income from Continuing Operations Before Income Taxes	1.5	3.6	(210)	3.4	1.9	150
Provision (benefit) for income taxes	0.7	1.5	(80)	(2.7)	0.7	(350)
Income from Continuing Operations	0.8	2.0	(130)	6.1	1.1	500
Income from discontinued operations, net of tax	11.7	1.0	1,070	4.4	0.7	370
Net Income	12.4	3.1	930	10.5	1.8	870
Non-GAAP financial data:						
Adjusted EBITDA	13.2%	12.0%	120	12.4%	11.4%	100
Adjusted net income	6.6%	4.3%	230	5.2%	3.2%	200

* Not meaningful

Highlights

Net sales in third quarter 2015 increased \$98 million, or 5.1%, as compared to third quarter 2014. In third quarter 2015, each of our three reportable segments realized increases in Net sales. Operating income in third quarter 2015 increased \$50 million, or 27.9%, as compared to third quarter 2014. Our growth initiatives, cost control efforts and the leverage of fixed costs, resulted in an increase to Adjusted EBITDA of \$35 million, or 15.2%, in third quarter 2015 as compared to third quarter 2014. Net income in third quarter 2015 increased \$190 million, to \$250 million, compared to a Net income of \$60 million in third quarter 2014. Adjusted net income in third quarter 2015 increased \$51 million, or 62.2%, as compared to third quarter 2014. As of November 1, 2015, our liquidity was \$1.3 billion. See Liquidity and Capital Resources External Financing for further information.

In October 2015, the Company completed the sale of its Power Solutions business, a leading provider of a diverse product and service offering serving investor owned utility, public power, construction and industrial markets. The Company received cash proceeds of approximately \$810 million, net of \$15 million of transaction costs and subject to post-closing working capital adjustments. As a result of the sale, the Company

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recorded a \$186 million pre-tax gain, reflected in Income from discontinued operations, net of tax, in the Consolidated Statement of Operations.

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

Table of Contents

As a result of the sale of the Power Solutions business unit, management evaluated the Company's talent alignment and functional support strategies. Consequently, the Company expects to take a \$10 million to \$20 million charge over the next twelve months and expects a payback via a permanent reduction in cost over the next two years. This charge reflects costs primarily for severance, relocation and related costs. During the three and nine months ended November 1, 2015, the Company recorded \$4 million of the expected charges, primarily related to severance and other employee-related costs at Facilities Maintenance and Waterworks. Payments for these initial charges are expected to be substantially complete in the next twelve months.

For additional information, see Note 9, Restructuring Activities, in the Notes to the Consolidated Financial Statements within Item 1 of this quarterly report on Form 10-Q.

Net sales

Net sales in third quarter 2015 increased \$98 million, or 5.1%, compared to third quarter 2014 and \$313 million, or 5.8%, in the first nine months of fiscal 2015 as compared to the same period in fiscal 2014.

Each of our reportable segments experienced an increase in Net sales in third quarter 2015 and in the first nine months of fiscal 2015 as compared to the same periods in fiscal 2014. Net sales increases, during the third quarter and first nine months of fiscal 2015, were primarily due to growth initiatives at each of our businesses and increases in market volume. Growth initiatives contributed approximately \$60 million and \$195 million in the third quarter and the first nine months of fiscal 2015, respectively. The Net sales increases were partially offset by the impact of an unfavorable Canadian exchange rate, primarily at HD Supply Canada, resulting in a \$6 million and \$15 million reduction to Net sales in the third quarter and first nine months of fiscal 2015, respectively. Additionally, the first quarter of fiscal 2015 was negatively impacted by severe winter weather and the second quarter of fiscal 2015 was negatively impacted by historical flooding in Texas and other regions within the central U.S.

Gross profit

Gross profit increased \$51 million, or 8.3%, during third quarter 2015 as compared to third quarter 2014 and \$148 million, or 8.4%, in the first nine months of fiscal 2015 as compared to the same period in fiscal 2014.

Each of our reportable segments experienced an increase in Gross profit in third quarter and in the first nine months of fiscal 2015 as compared to the same periods in fiscal 2014. The Gross profit increases, in both periods, were primarily due to sales growth from initiatives and market volume.

Gross profit as a percentage of Net sales (gross margin) increased approximately 100 basis points to 33.1% in the third quarter 2015 as compared to 32.1% in third quarter 2014 and increased approximately 80 basis points to 33.2% in the first nine months of fiscal 2015 as compared to 32.4% in the first nine months of fiscal 2014. The improvement in gross margin in both periods was primarily driven by our category management initiatives, localized field execution and a favorable mix of products and services.

Operating expenses

Operating expenses increased \$1 million, or 0.2%, during third quarter 2015 as compared to third quarter 2014 and decreased \$11 million, or 0.8%, in the first nine months of fiscal 2015 as compared to the same period in fiscal 2014.

Selling, general and administrative expenses increased \$15 million, or 3.8%, in third quarter 2015 as compared to third quarter 2014 and increased \$59 million, or 5.1%, in the first nine months of fiscal 2015 as compared to the same period in fiscal 2014. The increase in the both periods was primarily a result of increases in variable expenses due to higher sales volume and investments in growth initiatives. Depreciation and amortization expense decreased \$18 million, or 39.1%, in third quarter 2015 as compared to third quarter 2014 and \$68 million, or 44.7%, in the first nine months of fiscal 2015 as compared to the same period in fiscal 2014. The decrease in both periods was primarily a result of certain acquisitions-related intangible assets that became fully amortized during fiscal 2014.

Table of Contents

Operating expenses as a percentage of Net sales decreased approximately 100 basis points to 21.7%, in third quarter 2015 and approximately 160 basis points to 22.6% in the first nine months of fiscal 2015 as compared to the same periods in 2014. The decrease in both periods was driven by a reduction in Depreciation and amortization expense as a percentage of Net sales, which decreased 90 basis points to 1.4% in third quarter 2015 as compared to third quarter 2014 and 130 basis points to 1.5% in the first nine months of fiscal 2015 as compared to the same period in 2014. In addition, Selling, general & administrative expenses as a percentage of net sales decreased approximately 30 basis points and 10 basis points in third quarter 2015 and the first nine months of fiscal 2015, respectively, as compared to the same periods in fiscal 2014.

Operating income

Operating income increased \$50 million, or 27.9%, during third quarter 2015 as compared to third quarter 2014 and \$159 million, or 35.6%, in the first nine months of fiscal 2015 as compared to the same period in fiscal 2014. The improvement in both periods was primarily due to higher Net sales, Gross profit and lower operating expenses as compared to the same periods in fiscal 2014.

Operating income as a percentage of Net sales increased approximately 200 basis points in third quarter 2015 as compared to third quarter 2014 and increased approximately 240 basis points in the first nine months of fiscal 2015 as compared to the same period in fiscal 2014. The improvement in both periods was primarily driven by a reduction in Depreciation and amortization expense as a percentage of Net sales and improvements in gross margins.

Interest expense

Interest expense decreased \$16 million, or 13.9%, during third quarter 2015 as compared to third quarter 2014 and \$36 million, or 10.4%, in the first nine months of fiscal 2015 as compared to the same period in fiscal 2014. The decrease in both periods was due to a lower average interest rate, and to a lesser extent, a lower average outstanding balance.

Loss on extinguishment & modification of debt

During third quarter 2015 and the first nine months of fiscal 2015, our debt refinancing and redemption activities resulted in charges of \$100 million. These charges were recorded in accordance with ASC 470-50, Debt-Modifications and Extinguishments.

On October 13, 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 debt costs.

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On August 13, 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 and capital resources 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 debt costs for the portion of the amendment considered an extinguishment in accordance with GAAP.

On February 6, 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 extended the maturity of the then-outstanding term loans by approximately nine months, to June 28, 2018.

As a result of the amendment, the Company recorded a \$2 million loss on extinguishment and modification, which included a \$1 million write-off of pro-rata portions of the unamortized original issue discount and the unamortized deferred debt costs for the portion of the amendment considered an extinguishment in accordance with GAAP.

Table of Contents

Other (income) expense, net

During the first nine months of fiscal 2015, we incurred approximately \$1 million in fees and expenses related to secondary offerings of Holdings' common stock by certain of Holdings' stockholders. During third quarter 2014 and the first nine months of fiscal 2014, we incurred approximately \$1 million, and \$2 million, respectively, in fees and expenses related to secondary offerings of Holdings' common stock by certain of Holdings' stockholders.

Provision (benefit) for income taxes

The provision (benefit) for income taxes during the period is calculated by applying an estimated annual tax rate for the full fiscal year to pre-tax income for the reported period plus or minus unusual or infrequent discrete items occurring within the period. The Company's income tax provision (benefit) recorded in interim periods can move from an income tax provision to income tax benefit (and vice versa) in situations in which the Company is experiencing changes between interim pre-tax income to pre-tax loss (and vice versa). The provision for income taxes from continuing operations in third quarter of fiscal 2015 was an expense of \$15 million compared to \$28 million expense in third quarter of fiscal 2014. The provision for income taxes from continuing operations in the first nine months of fiscal 2015 was a benefit of \$155 million compared to \$41 million expense in the first nine months of fiscal 2014.

The effective rate for continuing operations for the third quarter and first nine months of fiscal 2015 is an expense of 52.1% and benefit of 80%, respectively, mainly driven 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 10, Commitment and Contingencies, in the Notes to the Consolidated Financial Statements within Item 1 of this quarterly report on Form 10-Q) by the Joint Committee of Taxation. In addition, the Company's rate was impacted by the utilization of deferred tax assets which had previously been subject to a valuation allowance, increasing the deferred tax liability for U.S. goodwill amortization for tax purposes, and the accrual of income taxes for foreign and certain state jurisdictions. The effective rate for continuing operations for the third quarter and first nine months of fiscal 2014 was an expense of 40.7% and an expense of 40.2%, respectively, reflecting the impact of increasing the U.S. valuation allowance, increasing the deferred tax liability for U.S. goodwill amortization for tax purposes, and the accrual of income taxes for foreign and certain state jurisdictions.

We regularly assess the realization of our net deferred tax assets and the need for any valuation allowance. This assessment requires management to make judgments about the benefits that could be realized from future taxable income, as well as other positive and negative factors influencing the realization of deferred tax assets. With the Company's fiscal 2014 U.S. pretax income, long carryforward periods in its U.S. federal tax losses and similar carryforward periods in a significant portion of its state tax losses, and projected fiscal 2015 and fiscal 2016 U.S. pretax income, we believe it is reasonably possible that sufficient positive evidence will exist during the next twelve months to release all or a significant portion of our valuation allowance on the Company's U.S. deferred tax assets.

Adjusted EBITDA

Adjusted EBITDA increased \$35 million, or 15.2%, in third quarter 2015 as compared to third quarter 2014, and \$91 million, or 14.7%, in the first nine months of fiscal 2015 as compared to the same period in fiscal 2014. Each of our reportable segments experienced an increase in Adjusted EBITDA in the third quarter and first nine months of fiscal 2015 as compared to same periods in fiscal 2014.

The increase in Adjusted EBITDA in the third quarter and first nine months of fiscal 2015 was primarily due to the increases in Net sales and Gross profit. Adjusted EBITDA as a percentage of Net sales increased approximately 120 basis points to 13.2% in third quarter 2015 as compared to third quarter 2014 and approximately 100 basis points to 12.4% in the first nine months of fiscal 2015 as compared to the same period in fiscal 2014, the increase in both periods was primarily due to gross margin improvements and a reduction in Selling, general and administrative expenses as a percentage of Net sales.

Table of Contents*Adjusted net income*

Adjusted net income increased \$51 million, or 62.2%, in third quarter 2015 as compared to third quarter 2014 and \$124 million, or 72.1%, in the first nine months of fiscal 2015 as compared to the same period in fiscal 2014. The increase in Adjusted net income in both periods was attributable to the sales growth, improving gross margins, and lower interest expense.

Results of operations by reportable segment*Facilities Maintenance*

Dollars in millions	Three Months Ended			Increase (Decrease)	Nine Months Ended		
	November 1, 2015	November 2, 2014			November 1, 2015	November 2, 2014	Increase (Decrease)
Net sales	\$ 716	\$ 660		8.5%	\$ 2,084	\$ 1,950	6.9%
Operating income	\$ 134	\$ 111		20.7%	\$ 386	\$ 292	32.2%
<i>% of Net sales</i>	<i>18.7%</i>	<i>16.8%</i>		<i>190bps</i>	<i>18.5%</i>	<i>15.0%</i>	<i>350bps</i>
Depreciation and amortization	12	28		-57.1%	38	93	-59.1%
Restructuring	3			*	3	2	*
Adjusted EBITDA	\$ 149	\$ 139		7.2%	\$ 427	\$ 387	10.3%
<i>% of Net sales</i>	<i>20.8%</i>	<i>21.1%</i>		<i>-30bps</i>	<i>20.5%</i>	<i>19.8%</i>	<i>70bps</i>

* Not meaningful

Net Sales

Net sales increased \$56 million, or 8.5%, in third quarter 2015 as compared to third quarter 2014 and \$134 million, or 6.9%, in the first nine months of fiscal 2015 as compared to the same period of fiscal 2014.

The increases in Net sales, in both the third quarter and first nine months of fiscal 2015, were 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. Net sales in the third quarter and first nine months of fiscal 2015 were positively impacted by favorable market conditions in the healthcare, hospitality and multifamily industries. Net sales increases in the first nine months of fiscal 2015 were partially offset by the unfavorable weather impacts at the beginning of first quarter 2015.

Adjusted EBITDA

Adjusted EBITDA increased \$10 million, or 7.2%, in third quarter 2015 as compared to third quarter 2014 and \$40 million, or 10.3%, in the first nine months of fiscal 2015 as compared to the same period of fiscal 2014.

The increase in both periods was primarily due to volume increases and operating leverage of fixed costs through sales volume increases and cost control efforts.

Adjusted EBITDA as a percentage of Net sales decreased approximately 30 basis points in third quarter 2015 as compared to third quarter 2014 and increased approximately 70 basis points in the first nine months of fiscal 2015 as compared to the same period of fiscal 2014. The decrease in third quarter 2015 was driven primarily by a reduction in overall gross margins due to product mix and an ongoing highly competitive market, partially offset by a reduction in Selling, general and administrative expenses as a percentage of Net sales. The increase in the first nine months of fiscal 2015 was due to 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 30 basis points in third quarter 2015 and declined approximately 80 basis points in the first nine months of fiscal 2015 as compared to the same periods of fiscal 2014. This improvement in both periods was primarily due to the leverage of fixed costs through sales volumes and cost control efforts.

Table of Contents**Waterworks**

Dollars in millions	Three Months Ended			Increase (Decrease)	Nine Months Ended			Increase (Decrease)
	November 1, 2015		November 2, 2014		November 1, 2015		November 2, 2014	
Net sales	\$	705	\$	695	\$	1,977	\$	1,911
Operating income	\$	65	\$	61	\$	170	\$	152
<i>% of Net sales</i>		<i>9.2%</i>		<i>8.8%</i>		<i>8.6%</i>		<i>8.0%</i>
Depreciation and amortization		4		3		10		10
Restructuring		1		*		1		*
Adjusted EBITDA	\$	70	\$	64	\$	181	\$	162
<i>% of Net sales</i>		<i>9.9%</i>		<i>9.2%</i>		<i>9.2%</i>		<i>8.5%</i>

* Not meaningful

Net Sales

Net sales increased \$10 million, or 1.4%, in third quarter 2015 as compared to third quarter 2014 and increased \$66 million, or 3.5%, in the first nine months of fiscal 2015 as compared to the same period of fiscal 2014.

Growth initiatives, including fusible piping solutions, meters, storm drainage, treatment plant, and new locations (greenfields), contributed to the increase in Net sales in third quarter 2015 and the first nine months of fiscal 2015. Improving conditions in residential and non-residential construction markets have been offset by sluggishness in municipal markets spending on water and sewer projects. Additionally, the increase in Net sales for both periods was partially offset by a decline in product pricing.

Adjusted EBITDA

Adjusted EBITDA increased \$6 million, or 9.4%, in third quarter 2015 as compared to third quarter 2014 and increased \$19 million, or 11.7%, in the first nine months of fiscal 2015 as compared to the same period of fiscal 2014.

The increase in both periods, as compared to the same periods of 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.

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Adjusted EBITDA as a percentage of Net sales increased approximately 70 basis points in both third quarter 2015 and the first nine months of fiscal 2015 as compared to the same periods of fiscal 2014. The improvement in both periods was primarily a result of improvements in gross margins due to product mix and our category management initiatives, 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.

Construction & Industrial - White Cap

Dollars in millions	Three Months Ended			Nine Months Ended		
	November 1, 2015	November 2, 2014	Increase (Decrease)	November 1, 2015	November 2, 2014	Increase (Decrease)
Net sales	\$ 451	\$ 411	9.7%	\$ 1,270	\$ 1,144	11.0%
Operating income	\$ 42	\$ 26	61.5%	\$ 104	\$ 58	79.3%
<i>% of Net sales</i>	<i>9.3%</i>	<i>6.3%</i>	<i>300bps</i>	<i>8.2%</i>	<i>5.1%</i>	<i>310bps</i>
Depreciation and amortization	6	9	-33.3%	19	30	-36.7%
Restructuring			*		2	*
Adjusted EBITDA	\$ 48	\$ 35	37.1%	\$ 123	\$ 90	36.7%
<i>% of Net sales</i>	<i>10.6%</i>	<i>8.5%</i>	<i>210bps</i>	<i>9.7%</i>	<i>7.9%</i>	<i>180bps</i>

* Not meaningful

Table of Contents

Net Sales

Net sales increased \$40 million, or 9.7%, in third quarter 2015 as compared to third quarter 2014 and increased \$126 million, or 11.0%, in the first nine months of fiscal 2015 as compared to the same period of fiscal 2014.

Growth initiatives contributed to the increase in the third quarter and first nine months of 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, Construction & Industrial Net sales were positively impacted by improvements in both non-residential construction and the residential housing markets.

Adjusted EBITDA

Adjusted EBITDA increased \$13 million, or 37.1%, in third quarter 2015 as compared to third quarter 2014 and increased \$33 million, or 36.7%, in the first nine months of 2015 as compared to the same period of fiscal 2014.

The increase in Adjusted EBITDA in both periods was primarily driven by growth initiatives and market volume. This increase was partially offset by increased Selling, general and administrative expense 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 210 basis points in third quarter 2015 as compared to third quarter 2014 and increased approximately 180 basis points in the first nine months of fiscal 2015 as compared to the same period of fiscal 2014. The improvement in both periods was driven by improvements in gross margins, due to product mix and category management initiatives, and a decrease in Selling, general and administrative expenses as a percentage of Net sales of approximately 70 basis points and 60 basis points in the third quarter and first nine months of fiscal 2015, respectively, due to the leverage of fixed costs through sales volume increases and cost control efforts.

Liquidity and capital resources

Sources and uses of cash

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

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

As of November 1, 2015, our combined liquidity of approximately \$1,258 million was comprised of \$77 million in cash and cash equivalents and \$1,181 million of additional available borrowings (excluding \$44 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:

Table of Contents

Net cash provided by (used for):

Amounts in millions

	Nine Months Ended			Increase (Decrease)
	November 1, 2015	November 2, 2014		
Operating activities	\$ 173	\$ 121	\$	52
Investing activities	751	(89)		840
Financing activities	(930)	(40)		(890)

Working capital

Working capital, excluding cash and cash equivalents, was \$1,024 million as of November 1, 2015, decreasing \$265 million as compared to \$1,289 million as of November 2, 2014. Excluding the impact of discontinued operations, working capital, excluding cash and cash equivalents, increased \$71 million as of November 1, 2015 as compared to November 2, 2014. The increase was primarily driven by an increase in Receivables and Inventory partially offset by an increase in Accounts Payable in support of the growth in the business.

Operating activities

During the first nine months of fiscal 2015 cash provided by operating activities was \$173 million compared to \$121 million in the first nine months of fiscal 2014. Cash interest paid in the first nine months of fiscal 2015 was \$354 million, compared to \$426 million in the first nine months of fiscal 2014. Cash flows from operating activities during the first nine months of 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 the first nine months of 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 \$30 million and \$101 million during the first nine months of 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 \$115 million in the first nine months of fiscal 2015 as compared to the first nine months of fiscal 2014.

Investing activities

During the first nine months of fiscal 2015, cash provided by investing activities was \$751 million, primarily comprised of \$810 million of cash received from the sale of a business, net of transaction costs, offset by \$61 million of capital expenditures. During the first nine months of fiscal 2014, cash used by investing activities was \$89 million, primarily for capital expenditures.

Financing activities

During the first nine months of fiscal 2015, cash used in financing activities was \$930 million, primarily due to net debt repayments of \$929 million, partially offset by \$55 million of proceeds from employee stock option exercises, and purchases of treasury shares of \$51 million.

During the first nine months of fiscal 2014, cash used in financing activities was \$40 million, primarily due to net debt repayments of \$37 million, purchases of treasury shares of \$40 million during the period, partially offset by proceeds from employee stock option exercises of \$40 million.

External Financing

As of November 1, 2015, we had an aggregate principal amount of \$4.4 billion of outstanding indebtedness, net of unamortized discounts of \$11 million, and \$1,225 million of additional available borrowings under our Senior ABL Facility (after giving effect to the borrowing base limitations and approximately \$34 million in letters of credit issued and including \$44 million of borrowings available on qualifying cash balances). From time to time, depending on market conditions and other factors, the Company may seek to repay, redeem, repurchase or otherwise acquire or refinance all or a portion of our indebtedness. We may make such repurchases in privately negotiated transactions or otherwise.

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Table of Contents

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 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. The Incremental Agreement also provides for a prepayment premium equal to 1.00% of the aggregate principal amount of Term Loans being prepaid if, on or prior to February 13, 2016, the Company enters into certain repricing transactions.

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 4, Debt*, in the Notes to the Consolidated Financial Statements within Item 1 of this quarterly report on Form 10-Q.

Rating agency actions

In August 2015, Moody's Investors Service (*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 availability. 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.

Critical accounting policies

Our condensed consolidated financial statements have been prepared in accordance with GAAP. Preparation of these statements requires management to make judgments and estimates. Some accounting policies have a significant impact on amounts reported in these consolidated financial statements. The Company's critical accounting policies have not changed from those reported in Management's Discussion and Analysis of Financial Condition and Results of Operations in our Form 10-K, for the fiscal year ended February 1, 2015.

Recent accounting pronouncements

Inventory In July 2015, The Financial Accounting Standards Board (FASB) issued Accounting Standards Update 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.

Table of Contents

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 adoptions of the ASU s are not expected to have a material impact on the Company s financial position or results of operations.

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 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.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risk associated with changes in interest rates, foreign currency exchange rate fluctuations and certain commodity prices. To reduce these risks, we selectively use financial instruments and other proactive management techniques. We do not use financial instruments for trading purposes or speculation. There have been no material changes in our market risk exposures as compared to those discussed in our annual report on Form 10-K, for the fiscal year ended February 1, 2015.

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures

HD Supply Holdings, Inc.

Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer of HD Supply Holdings, Inc., we have evaluated the effectiveness of our disclosure controls and procedures as required by Exchange Act Rule 13a-15(b) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the HD Supply Holdings, Inc. disclosure controls and procedures were effective as of November 1, 2015 (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 November 1, 2015 (the end of the period covered by this report).

(b) Changes in internal control

There were no changes in Holdings or HDS's internal control over financial reporting, as defined in the Exchange Act Rules 13a-15(f) or 15d-15(f), during the third quarter of fiscal 2015 that have materially affected, or are reasonably likely to materially affect, Holdings or HDS's internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

HD Supply is involved in various legal proceedings arising in the normal course of its business. The Company establishes reserves for litigation and similar matters when those matters present loss contingencies that it determines to be both probable and reasonably estimable in accordance with ASC 450, Contingencies. In the opinion of management, based on current knowledge, all reasonably estimable and probable matters, 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 \$10 million. If a material loss is probable or reasonably possible, and in either case estimable, the Company has considered it in the analysis and it is included in the discussion set forth above.

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

Table of Contents

Company by the United States related to the activities of certain disadvantaged business enterprises, including American Indian Builders and Suppliers, Inc. 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 Company entered into an Administrative Settlement and Compliance Agreement (the 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, 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 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 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.

Item 1A. Risk Factors

We discuss in our filings with the SEC various risks that may materially affect our business. There have been no material changes to the risk factors disclosed in our annual report on Form 10-K for the fiscal year ended February 1, 2015.

The materialization of any risks and uncertainties identified in forward-looking statements contained in this report together with those previously disclosed in our annual report on Form 10-K for the fiscal year ended February 1, 2015 and our and HDS's other filings with the SEC or those that are presently unforeseen could result in significant adverse effects on our financial condition, results of operations and cash flows. See Forward-looking statements and information at the beginning of this report.

Table of Contents**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds****(c) Purchases of Equity Securities**

In the first quarter of fiscal 2014, Holdings Board of Directors authorized a share repurchase program to be funded from cash proceeds received from exercises of employee stock options. This share repurchase program does not obligate Holdings to acquire any particular amount of common stock, and it may be terminated at any time at Holdings' discretion.

Issuer Purchases of Equity Securities in each fiscal month of the third 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)
Aug 3 Aug 30	255,800	\$ 34.05	255,800	\$ 1,224
Aug 31 Sept 27	14,500	30.97	14,500	11,430,175
Sept 28 Nov 1	362,500	29.47	362,500	2,507,079
Total	632,800	\$ 31.36	632,800	

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

During the three and nine months ended November 1, 2015, Holdings retired 1,384,622 and 1,976,053 shares, respectively, of its common stock (Retired Shares) held as Treasury Shares by Holdings in the amounts of \$46 million and \$63 million, respectively. All of these shares were repurchased by Holdings pursuant to the previously authorized share repurchase program. Holdings reinstated the Retired Shares to the status of authorized but unissued shares of common stock, par value \$0.01 per share, effective as of the date of retirement. In accordance with Accounting Standards Codification 505-30, Equity-Treasury Stock, Holdings reversed the \$0.01 par value of the Retired Shares and the excess of the cost of the Retired Shares over par value to Retained Earnings.

Table of Contents

Item 6. Exhibits

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

Exhibit Number	Exhibit Description
10.1	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 lender parties thereto (incorporated by reference to Form 10-Q of HD Supply Holdings, Inc. (File No. 001-35979) and HD Supply, Inc. (File No. 333-159809) September 9, 2015.)
10.2	Form of Employee Stock Option Agreement (November 2015).
10.3	Form of Employee Restricted Stock Agreement (November 2015).
10.4	Separation Agreement & Release of Claims, dated November 17, 2015, among HD Supply, Inc., HD Supply Holdings, Inc., and Jerry Webb.
10.5	Separation Agreement & Release of Claims, dated September 23, 2015, among HD Supply, Inc., HD Supply Holdings, Inc., and Anesa T. Chaibi.
21.1	List of Subsidiaries.
31.1	Certification of Chairman of the Board, President and Chief Executive Officer of HD Supply Holdings, Inc. pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Senior Vice President and Chief Financial Officer of HD Supply Holdings, Inc. pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.
31.3	Certification of Chairman of the Board, President and Chief Executive Officer of HD Supply, Inc. pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.
31.4	Certification of Senior Vice President and Chief Financial Officer of HD Supply, Inc. pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chairman of the Board, President and Chief Executive Officer of HD Supply Holdings, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Senior Vice President and Chief Financial Officer of HD Supply Holdings, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.3	Certification of Chairman of the Board, President and Chief Executive Officer of HD Supply, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.4	Certification of Senior Vice President and Chief Financial Officer of HD Supply, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	Interactive data files pursuant to Rule 405 of Regulation S-T.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HD SUPPLY HOLDINGS, INC.
(Registrant)

December 7, 2015
(Date)

By:

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

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

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HD SUPPLY, INC.
(Registrant)

December 7, 2015
(Date)

By:

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

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