

LOWES COMPANIES INC

Form 10-Q

September 02, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended July 29, 2016

or

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

For the transition period from _____ to _____

Commission File Number 1-7898

LOWE'S COMPANIES, INC.

(Exact name of registrant as specified in its charter)

North Carolina

56-0578072

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

1000 Lowe's Blvd., Mooresville, NC

28117

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code

(704) 758-1000

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. ☒ 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 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ☒ 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.

Large accelerated filer ☒ Accelerated filer ☐

Non-accelerated filer ☐ Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ☐ Yes ☒ No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

CLASS	OUTSTANDING AT 8/26/2016
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Common Stock, \$0.50 par value	874,659,454
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Part I - FINANCIAL INFORMATION

Item 1. - Financial Statements

Lowe's Companies, Inc.

Consolidated Balance Sheets

In Millions, Except Par Value Data

	(Unaudited)		(Unaudited)
	July 29, 2016	July 31, 2015	January 29, 2016
Assets			
Current assets:			
Cash and cash equivalents	\$ 1,988	\$ 901	\$ 405
Short-term investments	168	188	307
Merchandise inventory - net	10,604	9,704	9,458
Other current assets	591	322	391
Total current assets	13,351	11,115	10,561
Property, less accumulated depreciation	20,274	19,751	19,577
Long-term investments	604	412	222
Deferred income taxes - net	250	254	241
Goodwill	1,074	154	154
Other assets	918	1,050	511
Total assets	\$ 36,471	\$ 32,736	\$ 31,266
Liabilities and equity			
Current liabilities:			
Short-term borrowings	\$ —	\$ —	\$ 43
Current maturities of long-term debt	1,193	1,014	1,061
Accounts payable	7,696	7,123	5,633
Accrued compensation and employee benefits	750	667	820
Deferred revenue	1,285	1,146	1,078
Other current liabilities	2,259	2,191	1,857
Total current liabilities	13,183	12,141	10,492
Long-term debt, excluding current maturities	14,618	10,336	11,545
Deferred revenue - extended protection plans	744	739	729
Other liabilities	904	833	846
Total liabilities	29,449	24,049	23,612
Equity:			
Preferred stock - \$5 par value, none issued	—	—	—
Common stock - \$0.50 par value;			
Shares issued and outstanding			
July 29, 2016	881		
July 31, 2015	928		
January 29, 2016	910	440	455
Capital in excess of par value	—	—	—
Retained earnings	6,839	8,533	7,593
Accumulated other comprehensive loss	(366)	(310)	(394)
Total Lowe's Companies, Inc. shareholders' equity	6,913	8,687	7,654
Noncontrolling interest	109	—	—
Total equity	7,022	8,687	7,654

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Total liabilities and equity	\$ 36,471	\$ 32,736	\$ 31,266
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See accompanying notes to the consolidated financial statements (unaudited).

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Lowe's Companies, Inc.

Consolidated Statements of Current and Retained Earnings (Unaudited)

In Millions, Except Per Share and Percentage Data

	Three Months Ended				Six Months Ended			
	July 29, 2016		July 31, 2015		July 29, 2016		July 31, 2015	
	Amount	% Sales	Amount	% Sales	Amount	% Sales	Amount	% Sales
Current Earnings								
Net sales	\$18,260	100.00	\$17,348	100.00	\$33,494	100.00	\$31,478	100.00
Cost of sales	11,972	65.56	11,367	65.53	21,868	65.29	20,486	65.08
Gross margin	6,288	34.44	5,981	34.47	11,626	34.71	10,992	34.92
Expenses:								
Selling, general and administrative	3,871	21.20	3,634	20.94	7,265	21.69	7,047	22.39
Depreciation	366	2.00	375	2.16	723	2.16	741	2.35
Interest - net	166	0.91	133	0.77	323	0.96	267	0.85
Total expenses	4,403	24.11	4,142	23.87	8,311	24.81	8,055	25.59
Pre-tax earnings	1,885	10.33	1,839	10.60	3,315	9.90	2,937	9.33
Income tax provision	718	3.94	713	4.11	1,264	3.78	1,138	3.62
Net earnings	\$1,167	6.39	\$1,126	6.49	\$2,051	6.12	\$1,799	5.71
Weighted average common shares outstanding - basic	883		931		890		940	
Basic earnings per common share	\$1.32		\$1.20		\$2.29		\$1.90	
Weighted average common shares outstanding - diluted	885		933		892		942	
Diluted earnings per common share	\$1.31		\$1.20		\$2.29		\$1.90	
Cash dividends per share	\$0.35		\$0.28		\$0.63		\$0.51	
Retained Earnings								
Balance at beginning of period	\$7,074		\$9,085		\$7,593		\$9,591	
Net earnings	1,167		1,126		2,051		1,799	
Cash dividends	(309)		(260)		(560)		(478)	
Share repurchases	(1,093)		(1,418)		(2,245)		(2,379)	
Balance at end of period	\$6,839		\$8,533		\$6,839		\$8,533	

See accompanying notes to the consolidated financial statements (unaudited).

Lowe's Companies, Inc.

Consolidated Statements of Comprehensive Income (Unaudited)

In Millions, Except Percentage Data

	Three Months Ended				Six Months Ended			
	July 29, 2016		July 31, 2015		July 29, 2016		July 31, 2015	
	Amount	% Sales	Amount	% Sales	Amount	% Sales	Amount	% Sales
Net earnings	\$1,167	6.39	\$1,126	6.49	\$2,051	6.12	\$1,799	5.71
Foreign currency translation adjustments - net of tax	(56)	(0.30)	(229)	(1.32)	27	0.09	(207)	(0.66)
Other comprehensive income/(loss)	(56)	(0.30)	(229)	(1.32)	27	0.09	(207)	(0.66)
Comprehensive income	\$1,111	6.09	\$897	5.17	\$2,078	6.21	\$1,592	5.05

See accompanying notes to the consolidated financial statements (unaudited).

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Lowe's Companies, Inc.
Consolidated Statements of Cash Flows (Unaudited)
In Millions

	Six Months Ended	
	July 29, 2016	July 31, 2015
Cash flows from operating activities:		
Net earnings	\$2,051	\$1,799
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	778	791
Deferred income taxes	(25)	(102)
(Gain)/Loss on property and other assets - net	(51)	17
Loss on equity method investments	5	31
Share-based payment expense	49	57
Changes in operating assets and liabilities:		
Merchandise inventory - net	(310)	(804)
Other operating assets	84	27
Accounts payable	1,723	2,005
Other operating liabilities	324	343
Net cash provided by operating activities	4,628	4,164
Cash flows from investing activities:		
Purchases of investments	(675)	(488)
Proceeds from sale/maturity of investments	431	366
Capital expenditures	(490)	(570)
Contributions to equity method investments - net	—	(39)
Proceeds from sale of property and other long-term assets	17	20
Purchases of derivative instruments	(103)	—
Proceeds from settlement of derivative instruments	179	—
Acquisition of business - net	(2,284)	—
Other - net	(9)	(25)
Net cash used in investing activities	(2,934)	(736)
Cash flows from financing activities:		
Net change in short-term borrowings	(44)	—
Net proceeds from issuance of long-term debt	3,267	—
Repayment of long-term debt	(495)	(31)
Proceeds from issuance of common stock under share-based payment plans	82	62
Cash dividend payments	(506)	(440)
Repurchase of common stock	(2,454)	(2,629)
Other - net	40	50
Net cash used in financing activities	(110)	(2,988)
Effect of exchange rate changes on cash	(1)	(5)
Net increase in cash and cash equivalents	1,583	435
Cash and cash equivalents, beginning of period	405	466
Cash and cash equivalents, end of period	\$1,988	\$901

See accompanying notes to the consolidated financial statements (unaudited).

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Lowe's Companies, Inc.

Notes to Consolidated Financial Statements (Unaudited)

Note 1: Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements (unaudited) and notes to the consolidated financial statements (unaudited) are presented in accordance with the rules and regulations of the Securities and Exchange Commission and do not include all the disclosures normally required in annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The consolidated financial statements (unaudited), in the opinion of management, contain all adjustments necessary to present fairly the financial position as of July 29, 2016 and July 31, 2015, the results of operations and comprehensive income for the three and six months ended July 29, 2016 and July 31, 2015, and cash flows for the six months ended July 29, 2016 and July 31, 2015.

These interim consolidated financial statements (unaudited) should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Lowe's Companies, Inc. (the Company) Annual Report on Form 10-K for the fiscal year ended January 29, 2016 (the Annual Report). The financial results for the interim periods may not be indicative of the financial results for the entire fiscal year.

Reclassifications

In the fourth quarter of fiscal year 2015, the Company elected to early adopt Accounting Standards Update (ASU) 2015-17, Balance Sheet Classification of Deferred Taxes, and ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs, and applied the new guidance on a retrospective basis. The adoption of ASU 2015-17 resulted in a reclassification of \$254 million of current deferred tax assets to noncurrent deferred tax assets in the Company's consolidated balance sheet as of July 31, 2015. The adoption of ASU 2015-03 resulted in a reclassification of debt issuance costs of \$9 million from noncurrent other assets to long-term debt, excluding current maturities in the Company's consolidated balance sheet as of July 31, 2015. Additionally, prior period amounts representing goodwill have been reclassified and separately noted in the Company's consolidated balance sheets to conform to current presentation.

Recent Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The ASU eliminates the APIC pool concept and requires that excess tax benefits and tax deficiencies be recorded in the income statement when awards are settled. The pronouncement also addresses simplifications related to statement of cash flows classification, accounting for forfeitures, and minimum statutory tax withholding requirements. This ASU is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods, with early adoption permitted. The Company is currently evaluating the impact of adopting the ASU on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The guidance in this ASU supersedes the leasing guidance in Topic 840, Leases. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for those leases previously classified as operating leases. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. If a lessee makes this election, it should recognize lease expense for such

leases generally on a straight-line basis over the lease term. This ASU is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption permitted. The Company is currently evaluating the impact of adopting this ASU on its consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Liabilities. The ASU requires, among other things, that entities measure equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) at fair value, with changes in fair value recognized in net income. Under this ASU, entities will no longer be able to recognize unrealized holding gains and losses on available-for-sale equity securities in other comprehensive income, and they will no longer be able to use the cost method of accounting for equity securities that do not have readily determinable fair values. The guidance for classifying and measuring investments in debt securities and loans is not impacted. ASU 2016-01 eliminates certain disclosure requirements related to financial instruments measured at amortized cost and adds disclosures related to the measurement categories of financial assets and financial liabilities. The guidance is effective for annual periods beginning after December 15, 2017. Early adoption is

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permitted for only certain portions of the ASU. The adoption of this guidance by the Company is not expected to have a material impact on its consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11, Simplifying the Measurement of Inventory. The ASU requires entities using the first-in, first-out (FIFO) inventory costing method to subsequently value inventory at the lower of cost and net realizable value. The ASU defines net realizable value as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. This ASU requires prospective application and is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years, with early adoption permitted. The adoption of this guidance by the Company is not expected to have a material impact on its consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. The ASU is a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of 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. In August 2015, the FASB issued ASU 2015-14, which deferred the effective date of the ASU to fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after December 15, 2016. Companies may use either a full retrospective or a modified retrospective approach to adopt this ASU. The Company is currently evaluating the transition methods and the impact of this guidance, along with related amendments and interpretations, on its consolidated financial statements.

Note 2: Acquisitions - On May 20, 2016, the Company acquired all of the issued and outstanding common shares of RONA inc. (RONA) for C\$24 per share in cash. In addition, as part of the transaction, borrowings under RONA's revolving credit facility were settled in full at the closing of the acquisition, and the facility was eliminated. Total cash consideration to acquire the equity and settle the debt was C\$3.1 billion (\$2.4 billion). RONA is one of Canada's largest retailers and distributors of hardware, building materials, home renovation, and gardening products. The acquisition is expected to enable the Company to accelerate its growth strategy by significantly expanding its presence in the Canadian home improvement market. Acquisition-related costs were expensed as incurred and were not significant. The aggregate purchase price of this acquisition was preliminarily allocated as follows:

(In millions)	May 20, 2016
Purchase price:	
Cash paid	\$2,367
Allocation:	
Cash acquired	83
Accounts receivable	260
Merchandise inventory	817
Property	923
Amortizable intangible assets:	
Trademarks	203
Dealer relationships	106
Other assets	142
Goodwill	922
Current liabilities assumed	(615)
Long-term liabilities assumed	(365)
Noncontrolling interest	(109)
Total net assets acquired	\$2,367

The intangible assets acquired include trademarks of \$203 million with a weighted average useful life of 15 years and dealer relationships of \$106 million with a weighted average useful life of 20 years, which are included in other assets in the accompanying consolidated balance sheets. The goodwill of \$922 million is primarily attributable to the synergies expected to arise after the acquisition. Due to the timing of the acquisition, the allocation of goodwill to reporting units has not yet been determined. Both the intangible assets and goodwill are not expected to be deductible for tax purposes.

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As of the acquisition date, 6.9 million preferred shares of RONA remained outstanding. The total fair value of the shares and Lowe's corresponding noncontrolling interest was \$109 million, which was determined based on the closing market price of RONA's preferred shares on the acquisition date. The preferred shares consist of approximately 4.7 million Cumulative and Fixed 5-Year Rate Reset Series 6 Class A shares (Series 6 Shares) and approximately 2.2 million Cumulative and Variable 5-Year Rate Reset Series 7 Class A shares (Series 7 Shares). The Series 6 Shares are entitled to receive fixed cumulative preferential cash dividends when declared by the RONA Board of Directors, payable quarterly, based on an annually set dividend rate. The current rate for the Series 6 Shares is 3.324%. The Series 7 Shares are entitled to a floating rate of interest equal to the sum of the T-Bill Rate on the applicable floating rate calculation date, plus 2.65% (calculated on the basis of the actual number of days elapsed in such quarterly floating rate period divided by 365). The current rate for the Series 7 Shares is 3.200%. The payment of dividends for the preferred shares is expected to total approximately C\$3.4 million in fiscal 2016. The preferred shares also include a liquidation preference for a voluntary or involuntary liquidation equal to the par or stated value of the shares (C\$25 per share) plus accrued and unpaid dividends.

In addition, the transaction included the assumption by Lowe's of unsecured debentures held by RONA. As of the acquisition date, the debentures were approximately C\$118 million (\$91 million) and are payable in October 2016.

Pro forma and historical financial information has not been provided as the acquisition was not material to the consolidated financial statements. In addition, net earnings attributable to noncontrolling interest was not significant for any of the reporting periods presented.

Note 3: Fair Value Measurements - Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The authoritative guidance for fair value measurements establishes a three-level hierarchy, which encourages an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of the hierarchy are defined as follows:

- Level 1 - inputs to the valuation techniques that are quoted prices in active markets for identical assets or liabilities
- Level 2 - inputs to the valuation techniques that are other than quoted prices but are observable for the assets or liabilities, either directly or indirectly
- Level 3 - inputs to the valuation techniques that are unobservable for the assets or liabilities

Assets and Liabilities that are Measured at Fair Value on a Recurring Basis

The following table presents the Company's financial assets measured at fair value on a recurring basis as of July 29, 2016, July 31, 2015, and January 29, 2016:

(In millions)	Measurement Level	Fair Value Measurements at		
		July 29, 2016	July 31, 2015	January 29, 2016
Short-term investments:				
Available-for-sale securities				
Certificates of deposit	Level 1	\$95	\$ 116	\$ 56
Municipal obligations	Level 2	42	12	38
Money market funds	Level 1	25	57	192
Municipal floating rate obligations	Level 2	6	3	21
Total short-term investments		\$168	\$ 188	\$ 307
Long-term investments:				
Available-for-sale securities				

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Municipal floating rate obligations	Level 2	\$598	\$ 402	\$ 212
Municipal obligations	Level 2	4	5	5
Certificates of deposit	Level 1	2	5	5
Total long-term investments		\$604	\$ 412	\$ 222

There were no transfers between Levels 1, 2 or 3 during any of the periods presented.

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When available, quoted prices were used to determine fair value. When quoted prices in active markets were available, investments were classified within Level 1 of the fair value hierarchy. When quoted prices in active markets were not available, fair values were determined using pricing models, and the inputs to those pricing models were based on observable market inputs. The inputs to the pricing models were typically benchmark yields, reported trades, broker-dealer quotes, issuer spreads, and benchmark securities, among others.

Assets and Liabilities that are Measured at Fair Value on a Nonrecurring Basis

During the three and six months ended July 29, 2016 and July 31, 2015, the Company had no significant measurements of assets and liabilities at fair value on a nonrecurring basis subsequent to their initial recognition.

Fair Value of Financial Instruments

The Company's financial instruments not measured at fair value on a recurring basis include cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities, and long-term debt and are reflected in the financial statements at cost. With the exception of long-term debt, cost approximates fair value for these items due to their short-term nature. The fair values of the Company's unsecured notes were estimated using quoted market prices. The fair values of the Company's mortgage notes were estimated using discounted cash flow analyses, based on the future cash outflows associated with these arrangements and discounted using the applicable incremental borrowing rate.

Carrying amounts and the related estimated fair value of the Company's long-term debt, excluding capitalized lease obligations, are as follows:

(In millions)	July 29, 2016		July 31, 2015		January 29, 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Unsecured notes (Level 1)	\$14,956	\$17,284	\$10,854	\$12,017	\$12,073	\$13,292
Mortgage notes (Level 2)	10	11	7	8	7	8
Long-term debt (excluding capitalized lease obligations)	\$14,966	\$17,295	\$10,861	\$12,025	\$12,080	\$13,300

Carrying amounts as of July 31, 2015 have been retrospectively adjusted as a result of the Company's adoption of ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs, during the fourth quarter of fiscal 2015. The adoption of this accounting standard required reclassification of debt issuance costs from other assets to long-term debt, excluding current maturities.

Note 4: Restricted Investment Balances - Short-term and long-term investments include restricted balances pledged as collateral primarily for the Company's extended protection plan program. Restricted balances included in short-term investments were \$60 million at July 29, 2016, \$67 million at July 31, 2015, and \$234 million at January 29, 2016.

Restricted balances included in long-term investments were \$332 million at July 29, 2016, \$294 million at July 31, 2015, and \$202 million at January 29, 2016.

Note 5: Property - Property is shown net of accumulated depreciation of \$16.8 billion at July 29, 2016, \$15.9 billion at July 31, 2015, and \$16.3 billion at January 29, 2016.

Note 6: Extended Protection Plans - The Company sells separately-priced extended protection plan contracts under a Lowe's-branded program for which the Company is self-insured. The Company recognizes revenue from extended protection plan sales on a straight-line basis over the respective contract term. Extended protection plan contract terms primarily range from one to four years from the date of purchase or the end of the manufacturer's warranty, as applicable. Changes in deferred revenue for extended protection plan contracts are summarized as follows:

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(In millions)	Three Months		Six Months	
	Ended	Ended	Ended	Ended
	July 29,	July 31,	July 29,	July 31,
	2016	2015	2016	2015
Deferred revenue - extended protection plans, beginning of period	\$726	\$ 727	\$729	\$ 730
Additions to deferred revenue	106	100	192	182
Deferred revenue recognized	(88)	(88)	(177)	(173)
Deferred revenue - extended protection plans, end of period	\$744	\$ 739	\$744	\$ 739

Incremental direct acquisition costs associated with the sale of extended protection plans are also deferred and recognized as expense on a straight-line basis over the respective contract term. Deferred costs associated with extended protection plan contracts were \$18 million at July 29, 2016, \$24 million at July 31, 2015, and \$20 million at January 29, 2016. The Company's extended protection plan deferred costs are included in other assets in the accompanying consolidated balance sheets. All other costs, such as costs of services performed under the contract, general and administrative expenses, and advertising expenses are expensed as incurred.

The liability for extended protection plan claims incurred is included in other current liabilities in the accompanying consolidated balance sheets and was not material in any of the periods presented. Expenses for claims are recognized when incurred and totaled \$38 million and \$68 million for the three and six months ended July 29, 2016, respectively, and \$30 million and \$59 million for the three and six months ended July 31, 2015, respectively.

Note 7: Long-Term Debt - On April 20, 2016, the Company issued \$3.30 billion of unsecured notes in four tranches: \$250 million of floating rate notes maturing in April 2019 (the 2019 Floating Rate Notes); \$350 million of 1.15% notes maturing in April 2019 (the 2019 Fixed Rate Notes); \$1.35 billion of 2.50% notes maturing in April 2026 (the 2026 Fixed Rate Notes); and \$1.35 billion of 3.70% notes maturing in April 2046 (the 2046 Fixed Rate Notes). The 2019 Fixed Rate Notes, the 2026 Fixed Rate Notes, the 2046 Fixed Rate Notes (collectively the Fixed Rate Notes), and the 2019 Floating Rate Notes were issued at discounts of approximately \$1 million, \$12 million, \$19 million, and \$1 million, respectively. The discounts associated with these issuances are included in long-term debt and are being amortized over the respective terms of the notes using the effective interest rate method. The 2019 Floating Rate Notes will bear interest at a floating rate, reset quarterly, equal to the three-month LIBOR plus 0.24% (0.92% as of July 29, 2016). Interest on the 2019 Floating Rate Notes is payable quarterly in arrears in April, July, October, and January of each year until maturity, beginning in July 2016. Interest on the Fixed Rate Notes is payable semiannually in arrears in April and October of each year until maturity, beginning in