FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1999-09-10** | Period of Report: **1999-07-31**
SEC Accession No. 0000104169-99-000006

(HTML Version on secdatabase.com)

FILER

WAL MART STORES INC
CIK:**104169**| IRS No.: **710415188** | State of Incorp.:**DE** | Fiscal Year End: **0131**
Type: **10-Q** | Act: **34** | File No.: **001-06991** | Film No.: **99709660**
SIC: **5331** Variety stores

Mailing Address
702 SOUTHWEST 8TH STREET
BENTONVILLE AR 72716

Business Address
702 SOUTHWEST 8TH ST
BENTONVILLE AR 72716
5012734000

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<HTML>

<head>
<TITLE>UNITED STATESSECURITIES AND EXCHANGE COMMISSIONWashington</TITLE>
</head>

<body>

<p align="center"><b>UNITED STATES<br>
SECURITIES AND EXCHANGE COMMISSION<br>
Washington, D.C. 20549</p>
</b>

<p ALIGN="left"><b>(Mark One)<br>
</b>[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of
1934 for the quarterly period ended <u>July 31, 1999</u>.<br>
                                   
or<br>
[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of
1934 for the transition period from ______to______.<br>
<br>
Commission file number <u>1-6991</u></p>

<p ALIGN="center"><u> WAL-MART STORES, INC. </u><br>
(Exact name of registrant as specified in its charter)</p>
<div align="center"><center>

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    <td width="381" align="center" height="20"><u>Delaware </u></td>
    <td width="340" align="center" height="20"><u>71-0415188</u></td>
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  <tr>
    <td width="381" align="center" height="34">(State or other jurisdiction of incorporation
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    <td width="340" align="center" height="34">(I.R.S. Employer Identification No.)</td>
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  <tr>
    <td width="381" align="center" height="18">702 S.W. Eighth Street</td>
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    <td width="381" align="center" height="18"><u>Bentonville, Arkansas </u></td>
    <td width="340" align="center" height="18"><u>72716</u> </td>
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    <td width="381" align="center" height="18">(Address of principal executive offices)</td>
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  <tr>
    <td width="721" align="center" height="18" colspan="2">(501) 273-4000</td>
  </tr>
  <tr>
    <td width="721" align="center" height="18" colspan="2">(Registrant&#146;s telephone
    number, including area code)</td>
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  <tr>
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  <tr>
    <td width="721" align="center" height="18" colspan="2">(Former name, former address and
    former fiscal year,<br>
    if changed since last report)</td>
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<p ALIGN="left">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 such shorter periods that the registrant was required to file
such reports), and (2) has been subject to such filing requirements for the past 90 days.</p>

<p ALIGN="center">Yes __<u>X</u>__ No _____</p>

<p ALIGN="center">Applicable Only to Issuers Involved in Bankruptcy<br>
Proceedings During the Preceding Five Years</p>

<p ALIGN="left">Indicate by check mark whether the registrant has filed all documents and
reports required to be filed by Sections 12, 13, or 15(d) of the Securities Exchange Act
of 1934 subsequent to the distribution of securities under a plan confirmed by the court.</p>

<p ALIGN="center">Yes _____ No _____</p>

<p ALIGN="CENTER">Applicable Only to Corporate Issuers</p>

<p ALIGN="JUSTIFY">Indicate the number of shares outstanding of each of the issuer&#146;s
classes of common stock, as of the latest practical date.</p>

<p ALIGN="JUSTIFY">Common Stock, $.10 Par Value &#150; 4,448,731,409 shares as of July 31,
1999.</p>

<p ALIGN="JUSTIFY"> </p>

<p ALIGN="JUSTIFY"> </p>

<p ALIGN="center"><strong>Page 1 of 18 (Form 10-Q)</strong><br>
</p>

<p><b> </p>

<p ALIGN="center">PART I. FINANCIAL INFORMATION</p>

<p ALIGN="left">Item 1. Financial Statements</p>
</b>

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    CONDENSED CONSOLIDATED BALANCE SHEETS<br>
    (Amounts in millions)</b></font></td>
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    <td WIDTH="72" VALIGN="top" HEIGHT="12"><font size="2"><p ALIGN="RIGHT">$ 1,508 </font></td>
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  <td WIDTH="72" VALIGN="top" HEIGHT="12"><font size="2"><p ALIGN="RIGHT">22,557 </font></td>
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    <u>July 31,</u></font></td>
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</tr>
<tr>
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<tr>
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  <td WIDTH="10%" VALIGN="TOP" HEIGHT="17"><font size="2"><p ALIGN="RIGHT">$ 0.23 </font></td>
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  <td WIDTH="10%" VALIGN="TOP" HEIGHT="17"><font size="2"><p ALIGN="RIGHT">$ 0.53 </font></td>
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  <td WIDTH="4%" VALIGN="TOP" HEIGHT="17"></td>
  <td WIDTH="10%" VALIGN="TOP" HEIGHT="17"><font size="2"><p ALIGN="RIGHT">$ 0.23 </font></td>
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  <td WIDTH="10%" VALIGN="TOP" HEIGHT="17"><font size="2"><p ALIGN="RIGHT">$ 0.53 </font></td>
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<tr>
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  <td WIDTH="4%" VALIGN="TOP" HEIGHT="17"></td>
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<tr>
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  <td WIDTH="4%" VALIGN="TOP" HEIGHT="17"></td>
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<small>Page 3 of 18 (Form 10-Q)</small></strong></p>

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</b><small><strong>Page 4 of 18 (Form 10 - Q)</strong></small></p>

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<p ALIGN="CENTER">WAL-MART STORES, INC. AND SUBSIDIARIES<br>
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS</p>
</b><u>

<p ALIGN="JUSTIFY">NOTE 1. Basis of Presentation</u></p>

<p ALIGN="center">    The condensed consolidated balance sheet as of July
31, 1999, and the related condensed consolidated statements of income for the three and
six month periods ended July 31, 1999, and 1998, and the condensed consolidated statements
of cash flows for the six month periods ended July 31, 1999, and 1998, are unaudited. In
the opinion of management, all adjustments necessary for a fair presentation of the
financial statements have been included. The adjustments consisted only of normal
recurring items. Interim results are not necessarily indicative of results for a full
year. <br>
<br>
   The financial statements and notes are presented in accordance with the rules
and regulations of the Securities and Exchange Commission and do not contain certain
information included in the Company&#146;s annual report. Therefore, the interim
statements should be read in conjunction with the Company's annual report for the fiscal
year ended January 31, 1999.<br>
<br>
   Certain reclassifications have been made to prior periods to conform to
current presentations.<br>
<u><br>
NOTE 2. Inventories</u><br>
<br>
   The Company uses the retail last-in, first-out (LIFO) method for the Wal-Mart
Stores segment, cost LIFO for the Sam&#146;s Club segment, and other cost methods for the
International segment. Inventories are not in excess of market value. Quarterly inventory
determinations under LIFO are partially based on assumptions as to inventory levels at the
end of the fiscal year, sales for the year and the rate of inflation for the year. If the
first-in, first-out (FIFO) method of accounting had been used by the Company, inventories
at July 31, 1999, would have been $433 million higher than reported, which is a decrease
in the LIFO reserve of $40 million from January 31, 1999, and a decrease of $20 million
from April 30, 1999. If the FIFO method had been used at July 31, 1998, inventories would
have been $403 million higher than reported, an increase in the LIFO reserve of $55
million from January 31, 1998, and an increase of $40 million from April 30, 1998. <br>
<u><br>
NOTE 3. Costs of computer software<br>
</u><br>
    In March 1998, the Accounting Standards Executive Committee issued
Statement of Position (SOP) 98-1, &quot;Accounting For the Costs of Computer Software
Developed For or Obtained For Internal Use.&quot; The SOP is effective for the Company as
of February 1, 1999. The SOP requires the capitalization of certain costs incurred in
connection with developing or obtaining software for internal use. The adoption of SOP
98-1 did not have a material impact on the results of operations for the three and six
month periods ended July 31, 1999, and the Company does not anticipate that there will be
a material impact for the year.<br>
</p>

<p ALIGN="center"><u><br>
</u><strong>Page 5 of 18 (Form 10 - Q)</strong></p>

<p ALIGN="JUSTIFY"> </p>

<p ALIGN="JUSTIFY"><u>NOTE 4. Segments</u><br>
<br>
   The Company is principally engaged in the operation of mass merchandising
stores that serve customers primarily through the operation of three segments. The Company
identifies its segments based on management responsibility within the United States and
geographically for all international units. The Wal-Mart Stores segment includes the
Company&#146;s discount stores and Supercenters in the United States. The Sam&#146;s Club
segment includes the warehouse membership clubs in the United States. The International
segment includes all operations in Argentina, Brazil, Canada, China, Germany, Korea,
Mexico, Puerto Rico and the United Kingdom. The revenues in the &quot;Other&quot; category
result from sales to third parties by McLane Company, Inc., a wholesale distributor.<br>
</p>

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  <td WIDTH="12%" VALIGN="TOP" HEIGHT="17"><font size="2"><p ALIGN="right"><u>1998</u></font></td>
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<p align="center"> <strong>Page 6 of 18 (Form 10 - Q)</strong></p>

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<u>

<p>NOTE 5. Comprehensive Income</u><br>
<br>
   Statement of Financial Accounting Standards No. 130, &quot;Reporting
Comprehensive Income&quot;, establishes standards for reporting and display of
comprehensive income and its components. Comprehensive income is net income, plus certain
other items that are recorded directly to shareholders&#146; equity, bypassing net income.
The only such item currently applicable to the Company is foreign currency translation
adjustments. <br>
<br>
   Comprehensive income was $1,245 million and $990 million for the quarters
ended July 31, 1999 and 1998, respectively and was $2,383 million and $1,830 million for
the six months ended July 31, 1999 and 1998, respectively.<br>
<u><br>
NOTE 6. Settlement of Lawsuit<br>
</u><br>
   During the quarter ended July 31, 1999, a $624 million jury verdict was
rendered against the Company in a lawsuit. The Company agreed to settle the lawsuit for an
amount less than the jury verdict. The Company had previously established reserves,
related to this lawsuit, which were not material to its results of operations or financial
position. The settlement exceeded the Company&#146;s estimated reserves for this lawsuit
and resulted in a charge in the second quarter of fiscal 2000 of $.03 per share net of
taxes. <br>
<u><br>
NOTE 7. Stock split</u><br>
<br>
   On March 4, 1999, the Company announced a two-for-one stock split issued in
the form of a 100% stock dividend. The date of record was March 19, 1999, and it was
distributed on April 19, 1999. Consequently, the per share data for all prior periods
presented has been restated to reflect the stock split.<br>
<u><br>
NOTE 8. Acquisition<br>
</u><br>
   During the quarter ended July 31, 1999, the Company acquired a controlling
interest of ASDA Group PLC (ASDA), which is the third largest retailer in the United
Kingdom with 230 stores. The Company acquired approximately 29% of the outstanding ASDA
shares on the open market in June and July and issued a tender offer for all remaining
ASDA shares other than to the shareholders of ASDA resident in certain countries. On July
27, 1999, the tender offer for ASDA became unconditional and the majority of the remaining
shares were tendered. Including the shares previously acquired, the Company owned
approximately 87% of ASDA shares as of July 31, 1999. The tendered shares were paid for in
August 1999. Accordingly, the Company has consolidated the ASDA balance sheet as of July
31, and recorded the related obligation for the acquisition. As of August 10, 1999, the
Company owned in excess of 90% of the shares. As the majority of the ASDA shares were
acquired on July 27, 1999, the results of operations will be included in the
Company&#146;s Consolidated Statements of Income in the third quarter of fiscal 2000. The
transaction will be recorded as a purchase. The allocation of the purchase price of
approximately $11 billion is preliminary with net assets and liabilities recorded at
estimated fair value. The allocation of the purchase price is preliminary because the
tender offer for ASDA become unconditional on July 27, 1999, just four days prior to
quarter end. Resulting goodwill and other acquired intangible assets of approximately $7
billion will be amortized over 40 years. </p>

<p> </p>

<p align="center"><strong>Page 7 of 18 (Form 10 - Q)</strong></p>

<p align="left"><br>
<br>
   Proforma results are presented as if ASDA were consolidated from the
beginning of each period presented. Adjustments to net income are primarily related to the
amortization of goodwill and other acquired intangible assets and additional interest
expense on the debt incurred for the acquisition. The following proforma results were
converted from Great Britain pounds sterling to U. S. dollars at the average exchange rate
for the periods presented and range from 1.61 to 1.65:</p>

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<p> <u>NOTE 9. Subsequent Event</u><br>
<br>
   To facilitate the interim financing of the ASDA acquisition, the Company
entered into agreements for committed lines of credit of $10 billion with seven banks to
support the issuance of commercial paper. At July 31, 1999, $3 billion of commercial paper
was outstanding pursuant to this commitment. Once the majority of the shares of ASDA were
acquired and the permanent financing discussed below was obtained, this commitment was
reduced to $4 billion subsequent to July 31, 1999.<br>
<br>
    The Company filed a shelf registration statement under which it could
```

issue debt securities aggregating $10.5 billion, in part, in contemplation of obtaining
permanent financing for the acquisition of ASDA. In August 1999, the Company sold bonds
subject to the shelf registration statement totaling $5.75 billion. The bonds were sold in
three tranches: $1.25 billion at 6.150% due 2001, $1.25 billion at 6.550% due 2004, and
$3.25 billion at 6.875% due 2009. Because the long-term bonds were issued subsequent to
July 31, 1999, the Company classified $5.75 billion of the obligations for the purchase of
ASDA as long-term debt. The remaining amount of the obligation is recorded in commercial
paper and short-term borrowings.
</p>

<p align="center"> Page 8 of 18 (Form 10 - Q)
</p>

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<p>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of
Operations
<u>
Results of Operations
</u>
   The Company had 15% and 16% sales increases for the quarter and the six
months ended July 31, 1999, respectively, when compared to the same periods in fiscal
1999. These sales increases were attributable to the Company’s expansion programs and
domestic comparative store sales increases of 8.0% and 8.6% for the quarter and the six
months ended July 31, 1999, respectively. These comparative store sales increases for the
Wal-Mart stores segment were 8.3% and 8.9% for the quarter and six months ended July 31,
1999, respectively. For the Sam’s Clubs segment the comparative sales increases were
6.8% and 7.5% for the quarter and six months ended July 31, 1999, respectively.

    Domestic expansion activity during the first six months of fiscal
2000 included the addition of eleven new Wal-Mart stores, 13 new Supercenters, two new
Sam’s Clubs and the conversion of 45 Wal-Mart stores to Supercenters. International
expansion during the first six months of fiscal 2000 included the addition of two units in
Canada, one unit in China, one unit in Korea, 17 units in Mexico and the acquisition of
230 units in the United Kingdom.

   At July 31, 1999, the Company had 1,835 Wal-Mart stores, 622
Supercenters, and 453 Sam’s Clubs in the United States. Internationally, the Company
operated units in Argentina(13), Brazil(14), Canada(155), Germany(95), Mexico(433), Puerto
Rico(15) and the United Kingdom (230) and under joint venture agreements in China(6) and
Korea(5). At July 31, 1998, the Company had 1,897 Wal-Mart stores, 480 Supercenters, and
446 Sam’s Clubs in the United States. Internationally, the Company operated units in
Argentina(13), Brazil(9), Canada(145), Germany(21), Mexico(404) and Puerto Rico(14) and
under joint venture agreements in China(3) and Korea (4).

   The International segment had 25% and 26% sales increases for the quarter
and six months ended July 31, 1999, respectively, when compared to the sales in the same
periods in fiscal 1999. These increases were due principally to expansion activities which
included the acquisition in July 1998 of four units previously operated by Korea Makro in
Korea, and the acquisition in January 1999 of the Interspar hypermarket chain in Germany.
As a result of the timing of these acquisitions, sales for the quarter and six months
ended July 31, 1999, are not comparable to the same period last year due to the additional
sales generated by these acquisitions.

   International sales accounted for 9.5% of total Company sales in the
quarter and first six months of fiscal 2000, compared with 8.8% during the same periods in
fiscal 1999. Sam’s Clubs sales as a percentage of total Company sales fell from 16.9%
in the quarter and six months ended July 31, 1998, to 16.0% for the quarter and six months
ended July 31, 1999, largely as a result of more units being added in other segments.</p>

<p> </p>

<p align="center">Page 9 of 18 (Form 10 - Q)
</p>

<p ALIGN="JUSTIFY">   The Company’s gross profit as a percentage of
sales increased from 21.18% in the second quarter of fiscal 1999 to 21.70% during the
second quarter of fiscal 2000. For the six-month period ended July 31, 1999, gross profit
as a percentage of sales was 21.62%, up from 21.14% in last year’s comparable period.
Gross profit as a percentage of sales improved in all operating segments, primarily
through a better mix of merchandise. Additionally, markdowns and shrinkage for the quarter
and first six months of fiscal 2000 were down as a percentage of sales when compared to
the same period in fiscal 1999. The improvements in gross profit occurred without price
increases, despite acceleration of the Company’s price rollback program and with
significant growth in the lower margin food business. The Sam’s Clubs segment
comprises a lower percentage of consolidated Company sales. As a result, the gross profit
stated as a percentage of sales for the Company as a whole, is positively impacted since
Sam’s Clubs contribution to gross profit is a lower percentage than that of the
Wal-Mart and International operating segments. </p>

<p ALIGN="JUSTIFY">   Operating, selling, general and administrative
expenses, as a percentage of sales, were 17.08% for the second quarter of fiscal 2000, up
from 16.64% in the corresponding period last year and 17.03% compared with 16.81% for the
six-month period. Expenses for the quarter and six-month period were impacted by the May
16, 1999, settlement of a lawsuit, which resulted in a charge in the second quarter of
approximately $.03 per share, net of taxes. Disregarding the charge taken in connection
with this settlement, expenses would have decreased by 18 basis points and 11 basis
points, as a percentage of sales, for the quarter and six-month period ended July 31,
1999, respectively. The Wal-Mart stores segment had expense improvements, while the
Sam’s Clubs segment was largely unchanged, and the International segment’s
expense control was favorable against plan, which includes integration expenses in new
market countries, for the three-month and six-month periods ended July 31, 1999 when
compared to the same periods of the previous year. Excluding investments in new markets,
the International segment actually reduced expenses as a percentage of sales. Expenses as
a percentage of sales were negatively effected in the consolidated results due to the
percentage of the total volume decreasing in the Sam's Clubs segment, which has lower
expenses as a percentage of sales, while the percentage of total volume increased in the
International segment, which has higher expenses as a percentage of sales than Sam's
Clubs.

   The International segment’s operating profit decreased from $124 million
in the second quarter of fiscal 1999 to $112 million for the second quarter of fiscal
2000. Operating profit decreased $30 million for the six-month period ended July 31, 1999
when compared to the same period of the previous year. Operating profit is below last
year’s performance, due primarily to the expenditures associated with the
acquisitions in Germany. As noted above, the results for the first six months of fiscal
2000 includes the operating results of Korea Makro and Interspar(Germany), but are not
included in comparable periods in fiscal 1999.

   In fiscal 1999, Mexico was considered to operate in a highly-inflationary
economy and reported its operations using United States Dollars. In fiscal 2000, Mexico is
no longer considered a highly-inflationary economy and is reporting its operations in its
local currency. There was no material impact on the Company’s consolidated or
International segment's results of operations or financial positions as a result of the
change.
</p>
<u>

<p ALIGN="center"></u>Page 10 of 18 (Form 10 - Q)<u>
</p>

<p ALIGN="JUSTIFY">Liquidity and Capital Resources</u>

   Cash flows provided by operating activities were $2,718 million for the first
six months of fiscal 2000, compared with $2,205 million for the comparable period in
fiscal 1999. Operating cash flow was up for the six months ended July 31, 1999, primarily
due to an increase in net income of $497 million and a larger increase of $914 million in
accounts payable compared with an increase in accounts payable of $731 million in fiscal
1999, and with the stabilization of inventory by the addition of $1,126 million in
inventory compared with an increase in inventory of $1,133 million in the comparable
period in fiscal 1999. Inventories for the Company were up only 7% on a sales increase of
16%. Cash and cash equivalents at the end of the six-month period were up 71% or $624
million, when compared with the end of the same period in fiscal 1999. During the first
six months of fiscal 2000, the Company repurchased $101 million of its common stock, paid
dividends of $445 million and invested $2,351 million in capital assets.

   At July 31, 1999, the Company had total assets of $66,265 million compared
with total assets of $49,996 million at January 31, 1999. Working capital at July 31,
1999, was $(1,834) million, down $6,204 million when compared to working capital at
January 31, 1999, of $4,370 million. The ratio of current assets to current liabilities
was .9 to 1.0 at July 31, 1999, 1.3 to 1.0 at July 31, 1998, and 1.3 to 1.0 at January 31,
1999. The decrease in working capital and the current ratio was primarily due to the
addition of $5 billion in commercial paper and short term borrowings to support the ASDA
acquisition.

   To facilitate the interim financing of the ASDA acquisition, the Company
entered into agreements for committed lines of credit of $10 billion with seven banks to
support the issuance of commercial paper. At July 31, 1999, $3 billion of commercial paper
was outstanding pursuant to this commitment. Once the majority of the shares of ASDA were
acquired and the permanent financing discussed below was obtained, this commitment was
reduced to $4 billion.

   The Company filed a shelf registration statement under which it could issue
debt securities aggregating $10.5 billion, in part, in contemplation of obtaining
permanent financing for the acquisition of ASDA. In August 1999, the Company sold bonds
subject to the shelf registration statement totaling $5.75 billion. The bonds were sold in
three tranches: $1.25 billion at 6.150% due 2001, $1.25 billion at 6.550% due 2004, and
$3.25 billion at 6.875% due 2009. Because the long-term bonds were issued subsequent to

July 31, 1999, the Company classified $5.75 billion of the obligations for the purchase of
ASDA as long-term debt. The remaining amount of the obligation is recorded in commercial
paper and short-term borrowings.

   In March 1999, the Company announced plans to increase the existing common
stock repurchase program by $1.2 billion, resulting in a total outstanding authorization
of $2 billion. With the ASDA acquisition, the Company intends to postpone any further
share repurchases until it brings the debt to total book capitalization to approximately
40%. Additionally, the Company increased the annual dividend 29% to $.20 per share (after
the two-for-one common stock split, which was also announced in March of 1999) for fiscal
2000. This marks the twenty-seventh consecutive yearly increase in dividends.
</p>

<p ALIGN="center">Page 11 of 18 (Form 10 - Q)</p>

<p ALIGN="JUSTIFY"> </p>

<p ALIGN="JUSTIFY">   The Company anticipates generating sufficient
operating cash flow to pay the increased dividend, to fund all capital expenditures, and
to repay the commercial paper and short-term borrowings. The Company plans to refinance
existing long-term debt as it matures and may desire to obtain additional long-term
financing for other purposes or for strategic reasons. The Company anticipates no
difficulty in obtaining long-term financing in view of its excellent credit rating and
favorable experiences in the debt market in the recent past. The Company has a shelf
registration under which it can sell up to $4,751 million of additional debt securities in
the public markets.
<u>
Market Risk
</u>
   During the quarter, the Company purchased forward contracts to acquire Great
Britain pounds sterling in exchange for U. S. dollars. The contracts, with notional
amounts totaling $3.5 billion, had a settlement date which corresponded with the
settlement date of the tender offer. These contracts were primarily used to facilitate an
efficient and effective manner of acquiring the required amount of Great Britain pounds
sterling to pay the purchase price of the ASDA shares acquired pursuant to the tender
offer. These forward contracts were all closed early in the third quarter on settlement
date for the purchase of the ASDA shares. The market value of these open contracts as of
July 31, 1999, when netted with the pounds sterling denominated obligation was
insignificant to the consolidated results of operations. In addition, the Company entered
into additional currency and interest rate swaps related to the net investment in the
United Kingdom subsequent to the end of the second quarter ended July 31, 1999. The
mechanics and terms of these arrangements are tied to the newly issued debt and are
similar to those disclosed in the Company's annual report.
<u>
Accounting Pronouncements
</u>
   In June 1998, the Financial Accounting Standards Board (FASB) issued
Statement No. 133, "Accounting for Derivative Instruments and Hedging
Activities." As proposed the Statement will be effective for the Company beginning
February 1, 2001. The new Statement requires all derivatives to be recorded on the balance
sheet at fair value and establishes the accounting treatment for three types of hedges:
hedges of changes in the fair value of assets, liabilities, or firm commitments; hedges of
the variable cash flows of forecasted transactions; and hedges of foreign currency
exposures of net investments in foreign operations. The Company is analyzing the
implementation requirements and currently does not anticipate there will be a material
impact on the results of operations or financial position after the adoption of Statement
No. 133.
</p>

<p ALIGN="center">Page 12 of 18 (Form 10 - Q)</p>

<p ALIGN="JUSTIFY">
<u>Year 2000 Issue State of Readiness</u>
</p>

<p ALIGN="JUSTIFY">   Historically, computer software has been
programmed to make assumptions about the century when given a date that only uses two
digits to represent the year. Although these assumptions have been perfectly acceptable
the past few decades, they are potential cause for concern for software used in the year
2000 and beyond. Specifically, this abbreviated date format makes it difficult for an
application or computer user to distinguish between dates starting with 19xx and 20xx. The
Company has been evaluating and adjusting all of its known date-sensitive systems and
equipment for Year 2000 compliance, including those systems and equipment which supports
the Company's International segment. The assessment phase of the Year 2000 project is
substantially complete and included assessments of both information technology, such as
point-of-sale computer systems, as well as non-information technology equipment, such as
warehouse conveyor systems. All internal coding conversions are complete. Some third-party
applications representing less than 1% of the Company’s total application inventory
remain to be converted, these applications are dependent on vendor upgrade availability
and will be completed by October 1999. Virtually all of the compliance was performed or is
expected to be performed by Company associates. </p>

<p ALIGN="JUSTIFY">   The first phase of testing has been completed on
critical systems. No significant issues were detected in the testing. The next phase of
the Company’s Year 2000 project, complete system testing, started in March 1999 and
has been extended from July to September of 1999 to allow additional testing of system
rollouts completed this year. A final test cycle is planned for October 1999 to ensure all
version levels, upgrades, new releases and enhancements implemented throughout the year
are Year 2000 compliant.

    The total incremental estimated cost directly related to the Year 2000
remedy is $27 million. Approximately $17.5 million of the cost is related to
reprogramming, replacement, extensive testing and validation of software, which is being
expensed as incurred, while approximately $9.5 million is related to acquisition of
hardware, which is being capitalized. Approximately $23 million of the $27 million cost of
conversion had been incurred by the end of the second quarter of fiscal 2000. The majority
of the remaining costs include future testing of the systems and the purchase of
additional equipment. All of these costs are being funded through operating cash flows.
These costs are not a significant component of the Company's overall information
technology budget. The Company's Information Systems Division did not defer any
information technology projects last year to address the Year 2000 issue. During fiscal
2000 the Company still plans to complete and implement over half of the normal project
load in priority sequence.

   In addition to internal Year 2000 implementation activities, the Company is
communicating with other companies with which our systems interface or on which it relies
to determine the extent to which those companies are addressing their Year 2000
compliance. Testing began during the third quarter of fiscal year 1999 and will be
substantially complete by October 31, 1999. Thus far, no significant issues have been
detected in the testing process. There can be no assurance that there will not be an
adverse effect on the Company if third parties, such as utility companies or merchandise
suppliers, do not convert their systems in a timely manner and in a way that is compatible
with the Company's systems. However, management believes that ongoing communication with
and assessment of these third parties should minimize these risks.

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<p ALIGN="center"> Page 13 of 18 (Form 10 - Q)
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<p ALIGN="JUSTIFY">   The Company anticipates minimal business disruption
will occur as a result of Year 2000 issues; however, possible consequences include, but
are not limited to, loss of communications links with certain store locations, loss of
electric power, inability to process transactions, send purchase orders, or engage in
similar normal business activities. In addition, since there is no uniform definition of
Year 2000 compliance and not all customer situations can be anticipated, the Company may
experience an increase in sales returns of merchandise that may contain hardware or
software components that are not Year 2000 compliant. If returns of merchandise increase,
such returns are not expected to be material to the Company's financial condition.

   Although the Company has not finalized its contingency plans for possible
Year 2000 issues, the risk analysis phase has been completed and a substantial portion of
the contingency plans have been created. The Company anticipates the majority of its
contingency plans to be in place by October 31, 1999.

   During the second quarter, the Company acquired ASDA. An independent review
was conducted to assess the Year 2000 state of readiness prior to the completion of the
acquisition. Results of the audit indicate that ASDA has completed 95% of all major
projects and is on track to complete all remaining efforts by November 1, 1999.
Contingency planning efforts are well under way and all plans should be in place by
October 31, 1999. ASDA has budgeted $27.5 million for Year 2000 compliance, of which $25.3
million was incurred prior to completion of the acquisition. Budgeted numbers for Year
2000 compliance were converted from Great Britain pounds sterling at an exchange rate of
1.60 to U. S. dollars.

   The cost of the conversions and the completion dates are based on
management’s best estimates and may be updated as additional information becomes
available. Readers are referred to Item 5 of this report, which addresses forward-looking
statements made by the Company.
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Page 14 of 18 (Form 10 - Q)</p>

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<p ALIGN="CENTER">PART II. OTHER INFORMATION<br>
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Item 2. Changes in Securities and Use of Proceeds.</p>

<p></b>    At the Company&#146;s Annual Shareholders&#146; meeting on June
4, 1999, the shareholders of the Company approved the amendment of the Company&#146;s
Restated Certificate of Incorporation to increase the number of shares of the
Company&#146;s Common Stock that the Company is authorized to issue from 5,500,000,000
shares to 11,000,000,000 shares. This amendment increased the number of un-issued shares
of common stock the Company is authorized to issue from approximately 1,050,000 shares to
approximately 6,550,000 shares.</p>
<b>

<p>Item 4. Submission of Matters to a Vote of Security Holders</b><br>
<br>
   The Company&#146;s Annual Shareholders&#146; Meeting was held June 4, 1999,
in Fayetteville, Arkansas.<br>
<u><br>
Election of Directors:<br>
</u><br>
   At that meeting, the shareholders elected for one-year terms all persons
nominated for directors as set forth in the Company&#146;s proxy statement dated April 19,
1999. (Only the shares outstanding prior to the stock split were eligible to be voted at
the annual meeting. Consequently, all share amounts reported in this Item 4 are based on
the shares outstanding prior to the stock split.) <br>
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<p><u>Proposal to Increase the Number of Authorized Shares:</u><br>
<br>
   The shareholders approved an amendment to the first sentence of the Fourth
Article of the Company&#146;s Restated Certificate of Incorporation to increase the number
of total authorized shares of the Company&#146;s Common Stock from 5,500,000,000 to
11,000,000,000.<br>
<u></p>
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<p align="center"><strong>Page 15 of 18 (Form 10 - Q)</strong></p>
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<p>Shareholder Proposals</u>:<br>
<br>
   The Shareholders rejected a shareholder proposal requesting that the Company
endorse the Coalition for Environmentally Responsible Economies (CERES) Principles as a
part of its commitment to be publicly accountable for its environmental performance.<br>
</p>
<div align="center"><center>

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    <td align="right">1,692,707,260</td>
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    <td align="right">  166,147,507</td>
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<p><br>
    The Shareholders rejected a shareholder proposal regarding financial
and social accountability in executive compensation.<br>
</p>
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    <td align="right">35,134,416</td>
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    <td align="right">166,147,507</td>
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<p ALIGN="JUSTIFY"><br>
    The Shareholders rejected a shareholder proposal regarding Glass
Ceiling Review.<br>
</p>
<div align="center"><center>

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    <td align="center" valign="bottom"><u>Abstentions</u></td>
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</TABLE>
</center></div>

<p>     The Shareholders rejected a shareholder proposal regarding the
impact of development on culturally sensitive areas.<br>
</p>
<div align="center"><center>

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    <td align="center" valign="bottom">Broker <br>
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    <td align="right">166,147,507</td>
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<p>Item 5. Other Information<br>
<br>
   </b>The Private Securities Litigation Reform Act of 1995 provides a safe
harbor for forward-looking statements made by or on behalf of the Company. Certain
statements contained in Management&#146;s Discussion and Analysis and in other Company
filings are forward-looking statements. These forward looking statements may include
statements that address activities, events, or developments that we expect or anticipate
will or may occur in the future including: future capital expenditures, including the
amount and nature of those expenditures; expansion and other development trends of
industry segments in which we are active; our business strategy; expansion and growth of
our business; and operations and other similar matters. Although we believe the
expectations expressed in the forward looking statements are based on reasonable
assumptions within the bounds of our knowledge of our business, a number of factors could
cause actual results to differ materially from those expressed in any forward looking
statements, whether oral or written, made by us or on our behalf.<br>
<b></p>
</b>

<p align="center"><b>Page 16 of 18 (Form 10 - Q)</b></p>

<p ALIGN="JUSTIFY"> </p>

<p ALIGN="JUSTIFY">    Our business operations are subject to factors
outside our control. Any one, or a combination, of these factors could materially affect
our financial performance. These factors include but are not limited to: the costs of
goods; competitive pressures; inflation; consumer debt levels; currency exchange
fluctuations; trade restrictions; changes in tariff and freight rates; Year 2000 issues;
unemployment levels; interest rate fluctuations; and other capital market and economic
conditions.<br>
<br>
   Forward-looking statements that we make or that are made by others on our
```

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behalf are based on a knowledge of our business and the environment in which we operate,
but because of the factors listed above, actual results may differ from those in the
forward-looking statements. Consequently, all of the forward-looking statements made are
qualified by these cautionary statements. We cannot assure you that the actual results or
developments anticipated by us will be realized or, even if substantially realized, that
they will have the expected consequences to or effects on us or our business or
operations. Undue reliance should not be placed on these forward-looking statements, which
speak only as of their dates. We assume no obligation to update any of these
forward-looking statements.<br>
<b><br>
Item 6. Exhibits and Reports on Form 8-K<br>
</b></p>
<b>

<blockquote>
  <blockquote>
    <p></b>(a) The following document is filed as an exhibit to this Form 10-Q:<br>
    <b><br>
       </b>  Exhibit 27 - Financial Data Schedule<b><br>
    </p>
    </b>
  </blockquote>
</blockquote>

<blockquote>
  <blockquote>
    <p>(b) There were no reports on Form 8-K for the quarter ended July 31, 1999.<br>
    </p>
  </blockquote>
</blockquote>

<p align="center"><strong>Page 17 of 18 (Form 10 - Q)</strong><b><br>
</p>

<p align="center"> </p>

<p ALIGN="CENTER">SIGNATURES<br>
</p>
</b>

<p>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.<br>
</p>

<p align="center">WAL-MART STORES, INC.</p>
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    <td><u>/s/David D. Glass</u><br>
         David D. Glass<br>
         President and Chief Executive Officer<br>
    </td>
  </tr>
  <tr>
    <td valign="top">Date: September 3, 1999</td>
    <td></td>
    <td><u>/s/James A. Walker Jr. </u><br>
         James A. Walker Jr.<br>
         Senior Vice President<br>
         and Controller<br>
         (Principal Accounting Officer)</td>
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<strong>Page 18 of 18 (Form 10 - Q)</strong></p>

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