

# WAL MART STORES INC

## FORM 10-Q (Quarterly Report)

Filed 09/14/98 for the Period Ending 07/31/98

|             |   |
|-------------|---|
| Address     | 702 SOUTHWEST 8TH ST<br>BENTONVILLE, AR 72716 |
| Telephone   | 5012734000                                    |
| CIK         | 0000104169                                    |
| Symbol      | WMT   |
| SIC Code    | 5331 - Variety Stores                         |
| Industry    | Retail (Department & Discount)                |
| Sector      | Services                                      |
| Fiscal Year | 01/31   |

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|-------------|---|
| Address     | 702 SOUTHWEST 8TH ST<br>BENTONVILLE, Arkansas 72716 |
| Telephone   | 501-273-4000  |
| CIK         | 0000104169  |
| Industry    | Retail (Department & Discount)                      |
| Sector      | Services  |
| Fiscal Year | 01/31   |

**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 31, 1998.

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 1-6991*

**WAL-MART STORES, INC.**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

\_\_\_\_\_71-0415188\_\_\_\_\_  
(I.R.S. Employer  
Identification No.)

702 S.W. Eighth Street  
Bentonville, Arkansas  
(Address of principal executive offices)

\_\_\_\_\_72716\_\_\_\_\_  
(Zip Code)

(501) 273-4000

(Registrant's telephone number, including area code)

Not applicable

(Former name, former address and former fiscal year,  
if changed since last report)

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.

Yes  No \_\_\_\_\_

Applicable Only to Issuers Involved in Bankruptcy Proceedings During the Preceding Five Years

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.

Yes \_\_\_\_\_ No \_\_\_\_\_

**Applicable Only to Corporate Issuers**

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

Common Stock, \$.10 Par Value -- 2,252,851,199 shares as of July 31, 1998.

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**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

WAL-MART STORES, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(Amounts in millions)

|   | July 31,<br>1998<br>(Unaudited) | January 31,<br>1998<br>(*Note) |
|---|---------------------------------|--------------------------------|
| <b>ASSETS</b>                                   |                                 |                                |
| Cash and cash equivalents                       | \$ 884                          | \$ 1,447                       |
| Receivables                                     | 1,008                           | 976                            |
| Inventories                                     | 17,617                          | 16,497                         |
| Other current assets                            | 428                             | 432                            |
| Total current assets                            | 19,937                          | 19,352                         |
| Property, plant and equipment                   | 28,898                          | 27,376                         |
| Less accumulated depreciation                   | 6,644                           | 5,907                          |
| Net property, plant and equipment               | 22,254                          | 21,469                         |
| Property under capital leases                   | 3,107                           | 3,040                          |
| Less accumulated amortization                   | 963                             | 903                            |
| Net property under capital leases               | 2,144                           | 2,137                          |
| Other assets and deferred charges               | 2,539                           | 2,426                          |
| Total assets                                    | \$ 46,874                       | \$45,384                       |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>     |                                 |                                |
| Commercial paper                                | \$ 175                          | \$ -                           |
| Accounts payable                                | 9,844                           | 9,126                          |
| Long-term debt due within one year              | 550                             | 1,039                          |
| Other current liabilities                       | 4,227                           | 4,295                          |
| Total current liabilities                       | 14,796                          | 14,460                         |
| Long-term debt                                  | 7,414                           | 7,191                          |
| Long-term obligations under capital leases      | 2,520                           | 2,483                          |
| Deferred income taxes and other                 | 799                             | 809                            |
| Minority Interest                               | 1,802                           | 1,938                          |
| Common stock and capital in excess of par value | 823                             | 809                            |
| Retained earnings                               | 19,225                          | 18,167                         |
| Other accumulated comprehensive income          | ( 505)                          | ( 473)                         |
| Total shareholders' equity                      | 19,543                          | 18,503                         |
| Total liabilities and shareholders' equity      | \$ 46,874                       | \$ 45,384                      |

[FN]

<F1> See accompanying notes to condensed consolidated financial statements

<F2>

\*Note: The balance sheet at January 31, 1998, has been derived from the audited financial statements at that date, and condensed.

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WAL-MART STORES, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
(Unaudited)

(Amounts in millions except per share data)

|  | Three Months Ended |          | Six Months Ended |          |
|--|--------------------|----------|------------------|----------|
|  | July 31,           |          | July 31,         |          |
|  | 1998               | 1997     | 1998             | 1997     |
| <b>Revenues:</b>   |                    |          |                  |          |
| Net sales  | \$33,521           | \$28,386 | \$63,340         | \$53,795 |
| Other income - net   | 359                | 318      | 697              | 604      |
|  | 33,880             | 28,704   | 64,037           | 54,399   |
| <b>Costs and expenses:</b>                                 |                    |          |                  |          |
| Cost of sales  | 26,422             | 22,478   | 49,948           | 42,605   |
| Operating, selling and general and administrative expenses | 5,577              | 4,767    | 10,650           | 9,100    |
| <b>Interest costs:</b>                                     |                    |          |                  |          |
| Debt   | 123                | 137      | 245              | 271      |
| Capital leases   | 62                 | 55       | 134              | 110      |
|  | 32,184             | 27,437   | 60,977           | 52,086   |
| Income before income taxes, minority interest and          |                    |          |                  |          |

|   |          |          |          |          |
|---|----------|----------|----------|----------|
| equity in unconsolidated subsidiaries                                     | 1,696    | 1,267    | 3,060    | 2,313    |
| Provision for income taxes  | 627      | 467      | 1,132    | 850      |
| Income before minority interest and equity in unconsolidated subsidiaries | 1,069    | 800      | 1,928    | 1,463    |
| Minority interest and equity in unconsolidated subsidiaries               | ( 35)    | ( 5)     | ( 66)    | ( 16)    |
| Net income  | \$ 1,034 | \$ 795   | \$ 1,862 | \$ 1,447 |
| Net income per share - Basic and dilutive                                 | \$ .46   | \$ .35   | \$ .83   | \$ .64   |
| Dividends per share   | \$ .0775 | \$ .0675 | \$ .155  | \$ .135  |
| Average shareholders' equity  | \$19,181 | \$17,123 | \$19,023 | \$17,203 |
| Return for the period on average shareholders' equity                     | 5.39%    | 4.64%    | 9.79%    | 8.41%    |
| Average number of common shares:  |          |          |          |          |
| Basic   | 2,236    | 2,260    | 2,238    | 2,268    |
| Dilutive  | 2,253    | 2,269    | 2,253    | 2,275    |

[FN]

<F1> See accompanying notes to condensed consolidated financial statements.

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WAL-MART STORES, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)  
(Amounts in millions)

|   | Six Months Ended July 31, |          |
|---|---------------------------|----------|
|   | 1998                      | 1997     |
| Cash flows from operating activities:   |                           |          |
| Net income  | \$ 1,862                  | \$ 1,447 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                           |          |
| Depreciation and amortization   | 885                       | 770      |
| Increase in inventories   | ( 1,133)                  | ( 514)   |
| Increase in accounts payable  | 731                       | 248      |
| (Decrease)/ increase in accrued liabilities                                       | ( 81)                     | 603      |
| Noncash items and other   | ( 59)                     | ( 44)    |
| Net cash provided by operating activities   | 2,205                     | 2,510    |
| Cash flows from investing activities:   |                           |          |
| Payments for property, plant & equipment  | ( 1,626)                  | ( 1,178) |
| Investment in International   | ( 179)                    | -        |
| Other investing activities  | 50                        | ( 41)    |
| Net cash used in investing activities   | ( 1,755)                  | ( 1,219) |
| Cash flows from financing activities:   |                           |          |
| Increase in commercial paper  | 175                       | -        |
| Proceeds from issuance of long-term debt  | 508                       | -        |
| Dividends paid  | ( 347)                    | ( 307)   |
| Payment of long-term debt   | ( 786)                    | ( 19)    |
| Purchase of Company Stock   | ( 472)                    | ( 1,037) |
| Other financing activities  | ( 91)                     | 119      |
| Net cash used in financing activities   | ( 1,013)                  | ( 1,244) |
| Net (decrease)/increase in cash and cash equivalents                              | ( 563)                    | 47       |
| Cash and cash equivalents at beginning of year                                    | 1,447                     | 883      |
| Cash and cash equivalents at end of period  | \$ 884                    | \$ 930   |
| Supplemental Disclosure of Cash Flow Information:                                 |                           |          |
| Income tax paid   | \$ 1,534                  | \$ 990   |

|                                    |     |     |
|------------------------------------|-----|-----|
| Interest paid                      | 388 | 395 |
| Capital lease obligations incurred | 95  | 59  |

[FN]

<F1> See accompanying notes to condensed consolidated financial statements.

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**WAL-MART STORES, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1. Basis of Presentation**

The condensed consolidated balance sheet as of July 31, 1998, and the related condensed consolidated statements of income for the three and six month periods ended July 31, 1998 and 1997, and the statements of cash flow for the six month periods ended July 31, 1998 and 1997 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. Certain reclassifications have been made to the prior year's income statements to conform to current presentation.

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'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, 1998.

**NOTE 2. Inventories**

The Company uses the retail last-in, first-out (LIFO) method for the Wal-Mart Stores segment, cost LIFO for the Sam'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 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, 1998, 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. If the FIFO method had been used at July 31, 1997, inventories would have been \$314 million higher than reported, an increase in the LIFO reserve of \$18 million from January 31, 1997, and an increase of \$10 million from April 30, 1997.

**NOTE 3. Net Income Per Share**

The Company presents basic and dilutive earnings per share according to guidance established in Statement of Financial Accounting Standards No. 128, "Earnings Per Share." Statement 128 replaces primary and fully dilutive earnings per share with basic and dilutive earnings per share. Unlike primary earnings per share, basic earnings per share exclude any dilutive effect of stock options. Basic and dilutive earnings per share for all periods presented are the same as previously reported. Basic net income per share is based on the weighted average outstanding common shares. Dilutive net income per share is based on the weighted average outstanding common shares reduced by the dilutive effect of stock options.

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**NOTE 4. Segments**

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's discount stores and Supercenters in the United States. The Sam'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 and Puerto Rico. The revenues in the "Corporate and Other" category result from sales to third parties by McLane Company, Inc., a wholesale distributor.

Revenues by operating segment were as follows (in millions):

|                     | Three Months Ended<br>July 31, |          | Six Months Ended<br>July 31, |          |
|---------------------|--------------------------------|----------|------------------------------|----------|
|                     | 1998                           | 1997     | 1998                         | 1997     |
| Wal-Mart Stores     | \$23,233                       | \$20,407 | \$43,970                     | \$38,594 |
| Sam's Club          | 5,687                          | 5,120    | 10,727                       | 9,762    |
| International       | 2,948                          | 1,460    | 5,553                        | 2,774    |
| Corporate and Other | 1,653                          | 1,399    | 3,090                        | 2,665    |
| Total Revenues      | \$33,521                       | \$28,386 | \$63,340                     | \$53,795 |

Operating profit and reconciliation to income before income taxes, minority interest and equity in unconsolidated subsidiaries are as follows (in millions):

|  | Three Months Ended<br>July 31, |          | Six Months Ended<br>July 31, |          |
|--|--------------------------------|----------|------------------------------|----------|
|  | 1998                           | 1997     | 1998                         | 1997     |
| Wal-Mart Stores  | \$ 1,787                       | \$ 1,412 | \$ 3,187                     | \$ 2,516 |
| Sam's Club   | 173                            | 145      | 299                          | 260      |
| International  | 124                            | 27       | 206                          | 33       |
| Corporate and Other  | (203)                          | (125)    | (253)                        | (115)    |
| Operating profit   | 1,881                          | 1,459    | 3,439                        | 2,694    |
| Interest expense   | 185                            | 192      | 379                          | 381      |
| Income before income taxes,<br>minority interest and<br>equity in unconsolidated<br>subsidiaries | \$ 1,696                       | \$ 1,267 | \$ 3,060                     | \$ 2,313 |

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#### **NOTE 5. Comprehensive Income**

As of February 1, 1998, the Company adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income". This statement 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' equity, bypassing net income. The only such item currently applicable to the Company is foreign currency translation adjustments.

Comprehensive income was \$990 million and \$808 million for the quarters ended July 31, 1998 and 1997, respectively and was \$1,830 and \$1,427 for the six months ended July 31, 1998 and 1997, respectively.

The adoption of this Statement had no effect on the Company's results of operations or financial position.

#### **NOTE 6. Acquisition**

In July 1998, the Company extended its presence in Asia with an investment in Korea. The Company acquired a majority interest in four units as well as six undeveloped sites from H. S. Chang for approximately \$179 million. Any resulting goodwill will be amortized over 40 years. The four units were previously operated by Korea Makro. The transaction will be accounted for using the purchase method and the financial results will be consolidated in the Company's consolidated financial statements during the third quarter of fiscal 1999. The transaction should not have a material impact on the fiscal 1999 consolidated operating results. Pro forma results of operations are not presented due to the insignificant differences from the historical results.

#### **NOTE 7. Pre-opening costs**

During the second quarter, the Company adopted Statement of Position (SOP) 98-5, "Reporting on the Costs of Start-Up Activities". The SOP requires that the costs of start-up activities, including organization costs, be expensed as incurred. The impact of the adoption of SOP 98-5 on the Company's results of operations was \$13 million. Due to the immateriality to the Company's results of operations, the initial application was not reported as a cumulative effect of a change in an accounting principle.

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

#### **Results of Operations**

The Company had 18% sales increases for the quarter and the six months ending July 31, 1998, that were attributable to an increase in comparable sales in the Wal-Mart Stores segment of 9% for the quarter and the six month period, an increase in comparable sales in the Sam's

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Club segment of 10% for the quarter and 9% for the six month period and to the Company's expansion activities.

The increase in the International segment's sales was due principally to the merger of our Mexican joint venture and public tender offer that increased the Company's ownership in Cifra, S. A. de C. V.

(Cifra) and the acquisition of the Wertkauf hypermarket chain in Germany. Since both of these acquisitions occurred during the last half of fiscal 1998, sales during the second quarter and first six months of fiscal 1998 do not include sales from the Wertkauf units or from the additional Cifra units now included in the Company's consolidated sales and, thus are not comparable to the sales for the second quarter and first half of fiscal 1999. Sam's Clubs sales as a percentage of total sales fell from 18% last year to 17% for the quarter and six month period

largely as a result of more rapid growth of sales in other segments. International sales accounted for 9% of total sales in both the second quarter and first six months of fiscal 1999 compared with 5% during the same periods a year ago.

Domestic expansion activity in the first six months of fiscal 1999 included nine new Wal-Mart stores, the conversion of 33 Wal-Mart stores to Supercenters, six new Supercenters, three new Sam's Clubs and the relocation or expansion of three additional Sam's Clubs. International expansion included the addition of four units in Argentina, two units in Brazil, one unit in Canada and three units in Mexico.

At July 31, 1998, the Company had 1,897 Wal-Mart stores, 480 Supercenters and 446 Sam's Clubs in the United States, along with 13 units in Argentina, nine units in Brazil, 145 Wal-Mart stores in Canada, three units in China (operated under joint venture agreements), 21 units in Germany, four units in Korea (operated under joint venture agreements), 404 units in Mexico, and 14 units in Puerto Rico. This compares with 1,935 Wal-Mart stores, 383 Supercenters, and 441 Sam's Clubs in the United States, along with six units in Argentina, six units in Brazil, 137 Wal-Mart stores in Canada, two units in China, 156 units in Mexico, and 11 units in Puerto Rico at the same time last year.

The Company's gross profit as a percentage of sales increased from 20.81% in the second quarter of fiscal 1998 to 21.18% during the second quarter of fiscal 1999. For the six month period ended July 31, 1998 gross profit as a percentage of sales was 21.14%, up from 20.80% in last year's comparable period. Gross profit as a percentage of sales improved in the Wal-Mart and International operating segments due to better mix offset in part by competitive pricing and growth in the lower margin food business. Sam's Clubs gross profit as a percentage of sales decreased due to price rollbacks on over 15% of its merchandise assortment to enhance member value. For the six month period ended July 31, 1998, approximately one third of the improvement in consolidated gross profit as a percent of sales was due primarily to changes in the total sales mix of the operating segments. As the Sam's Club segment comprises a lower percentage of consolidated Company sales, the gross profit stated as a percentage of sales is positively impacted since its contribution to gross margin is a lower percentage when compared with the Wal-Mart and International operating segments.

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Operating, selling, general and administrative expenses decreased as a percentage of sales from 16.79% during the second quarter of fiscal 1998 to 16.64% for the second quarter of fiscal 1999. For the six month period ended July 31, 1998 operating, selling, general and administrative expenses were 16.81%, down from 16.92% in last year's comparable period. During the second quarter of fiscal 1998, the Company took a one-time charge of \$50 million for closing the majority of the Bud's Discount City stores. Without the one-time charge, expenses would have been 16.62% of sales for the second quarter and 16.82% for the six month period ended July 31, 1997. All operating segments made improvements in their expense percentage for the six month period when compared to the previous period. The expense leverage was mitigated in the consolidated results due to the percentage of our 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. Also, the Company was impacted by the tighter labor markets and the increase in the minimum wage that occurred subsequent to last year's second quarter.

The International segment's operating profit increased from \$27 million in the second quarter of last year to \$124 million this year and increased from \$33 million for the six months ended July 31, 1997 to \$206 million in the first half of fiscal 1999. As noted above, the first six months of fiscal 1999 include the operating profit of Cifra and Wertkauf. Because the acquisitions occurred during the last half of fiscal 1998, the additional operating profit resulting from these acquisitions accounts for a large part of the increase in the International segment operating profit.

## **Liquidity and Capital Resources**

Cash flows provided by operating activities were \$2,205 million for the six months ended July 31, 1998 compared with \$2,510 million for the same period last year. Operating cash flow is down in fiscal 1999 primarily due to the addition of \$1,133 million in inventory compared with an increase of \$514 in the same period in fiscal 1998 and to an increase in accrued liabilities in the first half of last fiscal year compared with a small decrease for the six month period ended July 31, 1998. During the first half of fiscal 1999, the Company repurchased \$472 million of its common stock, paid dividends of \$347 million and invested \$1,626 million in capital expenditures.

At July 31, 1998, the Company had total assets of \$46,874 million compared with \$45,384 million at January 31, 1998. Working capital at July 31, 1998 was \$5,141 million, up \$249 million from January 31, 1998. The ratio of current assets to current liabilities was 1.3 to 1.0 at July 31, 1998, 1.5 to 1.0 at July 31, 1997, and 1.3 to 1.0 at January 31, 1998.

In March 1998, the Company announced its intention to increase the size of its existing share repurchase program by approximately \$1.6 billion. With this amount and the remaining portion from last year's program, the Company may repurchase up to \$2 billion of its common stock.

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The Company also increased dividends by 15% in fiscal 1999 to \$.31 per share.

On May 7, 1998, the Company filed with the Securities and Exchange Commission a registration statement for debt securities aggregating \$750 million. In June 1998, the Company sold \$500 million of bonds pursuant to its previously filed shelf registration statements and the registration statement described above. The bonds bear interest at 5.85% until June 1, 2000. At that date and every second June 1 thereafter (Reset Date), the interest rate may be reset. The bonds have put options imbedded that, if exercised, would require the Company to purchase the outstanding bonds at 100% of the principal amount. The put options may be exercised on each Reset Date. The proceeds of the sale were



used to meet general working capital requirements.

The Company anticipates that it will continue to generate significant operating cash flow. The Company foresees no difficulty in obtaining long-term financing in view of its credit rating and favorable experiences in the debt market in the past few years.

The Company may issue public debt securities aggregating \$501 million under shelf registration statements on file with the Securities and Exchange Commission. Operating cash flow along with the Company's ability to obtain short-term or long-term financing should provide sufficient cash to use for capital expenditures, pay dividends, meet maturing debt demands, and continue the share repurchase plan.

### **Accounting Pronouncements**

In March 1998, the Accounting Standards Executive Committee (AcSEC) issued Statement of Position (SOP) 98-1, "Accounting For the Costs of Computer Software Developed For or Obtained For Internal-Use". The SOP will be effective for the Company beginning February 1, 1999. The SOP will require the capitalization of certain costs incurred in connection with developing or obtaining software for internal-use. Currently, costs related to developing internal-use software are expensed as incurred. The Company does not anticipate there will be a material impact on the results of operations or financial position after SOP 98-1 is adopted.

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities". The Statement will be effective for the Company beginning February 1, 2000. The new Statement requires all derivatives to be recorded on the balance sheet at fair value and establishes 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.

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Year 2000

The Company has been evaluating and adjusting all known date-sensitive systems and equipment for Year 2000 compliance. The assessment phase of the Year 2000 project is substantially complete and included both information technology, such as point-of-sale computer systems, as well as non-information technology equipment, such as warehouse conveyor systems. Over 95% of the required coding conversions on information technology have occurred to date. The Company anticipates completing all known remaining coding conversions during the current fiscal year. Virtually all of the compliance was performed or is expected to be performed by Company associates.

The next phase of the Company's Year 2000 project, complete system testing, is scheduled to begin during the third quarter of the current fiscal year. Testing will continue for all existing systems and ongoing new releases and enhancements to ensure readiness.

The total estimated cost of the conversion is \$12 million, which is being expensed as incurred. Approximately \$9 million of the cost is related to reprogramming or replacement of software, while approximately \$3 million is related to acquisition of hardware. Approximately \$6 million of the \$12 million cost of conversion has been incurred as of the end of the second quarter. All of these costs are being funded through operating cash flows. These costs are an immaterial part of the Company's information technology budget. The Company's Information Systems Division has not deferred any information technology projects to address the Year 2000 issue.

In addition to internal Year 2000 implementation activities, the Company is communicating with others with which our systems interface or on which they rely to determine the extent to which those companies are addressing their Year 2000 compliance. Testing is beginning in the third quarter of the current fiscal year and will continue through December 1999. 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 will minimize these risks.

Although the Company anticipates minimal business disruption will occur as a result of Year 2000 issues, 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. If returns of merchandise increase, such returns are not expected to be material to the Company's financial condition.

To date, the Company has not established a contingency plan for possible Year 2000 issues. Where needed, the Company will establish

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contingency plans based on our actual testing experience with our supplier base and assessment of outside risks. We anticipate contingency plans to be in place by July 31, 1999.

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.

**PART II. OTHER INFORMATION****Item 4. Submission of Matters to a Vote of Security Holders**

The Company's Annual Shareholders' Meeting was held June 5, 1998, in Fayetteville, Arkansas.

**Election of Directors:**

At that meeting, the shareholders elected for one-year terms all persons nominated for directors as set forth in the Company's proxy statement dated April 10, 1998.

|                            | For           | Against or<br>Withheld | Abstentions | Broker<br>Non-Votes |
|----------------------------|---------------|------------------------|-------------|---------------------|
| Jeronimo Arango            | 2,049,481,540 | 14,283,631             | 0           | 0                   |
| John A. Cooper, Jr.        | 2,050,101,244 | 13,663,927             | 0           | 0                   |
| Stephen Friedman           | 2,036,719,385 | 27,045,786             | 0           | 0                   |
| Stanley C. Gault           | 2,049,529,620 | 14,235,551             | 0           | 0                   |
| David D. Glass             | 2,048,856,076 | 14,909,095             | 0           | 0                   |
| Roland A. Hernandez        | 2,041,695,114 | 22,070,057             | 0           | 0                   |
| Dr. Frederick S. Humphries | 2,048,179,637 | 15,585,534             | 0           | 0                   |
| E. Stanley Kroenke         | 2,048,790,589 | 14,974,582             | 0           | 0                   |
| Elizabeth A. Sanders       | 2,049,988,600 | 13,776,571             | 0           | 0                   |
| Jack C. Shewmaker          | 2,048,699,008 | 15,066,163             | 0           | 0                   |
| Donald G. Soderquist       | 2,048,906,691 | 14,858,480             | 0           | 0                   |
| Dr. Paula Stern            | 2,049,547,293 | 14,217,878             | 0           | 0                   |
| Jose H. Villarreal         | 2,021,919,983 | 41,845,188             | 0           | 0                   |
| John T. Walton             | 2,048,886,794 | 14,878,377             | 0           | 0                   |
| S. Robson Walton           | 2,049,030,240 | 14,734,931             | 0           | 0                   |

**Proposal to Adopt Wal-Mart Stores, Inc. Stock Incentive Plan of 1998:**

The shareholders approved the adoption of the Stock Incentive Plan of 1998. Under the Plan, incentive and non-qualified stock options, stock appreciation rights, stock value equivalent awards and shares of restricted stock may be granted to any associate or non-associate director of Wal-Mart and its affiliates. The Plan is administered by the Compensation and Nominating Committee and by the Stock Option Committee.

| For           | Against or<br>Withheld | Abstentions | Broker<br>Non-Votes |
|---------------|------------------------|-------------|---------------------|
| 1,554,488,237 | 505,241,335            | 4,035,599   | 0                   |

**Proposal to Adopt Wal-Mart Stores, Inc. Management Incentive Plan of 1998:**

The shareholders approved the adoption of the Management Incentive Plan of 1998. The purpose of the Plan is to motivate and reward Company management, including executive officers, for profit improvement by setting goals related to profitability. Under the Plan, objective annual performance goals for the Company and its divisions will be established

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at the beginning of each fiscal year by the Compensation and Nominating Committee. The Plan is administered by the Compensation and Nominating Committee.

| For           | Against or<br>Withheld | Abstentions | Broker<br>Non-Votes |
|---------------|------------------------|-------------|---------------------|
| 2,044,305,155 | 54,848,259             | 4,611,757   | 0                   |

**Shareholder Proposal:**

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 impact.

| For        | Against or<br>Withheld | Abstentions | Broker<br>Non-Votes |
|------------|------------------------|-------------|---------------------|
| 66,227,047 | 1,800,877,467          | 51,740,894  | 19,763              |

**Item 5. Other Information**

The Private Securities Litigation Reform Act of 1995 ("the Act") provides a safe harbor for forward-looking statements made by or on behalf of the Company. Certain statements contained in Management's Discussion and Analysis and in other Company filings are forward-looking statements. These statements discuss, among other things, expected growth, future revenues, future cash flows and future performance. The forward looking statements are subject to risks and uncertainties including but not limited to the cost of goods, competitive pressures, inflation, consumer debt levels, currency exchange fluctuations, trade restrictions, changes in tariff and freight rates, interest rate fluctuations and other capital market conditions, and other risks indicated in the Company's filings with the Securities and Exchange Commission. Actual results may materially differ from anticipated results described in these statements.

#### **Item 6. Exhibits and Reports on Form 8-K**

(a) The following documents are filed as exhibits to this Form 10-Q:

Exhibit 10(a) - Form of individual special stock option grant, post-termination agreement and covenant not to compete between David D. Glass and Wal-Mart Stores, Inc. is filed herewith as an Exhibit to this Form 10-Q.

Exhibit 10(b) - Form of individual special stock option grant, post-termination agreement and covenant not to compete between Donald G. Soderquist and Wal-Mart Stores, Inc. is filed herewith as an Exhibit to this Form 10-Q.

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Exhibit 10(c) - Form of individual special stock option grant, post-termination agreement and covenant not to compete between Bob L. Martin and Wal-Mart Stores, Inc. is filed herewith as an Exhibit to this Form 10-Q.

Exhibit 10(d) - Form of individual special stock option grant, post-termination agreement and covenant not to compete between H. Lee Scott, Jr. and Wal-Mart Stores, Inc. is filed herewith as an Exhibit to this Form 10-Q.

Exhibit 10(e) - Form of individual special stock option grant, post-termination agreement and covenant not to compete between Thomas M. Coughlin and Wal-Mart Stores, Inc. is filed herewith as an Exhibit to this Form 10-Q.

#### **Exhibit 27 - Financial Data Schedule**

(b) A Form 8-K was filed on June 2, 1998, to file the form of the Puttable Reset Securities PURSsm due June 1, 2018, and the opinion of counsel to the Company relating to the Company's public offering of \$500 million aggregate principal amount.

A Form 8-K was filed on June 2, 1998, to file the form of Calculation Agency Agreement and the Statement of Eligibility of Trustee related to the Company's public offering of \$500 million aggregate principal amount of its Puttable Reset Securities PURSsm due June 1, 2018.

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#### **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.

#### **WAL-MART STORES, INC.**

*Date: September 11, 1998*

*/s/David D. Glass* \_\_\_\_\_  
*David D. Glass*  
*President and*  
*Chief Executive Officer*

*Date: September 11, 1998*

*/s/John B. Menzer* \_\_\_\_\_  
*John B. Menzer*  
*Executive Vice President*  
*and Chief Financial Officer*

**SPECIAL STOCK OPTION GRANT, POST-TERMINATION  
AGREEMENT AND COVENANT NOT TO COMPETE**

This Special Stock Option Grant, Post-Termination Agreement, and Covenant Not to Compete is entered into this 20th day of July, 1998 by and between Wal-Mart Stores, Inc. (hereinafter "Wal-Mart") and David D. Glass (hereinafter "the Associate"). The parties agree as follows:

1. ACKNOWLEDGMENTS. As part of this Agreement, the parties specifically acknowledge that

(A) Wal-Mart is a major retail operation, with stores located throughout the United States and in certain foreign locations;

(B) the Associate presently holds a position as President and Chief Executive Officer, and is a key executive as defined by the Executive Committee;

(C) as an essential part of its business, Wal-Mart has cultivated long term customer and vendor relationships and goodwill, which are difficult to develop and maintain, which require a significant investment of time, effort, and expense, and which can suffer significantly upon the departure of key executives;

(D) in the development of its business, Wal-Mart has also expended a significant amount of time, money, and effort in developing and maintaining confidential, proprietary, and trade secret information which, if disclosed or misused, could harm Wal-Mart's business and its competitive position in the retail marketplace;

(E) as President and Chief Executive Officer, the Associate has access to confidential and proprietary trade secret information and other confidential information, including business plans and strategies, that would be of considerable value to Wal-Mart's competitors; and

(F) Wal-Mart is entitled to take appropriate steps to ensure (i)

that its Associates do not make use of confidential information gained during the course of their employment with Wal-Mart and (ii) that no individual associate or competing entity gains an unfair competitive advantage over Wal-Mart.

2. SPECIAL STOCK OPTION GRANT. If the Associate executes this Agreement on or before July 31, 1998, Wal-Mart will award to the Associate a Special Stock Option Grant equivalent to One Hundred Percent (100%) of the Associate's base salary in effect on the date of this Agreement. The Special Stock Option Grant will be in addition to any other stock options, restricted stock, stock grants, or similar entitlements that the employee may receive, or may previously have received, under any other plan or program maintained by Wal-Mart. The Special Stock Option Grant will vest in seven equal annual installments commencing one (1) year from the date of the grant, and shall in all regards be governed by the terms of the Wal-Mart Stores, Inc. Stock Option Plan.

3. TRANSITION PAYMENTS. In the event that Wal-Mart should initiate the termination of the Associate's employment, Wal-Mart will, for a period of two (2) years from the effective date of such termination ("the Transition Period"), continue to pay the Associate his or her base salary at the rate in effect on the date of termination, subject to such withholding as may be required by law and subject to the following conditions and offsets:

(A) Transition Payments will not be payable if the Associate is terminated as the result of a violation of Wal-Mart policy;

(B) In the event that the Associate is demoted or reassigned so that he or she ceases to be a key executive as defined or determined by the Executive Committee, the Associate will no longer be bound by the Covenant Not to Compete set forth in Paragraph 4 below and will cease to be eligible for any of the benefits or payments (e.g.,

Transition Payments) provided by this Agreement. In addition, it is understood that, upon ceasing to be a key executive, the Associate would forfeit the stock options granted by this Agreement, but only to the extent that those options have not vested as of the date of demotion or reassignment;

(C) No Transition Payments will be payable if the Associate voluntarily resigns or retires from his or her employment with Wal-Mart;

(D) Given the availability of other programs designed to provide financial protection in such circumstances, Transition Payments will not be payable under this Agreement in the event of the Associate's death or disability. If the Associate should die during the Transition Period, Transition Payments will cease at that time, and his or her heirs will have no entitlement to the continuation of such payments. Transition Payments will not be affected by the disability of the Associate during the Transition Period.

(E) Transition Payments will be offset by any amounts that the Associate may earn during the Transition Period by virtue of self-employment or employment with, or involvement in, an entity other than a Competing Business as defined in Paragraph 4(B) below. Violation by the Associate of his obligations under Paragraph 4 or Paragraph 5 below, or any other act that is materially harmful to Wal-Mart's business interests, during the Transition Period will result in the immediate termination of Transition Payments in addition to any other remedies that may be available to Wal-Mart;

(F) Transition Payments will be payable on such regularly scheduled paydays as may be adopted and instituted by Wal-Mart for its other salaried employees.

(G) Receipt of Transition Payments will not entitle the Associate to participate during the Transition Period in any of the

other incentive, stock option, profit sharing, or other associate

benefit plans or programs maintained by Wal-Mart, and the Associate shall be entitled to participate in such plans or programs only to the extent that the terms of the plan or program provide for participation by former associates. Such participation, if any, shall be governed by the terms of the applicable plan or program.

4. COVENANT NOT TO COMPETE. In exchange for the Special Stock Option Grant set forth in Paragraph 2, for his or her inclusion in the Transition Payment program set forth in Paragraph 3, and for other good and valuable consideration, the Associate agrees, promises, and covenants as follows:

(A) For a period of two (2) years from the date on which his or her employment with Wal-Mart terminates, and regardless of the cause or reason for such termination, the Associate will not directly or indirectly

(i) own, manage, operate, finance, join, control, advise, consult, render services to, have a current or future interest in, or participate in the ownership, management, operation, financing, or control of, or be employed by or connected in any manner with, any Competing Business as defined below in Paragraph 4(B); or

(ii) solicit for employment, hire or offer employment to, or otherwise aid or assist any person or entity other than Wal-Mart in soliciting for employment, hiring, or offering employment to, any employee of Wal-Mart or any of its affiliates;

(B) For purposes of this Agreement, the term "Competing Business" shall include any general or specialty retail, wholesale, or merchandising business that sells goods or merchandise of the types sold by Wal-Mart at retail to consumers that (i) is located within the United States or any other country in which Wal-Mart or its affiliates either operate a store or are known to the Associate to have plans to

open or acquire an operation within the next twenty-four (24) months, and (ii) that has gross annual sales volume or revenues attributable to its retail operations in excess of U.S. \$2 billion or is reasonably expected to have gross sales volume or revenues of more than U.S. \$2 billion in either the current fiscal year or the next following fiscal year. "Competing Business" as of the date of this Agreement shall specifically include, but is not limited to, such entities as Target/Dayton Hudson, Costco, K-Mart, Home Depot, Dollar General, Family Dollar, Kohls, Hudson Bay Company, Carrefour, HEB, and Fred Meyers.

(C) Ownership of an investment of less than the greater of \$25,000 or 1% of any class of equity or debt security of a Competing Business will not be deemed ownership or participation in ownership of a Competing Business for purposes of this Agreement.

(D) The covenant not to compete contained in this Paragraph 4 shall be binding upon the Associate, and shall remain in full force and effect, regardless of whether the Associate qualifies, or continues to remain eligible, for the Transition Payments described in Paragraph 3 above. Termination of the Transition Payments pursuant to Paragraph 3 will not release the Associate from his or her obligations under this Paragraph 4.

5. PRESERVATION OF CONFIDENTIAL INFORMATION. The Associate agrees that he or she will not at any time, directly or indirectly, use or disclose any Confidential Information obtained during the course of his or her employment with Wal-Mart except as may be authorized by Wal-Mart. "Confidential Information" shall include any non-public information pertaining to Wal-Mart's business, and shall include information obtained by the Associate during the course of, or as a result of, his or her employment with Wal-Mart, including, without limitation, information regarding Wal-Mart's processes,



suppliers (including the terms, conditions, or other business arrangements with such suppliers), advertising and marketing plans and strategies, profit margins, seasonal plans, goals, objectives and projections, compilations, analyses, and projections regarding Wal-Mart's business, trade secrets, salary, staffing, compensation, and other employment data, and any "know-how," techniques, practice or any technical information not of a published nature regarding Wal-Mart's business.

6. **REMEDIES FOR BREACH.** The parties shall each be entitled to pursue all legal and equitable rights and remedies to secure performance of their respective obligations and duties under this Agreement, and enforcement of one or more of these rights and remedies will not preclude the parties from pursuing any other rights and remedies. The Associate acknowledges that a breach of the provisions of Paragraph 4 or Paragraph 5 above could result in substantial and irreparable damage to Wal-Mart's business, and that the restrictions contained in Paragraphs 4 and 5 are a reasonable attempt by Wal-Mart to protect its rights and to safeguard its confidential information.

The Associate expressly agrees that upon a breach or a threatened breach by the Associate of the provisions of Paragraph 4 or Paragraph 5, Wal-Mart will be entitled to injunctive relief to restrain such violation, and the Associate hereby expressly consents to the entry of such temporary, preliminary, and/or permanent injunctive relief as may be necessary to enjoin the violation of Paragraph 4 or Paragraph 5.

The parties further agree that any action relating to the interpretation, validity, or enforcement of this Agreement shall be brought in the appropriate state or federal court encompassing Benton County, Arkansas, and the parties hereby expressly consent to the jurisdiction of such courts. The Associate further agrees that in any claim or action involving the execution, interpretation, validity, or

enforcement of this Agreement, he or she will seek satisfaction exclusively from the assets of Wal-Mart, and will hold harmless all of Wal-Mart's individual directors, officers, employees, and representatives.

7. SEVERABILITY. In the event that a court of competent jurisdiction shall determine that any portion of this Agreement is invalid or otherwise unenforceable, the parties agree that the remaining portions of the Agreement shall remain in full force and effect. The parties also expressly agree that if any portion of the covenant not to compete set forth in Paragraph 4 shall be deemed unenforceable, then the Agreement shall automatically be deemed to have been amended to incorporate such terms as will render the covenant enforceable to the maximum extent permitted by law.

8. NATURE OF THE RELATIONSHIP. Nothing contained in this Agreement shall be deemed or construed to constitute a contract of employment for a definite term. The parties acknowledge that the Associate is not employed by Wal-Mart for a definite term, and that either party may sever the employment relationship at any time and for any reason not otherwise prohibited by law.

9. ENTIRE AGREEMENT. This document contains the entire understanding and agreement between the Associate and Wal-Mart regarding the subject matter of this Agreement. This Agreement supersedes and replaces any and all prior understandings or agreements between the parties regarding this subject, and no representations or statements by either party shall be deemed binding unless contained herein.

10. MODIFICATION. This Agreement may not be amended, modified, or altered except in a writing signed by both parties or their designated representatives.

11. SUCCESSORS AND ASSIGNS. This Agreement will inure to the

benefit of, and will be binding upon, Wal-Mart, its successors and assigns, and on the Associate and his or her heirs, successors, and assigns. No rights or obligations under this Agreement may be assigned to any other person without the express written consent of all parties hereto.

12. COUNTERPARTS. This Agreement may be executed in counterparts, in which case each of the two counterparts will be deemed to be an original and the final counterpart will be deemed to have been executed in Bentonville, Arkansas.

13. GOVERNING LAW. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Arkansas.

14. STATEMENT OF UNDERSTANDING. By signing below, the Associate acknowledges (a) that he or she has received a copy of this Agreement, (b) that he or she has read the Agreement carefully before signing it, (c) that he or she has had ample opportunity to ask questions concerning the Agreement and has had the opportunity to discuss the Agreement with legal counsel of his or her own choosing, and (d) that he or she understands his or her rights and obligations under this Agreement, and enters into this Agreement voluntarily.

**WAL-MART STORES, INC.**

By: /s/S. Robson Walton  
S. Robson Walton  
Chairman of the Board

/s/David D. Glass  
David D. Glass  
President and Chief  
Executive Officer

July 20, 1998 July 20, 1998 Date Date

**SPECIAL STOCK OPTION GRANT, POST-TERMINATION  
AGREEMENT AND COVENANT NOT TO COMPETE**

This Special Stock Option Grant, Post-Termination Agreement, and Covenant Not to Compete is entered into this 21st day of May, 1998 by and between Wal-Mart Stores, Inc. (hereinafter "Wal-Mart") and Donald G. Soderquist (hereinafter "the Associate"). The parties agree as follows:

1. ACKNOWLEDGMENTS. As part of this Agreement, the parties specifically acknowledge that

(A) Wal-Mart is a major retail operation, with stores located throughout the United States and in certain foreign locations;

(B) the Associate presently holds a position as Vice Chairman and Chief Operating Officer, and is a key executive as defined by the Executive Committee;

(C) as an essential part of its business, Wal-Mart has cultivated long term customer and vendor relationships and goodwill, which are difficult to develop and maintain, which require a significant investment of time, effort, and expense, and which can suffer significantly upon the departure of key executives;

(D) in the development of its business, Wal-Mart has also expended a significant amount of time, money, and effort in developing and maintaining confidential, proprietary, and trade secret information which, if disclosed or misused, could harm Wal-Mart's business and its competitive position in the retail marketplace;

(E) as Vice Chairman and Chief Operating Officer, the Associate has access to confidential and proprietary trade secret information and other confidential information, including business plans and strategies, that would be of considerable value to Wal-Mart's competitors; and

(F) Wal-Mart is entitled to take appropriate steps to ensure (i)

that its Associates do not make use of confidential information gained during the course of their employment with Wal-Mart and (ii) that no individual associate or competing entity gains an unfair competitive advantage over Wal-Mart.

2. SPECIAL STOCK OPTION GRANT. If the Associate executes this Agreement on or before July 31, 1998, Wal-Mart will award to the Associate a Special Stock Option Grant equivalent to One Hundred Percent (100%) of the Associate's base salary in effect on the date of this Agreement. The Special Stock Option Grant will be in addition to any other stock options, restricted stock, stock grants, or similar entitlements that the employee may receive, or may previously have received, under any other plan or program maintained by Wal-Mart. The Special Stock Option Grant will vest in seven equal annual installments commencing one (1) year from the date of the grant, and shall in all regards be governed by the terms of the Wal-Mart Stores, Inc. Stock Option Plan.

3. TRANSITION PAYMENTS. In the event that Wal-Mart should initiate the termination of the Associate's employment, Wal-Mart will, for a period of two (2) years from the effective date of such termination ("the Transition Period"), continue to pay the Associate his or her base salary at the rate in effect on the date of termination, subject to such withholding as may be required by law and subject to the following conditions and offsets:

(A) Transition Payments will not be payable if the Associate is terminated as the result of a violation of Wal-Mart policy;

(B) In the event that the Associate is demoted or reassigned so that he or she ceases to be a key executive as defined or determined by the Executive Committee, the Associate will no longer be bound by the Covenant Not to Compete set forth in Paragraph 4 below and will

cease to be eligible for any of the benefits or payments (e.g., Transition Payments) provided by this Agreement. In addition, it is understood that, upon ceasing to be a key executive, the Associate would forfeit the stock options granted by this Agreement, but only to the extent that those options have not vested as of the date of demotion or reassignment;

(C) No Transition Payments will be payable if the Associate voluntarily resigns or retires from his or her employment with Wal-Mart;

(D) Given the availability of other programs designed to provide financial protection in such circumstances, Transition Payments will not be payable under this Agreement in the event of the Associate's death or disability. If the Associate should die during the Transition Period, Transition Payments will cease at that time, and his or her heirs will have no entitlement to the continuation of such payments. Transition Payments will not be affected by the disability of the Associate during the Transition Period.

(E) Transition Payments will be offset by any amounts that the Associate may earn during the Transition Period by virtue of self-employment or employment with, or involvement in, an entity other than a Competing Business as defined in Paragraph 4(B) below. Violation by the Associate of his obligations under Paragraph 4 or Paragraph 5 below, or any other act that is materially harmful to Wal-Mart's business interests, during the Transition Period will result in the immediate termination of Transition Payments in addition to any other remedies that may be available to Wal-Mart;

(F) Transition Payments will be payable on such regularly scheduled paydays as may be adopted and instituted by Wal-Mart for its other salaried employees.

(G) Receipt of Transition Payments will not entitle the

Associate to participate during the Transition Period in any of the other incentive, stock option, profit sharing, or other associate benefit plans or programs maintained by Wal-Mart, and the Associate shall be entitled to participate in such plans or programs only to the extent that the terms of the plan or program provide for participation by former associates. Such participation, if any, shall be governed by the terms of the applicable plan or program.

4. COVENANT NOT TO COMPETE. In exchange for the Special Stock Option Grant set forth in Paragraph 2, for his or her inclusion in the Transition Payment program set forth in Paragraph 3, and for other good and valuable consideration, the Associate agrees, promises, and covenants as follows:

(A) For a period of two (2) years from the date on which his or her employment with Wal-Mart terminates, and regardless of the cause or reason for such termination, the Associate will not directly or indirectly

(i) own, manage, operate, finance, join, control, advise, consult, render services to, have a current or future interest in, or participate in the ownership, management, operation, financing, or control of, or be employed by or connected in any manner with, any Competing Business as defined below in Paragraph 4(B); or

(ii) solicit for employment, hire or offer employment to, or otherwise aid or assist any person or entity other than Wal-Mart in soliciting for employment, hiring, or offering employment to, any employee of Wal-Mart or any of its affiliates;

(B) For purposes of this Agreement, the term "Competing Business" shall include any general or specialty retail, wholesale, or merchandising business that sells goods or merchandise of the types sold by Wal-Mart at retail to consumers that (i) is located within the United States or any other country in which Wal-Mart or its affiliates

either operate a store or are known to the Associate to have plans to open or acquire an operation within the next twenty-four (24) months, and (ii) that has gross annual sales volume or revenues attributable to its retail operations in excess of U.S. \$2 billion or is reasonably expected to have gross sales volume or revenues of more than U.S. \$2 billion in either the current fiscal year or the next following fiscal year. "Competing Business" as of the date of this Agreement shall specifically include, but is not limited to, such entities as Target/Dayton Hudson, Costco, K-Mart, Home Depot, Dollar General, Family Dollar, Kohls, Hudson Bay Company, Carrefour, HEB, and Fred Meyers.

(C) Ownership of an investment of less than the greater of \$25,000 or 1% of any class of equity or debt security of a Competing Business will not be deemed ownership or participation in ownership of a Competing Business for purposes of this Agreement.

(D) The covenant not to compete contained in this Paragraph 4 shall be binding upon the Associate, and shall remain in full force and effect, regardless of whether the Associate qualifies, or continues to remain eligible, for the Transition Payments described in Paragraph 3 above. Termination of the Transition Payments pursuant to Paragraph 3 will not release the Associate from his or her obligations under this Paragraph 4.

5. PRESERVATION OF CONFIDENTIAL INFORMATION. The Associate agrees that he or she will not at any time, directly or indirectly, use or disclose any Confidential Information obtained during the course of his or her employment with Wal-Mart except as may be authorized by Wal-Mart. "Confidential Information" shall include any non-public information pertaining to Wal-Mart's business, and shall include information obtained by the Associate during the course of, or as a result of, his or her employment with Wal-Mart, including,



without limitation, information regarding Wal-Mart's processes, suppliers (including the terms, conditions, or other business arrangements with such suppliers), advertising and marketing plans and strategies, profit margins, seasonal plans, goals, objectives and projections, compilations, analyses, and projections regarding Wal-Mart's business, trade secrets, salary, staffing, compensation, and other employment data, and any "know-how," techniques, practice or any technical information not of a published nature regarding Wal-Mart's business.

6. REMEDIES FOR BREACH. The parties shall each be entitled to pursue all legal and equitable rights and remedies to secure performance of their respective obligations and duties under this Agreement, and enforcement of one or more of these rights and remedies will not preclude the parties from pursuing any other rights and remedies. The Associate acknowledges that a breach of the provisions of Paragraph 4 or Paragraph 5 above could result in substantial and irreparable damage to Wal-Mart's business, and that the restrictions contained in Paragraphs 4 and 5 are a reasonable attempt by Wal-Mart to protect its rights and to safeguard its confidential information.

The Associate expressly agrees that upon a breach or a threatened breach by the Associate of the provisions of Paragraph 4 or Paragraph 5, Wal-Mart will be entitled to injunctive relief to restrain such violation, and the Associate hereby expressly consents to the entry of such temporary, preliminary, and/or permanent injunctive relief as may be necessary to enjoin the violation of Paragraph 4 or Paragraph 5.

The parties further agree that any action relating to the interpretation, validity, or enforcement of this Agreement shall be brought in the appropriate state or federal court encompassing Benton County, Arkansas, and the parties hereby expressly consent to the jurisdiction of such courts. The Associate further agrees that in any

claim or action involving the execution, interpretation, validity, or enforcement of this Agreement, he or she will seek satisfaction exclusively from the assets of Wal-Mart, and will hold harmless all of Wal-Mart's individual directors, officers, employees, and representatives.

7. SEVERABILITY. In the event that a court of competent jurisdiction shall determine that any portion of this Agreement is invalid or otherwise unenforceable, the parties agree that the remaining portions of the Agreement shall remain in full force and effect. The parties also expressly agree that if any portion of the covenant not to compete set forth in Paragraph 4 shall be deemed unenforceable, then the Agreement shall automatically be deemed to have been amended to incorporate such terms as will render the covenant enforceable to the maximum extent permitted by law.

8. NATURE OF THE RELATIONSHIP. Nothing contained in this Agreement shall be deemed or construed to constitute a contract of employment for a definite term. The parties acknowledge that the Associate is not employed by Wal-Mart for a definite term, and that either party may sever the employment relationship at any time and for any reason not otherwise prohibited by law.

9. ENTIRE AGREEMENT. This document contains the entire understanding and agreement between the Associate and Wal-Mart regarding the subject matter of this Agreement. This Agreement supersedes and replaces any and all prior understandings or agreements between the parties regarding this subject, and no representations or statements by either party shall be deemed binding unless contained herein.

10. MODIFICATION. This Agreement may not be amended, modified, or altered except in a writing signed by both parties or their designated representatives.

11. SUCCESSORS AND ASSIGNS. This Agreement will inure to the benefit of, and will be binding upon, Wal-Mart, its successors and assigns, and on the Associate and his or her heirs, successors, and assigns. No rights or obligations under this Agreement may be assigned to any other person without the express written consent of all parties hereto.

12. COUNTERPARTS. This Agreement may be executed in counterparts, in which case each of the two counterparts will be deemed to be an original and the final counterpart will be deemed to have been executed in Bentonville, Arkansas.

13. GOVERNING LAW. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Arkansas.

14. STATEMENT OF UNDERSTANDING. By signing below, the Associate acknowledges (a) that he or she has received a copy of this Agreement, (b) that he or she has read the Agreement carefully before signing it, (c) that he or she has had ample opportunity to ask questions concerning the Agreement and has had the opportunity to discuss the Agreement with legal counsel of his or her own choosing, and (d) that he or she understands his or her rights and obligations under this Agreement, and enters into this Agreement voluntarily.

**WAL-MART STORES, INC.**

By: /s/S. Robson Walton  
S. Robson Walton  
Chairman of the Board

/s/Donald G. Soderquist  
Donald G. Soderquist  
Vice Chairman and  
Chief Operating Officer

May 21, 1998 May 21, 1998 Date Date

**SPECIAL STOCK OPTION GRANT, POST-TERMINATION  
AGREEMENT AND COVENANT NOT TO COMPETE**

This Special Stock Option Grant, Post-Termination Agreement, and Covenant Not to Compete is entered into this 1st day of May, 1998 by and between Wal-Mart Stores, Inc. (hereinafter "Wal-Mart") and Bob L. Martin (hereinafter "the Associate"). The parties agree as follows:

1. ACKNOWLEDGMENTS. As part of this Agreement, the parties specifically acknowledge that

(A) Wal-Mart is a major retail operation, with stores located throughout the United States and in certain foreign locations;

(B) the Associate presently holds a position as Executive Vice President and President of the International Division, and is a key executive as defined by the Executive Committee;

(C) as an essential part of its business, Wal-Mart has cultivated long term customer and vendor relationships and goodwill, which are difficult to develop and maintain, which require a significant investment of time, effort, and expense, and which can suffer significantly upon the departure of key executives;

(D) in the development of its business, Wal-Mart has also expended a significant amount of time, money, and effort in developing and maintaining confidential, proprietary, and trade secret information which, if disclosed or misused, could harm Wal-Mart's business and its competitive position in the retail marketplace;

(E) as Executive Vice President and President of the International Division, the Associate has access to confidential and proprietary trade secret information and other confidential information, including business plans and strategies, that would be of considerable value to Wal-Mart's competitors; and

(F) Wal-Mart is entitled to take appropriate steps to ensure (i)

that its Associates do not make use of confidential information gained during the course of their employment with Wal-Mart and (ii) that no individual associate or competing entity gains an unfair competitive advantage over Wal-Mart.

2. SPECIAL STOCK OPTION GRANT. If the Associate executes this Agreement on or before July 31, 1998, Wal-Mart will award to the Associate a Special Stock Option Grant equivalent to One Hundred Percent (100%) of the Associate's base salary in effect on the date of this Agreement. The Special Stock Option Grant will be in addition to any other stock options, restricted stock, stock grants, or similar entitlements that the employee may receive, or may previously have received, under any other plan or program maintained by Wal-Mart. The Special Stock Option Grant will vest in seven equal annual installments commencing one (1) year from the date of the grant, and shall in all regards be governed by the terms of the Wal-Mart Stores, Inc. Stock Option Plan.

3. TRANSITION PAYMENTS. In the event that Wal-Mart should initiate the termination of the Associate's employment, Wal-Mart will, for a period of two (2) years from the effective date of such termination ("the Transition Period"), continue to pay the Associate his or her base salary at the rate in effect on the date of termination, subject to such withholding as may be required by law and subject to the following conditions and offsets:

(A) Transition Payments will not be payable if the Associate is terminated as the result of a violation of Wal-Mart policy;

(B) In the event that the Associate is demoted or reassigned so that he or she ceases to be a key executive as defined or determined by the Executive Committee, the Associate will no longer be bound by the Covenant Not to Compete set forth in Paragraph 4 below and will cease to be eligible for any of the benefits or payments (e.g.,

Transition Payments) provided by this Agreement. In addition, it is understood that, upon ceasing to be a key executive, the Associate would forfeit the stock options granted by this Agreement, but only to the extent that those options have not vested as of the date of demotion or reassignment;

(C) No Transition Payments will be payable if the Associate voluntarily resigns or retires from his or her employment with Wal-Mart;

(D) Given the availability of other programs designed to provide financial protection in such circumstances, Transition Payments will not be payable under this Agreement in the event of the Associate's death or disability. If the Associate should die during the Transition Period, Transition Payments will cease at that time, and his or her heirs will have no entitlement to the continuation of such payments. Transition Payments will not be affected by the disability of the Associate during the Transition Period.

(E) Transition Payments will be offset by any amounts that the Associate may earn during the Transition Period by virtue of self-employment or employment with, or involvement in, an entity other than a Competing Business as defined in Paragraph 4(B) below. Violation by the Associate of his obligations under Paragraph 4 or Paragraph 5 below, or any other act that is materially harmful to Wal-Mart's business interests, during the Transition Period will result in the immediate termination of Transition Payments in addition to any other remedies that may be available to Wal-Mart;

(F) Transition Payments will be payable on such regularly scheduled paydays as may be adopted and instituted by Wal-Mart for its other salaried employees.

(G) Receipt of Transition Payments will not entitle the Associate to participate during the Transition Period in any of the

other incentive, stock option, profit sharing, or other associate

benefit plans or programs maintained by Wal-Mart, and the Associate shall be entitled to participate in such plans or programs only to the extent that the terms of the plan or program provide for participation by former associates. Such participation, if any, shall be governed by the terms of the applicable plan or program.

4. COVENANT NOT TO COMPETE. In exchange for the Special Stock Option Grant set forth in Paragraph 2, for his or her inclusion in the Transition Payment program set forth in Paragraph 3, and for other good and valuable consideration, the Associate agrees, promises, and covenants as follows:

(A) For a period of two (2) years from the date on which his or her employment with Wal-Mart terminates, and regardless of the cause or reason for such termination, the Associate will not directly or indirectly

(i) own, manage, operate, finance, join, control, advise, consult, render services to, have a current or future interest in, or participate in the ownership, management, operation, financing, or control of, or be employed by or connected in any manner with, any Competing Business as defined below in Paragraph 4(B); or

(ii) solicit for employment, hire or offer employment to, or otherwise aid or assist any person or entity other than Wal-Mart in soliciting for employment, hiring, or offering employment to, any employee of Wal-Mart or any of its affiliates;

(B) For purposes of this Agreement, the term "Competing Business" shall include any general or specialty retail, wholesale, or merchandising business that sells goods or merchandise of the types sold by Wal-Mart at retail to consumers that (i) is located within the United States or any other country in which Wal-Mart or its affiliates either operate a store or are known to the Associate to have plans to

open or acquire an operation within the next twenty-four (24) months, and (ii) that has gross annual sales volume or revenues attributable to its retail operations in excess of U.S. \$2 billion or is reasonably expected to have gross sales volume or revenues of more than U.S. \$2 billion in either the current fiscal year or the next following fiscal year. "Competing Business" as of the date of this Agreement shall specifically include, but is not limited to, such entities as Target/Dayton Hudson, Costco, K-Mart, Home Depot, Dollar General, Family Dollar, Kohls, Hudson Bay Company, Carrefour, HEB, and Fred Meyers.

(C) Ownership of an investment of less than the greater of \$25,000 or 1% of any class of equity or debt security of a Competing Business will not be deemed ownership or participation in ownership of a Competing Business for purposes of this Agreement.

(D) The covenant not to compete contained in this Paragraph 4 shall be binding upon the Associate, and shall remain in full force and effect, regardless of whether the Associate qualifies, or continues to remain eligible, for the Transition Payments described in Paragraph 3 above. Termination of the Transition Payments pursuant to Paragraph 3 will not release the Associate from his or her obligations under this Paragraph 4.

5. PRESERVATION OF CONFIDENTIAL INFORMATION. The Associate agrees that he or she will not at any time, directly or indirectly, use or disclose any Confidential Information obtained during the course of his or her employment with Wal-Mart except as may be authorized by Wal-Mart. "Confidential Information" shall include any non-public information pertaining to Wal-Mart's business, and shall include information obtained by the Associate during the course of, or as a result of, his or her employment with Wal-Mart, including, without limitation, information regarding Wal-Mart's processes,



suppliers (including the terms, conditions, or other business arrangements with such suppliers), advertising and marketing plans and strategies, profit margins, seasonal plans, goals, objectives and projections, compilations, analyses, and projections regarding Wal-Mart's business, trade secrets, salary, staffing, compensation, and other employment data, and any "know-how," techniques, practice or any technical information not of a published nature regarding Wal-Mart's business.

6. **REMEDIES FOR BREACH.** The parties shall each be entitled to pursue all legal and equitable rights and remedies to secure performance of their respective obligations and duties under this Agreement, and enforcement of one or more of these rights and remedies will not preclude the parties from pursuing any other rights and remedies. The Associate acknowledges that a breach of the provisions of Paragraph 4 or Paragraph 5 above could result in substantial and irreparable damage to Wal-Mart's business, and that the restrictions contained in Paragraphs 4 and 5 are a reasonable attempt by Wal-Mart to protect its rights and to safeguard its confidential information.

The Associate expressly agrees that upon a breach or a threatened breach by the Associate of the provisions of Paragraph 4 or Paragraph 5, Wal-Mart will be entitled to injunctive relief to restrain such violation, and the Associate hereby expressly consents to the entry of such temporary, preliminary, and/or permanent injunctive relief as may be necessary to enjoin the violation of Paragraph 4 or Paragraph 5.

The parties further agree that any action relating to the interpretation, validity, or enforcement of this Agreement shall be brought in the appropriate state or federal court encompassing Benton County, Arkansas, and the parties hereby expressly consent to the jurisdiction of such courts. The Associate further agrees that in any claim or action involving the execution, interpretation, validity, or

enforcement of this Agreement, he or she will seek satisfaction exclusively from the assets of Wal-Mart, and will hold harmless all of Wal-Mart's individual directors, officers, employees, and representatives.

7. SEVERABILITY. In the event that a court of competent jurisdiction shall determine that any portion of this Agreement is invalid or otherwise unenforceable, the parties agree that the remaining portions of the Agreement shall remain in full force and effect. The parties also expressly agree that if any portion of the covenant not to compete set forth in Paragraph 4 shall be deemed unenforceable, then the Agreement shall automatically be deemed to have been amended to incorporate such terms as will render the covenant enforceable to the maximum extent permitted by law.

8. NATURE OF THE RELATIONSHIP. Nothing contained in this Agreement shall be deemed or construed to constitute a contract of employment for a definite term. The parties acknowledge that the Associate is not employed by Wal-Mart for a definite term, and that either party may sever the employment relationship at any time and for any reason not otherwise prohibited by law.

9. ENTIRE AGREEMENT. This document contains the entire understanding and agreement between the Associate and Wal-Mart regarding the subject matter of this Agreement. This Agreement supersedes and replaces any and all prior understandings or agreements between the parties regarding this subject, and no representations or statements by either party shall be deemed binding unless contained herein.

10. MODIFICATION. This Agreement may not be amended, modified, or altered except in a writing signed by both parties or their designated representatives.

11. SUCCESSORS AND ASSIGNS. This Agreement will inure to the

benefit of, and will be binding upon, Wal-Mart, its successors and assigns, and on the Associate and his or her heirs, successors, and assigns. No rights or obligations under this Agreement may be assigned to any other person without the express written consent of all parties hereto.

12. COUNTERPARTS. This Agreement may be executed in counterparts, in which case each of the two counterparts will be deemed to be an original and the final counterpart will be deemed to have been executed in Bentonville, Arkansas.

13. GOVERNING LAW. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Arkansas.

14. STATEMENT OF UNDERSTANDING. By signing below, the Associate acknowledges (a) that he or she has received a copy of this Agreement, (b) that he or she has read the Agreement carefully before signing it, (c) that he or she has had ample opportunity to ask questions concerning the Agreement and has had the opportunity to discuss the Agreement with legal counsel of his or her own choosing, and (d) that he or she understands his or her rights and obligations under this Agreement, and enters into this Agreement voluntarily.

**WAL-MART STORES, INC.**

By: /s/S. Robson Walton  
S. Robson Walton  
Chairman of the Board

/s/Bob L. Martin  
Bob L. Martin  
Executive Vice President and  
President of the  
International Division

April 22, 1998 April 22, 1998 Date Date

**SPECIAL STOCK OPTION GRANT, POST-TERMINATION  
AGREEMENT AND COVENANT NOT TO COMPETE**

**This Special Stock Option Grant, Post-Termination Agreement, and**

Covenant Not to Compete is entered into this 30th day of June, 1998 by

and between Wal-Mart Stores, Inc. (hereinafter "Wal-Mart") and H. Lee

Scott, Jr. (hereinafter "the Associate"). The parties agree as follows:

1. ACKNOWLEDGMENTS. As part of this Agreement, the parties

specifically acknowledge that

(A) Wal-Mart is a major retail operation, with stores located

throughout the United States and in certain foreign locations;

(B) the Associate presently holds a position as Executive Vice

President and President of the Wal-Mart Stores Division, and is a key

executive as defined by the Executive Committee;

(C) as an essential part of its business, Wal-Mart has

cultivated long term customer and vendor relationships and goodwill,

which are difficult to develop and maintain, which require a

significant investment of time, effort, and expense, and which can

suffer significantly upon the departure of key executives;

(D) in the development of its business, Wal-Mart has also

expended a significant amount of time, money, and effort in developing

and maintaining confidential, proprietary, and trade secret

information which, if disclosed or misused, could harm Wal-Mart's

business and its competitive position in the retail marketplace;

(E) as Executive Vice President and President of the Wal-Mart

Stores Division, the Associate has access to confidential and

proprietary trade secret information and other confidential

information, including business plans and strategies, that would be of

considerable value to Wal-Mart's competitors; and

(F) Wal-Mart is entitled to take appropriate steps to ensure (i)

that its Associates do not make use of confidential information gained during the course of their employment with Wal-Mart and (ii) that no individual associate or competing entity gains an unfair competitive advantage over Wal-Mart.

2. SPECIAL STOCK OPTION GRANT. If the Associate executes this Agreement on or before July 31, 1998, Wal-Mart will award to the Associate a Special Stock Option Grant equivalent to One Hundred Percent (100%) of the Associate's base salary in effect on the date of this Agreement. The Special Stock Option Grant will be in addition to any other stock options, restricted stock, stock grants, or similar entitlements that the employee may receive, or may previously have received, under any other plan or program maintained by Wal-Mart. The Special Stock Option Grant will vest in seven equal annual installments commencing one (1) year from the date of the grant, and shall in all regards be governed by the terms of the Wal-Mart Stores, Inc. Stock Option Plan.

3. TRANSITION PAYMENTS. In the event that Wal-Mart should initiate the termination of the Associate's employment, Wal-Mart will, for a period of two (2) years from the effective date of such termination ("the Transition Period"), continue to pay the Associate his or her base salary at the rate in effect on the date of termination, subject to such withholding as may be required by law and subject to the following conditions and offsets:

(A) Transition Payments will not be payable if the Associate is terminated as the result of a violation of Wal-Mart policy;

(B) In the event that the Associate is demoted or reassigned so that he or she ceases to be a key executive as defined or determined by the Executive Committee, the Associate will no longer be bound by the Covenant Not to Compete set forth in Paragraph 4 below and will cease to be eligible for any of the benefits or payments (e.g.,

Transition Payments) provided by this Agreement. In addition, it is understood that, upon ceasing to be a key executive, the Associate would forfeit the stock options granted by this Agreement, but only to the extent that those options have not vested as of the date of demotion or reassignment;

(C) No Transition Payments will be payable if the Associate voluntarily resigns or retires from his or her employment with Wal-Mart;

(D) Given the availability of other programs designed to provide financial protection in such circumstances, Transition Payments will not be payable under this Agreement in the event of the Associate's death or disability. If the Associate should die during the Transition Period, Transition Payments will cease at that time, and his or her heirs will have no entitlement to the continuation of such payments. Transition Payments will not be affected by the disability of the Associate during the Transition Period.

(E) Transition Payments will be offset by any amounts that the Associate may earn during the Transition Period by virtue of self-employment or employment with, or involvement in, an entity other than a Competing Business as defined in Paragraph 4(B) below. Violation by the Associate of his obligations under Paragraph 4 or Paragraph 5 below, or any other act that is materially harmful to Wal-Mart's business interests, during the Transition Period will result in the immediate termination of Transition Payments in addition to any other remedies that may be available to Wal-Mart;

(F) Transition Payments will be payable on such regularly scheduled paydays as may be adopted and instituted by Wal-Mart for its other salaried employees.

(G) Receipt of Transition Payments will not entitle the Associate to participate during the Transition Period in any of the

other incentive, stock option, profit sharing, or other associate

benefit plans or programs maintained by Wal-Mart, and the Associate shall be entitled to participate in such plans or programs only to the extent that the terms of the plan or program provide for participation by former associates. Such participation, if any, shall be governed by the terms of the applicable plan or program.

4. COVENANT NOT TO COMPETE. In exchange for the Special Stock Option Grant set forth in Paragraph 2, for his or her inclusion in the Transition Payment program set forth in Paragraph 3, and for other good and valuable consideration, the Associate agrees, promises, and covenants as follows:

(A) For a period of two (2) years from the date on which his or her employment with Wal-Mart terminates, and regardless of the cause or reason for such termination, the Associate will not directly or indirectly

(i) own, manage, operate, finance, join, control, advise, consult, render services to, have a current or future interest in, or participate in the ownership, management, operation, financing, or control of, or be employed by or connected in any manner with, any Competing Business as defined below in Paragraph 4(B); or

(ii) solicit for employment, hire or offer employment to, or otherwise aid or assist any person or entity other than Wal-Mart in soliciting for employment, hiring, or offering employment to, any employee of Wal-Mart or any of its affiliates;

(B) For purposes of this Agreement, the term "Competing Business" shall include any general or specialty retail, wholesale, or merchandising business that sells goods or merchandise of the types sold by Wal-Mart at retail to consumers that (i) is located within the United States or any other country in which Wal-Mart or its affiliates either operate a store or are known to the Associate to have plans to

open or acquire an operation within the next twenty-four (24) months, and (ii) that has gross annual sales volume or revenues attributable to its retail operations in excess of U.S. \$2 billion or is reasonably expected to have gross sales volume or revenues of more than U.S. \$2 billion in either the current fiscal year or the next following fiscal year. "Competing Business" as of the date of this Agreement shall specifically include, but is not limited to, such entities as Target/Dayton Hudson, Costco, K-Mart, Home Depot, Dollar General, Family Dollar, Kohls, Hudson Bay Company, Carrefour, HEB, and Fred Meyers.

(C) Ownership of an investment of less than the greater of \$25,000 or 1% of any class of equity or debt security of a Competing Business will not be deemed ownership or participation in ownership of a Competing Business for purposes of this Agreement.

(D) The covenant not to compete contained in this Paragraph 4 shall be binding upon the Associate, and shall remain in full force and effect, regardless of whether the Associate qualifies, or continues to remain eligible, for the Transition Payments described in Paragraph 3 above. Termination of the Transition Payments pursuant to Paragraph 3 will not release the Associate from his or her obligations under this Paragraph 4.

5. PRESERVATION OF CONFIDENTIAL INFORMATION. The Associate agrees that he or she will not at any time, directly or indirectly, use or disclose any Confidential Information obtained during the course of his or her employment with Wal-Mart except as may be authorized by Wal-Mart. "Confidential Information" shall include any non-public information pertaining to Wal-Mart's business, and shall include information obtained by the Associate during the course of, or as a result of, his or her employment with Wal-Mart, including, without limitation, information regarding Wal-Mart's processes,



suppliers (including the terms, conditions, or other business arrangements with such suppliers), advertising and marketing plans and strategies, profit margins, seasonal plans, goals, objectives and projections, compilations, analyses, and projections regarding Wal-Mart's business, trade secrets, salary, staffing, compensation, and other employment data, and any "know-how," techniques, practice or any technical information not of a published nature regarding Wal-Mart's business.

6. **REMEDIES FOR BREACH.** The parties shall each be entitled to pursue all legal and equitable rights and remedies to secure performance of their respective obligations and duties under this Agreement, and enforcement of one or more of these rights and remedies will not preclude the parties from pursuing any other rights and remedies. The Associate acknowledges that a breach of the provisions of Paragraph 4 or Paragraph 5 above could result in substantial and irreparable damage to Wal-Mart's business, and that the restrictions contained in Paragraphs 4 and 5 are a reasonable attempt by Wal-Mart to protect its rights and to safeguard its confidential information.

The Associate expressly agrees that upon a breach or a threatened breach by the Associate of the provisions of Paragraph 4 or Paragraph 5, Wal-Mart will be entitled to injunctive relief to restrain such violation, and the Associate hereby expressly consents to the entry of such temporary, preliminary, and/or permanent injunctive relief as may be necessary to enjoin the violation of Paragraph 4 or Paragraph 5.

The parties further agree that any action relating to the interpretation, validity, or enforcement of this Agreement shall be brought in the appropriate state or federal court encompassing Benton County, Arkansas, and the parties hereby expressly consent to the jurisdiction of such courts. The Associate further agrees that in any claim or action involving the execution, interpretation, validity, or

enforcement of this Agreement, he or she will seek satisfaction exclusively from the assets of Wal-Mart, and will hold harmless all of Wal-Mart's individual directors, officers, employees, and representatives.

7. SEVERABILITY. In the event that a court of competent jurisdiction shall determine that any portion of this Agreement is invalid or otherwise unenforceable, the parties agree that the remaining portions of the Agreement shall remain in full force and effect. The parties also expressly agree that if any portion of the covenant not to compete set forth in Paragraph 4 shall be deemed unenforceable, then the Agreement shall automatically be deemed to have been amended to incorporate such terms as will render the covenant enforceable to the maximum extent permitted by law.

8. NATURE OF THE RELATIONSHIP. Nothing contained in this Agreement shall be deemed or construed to constitute a contract of employment for a definite term. The parties acknowledge that the Associate is not employed by Wal-Mart for a definite term, and that either party may sever the employment relationship at any time and for any reason not otherwise prohibited by law.

9. ENTIRE AGREEMENT. This document contains the entire understanding and agreement between the Associate and Wal-Mart regarding the subject matter of this Agreement. This Agreement supersedes and replaces any and all prior understandings or agreements between the parties regarding this subject, and no representations or statements by either party shall be deemed binding unless contained herein.

10. MODIFICATION. This Agreement may not be amended, modified, or altered except in a writing signed by both parties or their designated representatives.

11. SUCCESSORS AND ASSIGNS. This Agreement will inure to the

benefit of, and will be binding upon, Wal-Mart, its successors and assigns, and on the Associate and his or her heirs, successors, and assigns. No rights or obligations under this Agreement may be assigned to any other person without the express written consent of all parties hereto.

12. COUNTERPARTS. This Agreement may be executed in counterparts, in which case each of the two counterparts will be deemed to be an original and the final counterpart will be deemed to have been executed in Bentonville, Arkansas.

13. GOVERNING LAW. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Arkansas.

14. STATEMENT OF UNDERSTANDING. By signing below, the Associate acknowledges (a) that he or she has received a copy of this Agreement, (b) that he or she has read the Agreement carefully before signing it, (c) that he or she has had ample opportunity to ask questions concerning the Agreement and has had the opportunity to discuss the Agreement with legal counsel of his or her own choosing, and (d) that he or she understands his or her rights and obligations under this Agreement, and enters into this Agreement voluntarily.

**WAL-MART STORES, INC.**

*By: /s/S. Robson Walton  
S. Robson Walton  
Chairman of the Board*

*/s/H. Lee Scott, Jr.  
H. Lee Scott, Jr.  
Executive Vice President and  
President of the  
Wal-Mart Stores Division*

June 30, 1998 June 30,1998 Date Date

**SPECIAL STOCK OPTION GRANT, POST-TERMINATION  
AGREEMENT AND COVENANT NOT TO COMPETE**

**This Special Stock Option Grant, Post-Termination Agreement, and**

Covenant Not to Compete is entered into this 3rd day of September,

1998 by and between Wal-Mart Stores, Inc. (hereinafter "Wal-Mart")

and Thomas M. Coughlin (hereinafter "the Associate"). The parties agree as follows:

1. ACKNOWLEDGMENTS. As part of this Agreement, the parties

specifically acknowledge that

(A) Wal-Mart is a major retail operation, with stores located

throughout the United States and in certain foreign locations;

(B) the Associate presently holds a position as Executive Vice

President and Chief Operating Officer of the Wal-Mart Stores Division,

and is a key executive as defined by the Executive Committee;

(C) as an essential part of its business, Wal-Mart has

cultivated long term customer and vendor relationships and goodwill,

which are difficult to develop and maintain, which require a

significant investment of time, effort, and expense, and which can

suffer significantly upon the departure of key executives;

(D) in the development of its business, Wal-Mart has also

expended a significant amount of time, money, and effort in developing

and maintaining confidential, proprietary, and trade secret

information which, if disclosed or misused, could harm Wal-Mart's

business and its competitive position in the retail marketplace;

(E) as Executive Vice President and Chief Operating Officer of

the Wal-Mart Stores Division, the Associate has access to confidential

and proprietary trade secret information and other confidential

information, including business plans and strategies, that would be of

considerable value to Wal-Mart's competitors; and

(F) Wal-Mart is entitled to take appropriate steps to ensure (i)

that its Associates do not make use of confidential information gained during the course of their employment with Wal-Mart and (ii) that no individual associate or competing entity gains an unfair competitive advantage over Wal-Mart.

2. SPECIAL STOCK OPTION GRANT. If the Associate executes this Agreement on or before July 31, 1998, Wal-Mart will award to the Associate a Special Stock Option Grant equivalent to One Hundred Percent (100%) of the Associate's base salary in effect on the date of this Agreement. The Special Stock Option Grant will be in addition to any other stock options, restricted stock, stock grants, or similar entitlements that the employee may receive, or may previously have received, under any other plan or program maintained by Wal-Mart. The Special Stock Option Grant will vest in seven equal annual installments commencing one (1) year from the date of the grant, and shall in all regards be governed by the terms of the Wal-Mart Stores, Inc. Stock Option Plan.

3. TRANSITION PAYMENTS. In the event that Wal-Mart should initiate the termination of the Associate's employment, Wal-Mart will, for a period of two (2) years from the effective date of such termination ("the Transition Period"), continue to pay the Associate his or her base salary at the rate in effect on the date of termination, subject to such withholding as may be required by law and subject to the following conditions and offsets:

(A) Transition Payments will not be payable if the Associate is terminated as the result of a violation of Wal-Mart policy;

(B) In the event that the Associate is demoted or reassigned so that he or she ceases to be a key executive as defined or determined by the Executive Committee, the Associate will no longer be bound by the Covenant Not to Compete set forth in Paragraph 4 below and will cease to be eligible for any of the benefits or payments (e.g.,

Transition Payments) provided by this Agreement. In addition, it is understood that, upon ceasing to be a key executive, the Associate would forfeit the stock options granted by this Agreement, but only to the extent that those options have not vested as of the date of demotion or reassignment;

(C) No Transition Payments will be payable if the Associate voluntarily resigns or retires from his or her employment with Wal-Mart;

(D) Given the availability of other programs designed to provide financial protection in such circumstances, Transition Payments will not be payable under this Agreement in the event of the Associate's death or disability. If the Associate should die during the Transition Period, Transition Payments will cease at that time, and his or her heirs will have no entitlement to the continuation of such payments. Transition Payments will not be affected by the disability of the Associate during the Transition Period.

(E) Transition Payments will be offset by any amounts that the Associate may earn during the Transition Period by virtue of self-employment or employment with, or involvement in, an entity other than a Competing Business as defined in Paragraph 4(B) below. Violation by the Associate of his obligations under Paragraph 4 or Paragraph 5 below, or any other act that is materially harmful to Wal-Mart's business interests, during the Transition Period will result in the immediate termination of Transition Payments in addition to any other remedies that may be available to Wal-Mart;

(F) Transition Payments will be payable on such regularly scheduled paydays as may be adopted and instituted by Wal-Mart for its other salaried employees.

(G) Receipt of Transition Payments will not entitle the Associate to participate during the Transition Period in any of the

other incentive, stock option, profit sharing, or other associate

benefit plans or programs maintained by Wal-Mart, and the Associate shall be entitled to participate in such plans or programs only to the extent that the terms of the plan or program provide for participation by former associates. Such participation, if any, shall be governed by the terms of the applicable plan or program.

4. COVENANT NOT TO COMPETE. In exchange for the Special Stock Option Grant set forth in Paragraph 2, for his or her inclusion in the Transition Payment program set forth in Paragraph 3, and for other good and valuable consideration, the Associate agrees, promises, and covenants as follows:

(A) For a period of two (2) years from the date on which his or her employment with Wal-Mart terminates, and regardless of the cause or reason for such termination, the Associate will not directly or indirectly

(i) own, manage, operate, finance, join, control, advise, consult, render services to, have a current or future interest in, or participate in the ownership, management, operation, financing, or control of, or be employed by or connected in any manner with, any Competing Business as defined below in Paragraph 4(B); or

(ii) solicit for employment, hire or offer employment to, or otherwise aid or assist any person or entity other than Wal-Mart in soliciting for employment, hiring, or offering employment to, any employee of Wal-Mart or any of its affiliates;

(B) For purposes of this Agreement, the term "Competing Business" shall include any general or specialty retail, wholesale, or merchandising business that sells goods or merchandise of the types sold by Wal-Mart at retail to consumers that (i) is located within the United States or any other country in which Wal-Mart or its affiliates either operate a store or are known to the Associate to have plans to

open or acquire an operation within the next twenty-four (24) months, and (ii) that has gross annual sales volume or revenues attributable to its retail operations in excess of U.S. \$2 billion or is reasonably expected to have gross sales volume or revenues of more than U.S. \$2 billion in either the current fiscal year or the next following fiscal year. "Competing Business" as of the date of this Agreement shall specifically include, but is not limited to, such entities as Target/Dayton Hudson, Costco, K-Mart, Home Depot, Dollar General, Family Dollar, Kohls, Hudson Bay Company, Carrefour, HEB, and Fred Meyers.

(C) Ownership of an investment of less than the greater of \$25,000 or 1% of any class of equity or debt security of a Competing Business will not be deemed ownership or participation in ownership of a Competing Business for purposes of this Agreement.

(D) The covenant not to compete contained in this Paragraph 4 shall be binding upon the Associate, and shall remain in full force and effect, regardless of whether the Associate qualifies, or continues to remain eligible, for the Transition Payments described in Paragraph 3 above. Termination of the Transition Payments pursuant to Paragraph 3 will not release the Associate from his or her obligations under this Paragraph 4.

5. PRESERVATION OF CONFIDENTIAL INFORMATION. The Associate agrees that he or she will not at any time, directly or indirectly, use or disclose any Confidential Information obtained during the course of his or her employment with Wal-Mart except as may be authorized by Wal-Mart. "Confidential Information" shall include any non-public information pertaining to Wal-Mart's business, and shall include information obtained by the Associate during the course of, or as a result of, his or her employment with Wal-Mart, including, without limitation, information regarding Wal-Mart's processes,



suppliers (including the terms, conditions, or other business arrangements with such suppliers), advertising and marketing plans and strategies, profit margins, seasonal plans, goals, objectives and projections, compilations, analyses, and projections regarding Wal-Mart's business, trade secrets, salary, staffing, compensation, and other employment data, and any "know-how," techniques, practice or any technical information not of a published nature regarding Wal-Mart's business.

6. **REMEDIES FOR BREACH.** The parties shall each be entitled to pursue all legal and equitable rights and remedies to secure performance of their respective obligations and duties under this Agreement, and enforcement of one or more of these rights and remedies will not preclude the parties from pursuing any other rights and remedies. The Associate acknowledges that a breach of the provisions of Paragraph 4 or Paragraph 5 above could result in substantial and irreparable damage to Wal-Mart's business, and that the restrictions contained in Paragraphs 4 and 5 are a reasonable attempt by Wal-Mart to protect its rights and to safeguard its confidential information.

The Associate expressly agrees that upon a breach or a threatened breach by the Associate of the provisions of Paragraph 4 or Paragraph 5, Wal-Mart will be entitled to injunctive relief to restrain such violation, and the Associate hereby expressly consents to the entry of such temporary, preliminary, and/or permanent injunctive relief as may be necessary to enjoin the violation of Paragraph 4 or Paragraph 5.

The parties further agree that any action relating to the interpretation, validity, or enforcement of this Agreement shall be brought in the appropriate state or federal court encompassing Benton County, Arkansas, and the parties hereby expressly consent to the jurisdiction of such courts. The Associate further agrees that in any claim or action involving the execution, interpretation, validity, or

enforcement of this Agreement, he or she will seek satisfaction exclusively from the assets of Wal-Mart, and will hold harmless all of Wal-Mart's individual directors, officers, employees, and representatives.

7. SEVERABILITY. In the event that a court of competent jurisdiction shall determine that any portion of this Agreement is invalid or otherwise unenforceable, the parties agree that the remaining portions of the Agreement shall remain in full force and effect. The parties also expressly agree that if any portion of the covenant not to compete set forth in Paragraph 4 shall be deemed unenforceable, then the Agreement shall automatically be deemed to have been amended to incorporate such terms as will render the covenant enforceable to the maximum extent permitted by law.

8. NATURE OF THE RELATIONSHIP. Nothing contained in this Agreement shall be deemed or construed to constitute a contract of employment for a definite term. The parties acknowledge that the Associate is not employed by Wal-Mart for a definite term, and that either party may sever the employment relationship at any time and for any reason not otherwise prohibited by law.

9. ENTIRE AGREEMENT. This document contains the entire understanding and agreement between the Associate and Wal-Mart regarding the subject matter of this Agreement. This Agreement supersedes and replaces any and all prior understandings or agreements between the parties regarding this subject, and no representations or statements by either party shall be deemed binding unless contained herein.

10. MODIFICATION. This Agreement may not be amended, modified, or altered except in a writing signed by both parties or their designated representatives.

11. SUCCESSORS AND ASSIGNS. This Agreement will inure to the

benefit of, and will be binding upon, Wal-Mart, its successors and assigns, and on the Associate and his or her heirs, successors, and assigns. No rights or obligations under this Agreement may be assigned to any other person without the express written consent of all parties hereto.

12. COUNTERPARTS. This Agreement may be executed in counterparts, in which case each of the two counterparts will be deemed to be an original and the final counterpart will be deemed to have been executed in Bentonville, Arkansas.

13. GOVERNING LAW. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Arkansas.

14. STATEMENT OF UNDERSTANDING. By signing below, the Associate acknowledges (a) that he or she has received a copy of this Agreement, (b) that he or she has read the Agreement carefully before signing it, (c) that he or she has had ample opportunity to ask questions concerning the Agreement and has had the opportunity to discuss the Agreement with legal counsel of his or her own choosing, and (d) that he or she understands his or her rights and obligations under this Agreement, and enters into this Agreement voluntarily.

**WAL-MART STORES, INC.**

By: /s/S. Robson Walton  
S. Robson Walton  
Chairman of the Board

/s/Thomas M. Coughlin  
Thomas M. Coughlin  
Executive Vice President and  
Chief Operating Officer  
of the Wal-Mart Stores Division

September 3, 1998 September 3, 1998 Date Date

## ARTICLE 5

|                            |             |
|----------------------------|-------------|
| PERIOD TYPE                | 6 MOS       |
| FISCAL YEAR END            | JAN 31 1999 |
| PERIOD END                 | JUL 31 1998 |
| CASH                       | 884         |
| SECURITIES                 | 0           |
| RECEIVABLES                | 1,008       |
| ALLOWANCES                 | 0           |
| INVENTORY                  | 17,617      |
| CURRENT ASSETS             | 19,937      |
| PP&E                       | 28,898      |
| DEPRECIATION               | 6,644       |
| TOTAL ASSETS               | 46,874      |
| CURRENT LIABILITIES        | 14,796      |
| BONDS                      | 0           |
| PREFERRED MANDATORY        | 0           |
| PREFERRED                  | 0           |
| COMMON                     | 225         |
| OTHER SE                   | 19,318      |
| TOTAL LIABILITY AND EQUITY | 46,874      |
| SALES                      | 63,340      |
| TOTAL REVENUES             | 64,037      |
| CGS                        | 49,948      |
| TOTAL COSTS                | 60,977      |
| OTHER EXPENSES             | 0           |
| LOSS PROVISION             | 0           |
| INTEREST EXPENSE           | 379         |
| INCOME PRETAX              | 3,060       |
| INCOME TAX                 | 1,132       |
| INCOME CONTINUING          | 1,862       |
| DISCONTINUED               | 0           |
| EXTRAORDINARY              | 0           |
| CHANGES                    | 0           |
| NET INCOME                 | 1,862       |
| EPS PRIMARY                | .83         |
| EPS DILUTED                | .83         |

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**End of Filing**

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