

# WAL MART STORES INC

## FORM 10-Q (Quarterly Report)

Filed 09/10/96 for the Period Ending 07/31/96

Address	702 SOUTHWEST 8TH ST 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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Filed 9/10/1996 For Period Ending 7/31/1996

Address	702 SOUTHWEST 8TH ST BENTONVILLE, Arkansas 72716
Telephone	501-273-4000
CIK	0000104169
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# 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, 1996.

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

(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 -- 2,293,719,958 shares as of July 31, 1996.

## PART I. FINANCIAL INFORMATION

### Item 1. Financial Statements

(Amounts in millions)

	July 31, 1996 (Unaudited)	January 31, 1996 (*Note)
<b>ASSETS</b>		
Cash and cash equivalents	\$ 24	\$ 83
Receivables	879	853
Inventories	16,375	15,989
Other current assets	680	406
Total current assets	17,958	17,331
Property, plant and equipment	22,226	20,850
Less accumulated depreciation	4,348	3,752
Net property, plant and equipment	17,878	17,098
Property under capital leases	2,629	2,476
Less accumulated amortization	736	680
Net property under capital leases	1,893	1,796
Other assets and deferred charges	1,169	1,316
Total assets	\$38,898	\$37,541
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Commercial paper	\$ 1,823	\$ 2,458
Accounts payable	7,204	6,442
Other current liabilities	2,641	2,554
Total current liabilities	11,668	11,454
Long-term debt	8,496	8,508
Long-term obligations under capital leases	2,204	2,092
Deferred income taxes and other	739	731
Common stock and capital in excess of par value	774	774
Retained earnings	15,428	14,394
Foreign currency translation adjustment	( 411)	( 412)
Total shareholders' equity	15,791	14,756
Total liabilities and shareholders' equity	\$38,898	\$37,541

[FN]

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

<F2>

\*Note: The balance sheet at January 31, 1996, has been taken from the audited financial statements at that date, and condensed.

WAL-MART STORES, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
(Unaudited)  
(Amounts in millions except per share data)

	Three Months Ended July 31,		Six Months Ended July 31,	
	1996	1995	1996	1995
Net sales	\$25,587	\$22,723	\$48,359	\$43,163
Other income - net	257	284	487	497
	25,844	23,007	48,846	43,660
Costs and expenses:				
Cost of sales	20,376	18,095	38,440	34,290
Operating, selling and general and administrative expenses	4,130	3,693	7,941	7,070
Interest costs:				
Debt	163	165	332	320
Capital leases	55	47	106	93
	24,724	22,000	46,819	41,773
Income before income taxes	1,120	1,007	2,027	1,887
Provision for income taxes	414	374	750	700
Net income	\$ 706	\$ 633	\$ 1,277	\$ 1,187
Net income per share	\$ .31	\$ .28	\$ .56	\$ .52
Dividends per share	\$ .0525	\$ .05	\$ .105	\$ .10

Beginning of the year shareholders' equity	\$14,756	\$12,726	\$14,756	\$12,726
Return for the period on beginning of the year shareholders' equity	4.78%	4.97%	8.65%	9.33%
Average number of common shares outstanding	2,294	2,296	2,293	2,296

[FN]

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

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

	Six Months Ended July 31, 1996	1995
Cash flows from operating activities:		
Net income	\$ 1,277	\$ 1,187
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	707	604
Increase in inventories	( 385)	( 887)
Increase in accounts payable	778	411
Noncash items and other	68	( 462)
Net cash provided by operating activities	2,445	853
Cash flows from investing activities:		
Net capital additions	( 1,395)	( 1,710)
Other investing activities	40	1
Net cash used in investing activities	( 1,355)	( 1,709)
Cash flows from financing activities:		
(Decrease)increase in commercial paper	( 614)	325
Proceeds from issuance of long-term debt	-	777
Payment of long-term debt	( 259)	( 5)
Dividends paid	( 241)	( 230)
Other financing activities	( 35)	( 50)
Net cash (used in) provided by financing activities	( 1,149)	817
Net decrease in cash and cash equivalents	( 59)	( 39)
Cash and cash equivalents at beginning of year	83	45
Cash and cash equivalents at end of period	\$ 24	\$ 6
Supplemental Disclosure of Cash Flow Information:		
Income tax paid	\$ 784	\$ 973
Interest paid	454	406
Capital lease obligations incurred	170	108

[FN]

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

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

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE A. BASIS OF PRESENTATION**

The condensed consolidated balance sheet as of July 31, 1996, and the related condensed consolidated statements of income and cash flows for the periods ended July 31, 1996 and 1995 are unaudited. In the opinion of management, all adjustments necessary for a fair presentation of such financial statements have been included. Such adjustments consisted only of normal recurring items. Interim results are not necessarily

indicative of results for a full year.

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 with the annual report.

#### **NOTE B. INVENTORIES**

Inventories are valued at the lower of cost or market value, using the last-in, first-out (LIFO) method for substantially all inventories. 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, 1996, would have been \$321 million higher than reported, an increase in the LIFO reserve of \$10 million from January 31, 1996, and an increase of \$5 million from April 30, 1996. If the FIFO method had been used at July 31, 1995, inventories would have been \$364 million higher than reported, an increase in the LIFO reserve of \$13 million from January 31, 1995, and an increase of \$5 million from April 30, 1995.

#### **NOTE C. SUBSEQUENT EVENTS**

During the second quarter of fiscal 1997, the Company entered into an agreement to sell six photo finishing plants and accompanying distribution network and entered into long-term photo finishing services and supply agreements with the purchaser. The Company anticipates receiving proceeds of approximately \$464 million from the sale which should be consummated during the Company's third quarter. A significant portion of the proceeds will be allocated to the long-term service and supply agreements and recognized in income in future periods.

Subsequent to July 31, 1996, the Company acquired certain stock of a real estate investment trust (REIT) and third party investors acquired the balance of the REIT's stock for \$632 million. The primary effect of these and certain related transactions on the Company's consolidated financial statements in the third quarter of fiscal 1997 will be the recognition of the cash proceeds and the recognition of the corresponding outside investor interest in the REIT.

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

#### **Results of Operations**

Increased sales for the six month period ending July 31, 1996 were attributable to an increase in comparable sales in the Wal-Mart stores and Supercenters of 5%, an increase in Sam's Clubs comparable sales of 1%, and to the Company's expansion activities. Domestic expansion for the six month period included 22 new Wal-Mart stores, five new Supercenters, five new Sam's Clubs (four were closed), along with the conversion of 59 Wal-Mart stores to Supercenters, and the relocation or expansion of nine Wal-Mart stores. International expansion included the addition of three Wal-Mart stores in Canada, one Supercenter in Argentina, and eight Mexican units. International sales accounted for 4% of total sales in fiscal 1997 compared with 3% in fiscal 1996. Sam's Clubs sales as a percentage of total sales fell from 21% in fiscal 1996 to 19% in fiscal 1997.

At July 31, 1996 the Company had 1,958 Wal-Mart stores, 303 Supercenters, and 434 Sam's Clubs in the United States, along with four units in Argentina, five units in Brazil, 134 Wal-Mart stores in Canada, 134 units in Mexico and 11 units in Puerto Rico. This compares with 1,977 Wal-Mart stores, 188 Supercenters and 431 Sam's Clubs in the United States, along with one unit in Brazil, 127 Wal-Mart stores in Canada, 107 units in Mexico, and eight units in Puerto Rico at the same time last year.

On August 12, 1996, the Company grand opened a Supercenter and Sam's Club in Shenzhen, China under joint venture agreements.

The Company's gross profit as a percentage of sales was 20.37% in the second quarter of fiscal 1997, equal with the second quarter of fiscal 1996, and down slightly from 20.56% for the first six months in fiscal 1996 to 20.51% in fiscal 1997. The gross profit for domestic operations was up for the quarter and for the six month period ended July 31, 1996, compared with the previous year periods. The increase is primarily due to changes in the percentages of total sales generated by certain operating units. The decrease in Sam's Clubs' sales as a percentage of total sales favorably impacts the gross profit percentage as Sam's Clubs' gross profit percentage is lower than the Company's overall gross profit percentage.

Operating, selling, general, and administrative expenses decreased as a percentage of sales from 16.25% during the second quarter of fiscal 1996 to 16.14% during the second quarter of fiscal 1997, and increased slightly from 16.38% for the six month period ended July 31, 1995, to 16.42% for the six month period ended July 31, 1996.

In the first quarter of fiscal 1997, the Company adopted Statement of Financial Accounting Standard (SFAS) No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." The statement requires entities to review long-lived assets and certain intangible assets in certain circumstances, and if the value of the assets is impaired, an impairment loss shall be recognized. Due to the Company's previous accounting policies this pronouncement had no effect on the Company's financial position or results of operations.

The Company also adopted SFAS No. 123 "Accounting for Stock-Based Compensation" in the first quarter of fiscal 1997. The statement relates to the measurement of compensation of stock options issued to employees. The statement gives entities a choice of recognizing related compensation expense by adopting a new fair value method determination or to continue to measure compensation using the former standard. If the former standard for measurement is elected, SFAS No. 123 requires supplemental disclosure to show the effects of using the new

measurement criteria. The Company elected to continue to use the measurement prescribed by the former standard, and accordingly, the pronouncement had no effect on the Company's financial position or results of operations. The Company will present the supplemental disclosure in the fiscal 1997 annual report.

Interest expense increased \$6 million in the second quarter of fiscal 1997 and \$25 million in the six month period ended July 31, 1996, when compared with the same periods in fiscal 1996. As a percentage of sales, interest expense is down for both the quarter and six month period ended July 31, 1996. Interest expense is trending downward primarily due to lower short term borrowings resulting from an increase in operating cash flow.

### Liquidity and Capital Resources

Cash flows provided by operating activities were \$2,445 million during the first six months of fiscal 1997 compared with \$853 million in the first six months of fiscal 1996. The increase is primarily due to a greater increase in accounts payable and accrued liabilities and a smaller increase in inventories during the first six months of fiscal 1997. The increased operating cash flow provided an excess of \$809 million after investing \$1,395 million in capital assets and paying dividends of \$241 million.

Under shelf registration statements previously filed with the Securities and Exchange Commission, the Company may issue debt securities aggregating \$751 million. Cash flow provided by operations along with available debt under the shelf registration statements and the Company's ability to obtain short term financing should be adequate to fund the Company's expansion program and to provide for other cash needs.

During the third quarter, the Company anticipates receiving net cash proceeds of approximately \$1,096 million from the transactions disclosed in note C of the "Notes to Condensed Consolidated Financial Statements" included on page 5 of this Form 10-Q. The Company plans to use the cash proceeds received to reduce indebtedness.

At July 31, 1996, the Company had total assets of \$38,898 million compared with \$37,541 million at January 31, 1996. Working capital at July 31, 1996 was \$6,290 million up \$413 million from January 31, 1996. The ratio of current assets to current liabilities was 1.5 to 1.0 at July 31, 1996, January 31, 1996 and July 31, 1995.

## PART II. OTHER INFORMATION

### Item 4. Submission of Matter to a Vote of Security Holders

The Company's Annual Shareholders' Meeting was held June 7, 1996, in Fayetteville, Arkansas. 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, 1996. The table below sets forth the results of voting at the Annual Meeting:

	For	Against or Withheld	Abstentions	Broker Non-Votes
Election of Directors:				
Paul R. Carter	2,048,832,222	10,452,011	0	0
John A. Cooper, Jr.	2,049,349,991	9,934,242	0	0
Stephen Friedman	2,048,918,136	10,366,097	0	0
Stanley C. Gault	2,045,995,750	13,288,483	0	0
David D. Glass	2,048,411,315	10,872,918	0	0
Dr. Frederick S. Humphries	2,048,778,486	10,505,747	0	0
E. Stanley Kroenke	2,048,916,059	10,368,174	0	0
Elizabeth A. Sanders	2,049,169,886	10,114,347	0	0
Jack C. Shewmaker	2,046,074,047	13,210,186	0	0
Donald G. Soderquist	2,049,080,378	10,203,855	0	0
Dr. Paula Stern	2,048,734,428	10,549,805	0	0
John T. Walton	2,049,147,991	10,136,242	0	0
S. Robson Walton	2,049,166,659	10,117,574	0	0

### 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. All statements, other than statements of historical facts, which address activities, events or developments that the Company expects or anticipates will or may occur in the future, including such things as future capital expenditures (including the amount and nature thereof), expansion and other development trends of industry segments in which the Company is active, business strategy, expansion and growth of the Company's business and operations and other such matters are forward-looking statements. To take advantage of the safe harbor provided by the Act, Wal-Mart is identifying certain factors that could cause actual results to differ materially from those expressed in any forward-looking statements, whether oral or written, made by or on behalf of the Company. Many of these factors have previously been identified in filings or statements made by or on behalf of the Company.

All phases of The Company's operations are subject to influences outside its control. Any one, or a combination, of these factors could materially affect the results of the Company's operations. These factors include:

competitive pressures, inflation, consumer debt levels, currency exchange fluctuations, trade restrictions, changes in tariff and freight rates, political instability, interest rate fluctuations and other capital market conditions. Forward-looking statements made by or on behalf of the Company are based on a knowledge of its business and the environment in which it operates, but because of the factors listed above, actual results may differ from those in the forward-looking statements. Consequently, all of the forward-looking statements made are qualified by these cautionary statements and there can be no assurance that the actual results or developments anticipated by the Company will be realized or, even if substantially realized, that they will have the expected consequences to or effects on the Company or its business or operations.

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

(a) The following document is filed as an exhibit to this Form 10-Q:

**Exhibit 27 - Financial Data Schedule**

(b) There were no reports on Form 8-K filed for the quarter ended July 31, 1996.

**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 9, 1996*

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

*Date: September 9, 1996*

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

## ARTICLE 5

PERIOD TYPE	6 MOS
FISCAL YEAR END	JAN 31 1997
PERIOD END	JUL 31 1996
CASH	24
SECURITIES	0
RECEIVABLES	879
ALLOWANCES	0
INVENTORY	16,375
CURRENT ASSETS	17,958
PP&E	22,226
DEPRECIATION	4,348
TOTAL ASSETS	38,898
CURRENT LIABILITIES	11,668
BONDS	0
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	230
OTHER SE	15,561
TOTAL LIABILITY AND EQUITY	38,898
SALES	48,359
TOTAL REVENUES	48,846
CGS	38,440
TOTAL COSTS	46,819
OTHER EXPENSES	0
LOSS PROVISION	0
INTEREST EXPENSE	438
INCOME PRETAX	2,027
INCOME TAX	750
INCOME CONTINUING	1,277
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	1,277
EPS PRIMARY	.56
EPS DILUTED	.56

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