



*Wal-Mart Stores, Inc.
Annual Report
January 31, 1977*

CONTENTS

- 1 *Financial Highlights of 1977*
 - Two-Year Review*
 - Five-Year Financial Summary*
- 2 *Chairman's Message to Shareholders*
- 5 *Wal-Mart Stores, Inc. – Our Business*
- 6 *Wal-Mart Caring . . .*
 - About Its Customers*
 - About Its Associates*
- 9 *Wal-Mart Looks Toward the Future*
 - Research and Development Committee Formed*
- 10 *Graphs Tell the Story*
- 11 *Wal-Mart Opens Record Number of New Stores*
- 12 *Store-Locations*
 - Wal-Mart New Store Openings on Target*
- 14 *Eight-Year Summary*
- 16 *Management's Analysis of Summary of Earnings*
- 17 *Consolidated Statement of Income and Retained Earnings*
- 18 *Consolidated Balance Sheet*
- 19 *Consolidated Statement of Changes in Financial Position*
- 20 *Notes to Consolidated Financial Statements*
- 23 *Report of Certified Public Accountants*
 - Dividends Paid*
 - Market Price of Common Stock*
- 24 *Directors and Officers*
- 25 *Corporate Information*

Financial Highlights of 1977

Two-Year Review

	<u>1977</u>	<u>1976</u>	<u>Percentage Change</u>
Current Assets	\$99,493,000	\$76,070,000	+ 30.8
Current Liabilities	41,929,000	32,945,000	+ 27.3
Working Capital	57,564,000	43,125,000	+ 33.5
Current Ratio	2.37	2.31	
Stockholders' Equity	\$66,183,000	\$48,454,000	
Number of Shares Outstanding	13,649,829	13,418,063	

Five-Year Financial Summary

	<u>1977</u>	<u>1976</u>	<u>1975</u>	<u>1974</u>	<u>1973</u>
Net Sales	\$478,807,000	\$340,331,000	\$236,209,000	\$167,561,000	\$124,889,000
Income before income taxes	31,833,000	22,798,000	12,208,000	11,884,000	8,917,000
Net income	16,546,000	11,506,000	6,353,000*	6,159,000	4,591,000
Net income per share:					
Primary	\$ 1.19	\$.83	\$.48*	\$.47	\$.35
Fully diluted	1.12	.80	.48*	.47	.35
Number of stores in operation at the end of the period	153	125	104	78	64

*The company adopted the LIFO method of costing inventories which resulted in a reduction in net income of \$2,347,000 or \$.18 per share.

To Our Shareholders:



We are very pleased to report the financial results for our fiscal year ended January 31, 1977. Your Company again achieved record highs in both sales and earnings. At the same time, we also improved our financial position, further developed and strengthened our management team, and continued our new store development program.

Since our first store was opened in Bentonville, we have experienced twenty-seven consecutive years of sales and earnings growth. The charts and financial reports herein, covering the past eight years of Wal-Mart's operating results, indicate clearly our Company's outstanding sales growth and consistent record of increased earnings for our Shareholders over this period of time. Some record . . . and one of which I am sure both you, our Shareholders, and all of our associates in Wal-Mart can be most proud.

Company sales were \$478,807,000, compared to \$340,331,000 last year . . . an increase of 41%. Sales, including our leased shoe, jewelry, and pharmacy departments, increased to \$518,000,000 from \$368,700,000 for fiscal 1976. Our net income rose to \$16,546,000, or \$1.12 per share fully diluted, for the year ended January 31, 1977. This represents a 44% increase over the year ended January 31, 1976, when income was \$11,506,000, or 80¢ per share. These results, combined with our continuing expansion program, will assure Wal-Mart's position as a leading retail growth company.

Along with our sales and earnings growth, the dividends to Shareholders were increased from an annual rate of 8¢ a share to 10¢ per share during the fourth quarter. Our Board of Directors has a stated policy of continuing to increase distributions to Shareholders of dividends proportionate to our increase in earnings.

I know it is significant to our Shareholders that our Company's stockholders' equity has increased over 700% in the past six years. Likewise, in the seven years we have been a public company, one share of Wal-Mart stock has increased in value from \$2.0625 to \$13.875, or approximately a 570% increase. Consistency in both sales and earnings increases has been a primary characteristic of our Company.

Wal-Mart completed the year with 153 stores, an addition of 28 new stores during the year, for a total of 1,300,000 new square feet. This was an increase of 24% in store space, bringing the total space for Wal-Mart to approximately 6,500,000

square feet as of year-end. The financing of new store inventories, fixtures and working capital was funded from current year earnings. It is anticipated that future such expenditures will primarily be financed through earnings.

A new 150,000-foot Distribution Center was constructed in Bentonville and completed in November of 1976. This now makes a total of 300,000 square feet which is being utilized as a pure distribution center with all merchandise moved in and out on a two-and-one-half-day cycle.

All of Wal-Mart's distribution facilities are now located in Bentonville . . . some 550,000 square feet totally, through which approximately 80% of all merchandise for our stores flows. This percentage has increased from 60% to 80% within the past two years and is a contributive factor in our sales and profit increases.

Our General Office complex was doubled in size and completed early in 1976. The new addition was about 31,000 square feet, so we now have in excess of 50,000 feet as General Office, Merchandising, and Accounting space.

One of the most remarkable achievements, in my opinion, during 1976 had to be the amazing sales increase of 19% for comparable stores for the year. To my knowledge, no other general merchandise retailer in the United States came

close to equaling this figure. In evaluating this and our other accomplishments, the following are a few of the factors I think were significant:

- We improved our training program for associates, including seminars in the field and in the General Office.
- We improved turnover of merchandise. Our turns increased by one-tenth to 4.1 turns.
- We conducted a very effective sales and promotion program, emphasizing volume sales on items as well as gross profit.
- We improved service to customers and improved store standards and merchandising techniques by adding additional personnel in stores.
- We made a dramatic improvement in our fashion merchandise areas during 1976, particularly after a major remodeling and re-fixturing of these departments was completed by July in all stores. We feel that continuing to improve our fashion presentation and departmental arrangements will enable us to fully exploit the potential of these merchandise categories. Our centralized receiving, marking, and quality control on all fashion wearables continues to be an important element in the success of that program.
- We controlled tightly our expense structure in 1976, though it increased slightly from 20.5% of sales in 1975 to 20.8% last year . . . a .3% increase which was due to higher wages and better

service at store level. In turn, we improved our gross profits by a .2% increase for the year. Our expense structure would have to be classified as one of the lowest in the industry. Two years ago, for 1974, our total expense structure was 21.1% of sales.

- We have had unique cooperation and support for all of our various Company objectives during 1976. The most important element for our success during the year would have to be the complete dedication and loyalty of our 10,000 associates throughout our Company . . . from our management team as well as from our hourly associates. I know all of you Shareholders share with me deep appreciation to our associates for their accomplishments during this past year.

Your Board of Directors regrets the departure of a valued member, Mr. H. L. "Buck" Rimmel, who resigned because of the pressing nature of other professional commitments. Mr. Rimmel was one of our original board members and a partner of White, Weld & Co. Incorporated, one of our investment banking firms, and made significant contributions to the Board in its deliberations and conduct of its duties. His presence will be missed.

Mr. John Geisse was elected to our Board, replacing Mr. Rimmel, and he contributed substantially until his resignation after assuming the Board Chairman position at Ayr-Way Stores. We very much appreciate Mr. Geisse's contribution during his tenure with us.

We are pleased to announce the recent election of Mr. J. R. Hyde, III to our Board of Directors. Mr. Hyde is an outstanding merchant and

leader in the wholesale food industry. He is Chairman of the Board and President of Malone & Hyde, Inc., Memphis, Tennessee, a billion-dollar company listed on the New York Stock Exchange.

As we move forward into 1977 and the continuing challenge of developing Wal-Mart into one of the leading retailers in the United States, I would like to review with you some of the goals and objectives we have set for ourselves.

Wal-Mart sales this year should be in the \$600,000,000 range with profits in line with sales increases. We have also set a Corporate goal for the year ending January 31, 1981 . . . four years . . . to become a billion-dollar company. This past year, too, was a major milestone when we went over the one-half billion dollar mark in sales, including our leased departments.

Our new store program is well under way and should produce approximately 30 new stores for the year. We also plan to relocate two stores and expand and remodel three others for a net increase of 1,400,000 square feet of new store space. This would represent an increase of approximately 20% in additional square footage. We have adopted a program of owning some of our store buildings and are now purchasing and having developed for us the properties where such action is necessary to secure locations we consider top priority.

We will continue to accelerate our training and development programs for all Wal-Mart associates to effect an even stronger organization. In particular, we will emphasize our policy of promoting from within and adopt the philosophy of cross-training our associates throughout the Company whenever possible to achieve the talent and expertise we need.

We will continue to concentrate on sales productivity in all merchandising categories and, in particular, we will be striving to achieve our sales goal of \$100 per square foot of gross store space. Last year, we hit a new high of \$88 a square foot in sales, which was well above the industry average.

A new Distribution Center is presently being planned to be ready by June, 1978. This new facility will be located in northeast Arkansas, where it can service approximately half of our present stores, comprising all stores in Tennessee, Mississippi, northern Louisiana, eastern Missouri, and eastern Arkansas. It will be a full-service facility, complete with trucking facilities as well. It is contemplated that this facility will be financed by industrial revenue bonds.

We will continue to carefully monitor and control expenses so we can retain our leadership in competitive pricing.

Our inventory control programs will be emphasized and strengthened.

Our goal for merchandise turnover in 1977 is 4.25 for our stores with an eventual goal of 4.5, which, for our Company serving basically rural areas, should be realistic and prudent.

Some of the most valuable advice and observations we have received over the years has come from those of you who regard your role of shareholder as that of partner in improving the firm. I wish for you to continue that and encourage you to write or telephone when possible your thoughts and suggestions. As we go forward into what I am confident will be a rewarding 1977, I extend my sincere thanks for the dedication of our associates, the invaluable guidance and counsel of the members of our Board, and the confidence in the Company and its management which you, the

Shareholders, have continued to evidence.

Let me also extend a cordial invitation to you, our Shareholders and friends, to visit us at Bentonville. We would like to show you through our General Office and Distribution Center facilities . . . you would be most welcome!



Sam M. Walton
Chairman and
Chief Executive Officer.



From left to right: David D. Glass, Executive Vice President, Finance – J. L. Walton, Director, Senior Vice President – Sam M. Walton, Director, Chairman and Chief Executive Officer – Ferold G. Arend, Director, President and Chief Operating Officer – Jack Shewmaker, Executive Vice President, Operations, Personnel and Merchandise.

Wal-Mart Stores, Inc.

Our Business

Wal-Mart Stores, Inc. is a regional discount department store chain. From Bentonville, Arkansas, in the northwest corner of the state, 153 stores spread about 400 miles into nine states. Included in the 153 discount department stores in operation on January 31, 1977, were two Sav-Co Home Improvement Centers and two Family Center stores. Forty-seven units were located in Arkansas; forty-four in Missouri; twenty-nine in Oklahoma; seven each in Tennessee, Kansas, and Mississippi; six in Texas; four in Louisiana; and two in Kentucky.

Wal-Mart has found notable success in communities much smaller (5,000 to 25,000 people) than those in which comparable size stores are usually found. Wal-Mart stores cover a region of small towns and medium-sized cities — Little Rock, Arkansas and Springfield, Missouri are the largest in which the Company operates. The average size of a Wal-Mart Discount City store is approximately 42,000 square feet and nearly all are between 30,000 and 60,000 square feet in building area.

All of Wal-Mart's 153 stores are air-conditioned and have modern fixtures and equipment. With few exceptions, store sales are on a self-service, cash and carry basis with bank-card credit available. Wal-Mart stores feature 36 full-line departments and offer a wide variety of merchandise. The mix of goods is approximately 68% hardlines and 32% softlines. Nationally advertised, name brand merchandise accounts for a majority of non-clothing

sales and a minor portion of clothing sales at Wal-Mart. A relatively small portion of the goods sold is under the Company's own private label. Leased departments (jewelry and shoe) are found in all stores and some stores have a pharmacy.

Merchandise control and distribution is an important function of the Company's warehouse and distribution centers. Approximately 80% of total merchandise is shipped from the Company facilities in an effort to assure quality control and uniform pricing, as well as to maintain proper inventory controls. Wal-Mart's management attributes much of the Company's success to continuing improvement in distribution efficiencies and strict adherence to the two guiding principles of "guaranteed customer satisfaction" and "everyday discount prices."

The Company's first unit was a franchised Ben Franklin variety store, opened in 1945, in Newport, Arkansas by Sam M. Walton. In 1946, his brother, J. L. "Bud" Walton, opened a similar store in Versailles, Missouri. Until 1962, the Company's business was devoted to the operation of variety stores. In that year, the first Wal-Mart Discount City store was opened in Rogers, Arkansas. Since that time, the emphasis of the Company's business has been on its discount department stores.



Wal-Mart stores feature thirty-six full-line departments and offer a wide variety of merchandise. Stores range in size from 30,000 to 60,000 square feet, with the average being approximately 42,000 square feet.

Wal-Mart Caring . . .

About Its Customers

The emphasis at Wal-Mart has always been on efficient and courteous customer service. "Guaranteed Customer Satisfaction" is not just a slogan at Wal-Mart, it is our way of doing business.



"Wal-Mart Caring" has been designated as one of the corporation's major objectives for the current fiscal year. The Company has always cared about its customers and associates, but special emphasis will be placed upon this objective during 1977 and in future years.

Caring about its customers and associates is much more than a slogan at Wal-Mart — it is a philosophy. From the beginning, strong emphasis has been placed upon customer service and guaranteed customer satisfaction.

As a result, Wal-Mart's exceptional sales performance reflects not only the vitality and growth of its service area, but also the Company's ability to increase market share by offering excellent values and quality service to its customers. The Company's strong consumer image is achieved by passing along the benefits of low operating costs, by maintaining a strong promotional program, and by providing courteous and efficient customer service. Because Wal-Mart truly cares about its customers, it has improved customer services by putting more associates at the check-outs and by

increasing the staff needed to keep shelves fully stocked with quality merchandise.

Wal-Mart has always maintained an "unconditional money-back guarantee" program to promote customer goodwill and acceptance. However, we know that providing guaranteed satisfaction and quality merchandise at the lowest price is not enough to keep our customers shopping at Wal-Mart. We know that we must also provide quality service. All Wal-Mart associates know that customer goodwill and acceptance are our best investment for future successful growth.

Yes, Wal-Mart truly cares about its customers and their convenience every time they shop with us. We feel so strongly about this philosophy that during the year special emphasis will be placed upon additional customer service training programs within every department in the Company. We mean it when we say, "the customer is always right at Wal-Mart," because he or she is our number one boss. We want our customers to keep coming back because they *know* Wal-Mart truly cares about them.



Sam M. Walton, founder and Chief Executive Officer, makes regular visits to the stores to meet with associates and to visit with customers.

Wal-Mart Discount City stores are a one-stop shopping center for the entire family — regardless of age.



About Its Associates

Wal-Mart cares deeply about its 10,000 associates who serve its customers throughout its nine-state marketing area. The Company cares so much, in fact, it has accelerated and expanded its corporate training program to help make it possible for all associates to achieve their maximum potential, regardless of job assignment.

Training and Development

Following two years of experience in operating its own training department, Wal-Mart Stores, Inc. is expanding its commitment to the training and development area. The Company has developed, for use in the field, a series of audio-visual programs that deal with key operating areas in the stores. In addition, the Company conducted nine Office Training Seminars, extensive six-day training sessions for Assistant Managers who show high potential for advancement to Store Manager.

The annual picnic is a fun day for headquarters-based associates and their families. Delicious food, entertainment, recreation, and games for all ages make this a special Wal-Mart Family Day.



During the past year, the Company inaugurated a new Management Training Program designed for college trained individuals. This program involves sixteen weeks of carefully scheduled and monitored assignments at store level. Following the completion of the initial sixteen weeks, the trainees are assigned to an entry level management position, and their progress continues to be closely watched as they develop toward a position in store management.

All associates are encouraged to share their suggestions as to how their jobs can be made more meaningful and productive. Last year, a corporate-wide survey was conducted among associates in an effort to determine priorities for the Company's Training Department. As a result, immediate and long-range corporate training objectives were established based upon the expressed needs of associates throughout the Company.

Wal-Mart recognizes more fully than ever the critical role training and development plays in enabling the Company to achieve its long-range growth objectives. In 1977,



Associates look forward to a store visit from Sam M. Walton, Wal-Mart's founder.

the Training Department staff will be increased to permit the accomplishment of an expanded schedule of training and development projects. In addition, a series of seminars in Communications and Human Relations will be provided for Wal-Mart's headquarters-based personnel, which will be a continuation of the program begun during 1976.



... Wal-Mart Cares



Co-founder and Senior Vice-President, J. L. "Bud" Walton meets with associates before a Grand Opening.

Associate Benefits

Wal-Mart also cares about the quality of associates it attracts and retains. The Company has always generously rewarded its associates by providing excellent wages and benefits. In addition to a competitive salary structure, Wal-Mart provides one of the outstanding Profit-Sharing Plans within the industry. Every associate becomes eligible to participate in the Plan after one year of full-time employment and obtains 100% vested rights after seven years of service.

The Company also provides its associates the opportunity to invest in Wal-Mart's common stock through a Monthly Investment Plan. Each associate can invest in the Plan through a monthly payroll deduction or an annual lump sum purchase not to exceed \$1,200. The Company adds 15% to each associate's investment and pays the broker's fees at time of purchase.

Because it cares, the Company provides its associates hospitalization and life insurance at no cost to them. Wal-Mart also has a generous vacation, holiday, sick leave and associate discount purchase program.

Yes, Wal-Mart truly cares about its associates and is concerned about their job satisfaction and total well-being. Wal-Mart's top management encourages open-door communications at every level within the organization, because they realize that the Company's past and future success is in great measure determined by the quality, dedication, loyalty, and capability of its associates.

Wal-Mart Caring . . . It means a lot of things, and it's not just an advertising slogan to be splashed across newspaper pages or ballyhooed on television. It is, instead, Wal-Mart's way of doing business.



Wal-Mart's President and Chief Operating Officer, Ferold G. Arend, is never too busy to assist an associate.

Wal-Mart's department heads take great pride in their work. They make sure their departments are well-presented and in stock with quality, name brand merchandise.

Well-trained computer specialists staff the Data Processing Center around the clock to assure a smooth flow of communication between the stores and the headquarters in Bentonville, Arkansas.

Annual regional year-end meetings are conducted in the field for Wal-Mart's store management personnel and their spouses. A series of one-day meetings are held each year to review the past year's performance and to plan for the new year.



Wal-Mart Looks Toward The Future

Research and Development Committee Formed

During 1976, Wal-Mart Stores, Inc. named a four-member Research and Development Committee, which will concern itself with all areas affecting the future of Wal-Mart's mass merchandising programs. One of the areas will be to anticipate the trends of the future in merchandise selection and presentation based on projected needs during the next five to ten years. The same will be true of the areas of operations, warehousing, administration and finance.

Special emphasis will be placed on research for "test" prototype stores including fixturing, facilities and merchandise.

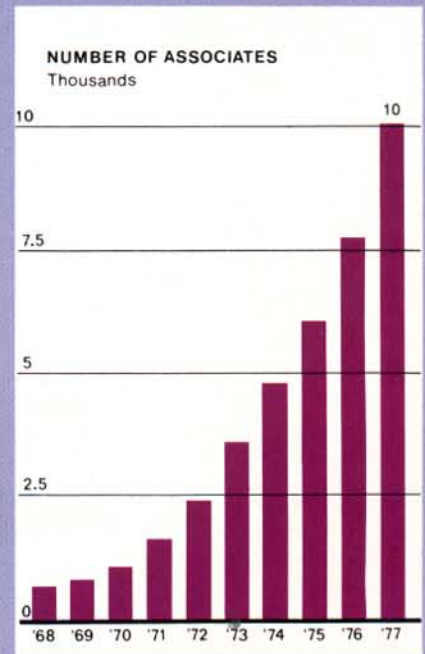
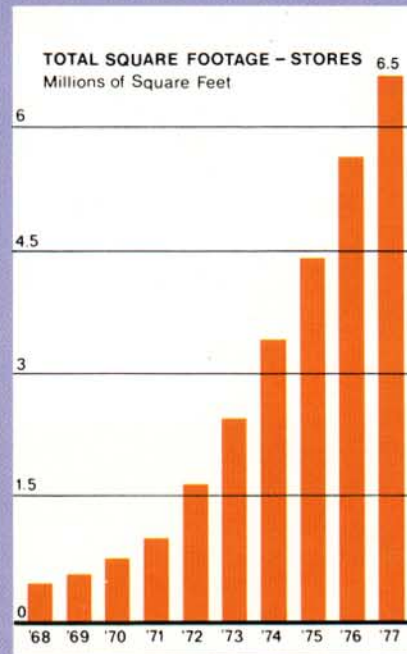
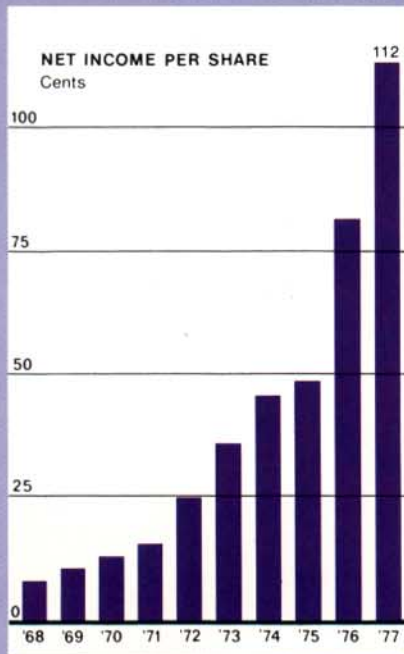
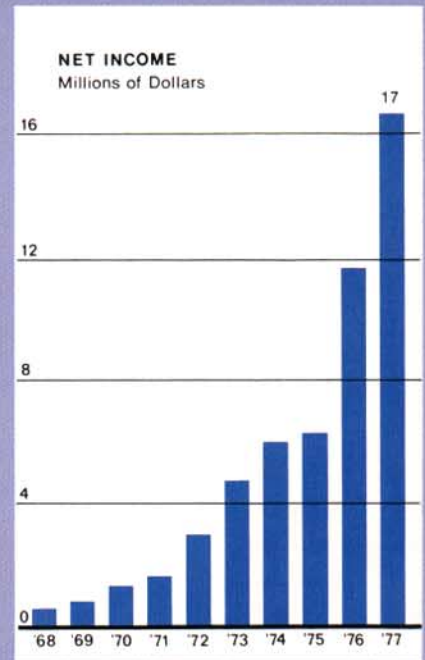
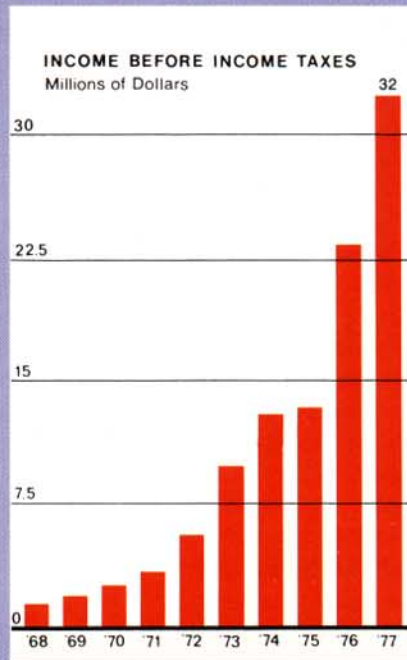
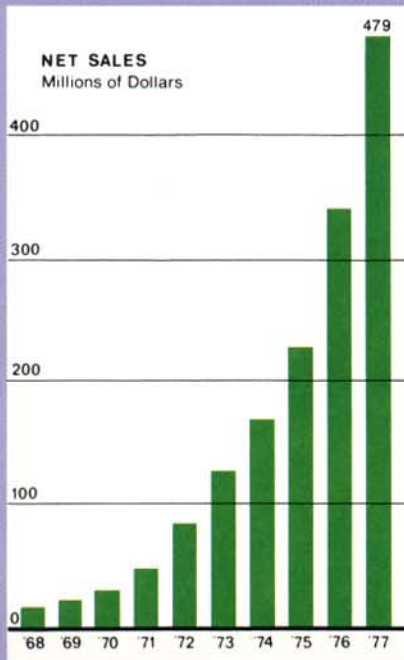
The Committee will work with every division within the Company to relate trends to possible corporate policy adjustments and to research retail trends and identify corporate policy alternatives. In carrying out its objectives, the Committee will survey the industry to predict future trends and to make recommendations to Wal-Mart's Executive Committee for immediate and long-term planning. It will be responsible for researching and recommending strategies for future growth and development throughout the organization.

Realizing its program five years from now could include many new directions, Wal-Mart wants to make sure it stays on target by having a capable team within the Company to predict the trends and develop recommendations for changes and improvements in corporate systems as the need arises. This newly appointed committee will serve an important role in the Company's future growth. It is chaired by Claude Harris, Vice President, Research and Development. Also serving on the Committee are Keith R. Binkelman, Vice President, Merchandise Planning; William R. Fields, Import Director and Merchandise Controller; and George Donnell, Director of Insurance and Legal.

The Research and Development Committee is a four-member team committed to careful study and review of all areas affecting the future of Wal-Mart's mass merchandising program. Pictured from left to right are: George Donnell, Director of Insurance and Legal; Claude Harris, Vice President, Research and Development; Keith R. Binkelman, Vice President, Merchandise Planning; and William R. Fields, Import Director and Merchandise Controller.



Graphs Tell the Story



Wal-Mart Opens Record Number of New Stores



During fiscal 1977, twenty-eight new stores were opened, and three existing units were expanded and relocated for a total of 1,300,000 square feet of additional store space. Six stores were opened in Arkansas. They are located in Little Rock, Malvern, Ashdown, Fayetteville, Searcy, and Ft. Smith. Six stores began operations in Oklahoma. They are located in Kingfisher, Elk City, Blackwell, Stillwater, Purcell, and Woodward. Missouri and Texas each had five new stores opened during the year. The Missouri stores are located in Union, Rolla, Chillicothe, Louisiana, and De Soto. Lufkin, Clarksville, Gilmer, Denison, and Paris are the homes of the new Wal-Mart Discount Cities in the state of Texas. Four new stores were opened in Mississippi. They are located in Amory, Aberdeen, New Albany, and West Point. Other new stores opened during the fiscal year were a unit in Humboldt, Tennessee and one in Benton, Kentucky.

Completing the Company's expansion program were the stores in Milan, Tennessee, and Neosho and West Plains, Missouri which were expanded and relocated during the past year.

Approximately 30 new stores are projected to begin operation during the fiscal year ending January 31, 1978. The record number of new stores planned will be in the Company's nine-state marketing area.

Customers come from miles around to help celebrate the Grand Opening of a new Wal-Mart Discount City store.

Wal-Mart New Store Openings on Target

ARKANSAS

*Ashdown
 Batesville
 Benton
 Bentonville (2)
 Berryville
 Blytheville
 Booneville
 Brinkley
 Clarksville
 Conway
 *Fayetteville (2)
 Forrest City
 *Ft. Smith (2)
 Harrison
 Hot Springs
 Jacksonville
 Jonesboro
 *Little Rock (2)
 Magnolia
 *Malvern
 Mena
 Morrilton
 Mountain Home (2)
 Nashville
 Newport
 North Little Rock (2)
 Osceola
 Paragould
 Pocahontas
 Rogers (2)
 Russellville
 *Searcy
 Siloam Springs
 Springdale (2)
 Stuttgart
 Van Buren
 Walnut Ridge
 West Memphis
 Wynne

KANSAS

Chanute
 Coffeyville
 Ft. Scott
 Junction City
 Leavenworth
 Manhattan
 Pittsburg

KENTUCKY

*Benton
 Fulton

LOUISIANA

Bastrop
 Minden
 Ruston
 Vivian

MISSISSIPPI

*Amory
 *Aberdeen
 Booneville
 Corinth
 *New Albany
 Starkville
 *West Point

MISSOURI

Aurora
 Ava
 Bolivar
 Branson
 Camdenton
 Cameron
 Carthage
 *Chillicothe
 Clinton
 Columbia
 Desloge
 *De Soto
 Dexter
 Eldon
 Farmington
 Festus
 Fulton
 Harrisonville
 Jackson
 Jefferson City
 Joplin (2)
 Lebanon
 *Louisiana
 Marshfield
 Mexico
 Moberly
 Monett
 Mountain Grove
 **Neosho
 Nevada
 Perryville
 Poplar Bluff
 *Rolla
 Salem
 Sikeston
 Springfield
 St. Robert
 Sullivan
 Troy
 *Union
 Warrensburg
 Waynesville
 **West Plains

OKLAHOMA

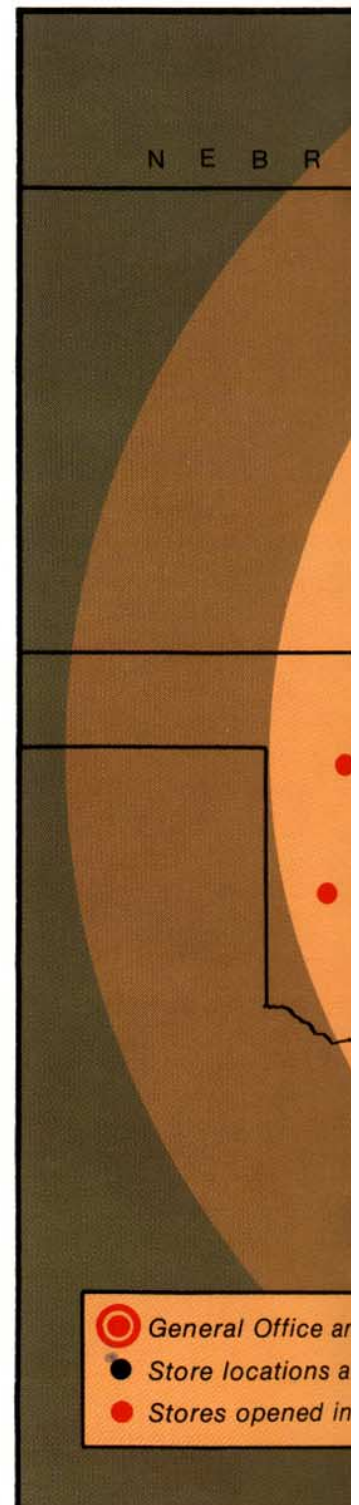
Ardmore
 Bartlesville
 *Blackwell
 Broken Arrow
 Broken Bow
 Chickasha
 Claremore
 *Elk City
 Grove
 Guthrie
 Hugo
 Idabel
 *Kingfisher
 Miami
 Muskogee
 Okmulgee
 Poteau
 Pryor
 *Purcell
 Sallisaw
 Sapulpa
 Seminole
 Shawnee
 *Stillwater
 Stilwell
 Tahlequah
 Vinita
 Wagoner
 *Woodward

TENNESSEE

Brownsville
 Covington
 *Humboldt
 Martin
 **Milan
 Millington
 Ripley

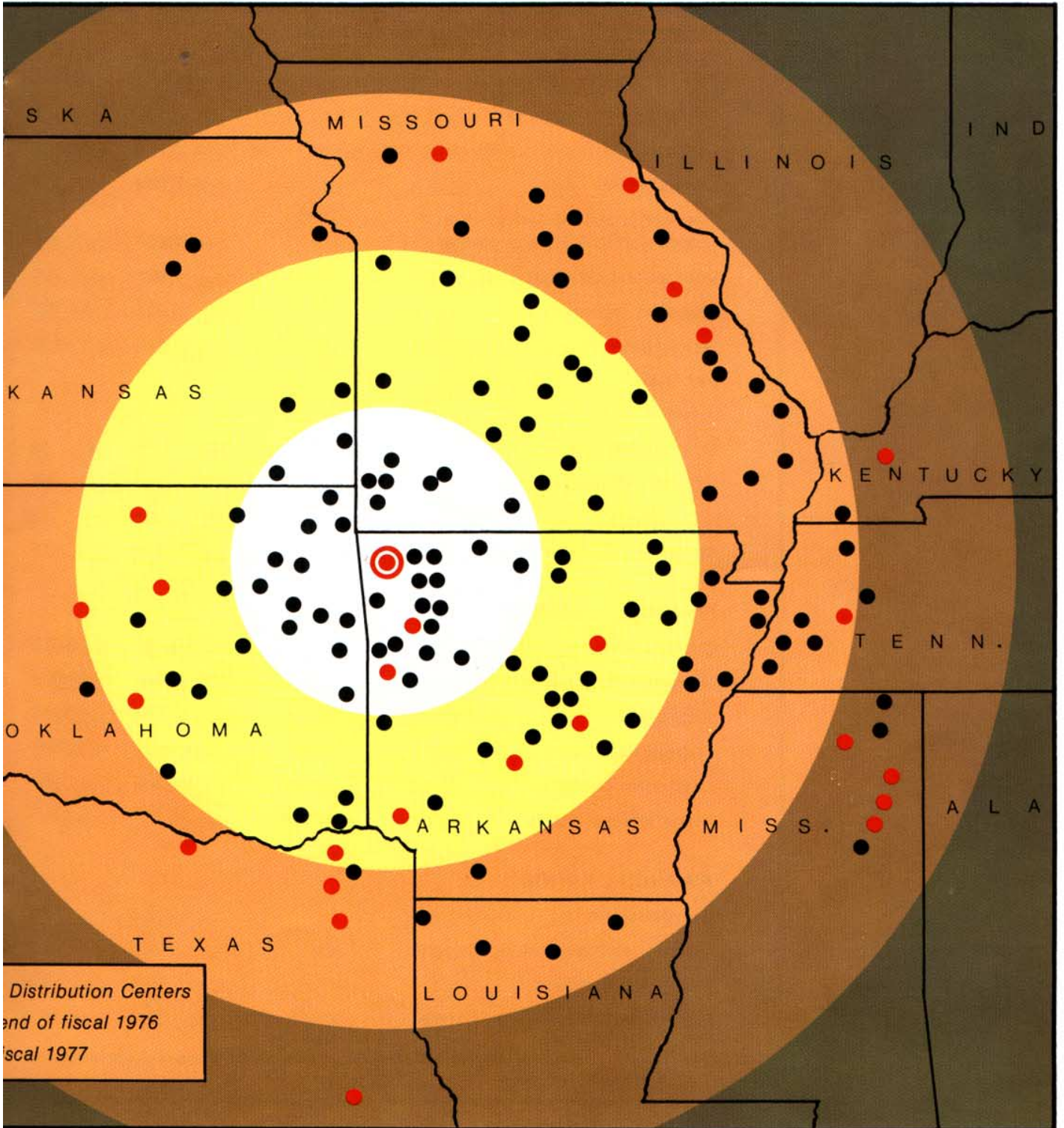
TEXAS

*Clarksville
 *Denison
 *Gilmer
 *Lufkin
 Mt. Pleasant
 *Paris



* — New Stores opened in fiscal 1977

** — Stores Relocated



Distribution Centers
end of fiscal 1976
fiscal 1977

Eight-Year Summary

(Dollar amounts in thousands except for per share data)

EARNINGS	<u>1977</u>	<u>1976</u>
Net sales	\$478,807	\$340,331
Leased department rentals and other income — net	5,393	3,803
Cost of sales	352,669	251,473
Operating, selling and general and administrative expenses	97,807	68,105
Interest and debt expense	1,891	1,758
Taxes on income	15,287	11,292
Net income	16,546	11,506
Per share		
Net income:		
Primary	\$ 1.19	\$.83
Fully diluted	1.12	.80
Dividends	.085	.065
Stores in operation at the end of the period	153	125
 FINANCIAL POSITION		
Current assets	\$ 99,493	\$ 76,070
Net property, plant and equipment	33,091	23,646
Total assets	133,158	100,249
Current liabilities	41,929	32,945
Long-term debt	23,245	17,531
Stockholders' equity	66,183	48,454
 FINANCIAL RATIOS		
Current Ratio	2.4	2.3
Inventories/Net Working Capital	1.5	1.5
Return on Assets**	16.5	15.3
Return on Stockholders' Equity**	34.1	31.2

**The company adopted the LIFO method of costing inventories which resulted in a reduction in
**On beginning of year balances.*

Wal-Mart Stores, Inc. and Subsidiaries

<u>1975</u>	<u>1974</u>	<u>1973</u>	<u>1972</u>	<u>1971</u>	<u>1970</u>
\$236,209	\$167,561	\$124,889	\$78,015	\$44,286	\$30,863
2,478	1,805	1,558	846	346	222
176,591	123,339	93,090	58,592	32,825	22,866
48,088	33,044	23,848	14,285	8,441	5,912
1,800	1,099	592	415	195	108
5,855	5,725	4,326	2,662	1,519	960
6,353*	6,159	4,591	2,907	1,652	1,011
\$.48*	\$.47	\$.35	\$.24	\$.15	\$.11
.48*	.47	.35	.24	.15	.11
.05	.025	—	—		
104	78	64	51	38	32
\$ 55,860	\$ 45,254	\$ 32,787	\$21,069	\$12,150	\$ 6,703
19,157	14,657	13,233	7,080	3,080	1,678
75,221	60,106	46,241	28,463	15,331	8,493
26,190	18,122	15,990	12,806	6,513	3,872
11,132	10,578	5,066	4,659	809	1,328
36,935	30,734	24,754	10,748	7,841	3,159
2.1	2.5	2.1	1.7	1.9	1.7
1.7	1.5	1.8	2.2	1.9	2.0
10.6	13.3	16.1	19.0	19.5	20.7
20.6	24.9	42.8	37.1	52.3	49.4

net income of \$2,347,000 or \$.18 per share.

Management's Analysis of Summary of Earnings

Year Ended January 31, 1977

The sales for the year increased 41% in comparison with last year. This was particularly significant considering the 44% increase in 1976 over 1975. Our expansion program of 28 new stores contributed 17% of the 41% increase, stores opened last year 7%, and the remaining 17% increase was contributed by stores opened prior to January 31, 1975. Leased departments sales increases were consistent with those achieved in Wal-Mart's owned sales.

Gross margins increased to 26.3% of sales in 1977 as compared with 26.1% in 1976. The moderate increase in gross is primarily attributable to an improvement in shrinkage control through greater utilization of our Internal Audit and Security and Loss Prevention Departments.

Operating, selling and general and administrative expense increased 44% and were 20.4% of sales as compared to 20.0% in 1976. Salary expense increased from 11.1% to 11.4% due primarily to an improvement in the average wage rate and the Company's decision to increase personnel in our stores to improve the quality of service. Net advertising costs decreased from 1.3% to 1.1% mainly through a concentrated effort to increase cooperative advertising. This year we started an Energy Conservation Program in all areas of the Company. While this program was not in effect for the entire year, utility expenses were reduced .1% over the previous year by reducing the peak demand and kilowatt hour usage. Maintenance and Repair increased .1% over last year because of a planned program to revamp the electrical and air conditioning systems in our stores. Insurance also increased .3% to .7% and was generally due to higher premium rates in general liability and group hospitalization. Total rent expense was 2.4% in 1977 and 1976. Rent expense includes buildings, data processing and transportation equipment.

Taxes on income in 1977 increased over those for 1976 due to the increase in income before taxes. Taxes on income as a percentage of income before taxes decreased slightly over those for 1976 due to an increase in investment tax credit.

Year ended January 31, 1976

During 1976, Wal-Mart continued an aggressive sales promotion program which, combined with favorable economic trends and our planned expansion program, resulted in a 44% increase in sales over 1975. The 21 new stores (968,436 square feet) opened this year accounted for 18% of the increase, while the 26 stores opened in fiscal 1975 accounted for 11% of the increase and the remaining 15% of the increase was contributed by stores opened prior to January 31, 1974. Cost of sales increased 42% and gross margins increased to 26.1% of sales in 1976, compared with gross margins of 25.2% in 1975. The Company was able to increase initial markup through volume purchasing, improved distribution systems, and refinement of our merchandise mix. Although the increase was slightly more than offset by increased markdowns and shrinkage, gross margin increased after LIFO adjustments in 1976.

Leased department sales and rentals increased in proportion to Company sales. The increase in leased department rentals and other income from 1.05% of sales in 1975 to 1.12% of sales in 1976 is due to increases in interest income and gain on sale of land.

Operating, selling and general and administrative expenses increased 41% and amounted to 20.0% of sales compared to 20.4% in 1975. Salaries and wages were the same percent of sales in both years. Advertising expense was 1.3% in 1976 compared to 1.4% in 1975. Total rent which includes building, data processing and transportation equipment rentals was 2.4% in both 1976 and 1975. Building rentals decreased to 1.8% from 1.9% in 1975 as a result of increased sales volume.

Interest and debt expense decreased in 1976 because of improved cash flow generated through inventory control resulting in lower average borrowings combined with lower interest rates on borrowings.

Taxes on income in 1976 increased over those for 1975 due to the increase in income before taxes. Taxes on income as a percentage of income before taxes increased slightly over those for 1975.

Consolidated Statement of Income and Retained Earnings

	Years ended January 31,	
	1977	1976
Number of stores in operation at the end of the year	<u>153</u>	<u>125</u>
Revenues:		
Net sales	\$478,807,000	\$340,331,000
Rentals from leased departments (Note 5)	3,670,000	2,620,000
Other income — net	<u>1,723,000</u>	<u>1,183,000</u>
	484,200,000	344,134,000
Costs and expenses:		
Cost of sales	352,669,000	251,473,000
Operating, selling and general and administrative expenses	97,807,000	68,105,000
Interest and debt expense	<u>1,891,000</u>	<u>1,758,000</u>
	452,367,000	321,336,000
Income before income taxes	31,833,000	22,798,000
Provision for federal and state income taxes (Note 6):		
Current	14,805,000	10,937,000
Deferred	<u>482,000</u>	<u>355,000</u>
	15,287,000	11,292,000
Net income	16,546,000	11,506,000
Retained earnings, beginning of year	<u>32,873,000</u>	<u>22,235,000</u>
	49,419,000	33,741,000
Dividends paid (1977 — \$.085 per share; 1976 — \$.065 per share)	<u>1,150,000</u>	868,000
Retained earnings, end of year (Note 3)	<u>\$ 48,269,000</u>	<u>\$ 32,873,000</u>
Net income per share:		
Primary	\$1.19	\$.83
Fully diluted	1.12	.80

See accompanying notes.

Consolidated Balance Sheet

ASSETS

Current assets:

	January 31,	
	1977	1976
Cash	\$ 6,094,000	\$ 1,527,000
Short-term money market investments	1,069,000	6,860,000
Receivables	2,708,000	2,576,000
Inventories (Note 2)	88,815,000	64,371,000
Prepaid expenses	807,000	736,000
TOTAL CURRENT ASSETS	99,493,000	76,070,000

Property, plant and equipment, at cost (Note 3):

Land	2,308,000	2,520,000
Buildings and improvements	11,227,000	8,381,000
Fixtures and equipment	23,916,000	18,446,000
Transportation equipment	4,717,000	394,000
	42,168,000	29,741,000
Less accumulated depreciation	9,077,000	6,095,000
Net property, plant and equipment	33,091,000	23,646,000

Other assets and deferred charges

	574,000	533,000
	\$133,158,000	\$100,249,000

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

	January 31,	
	1977	1976
Notes payable	\$ —	\$ 2,470,000
Accounts payable	28,054,000	17,750,000
Accrued liabilities:		
Salaries	3,463,000	3,637,000
Taxes, other than income	2,049,000	1,480,000
Other	2,826,000	1,443,000
Accrued federal and state income taxes (Note 6)	4,341,000	5,662,000
Long-term debt due within one year (Note 3)	1,196,000	503,000
TOTAL CURRENT LIABILITIES	41,929,000	32,945,000

Long-term debt (Note 3)

	23,245,000	17,531,000
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Deferred income taxes

	1,801,000	1,319,000
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Commitments (Note 7)

Stockholders' equity (Notes 3 and 4):

Preferred stock, \$.10 par; 1,000,000 shares authorized, none issued	—	—
Common stock, \$.10 par; 20,000,000 shares authorized, 13,649,829 shares outstanding (1976 — 13,418,063 shares)	1,365,000	1,342,000
Capital in excess of par value	16,549,000	14,239,000
Retained earnings (Note 3)	48,269,000	32,873,000
TOTAL STOCKHOLDERS' EQUITY	66,183,000	48,454,000

	\$133,158,000	\$100,249,000
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See accompanying notes.

Consolidated Statement of Changes in Financial Position

	Years ended January 31,	
	1977	1976
Source of funds:		
Current operations:		
Net income	\$16,546,000	\$11,506,000
Items not affecting working capital in the current period:		
Depreciation	3,210,000	2,075,000
Amortization of deferred charges	61,000	35,000
Deferred income tax	482,000	355,000
Total from current operations	20,299,000	13,971,000
Retirement of property, plant and equipment	539,000	99,000
Property sold under sale and leaseback arrangements ..	4,634,000	1,619,000
Net proceeds from exercise of options for common stock and conversion of debentures ...	2,333,000	881,000
Additions to long-term debt	9,227,000	15,303,000
	37,032,000	31,873,000
Application of funds:		
Additions to property, plant and equipment	14,201,000	5,300,000
Property additions acquired, subject to sale and leaseback arrangements	3,627,000	2,982,000
Reduction in long-term debt, including changes in current maturities and conversion of debentures ...	3,513,000	8,904,000
Dividends paid	1,150,000	868,000
Additions to other assets and deferred charges	102,000	364,000
	22,593,000	18,418,000
Increase in working capital	\$14,439,000	\$13,455,000
Changes in components of working capital:		
Increase (decrease) in current assets:		
Cash	\$ 4,567,000	\$ (1,648,000)
Short-term money market investments	(5,791,000)	6,860,000
Receivables	132,000	1,169,000
Inventories	24,444,000	13,789,000
Prepaid expenses	71,000	40,000
	23,423,000	20,210,000
Increase (decrease) in current liabilities:		
Notes payable	(2,470,000)	(2,000,000)
Accounts payable	10,304,000	3,660,000
Accrued liabilities:		
Salaries	(174,000)	1,427,000
Taxes, other than income	569,000	475,000
Other	1,383,000	495,000
Accrued federal and state income taxes	(1,321,000)	4,235,000
Long-term debt due within one year	693,000	(1,537,000)
	8,984,000	6,755,000
Increase in working capital	\$14,439,000	\$13,455,000

See accompanying notes.

Notes to Consolidated Financial Statements

January 31, 1977 and 1976

Note 1 — Accounting policies

Consolidation — The consolidated financial statements include the accounts of all subsidiaries.

Inventories — Inventories are stated at cost (last-in, first-out), which is not in excess of market, using the retail method for inventories in stores.

Pre-opening costs — Costs associated with the opening of new stores are expensed during the first month of operations. The costs are carried as prepaid expenses prior to the store opening.

Interest during construction — In order that interest and debt expense properly reflect only that relating to current operations, interest on borrowed funds during the construction of property, plant and equipment is capitalized and subsequently amortized by charges to earnings over the depreciable life of the related asset. Interest and debt expense and interest capitalized during construction exclude amounts related to properties constructed under sale and leaseback transactions, which amounts are recovered on sale of property.

Depreciation — Depreciation for financial statement purposes, is provided on the straight-line method over the estimated useful lives of the various assets. For income tax purposes, accelerated depreciation is used with recognition of deferred income taxes for the resulting timing differences.

Net income per share — Primary net income per share is based on weighted average outstanding shares and stock options reduced by shares assumed to have been purchased with proceeds from such options under the treasury stock method.

Fully diluted net income per share gives effect to more dilutive market prices in calculations under the treasury stock method and further assumes the conversion of convertible subordinated debentures as if converted at the beginning of the period after giving effect to the elimination of interest expense, less income tax effect, applicable to the debentures.

Operating, selling and general and administrative expenses — Buying, warehousing and occupancy costs are included in operating, selling and general and administrative expenses.

Stock options — Proceeds from the sale of common stock issued under stock option plans are accounted for as capital transactions and no charges or credits are made to income in connection with the plans.

Note 2 — Inventories

Inventories at January 31 consist of:

	1977	1976
Stores in operation	\$79,230,000	\$57,371,000
Distribution centers	18,708,000	12,080,000
New stores not opened	1,467,000	2,001,000
	<u>99,405,000</u>	<u>71,452,000</u>
Reduction to LIFO cost	10,590,000	7,081,000
	<u>\$88,815,000</u>	<u>\$64,371,000</u>

Note 3 — Long-term debt

Long-term debt at January 31 consists of:

	1977	1976
6½% convertible subordinated debentures, due 1995	\$12,682,000	\$14,370,000
9¼% mortgage note, payable \$68,822 quarterly (including interest) to June, 1992	2,187,000	2,256,000
9% mortgage note payable \$35,499 monthly (including interest) to July, 1991	3,322,000	—
Capitalized leases	4,087,000	—
9¾% notes, payable \$180,000 annually (plus interest) to April 1980	509,000	689,000
Other	458,000	216,000
	<u>\$23,245,000</u>	<u>\$17,531,000</u>

Annual maturities on long-term debt during the next five years are: 1978 — \$1,196,000; 1979 — \$1,233,000; 1980 — \$1,055,000; 1981 — \$870,000; and 1982 — \$737,000.

The convertible subordinated debentures are convertible into common stock at a rate of 93 shares per \$1,000, subject to adjustments on the occurrence of certain events. The debentures are redeemable at the Company's option at any time with a minimum payment equal to 106¼% of the principal, and require sinking fund payments beginning on June 1, 1986. Aggregate debentures of \$1,688,000 were converted into 157,011 shares of common stock during the year.

The agreement relating to the 9¾% notes includes certain restrictions on dividends, additional debts and leases, and sale of assets and contains covenants concerning working capital. The agreement relating to the 9¼% mortgage notes of a subsidiary, which are guaranteed by Wal-Mart Stores, Inc., contains certain restrictions on the subsidiary concerning additional debt, business activities, investments and issuance of its capital stock and requires rental payments by Wal-Mart Stores, Inc., on certain buildings leased from the subsidiary in amounts equal to aggregate note and interest payments.

Under the most restrictive of the above agreements, retained earnings of \$27,241,000 were restricted at January 31, 1977.

Capitalized leases include \$2,284,000 applicable to stores with a term extending to 1990 and \$1,803,000 applicable to tractors and trailers with a term extending to 1983. The Company has guaranteed the obligations of the lessors relating to the leased property and the leases have been pledged to secure the obligations. Interest implicit in the store lease is 8½% and in the tractor and trailer lease is at prime plus ½%.

Note 4 — Stockholders' equity

At January 31, 1977, 2,305,515 shares of common stock were reserved, including 200,620 shares for issuance under the Company's qualified stock option plan for employees, 925,162 shares for issuance under the nonqualified stock option plan, and 1,179,733 shares for the conversion of convertible subordinated debentures. The options under the qualified stock option plan expire five years from date of grant and may be exercised in four annual installments. The options granted under the nonqualified

stock option plan expire ten years from date of grant and may be exercised in nine annual installments. Capital in excess of par value increased during the year by \$2,310,000 which includes increases of \$1,672,000 from conversion of debentures, \$325,000 from exercise of stock options, and \$313,000 relating to the tax benefit resulting from certain stock option transactions.

Further information concerning the options is as follows:

	Shares	Option price (Market price at date of grant)	
		Per share	Total
Shares under option:			
January 31, 1976	831,237	\$ 4.188-\$14.25	\$ 3,814,502
Options granted	182,500	\$11.875-\$14.50	2,424,475
Options cancelled	(291,652)	\$ 4.188-\$14.25	(1,301,530)
Options exercised	<u>(74,755)</u>	\$ 4.188-\$10.50	<u>(331,830)</u>
January 31, 1977 (77,160 shares exercisable)	<u>647,330</u>		<u>\$ 4,605,617</u>
Shares available for option:			
January 31, 1976	369,300		
January 31, 1977	478,452		

Note 5 — Leased department sales

The sales of leased departments as reported by lessees are \$39,202,000 and \$28,407,000 for 1977 and 1976, respectively.

Note 6 — Income taxes

The provision for income taxes consists of the following:

	1977	1976
Current:		
Federal	\$13,378,000	\$ 9,924,000
State	1,427,000	1,013,000
Deferred:		
Relating to difference in tax and financial depreciation methods	482,000	355,000
	<u>\$15,287,000</u>	<u>\$11,292,000</u>

Investment tax credits are accounted for under the flow-through method and have resulted in reductions of the current federal income tax provisions for 1977 and 1976 of \$1,113,000 and \$475,000, respectively.

Note 7 — Long-term lease commitments

The Company and certain of its subsidiaries have leases for stores. Rentals (including for certain leases, amounts applicable to taxes, insurance, maintenance and other operating expenses and excluding capitalized leases) under all leases were \$10,019,000 in 1977 and \$7,668,000 in 1976. Rentals on non-capitalized financing leases (as defined by the Securities and Exchange Commission) were \$5,426,000 in 1977 and \$4,360,000 in 1976.

The present value of minimum rentals of all leases was \$65,804,000 at January 31, 1977, and \$53,319,000 at January 31, 1976, including amounts applicable to noncapitalized financing leases of stores of \$54,259,000 at January 31, 1977, and \$38,416,000 at January 31, 1976, and other noncapitalized financing leases of \$2,868,000 at January 31, 1976. In the year ended January 31, 1977, leases which were previously classified as other noncapitalized financing leases were cancelled and the substituted lease was capitalized.

The weighted average interest rate used in discounting the financing leases was 9.45% in 1977 and the rates ranged from 8% to 12.6%. If all financing leases had been capitalized and amortized on a straight-line basis and interest accrued on the basis of the outstanding liability, the effect on net income would have been a decrease of approximately \$702,000 in 1977 and \$515,000 in 1976. Such calculations, which give effect to related income tax, include interest expense of \$4,472,000 and \$3,072,000 and amortization expenses of \$2,399,000 and \$2,308,000 in 1977 and 1976, respectively.

Aggregate minimum annual rentals at January 31, 1977 under noncancelable leases for 1978 through 2002 are as follows:

	Financing Leases	All Leases
1978	\$ 6,585,000	\$ 8,536,000
1979	6,585,000	8,374,000
1980	6,585,000	8,345,000
1981	6,585,000	8,300,000
1982	6,585,000	8,266,000
1983/1987	32,909,000	39,768,000
1988/1992	32,432,000	33,999,000
1993/1997	21,914,000	22,025,000
1998/2002	2,852,000	2,852,000
	<u>\$123,032,000</u>	<u>\$140,465,000</u>

Certain of the leases provide for additional rentals based on percentage of sales. Such additional rentals amounted to \$546,000 in 1977 and \$289,000 in 1976.

Substantially all of the store leases have renewal options for additional terms from five to fifteen years at the same or lower minimum rentals. In addition, the Company has entered into lease agreements for land or buildings for 26 future stores at aggregate minimum annual rentals of \$2,087,000.

Note 8 — Quarterly financial data (Unaudited)

Summarized quarterly financial data (thousands except per share amounts) for 1977 are as follows:

	Quarter Ended			
	April 30	July 31	Oct. 31	Jan. 31
Net sales	\$93,971	\$115,186	\$121,875	\$147,775
Cost and expenses	89,174	109,826	115,720	137,647
Net income	2,925	3,509	3,877	6,235
Net income per share:				
Primary	\$.21	\$.25	\$.28	\$.45
Fully diluted	.20	.24	.26	.42

Report of Certified Public Accountants

The Board of Directors and Stockholders
Wal-Mart Stores, Inc.

We have examined the accompanying consolidated balance sheet of Wal-Mart Stores, Inc. and subsidiaries at January 31, 1977 and 1976 and the related consolidated statements of income and retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Wal-Mart Stores, Inc. and subsidiaries at January 31, 1977 and 1976 and the consolidated results of operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Tulsa, Oklahoma
April 1, 1977

Arthur Young & Company

Dividends Paid
Year ended January 31

Quarterly 1977	Quarterly 1976
\$.02 April 6, 1976	\$.015 April 4, 1975
.02 July 12, 1976	.015 July 1, 1975
.02 October 5, 1976	.015 October 3, 1975
.025 January 4, 1977	.02 January 2, 1976

Market Price of Common Stock
Year ended January 31

Quarter	1977		1976	
	High	Low	High	Low
1st	\$17.375	\$13.00	\$10.3125	\$ 7.00
2nd	15.125	11.50	13.1875	8.50
3rd	16.00	12.125	15.125	11.375
4th	16.75	13.75	15.75	12.625

**Wal-Mart
Stores, Inc.**

**Directors
and Officers**



***Sam M. Walton**
Director
Chairman and
Chief Executive Officer



***Ferold G. Arend**
Director
President and Chief
Operating Officer



***J. L. Walton**
Director
Senior Vice President



Theo Ashcraft
Vice President
Leased Departments



Keith R. Binkelman
Vice President
Merchandise Planning



Daniel L. Davies
Assistant Controller



Ruby Norman Davies
Assistant Controller



David D. Glass
Executive Vice President
Finance



Claude Harris
Vice President
Research and Development



John Hawks
Vice President
Central Region



Bette Hendrix
Assistant Secretary



Jack Shewmaker
Executive Vice President
Operations, Personnel
and Merchandise



Harold Smith
Vice President
General Merchandise Manager
of Softlines



R. B. Thornton
Vice President
Distribution



James A. von Grep
Assistant Controller

*Member of the Executive Committee of the Board of Directors.



James H. Jones
Director
Banking and Investments



Jackson T. Stephens
Director
President, Stephens Inc.
Little Rock, Arkansas



M. I. Dillard
Vice President
Southern Region



Kenneth Folkerts
Vice President and
Treasurer



Thomas Jefferson
Vice President
Northern Region



David N. McClanahan
Vice President
General Merchandise Manager
of Hardlines



S. Robson Walton
Secretary and General Counsel
Partner - Conner, Winters,
Ballaine, Barry & McGowen
Tulsa, Oklahoma



Joseph M. White
Vice President
Store Planning

COUNSEL

Conner, Winters, Ballaine,
Barry & McGowen
2400 First National Tower
Tulsa, Oklahoma 74103

REGISTRAR & TRANSFER AGENT

Registrar & Transfer Company
34 Exchange Place
Jersey City, New Jersey 07302

CERTIFIED PUBLIC ACCOUNTANTS

Arthur Young & Company
1500 First Place
Tulsa, Oklahoma 74103

GENERAL OFFICE

P.O. Box 116
Bentonville, Arkansas 72712
501-273-7741

ANNUAL MEETING

June 10, 1977 — 11 A.M.
General Office
702 SW 8th Street
Bentonville, Arkansas 72712

FORM 10K

A copy of the Company's annual report on Form 10-K, as filed with the Securities and Exchange Commission, will be furnished without charge to any shareholder upon written request to the Treasurer, Wal-Mart Stores, Inc., P.O. Box 116, Bentonville, Arkansas 72712.

The Common Stock of
Wal-Mart Stores, Inc.
is traded on the
New York Stock Exchange
Symbol: WMT