FINAL TRANSCRIPT

Wal-Mart Stores, Inc.
Second Quarter Earnings Call – FY 10
8/13/09

Welcome to the Wal-Mart Stores, Inc. earnings call for the second quarter of fiscal year 2010. The date of this call is August 13, 2009.

You may navigate through this call as follows:

- Press 1 to rewind 10 seconds.
- Press 2 to pause and press 8 to resume playing.
- Press 3 to fast forward 10 seconds.

This call will contain statements that Walmart believes are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, as amended, and intended to enjoy the protection of the safe harbor for forward-looking statements provided by that Act. These forward-looking statements generally are identified by the use of the words or phrases “can operate,” “estimate,” “expect,” “expectation,” “guidance,” “may affect,” “to expect,” “what you will see,” “will be,” “will continue,” “will give,” “will remain,” “will result,” “will stay,” “will step up,” or a variation of one of those words or phrases in those statements or by the use of words or phrases of similar import. Similarly, descriptions of our objectives, plans, goals, targets, or expectations are forward-looking statements. These statements discuss, among other things, the anticipated comparable store sales for our Walmart U.S. segment and for our Sam’s Club segment for the current 13-week period, our anticipated diluted earnings per share from continuing operations for the current fiscal quarter and fiscal year 2010 as a whole, our anticipated tax rate for fiscal year 2010 and the factors that may impact that tax rate, the amount of the company's expected capital expenditures for fiscal year 2010, working capital management for the balance of fiscal year 2010, Walmart continuing to leverage expenses in the second half of the year, Walmart's continuing expense pressure to decline for the second half of this fiscal year, a sustainability index proposed by Walmart giving customers a consistent view of the environmental impacts of products they buy, work on our merchandising transformation initiative continuing through the end of fiscal year 2010, leveraging of new merchandising systems in countries other than the United States, completion of foundational work on the finance transformation project to support certain countries within the next twelve months, the benefits of Walmart's finance transformation project, year-over-year inventory improvements staying with our Walmart U.S. segment for quite some time in the future, our Walmart U.S. segment's focus on improving its expense structure and managing expenses resulting in driving better earnings, the rollout of the remodeling program of the Walmart U.S. segment continuing through October, 2009, our Walmart U.S. segment continuing to be focused on its price leadership message, our Walmart U.S. segment's strategic framework continuing to help offset an economy that will be challenging the rest of this year, our International segment being able to operate on less inventory while increasing in-stock levels, Walmart's Sam's Club segment continuing to elevate its focus on using consumer and member insights to guide its business and stepping up the relevancy, uniqueness and quality of its merchandise assortment at a superior value and best-in-class club experience, the Sam's Club segment continuing to roll out its eValues program, our Sam's Club segment seeing continued sales pressure from fuel in the third quarter of fiscal year 2010 and a potential turnaround in such sales in the fourth quarter, our Sam's Club segment continuing to monitor apparel sales for inventory management purposes, the health care costs of the Sam's Club segment continuing to grow for the remainder of fiscal year 2010, Walmart continuing to be focused on expense management, as well as increasing productivity and the efficiency throughout its global operations for the balance of fiscal 2010 and Walmart doing a great job for its customers long after the economy recovers, and the anticipation and expectations of Walmart and its management as to future occurrences and trends. These forward-looking statements are subject to risks, uncertainties and other factors, domestically and internationally, including, general economic conditions, geopolitical events and conditions, the cost of goods, competitive pressures, levels of unemployment, levels of consumer disposable income, changes in laws and regulations, consumer credit availability, inflation, deflation, consumer spending patterns and debt levels, currency exchange rate fluctuations, trade restrictions, changes in tariff and freight rates, changes in costs of gasoline, diesel fuel, other energy, transportation, utilities, labor and health care, accident costs, casualty and other insurance costs, interest rate fluctuations, financial and capital market conditions, developments in litigation to which Walmart is a party, weather conditions, damage to our facilities resulting from natural disasters, regulatory matters, and other risks. We discuss certain of these matters more fully in our filings with the SEC, including our most recent Annual Report on Form 10-K, and the information on this call should be read in conjunction with that Annual Report on Form 10-K, and together with all our other filings, including Current Reports on Form 8-K, which we have made with the SEC through the date of this call. We urge you to consider all of these risks, uncertainties and other factors carefully in evaluating the forward-looking statements we make in this call. As a result of these factors, changes in facts, assumptions not being realized or other circumstances, our actual results may differ materially from anticipated results expressed or implied in these forward-looking statements. The forward-looking statements made in this call are made on and as of the date of this call, and we undertake no obligation to update these forward-looking statements to reflect subsequent events or circumstances.

The comp stores sales for our total U.S. operations and for our Sam's Club's segment discussed on this call exclude the impact of fuel sales at our Sam's Club segment. That measure, our return on investment, free cash flow and cash flow from operations to average debt and amounts stated on a constant currency basis as discussed in this call may be considered non-GAAP financial measures. Reconciliations of those non-GAAP financial measures to the most directly comparable GAAP measures are available for review on the Investor Relations portion of our corporate Web site at www.walmartstores.com/investors or in the information included in our Current Report on Form 8-K that we furnished to the SEC on August 13, 2009.

CAROL

Hello, this is Carol Schumacher, vice president of investor relations. Thanks for joining us today for Wal-Mart Stores, Inc. second quarter earnings call for fiscal year 2010.

I'd like to remind you that a replay of this call and related materials about the quarter are available on our Web site. We'll also post the full transcript for this call approximately one hour after the call is live.

Here's the agenda for today.

- Mike Duke, president and CEO of Wal-Mart Stores, Inc.
- Charles Holley, EVP of finance and treasurer, who will cover our consolidated financial results.
- Eduardo Castro-Wright, vice chairman, responsible for Walmart U.S.
- Doug McMillon, president and CEO of Walmart International
- Brian Cornell, president and CEO of Sam's Club
- And, Tom Schoewe, our executive vice president and CFO, will finish the call with analysis on our financial metrics and earnings guidance.

Before Mike begins his report, we want to cover a few housekeeping items.

- First, as a reminder, we no longer report sales results on a monthly basis. We now provide comparable store sales guidance and results on a 13-week basis in our quarterly earnings releases, just as we're doing today. We will not provide any sales results on the day when other U.S. retailers traditionally report their results. We will continue to report comp store sales results on a fiscal calendar basis in our Form 10-Q and 10-K filings with the SEC. Eduardo and Brian will provide comp guidance for the current 13-week sales period that's under way in their respective discussions. This guidance is on the retail calendar 4-5-4 week basis, and not on the standard calendar basis.

- As we discussed last quarter, effective with the start of our fiscal year on February 1, 2009, our company adopted Statement of Financial Accounting Standard number 160, which is "Noncontrolling Interests in Consolidated Financial Statements." This standard requires some accounting changes and minor modifications to financial statement presentation for minority interest in subsidiaries. These changes are reflected in our quarterly financial statements. As a result of these recent presentation changes, during this call, all references to income from continuing operations or earnings per share from continuing operations refer to income from continuing operations attributable to Walmart **or** diluted income per share from continuing operations attributable to Walmart, respectively. Also, diluted net income per share from continuing operations refers to diluted income per share from continuing operations attributable to Walmart.

- Store counts, square footage updates and information on our financial metrics are available on our Web site – www.walmartstores.com/investors, and you'll find that information in the reconciliation and financial measures section.

Thanks for listening to our news about Walmart's second quarter of fiscal 2010.

Mike, let's get started with our news.

MIKE DUKE

Thank you very much Carol. Welcome everyone and thanks for joining us. I want to start by saying that I feel our performance during the second quarter was particularly good, given a very challenging economy all over the world.

I'm pleased to report that our earnings per share came in at 88 cents -- right at the **top** of the guidance we provided three months ago – and we exceeded *analyst* consensus estimates.

We are happy with the performance of our operations around the world. Even with lower sales than we'd expected, we believe that our comparable store sales outperformed the retail sector almost every place where we do business. In a difficult economy, we managed our operations in a disciplined manner and we delivered another consecutive quarter of earnings growth on top of last year's earnings growth. I believe that this is an accomplishment few other large companies can claim up to this point.

Consumers continue to face a difficult global economy, having to do more with less. We're accelerating our efforts to improve *everything* we do -- for customers *and* shareholders. Our leadership teams are focused on improving productivity and efficiency in all operations, and widening the gap with our competitors. I believe that our associates around the world have never been more engaged in the business and in serving our customers. We appreciate their hard work.

Now, let's review some key performance indicators in the second quarter.

Total company net sales for the second quarter were $100 billion. Now, three factors affected our sales performance:

- First, the effect of currency exchange rates reduced our International sales for the quarter by approximately $4 billion
- Second, we had the impact of lower fuel prices at ASDA and at Sam's here in the U.S.
- And third, like other retailers, we experienced lower inflation in certain categories, including food.

Comp sales at Sam's Club were within guidance for the 13 weeks. However, Walmart U.S. comps were below their expectations.

We had another standout performance in free cash flow, generating more than $4 billion in the first half of the year. We continue to manage working capital well and will take advantage of opportunities that present themselves to us in today's challenging economy. Walmart remains strong financially, with a solid balance sheet, great access to capital markets and one of the few double "A" credit ratings.

Overall, our customers are more disciplined in their spending. There's a "new normal" now where people are saving more, consuming less, and being more frugal and thoughtful in their purchases. Customers are shopping smarter. They want quality products that are cost-effective, sustainable and provide real value. And, that's *exactly* what we do and our mission won't change.

Those who know me know that I talk a lot about being obsessed with how we can improve our customers' experiences in our stores. Let me just take a moment to share a short story with you. I recently spent a few hours visiting with a customer in her home and then shopping with her. Unfortunately, because of today's economy, her family income is down about 40 percent. She and her husband have three children under five years old, and the budget is much much tighter than last year. So as a result, they have had to sacrifice. They really don't go out to eat much anymore. She doesn't buy any clothing for herself anymore. She's had to eliminate some other services, so they truly have had to find ways to manage their budget.

As we walked through a couple of stores, I learned that she's buying more private brands and she'll buy larger pack sizes to save money. And, she also pays more attention to ads. She said that one of the hardest things to do is to say "no" to her kids and she's having to do that more often.

Ordinarily, her first choice wasn't always Walmart, because it was a longer drive for her. But we did some comparison shopping. We shopped together as a matter of fact and compared prices and she realized that by shopping at Walmart, she could save more than the extra cost of gas to drive a little further.

So, how do we get customers like her in our store? We bring our mission of saving people money so they can live better to life. We also effectively and frequently communicate our value proposition, and we ensure that the customer experience is so good that she'll come back for all of her trips … even if it is a bit longer drive.

What this story also illustrates is that in today's economy, Walmart can continue to attract new customers, because we're helping her to do more with what she has. We help her save money so her family can live better.

Walmart U.S. continues to increase its traffic. I believe that our stores have never been in better shape, and Eduardo Castro-Wright and his team are dedicated to even more improvements. Overall, the U.S. stores are managing expenses well in the current sales environment -- while continuing to enhance the customer experience. Customers are giving us the highest ratings we've had since we started our surveys over two years ago. We're benefitting from investments in merchandising systems and continued productivity initiatives. I'm especially proud of our performance in inventory, because it improves our financial results **and** the customer experience. Walmart U.S. reduced inventory by almost 6 percent, and that's on top of several quarters of consistent inventory improvement.

Now, I'm especially proud of the International team, led by Doug McMillon. On a constant currency basis, operating income grew by more than 13 percent. Of course, that's faster than the International sales growth of 11.5 percent. If you eliminate the effect of currency rate fluctuations, International remains our fastest-growing business.

Sam's Club also had a strong showing compared to its competitors in the warehouse club sector, reinforcing how members value their membership, *and* the quality of merchandise that Brian Cornell and his team are delivering. Even with price deflation in food, consumables and electronics, traffic is higher than this time last year and we're improving our market position in the club sector. At the same time, Sam's also lowered its inventories by more than 5 percent, contributing to our strong inventory improvement on a consolidated basis.

We also continue to broaden and accelerate our efforts on issues important to customers and associates. Let me share two examples.

Our sustainability programs are making Walmart a better company. We recently proposed the creation of a worldwide "sustainability index" that for the first time will generate important data from suppliers and give customers a clear and consistent view of the environmental impacts of the products they buy. Customers want to know how their purchasing decisions impact our environment.

We remain active in the health care discussion here in the United States. Business has to be involved in the process of determining how health care reform will affect all Americans. We took a stand on health care because we believe it was the right thing to do for our business.

Looking forward, we are confident about Walmart's long-term future and in our ability to build on our leadership position. Short-term, we believe the economy will continue to be challenging. We are accelerating our focus on reducing expenses and improving productivity in all of our operations.

Now, Charles will review our consolidated results in detail. Charles…

CHARLES HOLLEY

Thanks, Mike.

Total net sales for the company were $100.1 billion, which is down 1.4 percent compared to last year. On a constant currency basis, net sales would have increased 2.7 percent to $104.3 billion. Without the effect of the $4.2 billion currency exchange translation and lower fuel prices in the U.S. and U.K., sales would have been approximately $5 billion higher. Food deflation was an additional headwind, one that's harder to quantify, but clearly a factor.

Consolidated operating income was $5.9 billion, up 1.2 percent, with income from continuing operations before income taxes up almost 1.0 percent. Without the effect of currency exchange, our consolidated operating income would have grown 5.3 percent, which is higher than the constant currency sales increase of 2.7 percent. As Mike mentioned previously, we are pleased with our underlying performance.

Diluted net income per share attributable to Walmart was 88 cents. The effect of currency exchange rates reduced earnings per share by four cents for the second quarter.

Consolidated gross margin was up 85 basis points, due primarily to improvements made by Walmart U.S. and Sam's Club.

Inventory, on a consolidated basis, remains an excellent story, thanks to Walmart U.S. and Sam's Club segments. Consolidated inventory was down 4.3 percent, when compared to the same period last year. And, that's against a year to date sales decrease of 1.0 percent.

Payables as a percentage of inventories for the company were 85 percent at the end of the second quarter, which is up 46 basis points from last year. Our operating segments continue to do an excellent job of managing working capital. And this will be an important focus throughout the company for the balance of the year.

The membership and other income line primarily includes membership revenue, tenant lease income and some other miscellaneous income categories. On a consolidated basis, membership and other income was up 4.0 percent this quarter compared to last year.

Consolidated operating expenses as a percentage of sales were up 74 basis points over this period last year. This was primarily due to the combination of lower net sales, including the impact of currency exchange rates, along with group health costs and technology and system expenses. Even with these headwinds, consolidated operating expenses were up only 2.4 percent.

Unallocated corporate costs, also called “corporate” or “other”, were up $68 million, or 13.3 percent for the quarter, with the largest increase due to our planned investments in technology and systems. Core overhead expenses, which are included in the corporate segment, were roughly flat with last year, reflecting our continued focus on managing our expenses.

At our June Shareholders’ meeting, we met with the investment community and shared some information with you about our three transformation initiatives: people, merchandising and finance. In addition to ongoing technology investments, these initiatives are designed to increase and strengthen the company’s efficiency and productivity. Each of the three initiatives is made up of both capital expenditures and operating expenses, including payroll.

All three initiatives have short-term and long-term benefits. The people systems initiatives are the smaller of these and are nearing completion. The two major longer-term transformation initiatives are in merchandising and in finance.

We continue to work prudently by implementing the rollout of the merchandising capabilities across all operating segments, as the merchandising investment is critical to improving the productivity and efficiency of our global business, enabling us to better serve our customers around the world, and to allow for future growth.

The merchandising systems, which are continuing through the end of this fiscal year, are already delivering business improvements, such as gross margin enhancement, for the Walmart U.S. business, and will be leveraged for our other countries in the future. I won’t steal Eduardo’s thunder in speaking more about these results, but this investment is already paying off.

The finance transformation is a multi-year integrated program. We are well into the third year of this initiative and our progress is tracking well. In June, we successfully completed our first rollout for ASDA in the U.K. We expect the majority of the foundational work to support other countries to be completed in the next 12 months. The result of these investments will be a single financial platform for all of our businesses worldwide, and one that will give us the additional capacity for future acquisitions and growth. Expenses for this finance system will plateau in the back half of this fiscal year.

Now, let's cover the status of our interest expense, tax rate, and debt levels. Net interest expense was up 3.7 percent over last year's second quarter. Total debt was up; however, interest rates were lower when compared to the prior year.

Our tax rate for the second quarter was 34.3 percent. We continue to expect the tax rate for fiscal 2010 to be between 34.0 and 35.0 percent, although we will see some quarterly fluctuations. Factors which may affect our rate include changes in our assessment of certain tax matters and the mix of domestic and international income.

During these economic times, our balance sheet continues to remain strong and we continue to have good access to the credit markets. Our debt to total capitalization ratio was 40.3 percent, essentially flat with the 40.0 percent we reported at this time last year.

Mike highlighted one of our ongoing success stories earlier – free cash flow generation. Recall that we define free cash flow as cash provided by operating activities, less capex. Through the combination of our solid operating management and discipline on expenses, as well as strong capital efficiency, we are pleased to report that the company ended the first six months of the fiscal year with free cash flow of $4.2 billion. This compares to $5.1 billion at this time last year.

A deeper dive into our cash flow statement reflects payments for capital spending, or capex, of approximately $5.7 billion during the first half of this fiscal year, an increase of approximately 13.0 percent over the same period last year. This was within our plan for the first six months, and we expect our capital spending for the full year to be well within the original guidance of $12.5 and $13.5 billion.

During the second quarter, our Board of Directors approved a $15-billion share repurchase program, replacing the prior $15-billion program, which had $3.4 billion remaining on it. In this quarter, we repurchased approximately $1.9 billion of our stock, which represented about 39.1 million shares. We have approximately $13.7 billion remaining on the new $15-billion program. We remain committed to our share repurchase program.

As Mike noted, our company's financial position continues to remain strong. The attention of our operating and corporate teams to strong financial management continues to be a daily priority.

Now, let's move to the discussion of our operating segments. We'll start with our Walmart U.S. business. Eduardo …

EDUARDO CASTRO-WRIGHT

Thank you Charles.

We are pleased with the financial performance of the Walmart business in the United States. Despite a difficult sales environment, as reflected by the negative retail industry comps that have been reported during this quarter, we were able to deliver strong profits because of our very disciplined management of the business. Further, the systems and processes we are investing in are demonstrating that we can deliver continued improvements. Our underlying business remains strong, with positive traffic driving a continuation of market share gains. We have now experienced those gains for several quarters.

Sales reached $64.2 billion during the quarter, which is an increase of 0.3 percent over last year's second quarter. While traffic was up 1.3 percent for the 13-week sales period, comparable store sales declined 1.5 percent, which was below our guidance of flat to 3.0 percent. We attribute this shortfall to three factors.

- First, as experienced and reported by other retailers, reported comps reflect a continuation of a challenging retail environment.

Consumers were more selective in discretionary spending during the second quarter than earlier this year.

- Second, grocery prices have been more sharply driven by deflationary pressures than we had expected, and this affected comps by approximately 150 basis points.
- And, last, we believe we underestimated the benefit on comps that our stores received from last year's second quarter stimulus checks.

Where this nets out is simply that in spite of softer sales than expected, our underlying business remains strong. Through this difficult economy, Walmart continues to gain traffic. In fact, our comp store sales outperformed the Thomson Retail Index for each of the three months during the 13-week period on the 4-5-4 calendar by an average of 300 to 350 basis points each month. This points to a much better relative performance than the U.S. retail market. We attribute the strength of our traffic to the improvements from our Project Impact strategic framework and, we believe these improvements are permanent and sustainable.

In spite of the sales shortfall, we managed operations in a disciplined way and delivered a 5.0 percent growth in operating income for the quarter, on sales growth of 0.3 percent. Operating income reached $4.9 billion, above our plan, and a significant achievement that reinforces our ability to deliver outstanding bottom-line performance -- even in a difficult environment.

Another highlight for the second quarter was our year-over-year 5.8 percent reduction in inventory. This equates to about $1.4 billion less inventory than this time last year. Lower inventory has been a major reason for profit performance and it continues to benefit customers by providing an improved shopping experience.

The investment in our merchandising transformation initiatives is contributing to better gross margins and also to improved operating expenses. We also are executing a number of Project Impact initiatives that are focused on both cost and price leadership, as well as mix. The benefits of these initiatives flowed to gross margin during the quarter, as gross margin increased 109 basis points over last year's second quarter. Lower shrink, as well as flat year-over-year markdowns as a percentage of sales, also contributed to the improvement in margin.

The strength of our logistics and transportation systems, along with lower fuel prices versus last year, is also reflected in the margin improvements. As a matter of fact, our case productivity increased 9.0 percent year-over-year.

Importantly, with inventory in remodeled stores continuing to come down significantly versus the control stores, we expect that year-over-year inventory improvements will stay with us for quite some time.

I'm also pleased with how the investment in merchandising systems and processes is driving product quality in our fresh areas. We have greatly improved the flow of perishables into our stores, which has reduced damaged goods. Further, customers are giving us a lot of credit for improving the quality of our fresh offerings, and their perceptions are validated in our higher sales comps in grocery.

Our grocery and health and wellness comps were positive and remained ahead of our major competitors during the 13-week period. In spite of deflationary pressures already discussed, our supermarket format, Neighborhood Market, achieved comps for the 13-week period of 3.8 percent.

We continue to attribute our strength in sales across the store to the strong price leadership position that we have. It's clear from many of the research reports that have been published recently that Walmart continues to be the price leader.

One other merchandise unit I'd like to highlight is home. Our positioning efforts, along with the merchandising transformation initiatives, have strengthened the sales momentum in this business. Sales of our proprietary brands, including Better Homes & Gardens, Canopy and Mainstays, as well as our new teen line – Your Zone – continue to grow ahead of comps reported by leading competitors. Our sales in kitchen, dining and food preparation products continue to be strong. In fact, when we compare our monthly home performance to what other retailers are reporting on monthly sales day, we believe we continue to gain significant share in this business.

Let us now move to expense management. A very disciplined approach moderated our operating expenses, which increased 3.9 percent or 71 basis points as a percentage of sales year-over-year. Expenses, which were impacted by higher group health costs, increased advertising, and lower recycling prices, were still below our plan, and showed fairly significant improvement. Utility costs benefited positively from milder weather and lower rates.

What is also important to note is that in a difficult sales environment, we managed labor and other store costs efficiently. As a matter of fact, group health costs, advertising and recycling drove more than half the increase in operating expenses, and we expect this expense pressure to decline in the second half.

The focus on improving our structure and more tightly managing expenses will result in driving better earnings. Our organization remains very committed to improving our SG&A leverage, even in a low sales growth environment.

The rollout of this year's remodeling program accelerated in the second quarter and will continue through October, with our goal being to reflect the Project Impact strategies in almost 650 stores. This includes all new construction and about 500 existing stores, some of which are expansions and relocations.

Now let me share what we are seeing in the remodels. I'm sure that the benefits of Project Impact are high on your list of questions. For starters, we have completed about half of our store remodeling goal for this year and we are encouraged by the fact that sales are exceeding our internal models by 100 to 125 basis points.

In most stores, we have mitigated the disruption to our customers, as reflected by the fact that the impact to comps is lower than anticipated. Despite the initial disruption during the remodel, improvements in customer experience after the remodel are growing at twice the rate of the rest of the chain. Also, an important outcome is that Project Impact remodels are helping us attract new customers.

Overall, our customer experience scores in the last quarter again reached record levels.

Now, let's move to the third quarter. Based on the industry reports on back-to-school, we believe we are gaining significant share of this sizable business. Although it is a tough sales environment, we are pleased with the initial response to our back-to-school and back-to-college offerings.

Now, like it has been the case for several seasons, customers are shopping much closer to the event. We are focused on delivering on our "save money" promise on top brands in school supplies, electronics, home and, in apparel, we have a very strong program in place, supported by the launch of the Miley Cyrus - Max Azria line. The coordinated color program for back-to-college has been received very positively. Back-to-college comp sales are running in the mid double-digits ahead of last year.

As Mike noted, we expect that the economy will remain difficult. Our own surveys point to ongoing concerns by consumers about their own financial situation. More people are concerned about unemployment. Because of that, we will continue to be focused on our price leadership message, which is so important in these times.

We estimate that comp sales for the 13-week period from August 1 through October 30, 2009 to be between flat and 2.0 percent.

In closing, let me remind you that for the first half of this year, the Walmart U.S. business has performed ahead of profit expectations. We believe we have a strategic framework in place that will continue to help offset an economy that will be challenging the rest of this year.

I will turn it over to Doug for Walmart International. Doug …

DOUG MCMILLON

Thanks, Eduardo.

I'll cover our quarterly results in just a moment, but first, I'd like to share a few observations from the past month. My family and I spent the month of July in Asia, travelling first to India, then to China and then on to Japan to experience our business and the cultures of these countries in a deeper way.

I met with associates, visited our stores and government officials, spoke with the media, checked out the competition and visited customers in their homes in China and Japan. As you may guess, there are consistent themes from our customers. They are paying attention. They're paying attention to price, quality, and convenience in an intense manner. They're trying more private brand items. This is a great opportunity for us to gain and hold share. It reinforced our focus on productivity, value creation and communication of that value.

I've spent time in every country in the Walmart International portfolio this year and I'm excited about the opportunities we have to grow our business. As a stand-alone company, we'd be one of the largest retailers world-wide and certainly one of the fastest growing. Our associates are delivering for our customers and helping drive this growth. I'm also proud of our operating performance … sales and operating income are both up on a constant currency basis.

As we move to the specific results for the second quarter, I want to mention a few items that affect comparability of results for Walmart International . . . currency exchange rates and the calendar.

First, currency exchange rate fluctuations continued to affect reported results during the second quarter. We hold country management accountable for their results on a local currency basis, without the impact of potential swings in exchange rates. With the exception of our total segment results, this discussion of Walmart International **excludes** the impact of currency.

Second, because all but Canada and Puerto Rico report on a calendar year basis, the majority of the International countries' second quarter results include April. Consequently, as we noted last quarter, Easter results are included in our second quarter for those markets that report on a calendar year. And finally, my references to last year are for the second quarter of fiscal 2009.

Now, let's move on to the second quarter results.

International net sales for the second quarter were approximately $24.0 billion. This includes a $4.2 billion impact of currency valuation, which led to a 5.1 percent decline from last year's U.S. dollar sales. On a constant currency basis -- before the impact of exchange rate fluctuations -- sales were up 11.5 percent over last year.

The increase in sales calculated on a constant currency basis is due primarily to strong performances in the U.K. and Mexico, and the addition of sales from our acquisition of D&S in Chile. The sales from Chile are included this year, but were not in last year's results.

Segment operating income for the second quarter was $1.1 billion, down 6.2 percent from last year. On a constant currency basis, before the $237-million impact of currency rate fluctuations, operating income was up 13.3 percent from last year and grew faster than net sales -- primarily due to several areas:

- ASDA's strong sales performance in the U.K.
- Walmex's store growth and expense savings in Mexico, and
- Productivity improvements in Canada and Japan.

The gross margin rate was down slightly on a constant currency basis when compared to last year, largely due to a mix shift towards lower-margin food and consumables, and continued pricing actions taken in several markets, particularly in Japan and Brazil.

Expenses as a percentage of net sales improved slightly on a constant currency basis due to leveraging of the sales increase at ASDA, productivity improvements in Japan and expense savings initiatives at Walmex. On a constant currency basis, membership and other income as a percentage of net sales was slightly higher than last year.

As I mentioned in the Q&A for the investment community after the shareholders' meeting in June, we still have room to improve in inventory management. We are implementing process changes in our markets to improve our inventory performance. Among our efforts are:

- improving the open-to-buy control processes,
- avoiding the tendency to "fill the shelf" by trusting our replenishment systems, and
- in some countries, making organization structure changes to improve accountability.

Reducing unproductive inventory is a top focus for the division and our leaders. We can operate our business on less inventory, while increasing our in-stock levels for our customers and members. I will report on our efforts in this regard in the coming quarters.

Now let's get into the results for several of our markets.

In the United Kingdom, ASDA continues its momentum and is performing extremely well, gaining market share and growing profits faster than sales. According to TNS, ASDA total market share increased to 17.0 percent, up from 16.7 percent last year. Additionally, ASDA has extended its price gap against its competitors, winning by a record margin the Grocer magazine award for the "lowest priced supermarket" for a twelfth successive year.

ASDA's comp sales growth without fuel was 7.9 percent. Second quarter comparable store sales, excluding fuel, grew by 70 basis points, when you take into account the Easter calendar shift from Q1 last year to Q2 this year. The majority of the growth is due to an increase in ASDA customer traffic.

Average ticket also increased, despite a sharp fall in food price inflation. We are particularly pleased that this performance is underpinned by acceleration in food volume growth over last year. The strongest sales results were in grocery, fresh meat and frozen foods.

General merchandise comp growth strengthened in the second quarter, with strong sales performances in baby and pet care, and outdoor categories. George clothing is having an excellent spring-summer season, with market share up 35.0 basis points to 3.9 percent — and that's growth without the need for significant markdowns. Early sales of "back to school" products are extremely encouraging.

Despite increases in disposable income, UK consumer confidence remains low, primarily due to unemployment fears. Consumers continue to be more prudent and are saving more. ASDA is well positioned to continue to gain share in this environment.

The economy in Mexico continued to face challenges in the second quarter of this year, and beginning in April, the country experienced several days of business closures because of the H1N1 influenza outbreak.

Walmex management continues to build on their strengths to better serve customers, while becoming an even more efficient operator. As you're about to hear, they are a model of our commitment that Every Day Low Costs provide Every Day Low Prices.

At Walmex, second quarter sales increased 11.3 percent over last year, while comparable store sales grew 4.0 percent. Self-service format net sales grew 13.0 percent, while comp store sales grew 5.1 percent. Food continues to be our strongest category in Mexico, driving a 3.3 percent increase in traffic in comparable stores. Average ticket at Walmex also increased, growing 0.6 percent. As we saw in the first quarter, our customers in Mexico are reducing spending in non-food areas, such as clothing and general merchandise.

Earlier this year, Walmex committed to exceed market growth by 50 percent. I'm proud to report that Walmex has exceeded that target to date. ANTAD, a national retail association, reports on the industry's comps and market share growth. As ANTAD reported, total Walmex self-service sales for the January through May period grew 11.7 percent, compared with industry growth of 7.3 percent excluding Walmex. Comparable store sales for Walmex grew 3.0 percent, and self-service formats grew 4.1 percent in the January through May period. Industry comp store sales excluding Walmex for the corresponding period were only 1.2 percent.

Second quarter gross margin was slightly behind last year. Despite this, operating income increased faster than sales primarily due to great results from cost savings programs including productivity initiatives, sustainable energy conservation, and declining energy costs.

Moving north to Canada . . . The economy there continues to face pressures from contraction in gross domestic product, rising unemployment in manufacturing industries and poor consumer confidence.

Walmart Canada's second quarter sales grew 5.8 percent over last year predominately because of our supercentre expansion program. Sales of food and consumables are stronger, and are partially offset by soft sales in apparel and discretionary items. Comparable store sales growth for the quarter was 0.6 percent. Average ticket was up 1.7 percent and customer traffic dropped by 1.1 percent.

The second quarter gross margin rate decreased from last year, primarily due to a shift towards food and consumables.

Ongoing cost efficiencies in logistics and store operations resulted in expenses growing slower than sales. However, these did not fully offset the margin decline, which resulted in operating income that grew slower than sales.

In Brazil**,** second quarter real comparable store sales increased 2.0 percent, with the best performances in food and consumables. Margin pressures came from competitive pricing actions. This, combined with costs to open 8 new stores this quarter led to operating income growing slower than sales. Despite the current economy, we remain enthusiastic about our business in Brazil.

Moving now to Asia . . .

In Japan, both customer traffic and overall sales growth at Seiyu continued to increase in the second quarter. Sales increased 1.4 percent over last year, on a comparable store sales increase of 1.3 percent. This is a continuation of the trend we have seen since Seiyu launched EDLP and began to aggressively communicate its price position.

Seiyu's second quarter sales results are noteworthy as they represent continued outperformance of the market.

The shift in Every Day Low Price drove an increase in food sales of 2.1 percent and an increase in consumables sales of 6.7 percent. The general economic slowdown again affected spending on higher ticket general merchandise and apparel sales in the second quarter.

Gross margin declined as a result of the continued rollout of EDLP. Every Day Low Cost initiatives in Japan are helping to reduce expenses in many areas, and leading to labor productivity and logistics improvements. However, the expense savings were not enough to offset the margin decline. And, as a result, Seiyu's operating income grew slower than sales. We continue to focus on improving product costs and operating expenses.

In China, we opened 10 new stores during the second quarter and now have more than 250 stores throughout the country with the inclusion of TrustMart. It is encouraging to see the positive improvement in sales over last year. Despite continued deflation in core food categories, comparable store sales increased over the second quarter of fiscal 2009, driven by price leadership initiatives. Comparable store sales increased 2.5 percent and 0.1 percent at Walmart China and Trustmart, respectively, for a total China comp of 1.6 percent.

Initiatives to integrate our TrustMart business, cost control measures and productivity improvements resulted in significant reductions in expenses from last year. As a result, second quarter operating income in China increased over last year.

Let me close by talking about India. It's a country we have not discussed in a few quarters, but it's an important part of our company's future.

While in Asia, I particularly enjoyed our time in India. This was my second visit and it truly is a great opportunity for Walmart. We visited an EasyDay store in Amritsar, where the Bharti-Walmart relationship is improving the customer offering as we learn from our customers. We also visited the first "Best Price Modern Wholesale" facility, which opened May 30. We are pleased with the progress there. I was very impressed by the team at the store. They are meeting the needs of small business owners and learning how to serve them even better. We also visited the Bharti Walmart Training Centre in Amritsar, which offers students free training and exposure to customer service practices in retail and cash-and-carry operations.

I'm extremely proud of the opportunity Walmart is bringing to people in India and around the world. The opportunity to learn new skills, the opportunity to work for a company that values its associates' contributions, and most of all . . . the opportunity to save customers' money and help them live better lives.

Now, I'll turn it over to Brian for the update on Sam's Club. Brian…

BRIAN CORNELL

Thank you, Doug.

I'm pleased with the underlying sales strength of the Sam's Club business. We are focused on driving sales by emphasizing the fresh foods and consumables that members need in today's economy. We are also pleased with the results of our membership initiatives, which I will discuss in more detail shortly. In addition, we continue to take steps to better manage our expenses.

Before I get into the financial results, let me elaborate on some of our efforts to better understand our members' needs. Our senior management team has made significant progress on refining the strategy to drive future efficiencies. Sam's will continue to elevate its focus on using consumer and member insights to guide our business. We will step up the relevancy, uniqueness and quality of Sam's merchandise assortment – always at a superior value and with a "best-in-class" club experience. We will share more details with you in October.

From a membership perspective, we are enhancing our product offering. Let me highlight a new program – called eValues – that we piloted in the second quarter. This program provides custom offers to our Business and Advantage Plus members directly on their Sam's Club Plus membership cards. We are pleased with the early test results and will continue to roll out the program in the coming weeks. We continue to find ways to leverage our data and technology in order to add value for our members.

We are also continuing to strengthen our productivity and efficiency, leveraging our scale and technology, but staying flexible to adapt to individual members. We have been testing a few select changes designed to improve productivity and simplicity and are pleased with the early indicators of these tests.

Now, let's turn to the results for the second quarter. Sam's Club's sales for Q2 were $11.9 billion, which is a 3.2 percent decrease compared to the same period last year. The decline was primarily due to lower fuel sales related to lower fuel prices, as well as deflation in some key categories. Excluding fuel for the quarter, Sam's would have had a sales increase of 1.7 percent.

Our comp club sales, excluding fuel, for the 13-week period increased by 60 basis points. Including fuel, comp club sales declined 4.3 percent, primarily due to the average retail price per gallon of fuel at Sam's decreasing 38 percent for the second quarter compared to last year. We expect to see continued sales pressure from fuel in the third quarter, with a potential turnaround in the fourth quarter. Also, let me remind you that Sam's Club tends to generate greater fuel profit when there is market volatility and especially when prices are falling. Last year, there was a significant drop in fuel pricing starting in the October-November timeframe. This price fluctuation resulted in larger fuel profit during the third quarter last year.

While sales were also impacted by deflation in key categories, such as dairy, produce, meat and electronics, we experienced strong double-digit unit growth in several of these categories. As an example, while we have had 35 percent deflation in cheese prices year over year, we also experienced double-digit unit sales growth during the same period.

Strong categories during the quarter included fresh foods and consumables. We continue to see stronger sales trends in house wares and small appliances, as members are eating at home more often.

Big-ticket discretionary categories such as furniture, mattresses, jewelry, and major appliances continue to face sales pressure. Given the softer sales trends, we are focused on managing our seasonal inventory, which contributed to an overall inventory reduction of 5.3 percent compared to the prior year. Overall apparel sell-through is relatively good as we took pricing action on certain items. We will continue monitoring apparel sell through for August and September to deliver clean inventory for the third quarter.

Traffic was positive every month in the quarter, with Advantage traffic growing faster than Business. Both Advantage and Business member average ticket – which exclude fuel -- declined slightly.

Gross margin, both including and excluding the impact of fuel, increased for the quarter compared to the prior year. The increase is driven primarily by the continued change in our merchandise mix to more fresh and consumable items.

Operating expenses increased 6.1 percent, or 90 basis points as a percentage of sales year over year due in part to higher group health costs and club remodels. We experienced wage pressures, as our strong unit sales growth in some fresh areas led to additional cost related to managing fresh foods in the clubs. We expect health care costs to continue to grow for the remainder of the year. Despite these cost pressures, Sam's sales per labor hour improved 90 basis points versus last year. We are committed to continuing our focus on our expense structure.

Overall, membership and other income as a percentage of sales was flat versus the prior year. However, we are encouraged by the momentum behind Advantage and Business sign-ups. On the Advantage membership side, we ran the $15 summer membership campaign for 100 days of summer. Demonstrating the savings to prospective members allowed us to convert a large percentage of prospective members from $15 memberships to $40 memberships. This, together with continuing the momentum of Business sign-ups allowed us to see total new member counts increase in the high single digits versus last year. Still, we continue to see pressure in our Business add-on memberships, which are additional paid memberships associated with a Business membership. This is due to small businesses continuing to face cost and credit pressures, as well as employee reductions. Renewal rates continue to be close to flat.

For the second quarter of fiscal 2010, operating income as a percentage of sales declined slightly to 3.5 percent versus 3.6 percent last year. Sam's operating income of $419 million for the quarter was down 5.0 percent compared to last year.

The third quarter is under way. We expect both our Advantage and Business members to remain focused on value and to ensure that they are fully taking advantage of their membership benefits. Due to the continuing economic challenges, as well as the continued deflation in key categories, our expectations for comp club sales for the 13-week period from August 1 through October 30 are approximately flat, plus or minus one percent.

I remain excited about leading Sam's Club and look forward to further discussing our business plans at the October meeting. Now it's on to Tom for a financial review and guidance. Tom …

TOM SCHOEWE

Thanks, Brian.

Let's start with the review of our quarterly report card on five key financial metrics. As you've heard, we felt some "headwind" this quarter from currency, deflation, the economy, and the tough comparison created by the stimulus checks that were issued last year. That being said, we're in the positive column on three of our five metrics.

As you've heard several times on this call, inventory has been managed very well … especially here in the United States. Consolidated inventory was down 4.3 percent on a year-to-date sales decrease of approximately 1.0 percent.

With the kind of inventory reduction we reported this quarter, it's clear that payables grew faster than inventories. The real take-away … our operating management is doing a marvelous job of managing working capital.

We're also pleased that operating income grew faster than sales. This was in large part due to the performance of the Walmart U.S. business, as Eduardo discussed earlier. Despite the headwinds of currency exchange fluctuations, lower fuel prices and food deflation, we were able to accomplish this important goal.

Another goal is to grow operating income faster than Property, Plant and Equipment, or PP&E. Given our planned capex schedule for this year, we did not reach this goal for the second quarter. Having said that … we remain on schedule to be within our capital expenditure range of $12.5 billion to $13.5 billion for fiscal 2010.

As Charles noted earlier, the "other" segment – or unallocated corporate overhead -- was up approximately 13.0 percent, mainly driven by technology initiatives. As a result, overall corporate expenses did not grow at a slower rate than sales.

Our performance with free cash flow remains "best-in-class" among large cap companies. The underlying strength of our operations and our commitment to capital efficiency serve as the foundation for this performance. We remain proud of our continued strength, having delivered $4.2 billion of free cash flow for the first six months of this fiscal year.

Return on investment from continuing operations for the trailing 12 months ended July 31, 2009 was down 100 basis points to 18.4 percent, compared to the 19.4 percent we reported at this time last year. The decline is mainly the result of foreign exchange, the legal accrual we took in the fourth quarter of last fiscal year and the impact from our acquisition of D&S in Chile.

Now, let's move on to guidance. We expect diluted earnings per share from continuing operations for the third quarter of fiscal 2010 to be between 78 and 82 cents a share. At the beginning of this fiscal year, we said that our guidance for the full fiscal year was between $3.45 and $3.60 a share. Today, we are updating the range of our full-year earnings guidance for fiscal 2010 to $3.50 to $3.60 per share. Back in the fourth quarter of last fiscal year, we said that our expectations for the FX impact would be approximately 13 cents per share over the first three quarters of fiscal 2010. We are updating that particular expectation today to 11 cents per share, compared to the 13 cents we cited earlier.

This has been a long call and we appreciate your listening, but before we wrap up today, let me summarize the key points about Walmart's performance.

- We are proud of our second quarter performance. We believe that we are one of a very few companies to report year on year earnings growth so far this quarter, building on the improvement that we reported last year.

- Walmart continued to outperform almost all of its major competitors on comp sales, indicating that we are improving our market position.

- In a difficult economy, we managed our operations in a disciplined manner and that contributed to our earnings performance.

- We continued to generate significant free cash flow.

- Walmart has a strong balance sheet, great access to capital and an enviable "double-A" rating.

- Despite currency fluctuations and a tough economy, our underlying business remains extremely healthy.

Throughout the rest of the year, we will remain focused on expense management, as well as increasing productivity and the efficiency throughout our global operations. Most important, we will continue to take care of the 200 million customers who shop with us around the world every week.

Thank you for listening. Have a great day.