

WAL MART STORES INC

FORM 8-K (Current report filing)

Filed 08/13/09 for the Period Ending 08/13/09

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 BENTONVILLE, AR 72716
Telephone 5012734000
CIK 0000104169
Symbol WMT
SIC Code 5331 - Variety Stores
Industry Retail (Department & Discount)
Sector Services
Fiscal Year 01/31

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549**

FORM 8-K

**CURRENT REPORT
PURSUANT TO SECTION 13 or 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

Date of Report (Date of earliest event reported):
August 13, 2009

Wal-Mart Stores, Inc.

(Exact Name of Registrant as Specified in Charter)

Delaware
(State or Other
Jurisdiction of
Incorporation)

001-06991
(Commission File
Number)

71-0415188
(IRS Employer
Identification No.)

**702 Southwest 8th Street
Bentonville, Arkansas 72716-0215**
(Address of Principal Executive Offices) (Zip code)

Registrant's telephone number, including area code:
(479) 273-4000

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
-

Item 2.02. Results of Operations and Financial Condition.

Wal-Mart Stores, Inc. is furnishing this Current Report on Form 8-K in order to furnish to the Securities and Exchange Commission a press release (the “Press Release”) that we will issue on August 13, 2009. The Press Release will disclose information regarding our results of operations and financial condition as of, and for the three-month and six-month periods ended, July 31, 2009 (the “FY2010 Second Quarter”).

The Press Release provides information regarding certain financial measures that may be considered non-GAAP financial measures under the rules of the Securities and Exchange Commission. Those financial measures include:

- Our net sales for the FY2010 Second Quarter and our International operating segment’s sales and operating income for the FY2010 Second Quarter stated on a constant currency basis, as well as the difference between our diluted earnings per share from continuing operations as reported in our Condensed Consolidated Statements of Income for the three months ended July 31, 2009 and as stated on a constant currency basis. Results for the FY2010 Second Quarter stated on a constant currency basis are calculated by converting the results of our International segment’s operations for the FY2010 Second Quarter as stated in the local currencies in which we operate in countries other than the United States into an equivalent amount of U.S. dollars using the currency exchange rates that were used to convert the similar results of our International segment’s operations for the three months ended July 31, 2008.

The financial measures calculated and presented in accordance with generally accepted accounting principles (“GAAP”) that are most nearly comparable to such measures are our net sales and diluted earnings per share from continuing operations as reported in our Condensed Consolidated Statements of Income for the three months ended July 31, 2009 and our International operating segment’s sales and operating income computed in accordance with GAAP as reflected in our net sales and our operating income as reported in our Condensed Consolidated Statements of Income for the three months ended July 31, 2009.

- Our total U.S. comparable store sales and our Sam’s Club operating segment’s comparable store sales for the thirteen weeks and twenty-six weeks ended July 31, 2009 and August 1, 2008 calculated excluding the fuel sales of our Sam’s Club segment for such periods. The financial measure calculated and presented using amounts calculated in accordance with GAAP that is most nearly comparable to our comparable store sales for those periods calculated excluding such fuel sales are our comparable store sales calculated including the fuel sales of our Sam’s Club segment.

Our management believes that presentation of these non-GAAP financial measures provides useful information to investors regarding our results of operations and financial condition as to the periods for which they are presented for the following reasons:

- We are required to convert our International segment's operating results as stated in local currencies into U.S. dollars for purposes of reporting our results of operations in accordance with GAAP. Period over period comparisons of our operating results can be affected by the differences between currency exchange rates in the prior year period and the currency exchange rates in the current year period as reflected in our operating results reported in U.S. dollars, making an investor's assessment of the underlying performance of our International segment and its effect on total company underlying performance for the current year period more difficult. The presentation of our net sales, the difference in our diluted earnings per share from continuing operations and our International operating segment's sales and operating income for the current year period on a constant currency basis permits investors to understand important aspects of the underlying performance of our International operating segment in the current year period without the effect of any fluctuations in applicable currency exchange rates occurring since the comparable prior year period and how that performance would have affected our net sales and diluted earnings per share from continuing operations for the current year period had currency exchange rates remained constant since the prior year period.
- Our comparable store sales excluding the fuel sales at our Sam's Club segment permits investors to understand the effect of such fuel sales on our comparable store sales for the periods presented.

The Press Release includes a reconciliation of each such non-GAAP financial measure to the most nearly comparable financial measure calculated and presented in accordance with GAAP.

Item 9.01. Financial Statements and Exhibits.

A copy of the Press Release being furnished pursuant to the foregoing Item 2.02 is included herewith as Exhibit 99.1.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Dated: August 13, 2009

WAL-MART STORES, INC.

By: /s/ Charles M. Holley, Jr.

Name: Charles M. Holley, Jr.

Title: Executive Vice President,
Finance and Treasurer



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585-219-6420 (All other countries)

Walmart Second Quarter Earnings Exceed Consensus Estimates

BENTONVILLE, Ark., Aug. 13, 2009 – Wal-Mart Stores, Inc. (NYSE: WMT) today reported diluted earnings per share from continuing operations for the second quarter of fiscal year 2010 of \$0.88, at the top of the company's guidance of \$0.83 to \$0.88. The effect of currency exchange rates reduced earnings by approximately \$0.04 per share. Walmart earned \$0.86 per share from continuing operations in the second quarter last year.

Net sales for the second quarter were \$100.082 billion, a decrease of 1.4 percent from \$101.546 billion in the second quarter last year. Without the negative impact of currency exchange rates equal to \$4.199 billion, net sales for the quarter increased 2.7 percent to approximately \$104.281 billion on a constant currency basis (which assumes currency exchange rates remained the same as the prior year). Income from continuing operations increased to \$3.449 billion from \$3.401 billion in the same period last year.

"Our earnings exceeded consensus estimates and were at the top of our guidance," said Mike Duke, Walmart president and chief executive officer. "We are pleased with the performance of our operations around the world. We believe that our comparable store sales continued to outperform the retail sector almost everywhere we do business."

"In a sales environment more difficult than we expected, we managed our operations in a disciplined manner. Our U.S. segments delivered strong inventory performance, which contributed to the company's healthy increase in year-over-year earnings," Duke said. "We are accelerating our focus on reducing our expenses."

"Customers around the world are forced to do more with less and they rely on Walmart to help them save money," Duke added. "The improvements in our stores are attracting new customers and keeping the loyalty of the millions who shop with us. We are confident about Walmart's long-term future and ability to build on its leadership position."

Net Sales

Net sales were as follows (dollars in billions):

| | Three Months Ended July 31, | | | Six Months Ended July 31, | | |
|-------------------|--------------------------------|-----------|--------|------------------------------|-----------|--------|
| | Percent | | | Percent | | |
| | 2009 | 2008 | Change | 2009 | 2008 | Change |
| Net Sales: | | | | | | |
| Walmart U.S. | \$ 64.209 | \$ 63.989 | 0.3% | \$125.453 | \$122.980 | 2.0% |
| International | 23.965 | 25.257 | -5.1% | 45.228 | 49.184 | -8.0% |
| Sam's Club | 11.908 | 12.300 | -3.2% | 22.872 | 23.424 | -2.4% |
| Total Company | \$100.082 | \$101.546 | -1.4% | \$193.553 | \$195.588 | -1.0% |

Reported International sales for the three months ended July 31, 2009 were reduced by the effect of currency exchange rates equal to approximately \$4.199 billion. On a constant currency basis, International sales increased 11.5 percent to \$28.164 billion in the second quarter, compared to the same quarter last year.

Segment Operating Income

Segment operating income, which is defined as operating income for each operating segment, was as follows (dollars in billions):

| | Three Months Ended July 31, | | | Six Months Ended July 31, | | |
|----------------------------------|--------------------------------|---------|---------|------------------------------|---------|---------|
| | | | Percent | | | Percent |
| | 2009 | 2008 | Change | 2009 | 2008 | Change |
| Segment Operating Income: | | | | | | |
| Walmart U.S. | \$4.901 | \$4.667 | 5.0% | \$9.365 | \$8.987 | 4.2% |
| International | 1.143 | 1.218 | -6.2% | 2.023 | 2.268 | -10.8% |
| Sam's Club | 0.419 | 0.441 | -5.0% | 0.812 | 0.834 | -2.6% |

Reported International operating income for the three months ended July 31, 2009 was reduced by \$237 million as a result of the effect of currency exchange rates. On a constant currency basis, International operating income increased 13.3 percent to \$1.380 billion in the second quarter, compared to the second quarter last year.

Comparable Store Sales

The company reports U.S. comparable store sales in this earnings release based on its 13-week retail calendar, ending July 31, as follows:

| | Without Fuel | | With Fuel | | Fuel Impact | |
|--------------|--|----------|--|----------|--|----------|
| | Thirteen Weeks Ended 07/31/09 08/01/08 | | Thirteen Weeks Ended 07/31/09 08/01/08 | | Thirteen Weeks Ended 07/31/09 08/01/08 | |
| | 07/31/09 | 08/01/08 | 07/31/09 | 08/01/08 | 07/31/09 | 08/01/08 |
| Walmart U.S. | -1.5% | 4.4% | -1.5% | 4.4% | 0.0% | 0.0% |
| Sam's Club | 0.6% | 4.1% | -4.3% | 7.6% | -4.9% | 3.5% |
| Total U.S. | -1.2% | 4.3% | -1.9% | 4.9% | -0.7% | 0.6% |
| | | | | | | |
| | Without Fuel | | With Fuel | | Fuel Impact | |
| | Twenty-Six Weeks Ended 07/31/09 08/01/08 | | Twenty-Six Weeks Ended 07/31/09 08/01/08 | | Twenty-Six Weeks Ended 07/31/09 08/01/08 | |
| | 07/31/09 | 08/01/08 | 07/31/09 | 08/01/08 | 07/31/09 | 08/01/08 |
| Walmart U.S. | 1.0% | 3.2% | 1.0% | 3.2% | 0.0% | 0.0% |
| Sam's Club | 2.3% | 3.5% | -2.5% | 6.6% | -4.8% | 3.1% |
| Total U.S. | 1.2% | 3.2% | 0.4% | 3.7% | -0.8% | 0.5% |

Data in the condensed consolidated financial statements included in this news release are based on the calendar quarters ending July 31.

Guidance

"Our performance this quarter has been good, despite headwinds from price deflation, the effects of the recession and currency exchange rates," said Tom Schoewe, Walmart executive vice president and chief financial officer. "We're proud that Walmart reported a year-over-year increase in earnings this quarter."

"In addition, we generated approximately \$4.2 billion in free cash flow during the first half of the year," Schoewe added. "Walmart remains strong financially, with a solid balance sheet, great access to capital markets and a

double-A rating. Plus, we are one of the few Dow 30 companies so far to report a year-over-year earnings increase this quarter.”

A reconciliation of free cash flow (a non-GAAP measure) is attached at the end of this release.

“Based on our view of the economy and our continued focus on managing expenses and productivity, we are updating our guidance for earnings per share from continuing operations this year to a range of \$3.50 to \$3.60, from \$3.45 to \$3.60,” Schoewe added. “We expect earnings per share from continuing operations for the third quarter of fiscal year 2010 to be between \$0.78 and \$0.82, including a three-cent negative impact from currency exchange rates.”

Walmart U.S. expects comparable store sales during the 13-week period from Saturday, Aug. 1 through Friday, Oct. 30 to be between flat and two percent. Sam’s Club expects comparable club sales during the same period to be flat, plus or minus one percent. The company will report these operating segments’ comparable store sales result and the total U.S. aggregate comparable store sales result for that period when it reports third quarter earnings on Nov. 12.

Notes

Effective Feb. 1, 2009, the company adopted Statement of Financial Accounting Standards No. 160, “Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB 51.” This standard requires modifications to financial statement presentation for minority interests in subsidiaries, now referred to as noncontrolling interests. These changes are reflected in Walmart’s second quarter condensed consolidated financial statements included in this release. As a result, all references to income from continuing operations or earnings per share from continuing operations in this release refer to income from continuing operations attributable to Walmart, or diluted income per share from continuing operations attributable to Walmart, respectively.

In addition to these changes, beginning Feb. 1, 2009, the company changed the classification of certain revenue and expense items within the financial statements. These changes are reflected in the second quarter condensed consolidated statements of income for all periods presented and did not have an impact on the company’s consolidated operating or net income.

After this earnings release has been furnished to the SEC, a pre-recorded call offering additional comments on the quarter will be available to all investors. Callers may listen to this call by dialing 800-778-6902, or 585-219-6420 outside the U.S. and Canada. Information included in this release, including reconciliations, and the pre-recorded phone call is available in the investor information area on the company’s Web site at www.walmartstores.com/investors.

Wal-Mart Stores, Inc. (NYSE: WMT) serves customers and members more than 200 million times per week at more than 8,000 retail units under 53 different banners in 15 countries. With fiscal year 2009 sales of \$401 billion, Walmart employs more than 2.1 million associates worldwide. A leader in sustainability, corporate philanthropy and employment opportunity, Walmart ranked first among retailers in *Fortune* Magazine’s 2009 Most Admired Companies survey. Additional information about Walmart can be found by visiting www.walmartstores.com. Online merchandise sales are available at www.walmart.com and www.samsclub.com.

This release contains statements as to Walmart management’s forecasts of the company’s earnings per share for the fiscal year to end January 31, 2010 and the fiscal quarter to end October 31, 2009 and the comparable store sales of each of the Walmart U.S. and Sam’s Club segments of the company for the 13-week period from August 1 through October 30, 2009, that the company believes are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, as amended. These statements are intended to enjoy the protection of the safe harbor for forward-looking statements provided by that act. These statements can be identified by the use of the word or phrase “guidance” or “expect,” in the statements. These forward-looking statements are subject to risks, uncertainties and other factors, domestically and internationally, including general

economic conditions, the cost of goods, competitive pressures, geopolitical events and conditions, 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 the 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 the company is a party, weather conditions, damage to the company's facilities from natural disasters, regulatory matters and other risks. The company discusses certain of these factors more fully in its additional filings with the SEC, including its last annual report on Form 10-K filed with the SEC, and this release should be read in conjunction with that annual report on Form 10-K, together with all of the company's other filings, including current reports on Form 8-K, made with the SEC through the date of this release. The company urges you to consider all of these risks, uncertainties and other factors carefully in evaluating the forward-looking statements contained in this release. As a result of these matters, changes in facts, assumptions not being realized or other circumstances, the company's actual results may differ materially from the expected results discussed in the forward-looking statements contained in this release. The forward-looking statements made in this release are made only as of the date of this release, and the company undertakes no obligation to update them to reflect subsequent events or circumstances.

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Ed. Note: Wal-Mart Stores, Inc. is the legal trade name of the corporation. The name "Walmart," expressed as one word and without punctuation, is a trademark of the company and is used analogously to describe the company and its stores. Use the trade name when it is necessary to identify the legal entity, such as when reporting financial results, litigation or corporate governance.

Wal-Mart Stores, Inc.
Condensed Consolidated Statements of Income
(Unaudited)

SUBJECT TO RECLASSIFICATION

| <i>(Amounts in millions except per share data)</i> | Three Months Ended July 31, | | Six Months Ended July 31, | |
|--|--------------------------------|-----------------|------------------------------|-----------------|
| | 2009 | 2008 | 2009 | 2008 |
| Revenues: | | | | |
| Net sales | \$100,082 | \$101,546 | \$193,553 | \$195,588 |
| Membership and other income | 828 | 796 | 1,599 | 1,694 |
| | <u>100,910</u> | <u>102,342</u> | <u>195,152</u> | <u>197,282</u> |
| Costs and expenses: | | | | |
| Cost of sales | 75,153 | 77,118 | 145,541 | 148,490 |
| Operating, selling, general and administrative expenses | 19,875 | 19,411 | 38,512 | 37,662 |
| Operating income | 5,882 | 5,813 | 11,099 | 11,130 |
| Interest: | | | | |
| Debt | 447 | 450 | 895 | 938 |
| Capital leases | 68 | 77 | 138 | 149 |
| Interest income | (42) | (71) | (93) | (135) |
| Interest, net | <u>473</u> | <u>456</u> | <u>940</u> | <u>952</u> |
| Income from continuing operations before income taxes | 5,409 | 5,357 | 10,159 | 10,178 |
| Provision for income taxes | <u>1,853</u> | <u>1,826</u> | <u>3,456</u> | <u>3,496</u> |
| Income from continuing operations | 3,556 | 3,531 | 6,703 | 6,682 |
| (Loss) income from discontinued operations, net of tax | (7) | 48 | (15) | 41 |
| Consolidated net income | 3,549 | 3,579 | 6,688 | 6,723 |
| Less consolidated net income attributable to noncontrolling interest | (107) | (130) | (224) | (252) |
| Consolidated net income attributable to Walmart | <u>\$ 3,442</u> | <u>\$ 3,449</u> | <u>\$ 6,464</u> | <u>\$ 6,471</u> |
| Income from continuing operations attributable to Walmart: | | | | |
| Income from continuing operations | \$ 3,556 | \$ 3,531 | \$ 6,703 | \$ 6,682 |
| Less consolidated net income attributable to noncontrolling interest | (107) | (130) | (224) | (252) |
| Income from continuing operations attributable to Walmart | <u>\$ 3,449</u> | <u>\$ 3,401</u> | <u>\$ 6,479</u> | <u>\$ 6,430</u> |
| Basic net income per common share: | | | | |
| Basic income per share from continuing operations attributable to Walmart | \$ 0.89 | \$ 0.86 | \$ 1.66 | \$ 1.63 |
| Basic (loss) income per share from discontinued operations attributable to Walmart | (0.01) | 0.01 | — | 0.01 |
| Basic net income per share attributable to Walmart | <u>\$ 0.88</u> | <u>\$ 0.87</u> | <u>\$ 1.66</u> | <u>\$ 1.64</u> |
| Diluted net income per common share: | | | | |
| Diluted income per share from continuing operations attributable to Walmart | \$ 0.88 | \$ 0.86 | \$ 1.65 | \$ 1.62 |
| Diluted income per share from discontinued operations attributable to Walmart | — | 0.01 | — | 0.01 |
| Diluted net income per share attributable to Walmart | <u>\$ 0.88</u> | <u>\$ 0.87</u> | <u>\$ 1.65</u> | <u>\$ 1.63</u> |
| Weighted-average number of common shares: | | | | |
| Basic | 3,891 | 3,945 | 3,905 | 3,951 |
| Diluted | 3,900 | 3,958 | 3,915 | 3,962 |
| Dividends declared per common share | \$ — | \$ — | \$ 1.09 | \$ 0.95 |

Wal-Mart Stores, Inc.
Condensed Consolidated Balance Sheets
(Unaudited)
(Amounts in millions)

SUBJECT TO RECLASSIFICATION

| | July 31, | | January 31, |
|--|------------------|------------------|------------------|
| | <u>2009</u> | <u>2008</u> | <u>2009</u> |
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 7,997 | \$ 6,903 | \$ 7,275 |
| Receivables | 3,684 | 3,221 | 3,905 |
| Inventories | 33,861 | 35,365 | 34,511 |
| Prepaid expenses and other | 3,336 | 3,311 | 3,063 |
| Current assets of discontinued operations | <u>147</u> | <u>974</u> | <u>195</u> |
| Total current assets | 49,025 | 49,774 | 48,949 |
| Property and equipment, at cost: | | | |
| Property and equipment, at cost | 133,070 | 126,289 | 125,820 |
| Less accumulated depreciation | <u>(35,707)</u> | <u>(31,335)</u> | <u>(32,964)</u> |
| Property and equipment, net | 97,363 | 94,954 | 92,856 |
| Property under capital lease: | | | |
| Property under capital lease | 5,583 | 5,740 | 5,341 |
| Less accumulated amortization | <u>(2,759)</u> | <u>(2,645)</u> | <u>(2,544)</u> |
| Property under capital lease, net | 2,824 | 3,095 | 2,797 |
| Goodwill | 16,149 | 16,400 | 15,260 |
| Other assets and deferred charges | 3,581 | 2,672 | 3,567 |
| Total assets | \$168,942 | \$166,895 | \$163,429 |
| LIABILITIES AND EQUITY | | | |
| Current liabilities: | | | |
| Commercial paper | \$ 1,122 | \$ 4,347 | \$ 1,506 |
| Accounts payable | 28,797 | 29,912 | 28,849 |
| Dividends payable | 2,073 | 1,927 | — |
| Accrued liabilities | 16,706 | 15,607 | 18,112 |
| Accrued income taxes | 1,162 | 555 | 677 |
| Long-term debt due within one year | 6,959 | 2,180 | 5,848 |
| Obligations under capital leases due within one year | 336 | 324 | 315 |
| Current liabilities of discontinued operations | <u>41</u> | <u>77</u> | <u>83</u> |
| Total current liabilities | 57,196 | 54,929 | 55,390 |
| Long-term debt | 33,579 | 34,168 | 31,349 |
| Long-term obligations under capital leases | 3,246 | 3,544 | 3,200 |
| Deferred income taxes and other | 5,773 | 5,386 | 6,014 |
| Redeemable noncontrolling interest | 326 | — | 397 |
| Commitments and contingencies | | | |
| Equity: | | | |
| Common stock and capital in excess of par value | 4,173 | 3,986 | 4,313 |
| Retained earnings | 63,153 | 57,883 | 63,660 |
| Accumulated other comprehensive (loss) income | <u>(318)</u> | <u>4,924</u> | <u>(2,688)</u> |
| Total Walmart shareholders' equity | 67,008 | 66,793 | 65,285 |
| Noncontrolling interest | 1,814 | 2,075 | 1,794 |
| Total equity | 68,822 | 68,868 | 67,079 |
| Total liabilities and equity | \$168,942 | \$166,895 | \$163,429 |

Wal-Mart Stores, Inc.
Condensed Consolidated Statements of Cash Flows
(Unaudited)
(Amounts in millions)

SUBJECT TO RECLASSIFICATION

| | Six Months Ended July 31, | |
|--|------------------------------|-----------------|
| | <u>2009</u> | <u>2008</u> |
| Cash flows from operating activities: | | |
| Consolidated net income | \$ 6,688 | \$ 6,723 |
| Loss (gain) from discontinued operations, net of tax | 15 | (41) |
| Income from continuing operations | 6,703 | 6,682 |
| Adjustments to reconcile income from continuing operations to net cash provided by operating activities: | | |
| Depreciation and amortization | 3,457 | 3,366 |
| Other | (246) | 219 |
| Changes in certain assets and liabilities, net of effects of acquisitions: | | |
| Decrease in accounts receivable | 575 | 578 |
| Decrease in inventories | 1,394 | 95 |
| Decrease in accounts payable | (1,131) | (150) |
| Decrease in accrued liabilities | (857) | (626) |
| Net cash provided by operating activities | 9,895 | 10,164 |
| Cash flows from investing activities: | | |
| Payments for property and equipment | (5,744) | (5,074) |
| Proceeds from disposal of property and equipment | 172 | 492 |
| Investment in international operations, net of cash acquired | — | (74) |
| Other investing activities | (176) | 129 |
| Net cash used in investing activities | (5,748) | (4,527) |
| Cash flows from financing activities: | | |
| Decrease in commercial paper, net | (654) | (639) |
| Proceeds from issuance of long-term debt | 2,956 | 4,648 |
| Payment of long-term debt | (95) | (4,061) |
| Dividends paid | (2,129) | (1,878) |
| Purchase of Company stock | (2,792) | (2,184) |
| Purchase of redeemable noncontrolling interest | (456) | — |
| Other financing activities | (264) | (266) |
| Net cash used in financing activities | (3,434) | (4,380) |
| Effect of exchange rates on cash | 9 | 115 |
| Net increase in cash and cash equivalents | 722 | 1,372 |
| Cash and cash equivalents at beginning of year (1) | 7,275 | 5,569 |
| Cash and cash equivalents at end of period (2) | <u>\$ 7,997</u> | <u>\$ 6,941</u> |

(1) Includes cash and cash equivalents of discontinued operations of \$77 million at January 31, 2008.

(2) Includes cash and cash equivalents of discontinued operations of \$38 million at July 31, 2008.

Free Cash Flow

We define free cash flow as net cash provided by operating activities in a period minus payments for property and equipment made in that period. We generated positive free cash flow of \$4.2 billion and \$5.1 billion for the six months ended July 31, 2009 and 2008, respectively.

Free cash flow is considered a non-GAAP financial measure under the SEC's rules. Management believes, however, that free cash flow is an important financial measure for use in evaluating the Company's financial performance, which measures our ability to generate additional cash from our business operations. Free cash flow should be considered in addition to, rather than as a substitute for, income from continuing operations as a measure of our performance and net cash provided by operating activities as a measure of our liquidity.

Additionally, our definition of free cash flow is limited, in that it does not represent residual cash flows available for discretionary expenditures due to the fact that the measure does not deduct the payments required for debt service and other contractual obligations or payments made for business acquisitions. Therefore, we believe it is important to view free cash flow as a measure that provides supplemental information to our entire statement of cash flows.

Although other companies report their free cash flow, numerous methods may exist for calculating a company's free cash flow. As a result, the method used by our management to calculate free cash flow may differ from the methods other companies use to calculate their free cash flow. We urge you to understand the methods used by another company to calculate its free cash flow before comparing our free cash flow to that of such other company.

The following table reconciles net cash provided by operating activities, a GAAP measure, to free cash flow, a non-GAAP measure.

| <i>(Amounts in millions)</i> | Six Months Ended | |
|---|----------------------|----------------------|
| | <u>July 31, 2009</u> | <u>July 31, 2008</u> |
| Net cash provided by operating activities | \$ 9,895 | \$ 10,164 |
| Payments for property and equipment | (5,744) | (5,074) |
| Free cash flow | <u>\$ 4,151</u> | <u>\$ 5,090</u> |
| Net cash used in investing activities | \$ (5,748) | \$ (4,527) |
| Net cash used in financing activities | \$ (3,434) | \$ (4,380) |