Operator

Welcome to the Wal-Mart Earnings Call for the Second Quarter of Fiscal Year 2013. The date of this call is August 16, 2012. This call is the property of Wal-Mart Stores Inc. and is intended for the use of Walmart shareholders and the investment community. It should not be reproduced in any way. [Operator Instructions] 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 that are 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 anticipate, are increasing, assumption, based on, estimate, expect, expects, expected, forecast, forecasting, forecasts, goal, goals, guidance, is expected, may be impacted, may see, plan, priority, prioritized, projected, scheduled, will continue, we're going to begin, will add, will begin, will continue, will grow, will have, will help, will increase, will likely continue, will open, will provide for, will result, will see and will spend and/or a variation of one of those words or phrases in those statements or by the use of words and phrases of similar import. Similarly, descriptions of Walmart's objectives, plans, goals, targets or expectations are forward-looking statements.

The forward-looking statements made in this call discuss, among other matters, management's forecasts of Walmart's diluted earnings per share from continuing operations attributable to Walmart for the fiscal year ending January 31, 2013, and for the 3 months ending October 31, 2012, and the assumptions and types of assumptions underlying such forecasts and the comparable store sales of Walmart's Walmart U.S. operating segment and the comparable club sales, without fuel, of Walmart's Sam's Club operating segment for the 13-week period from July 28, 2012, through October 26, 2012.

The forward-looking statements include statements discussing management's expectations regarding Walmart's consolidated capital expenditures during fiscal year 2013; Walmart's forecast for its effective income tax rate for the fiscal year 2013; the possible fluctuation of such rate from period to period and a description of the factors that may affect that rate; Walmart's forecast for its consolidated net sales growth in fiscal year 2013 over fiscal year 2012; consolidated net sales; Walmart's forecast for the increase in consolidated square footage in fiscal year 2013; Walmart's goal for reducing consolidated SG&A expenses as a percentage of consolidated net sales over 5 years; and Walmart's goals of its Walmart U.S. operating segment continuing its momentum, of its Sam's Club operating segment to continue its success for the last several quarters, for its Walmart International operating segment improve profits and returns in its Brazilian and Chinese operations and for Walmart to expand its capabilities and increase sales in its global eCommerce business.

Such forward-looking statements also include statements regarding management's goals of achieving profitability and returns that are more balanced and of having a deeper relationship with Walmart's customers to drive greater loyalty in eCommerce being a part of that strategy; the corporate goal of growing inventory at or less than the rate of net sales growth; and management's expectations that strengthening the company's capital efficiency model will increase the success rate of new stores and provide stronger comparable store sales; regarding the addition of a significant number of units in the United States during the remainder of fiscal year 2013; that gross margins will continue to decline slightly as Walmart invests in price; regarding continuing the incurrence of expenses for third-party advisors reviewing certain matters relating to the Foreign Corrupt Practices Act during the third and fourth quarters of fiscal year 2013 and the expected amount of those expenses; and that the company will continue to deliver solid financial performance and value to Walmart shareholders for years to come.

The forward-looking statements discuss management's plans and expectations that the Walmart U.S. operating segment will continue to lead on price throughout the back-to-school season and into the second half of fiscal year 2013; the segment's gross margin rate will continue to decrease from its fiscal year 2012 gross margin rate as the segment executes its strategic price investment; the segment's inventory position will help drive sales in the second half of fiscal 2013; the segment will continue to actively manage through transitions of brand drugs to generic drugs and deliver additional value to customers; the segment will continue to expand the Walmart Express test format, begin defining its distribution and operation strategy for that format and open multiple Express stores in a single market; the segment will open a projected number of new stores of various formats in the third quarter of fiscal 2013 within a particular range; the segment will open a certain number of small format stores in fiscal year 2013; and the segment will continue to leverage expenses and invest the money saved in price to fuel the productivity loop.

The forward-looking statements discuss management's plans and expectations with respect to Walmart's Walmart International operating segment, including the segment's priority of driving the EDLP-EDLC business philosophy into the segment's markets and its goals of driving growth and improving returns; and management's expectations for the earnings growth of Walmart's Massmart subsidiary for the 12 months ended June 2012; for the segment's United Kingdom, Mexican and Canadian markets continuing to provide a solid foundation for the growth of revenue and profit for the remainder of fiscal year 2013; for improvements in service and productivity in Mexico resulting from implementation of associate scheduling processes; regarding Walmart de Mexico's addition of certain amounts, certain square footage and capital expenditures for fiscal 2013; that as a result of the delay of Walmex store openings, the segment's annual square footage growth will decrease, but the capital expenditures will be made ahead of store openings; the segment's Brazilian operations will continue to demonstrate price leadership on a broad basket of goods; that the growth of square footage in the Brazilian operations will decrease from the original plan; that the segment will open fewer stores, and will grow square footage by certain amounts in China in fiscal year 2013; and for the total growth in square footage for the segment and for the capital expenditures of the segment in fiscal year 2013.

The forward-looking statements also discuss management's expectations for Walmart's Sam's Club operating segment; that the trend of increased certain prescription drug sales will continue for the segment; that inflation will have a lesser effect on revenues in future periods; and regarding the number of new clubs that the segment will open in the third quarter of fiscal year 2013. The forward-looking statements also discuss other goals and objectives of Walmart and the anticipation and expectations of Walmart and its management as to other future occurrences, trends and results.

All of these forward-looking statements are subject to risks, uncertainties and other factors, domestically and internationally, including: general economic conditions; economic conditions affecting specific markets in which we operate; competitive pressures; inflation and deflation; consumer confidence; disposable income; credit availability; spending patterns and debt levels; the seasonality of Walmart's business and seasonal buying patterns in the United States and other markets; geopolitical conditions and events; weather conditions and events and their effects; catastrophic events and natural disasters and their effects on Walmart's business; public health emergencies; civil unrest and disturbances and terrorist attacks; commodity prices; the cost of goods Walmart sells; transportation cost; the cost of diesel fuel, gasoline, natural gas and electricity; the selling prices of gasoline; disruption of Walmart supply chain including transport of goods from foreign suppliers; information security costs; trade restrictions; changes in tariff and freight rates; labor costs; the availability of qualified labor pools in Walmart's markets; changes in employment laws and regulations; the cost of health care and other benefits; casualty and other insurance costs; accident-related costs; the cost of construction materials; the availability of acceptable building sites for new stores, clubs and facilities; zoning, land use and other regulatory restrictions; adoption of or changes in tax and other laws and regulations that affect Walmart's business, including changes in corporate tax rates; developments in and the outcome of legal and regulatory proceedings to which Walmart is a party or a subject; currency exchange rate fluctuations; changes in market interest rates; conditions and events affecting domestic and global financial and capital markets; the unanticipated need to change Walmart's objectives and plans and other risks.

Walmart discusses certain of these matters more fully in its filings with the SEC, including its 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 of Walmart's other filings made with the SEC through the date of this call, including its Quarterly Reports on Form 10-Q and Current Reports on Form 8-K.

We urge you to consider all of these risks, uncertainties and other factors carefully in evaluating the forward-looking statements made in this call. Because of these factors, changes in facts, assumptions not being realized or other circumstances, Walmart's 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 Walmart undertakes no obligation to update these forward-looking statements to reflect subsequent events or circumstances.

The comparable store sales for our total U.S. operations and comparable club sales for our Sam's Club segment and certain other financial measures relating to our Sam's Club segment discussed on this call exclude the impact of fuel sales of our Sam's Club segment. Those measures, as well as our return on investment, free cash flow and amounts stated on a constant currency basis, which are also adjusted to exclude the effect of acquisitions as discussed in this call, may be considered non-GAAP financial measures. Reconciliations of certain non-GAAP financial measures to the most directly comparable GAAP measures are available for review on the Investor Relations portion of our corporate website at www.walmartstores.com/investors and in the information included in our Current Report on Form 8-K that we furnished to the SEC on August 16, 2012.

Carol Schumacher

Hello. This Carol Schumacher, Vice President of Investor Relations for Wal-Mart Stores, Inc. Thanks for joining us today for our earnings call to review the second quarter of fiscal 2013. All information for this quarter, including our unit counts, square footage and financial metrics, is available on our website, and that's walmartstores.com/investors.

Please note that while we update unit counts on a monthly basis on our website, in the earnings discussion today, unit counts and square footage are referred to as of the quarter end. Our press release is available on the website, and a full transcript of this call has already been posted there.

Here's the agenda for today's call. Mike Duke, President and CEO of Wal-Mart Stores, Inc., will open the call with his thoughts about the quarter as well as highlights of our key results. Jeff Davis, SVP of Finance and Treasurer, will cover the consolidated financial details. Then we'll kick off the operations portion with Bill Simon, President and CEO of Walmart U.S. Next will be Doug McMillon, President and CEO of Walmart International. And Rosalind Brewer, President and CEO of Sam's Club, will round out that portion. Charles Holley, our CFO, will wrap up the call with an analysis of our financial priorities as well as EPS guidance for the third quarter and the full year.

A few reminders before we get into the details. Walmart's consolidated financial statements are based on a fiscal year ending January 31 for both our U.S. and Canadian operations and December 31 for all other operations. We provide comparable sales guidance for Walmart U.S. and Sam's Club on the 4-5-4 calendar each quarter for the upcoming quarter. We do not give any annual comp guidance for the U.S. operations.

We refer to the impact of changes in currency exchange rates throughout this call. As you know, for financial reporting purposes, each period, we convert the balance sheets and operating results from the local country currency to the U.S. dollar. The increase or decrease in the company's results as a result of changes in these currency exchange rates from one year to the next is what we refer to as the impact of currency exchange rates. We calculate the effect of such changes as the difference between current period activities translated using the current period's currency exchange rates and translated using the comparable prior year period's rates. We also exclude the impact of acquisitions until those acquisitions are included in both comparable periods. This methodology is what we use to calculate measures on a "constant currency" basis. There is additional disclosure in today's press release on the impact of currency exchange rate fluctuations to our business.

When we use the term gross profit, we're referring to actual dollars. Gross profit as a percentage of net sales, or gross profit rate refers to the percentage obtained by dividing gross profit by sales dollars. All comparisons are calculated as the change between the current quarter and the prior year quarter unless stated otherwise.

Consistent with our forward-looking statement at the beginning of today's call, we discuss our existing Foreign Corrupt Practices Act investigation and related matters in the filed portion of our May 17, 2012, Form 8-K as well as in our Form 10-Q that was filed on June 1, 2012. Please refer to that disclosure on our website for information concerning these FCPA matters. The investigation remains ongoing, and it would be inappropriate to comment further on specific allegations and for us or others to come to specific conclusions until the investigation is finished.

As a reminder, our annual meeting for the investment community is Wednesday, October 10 in Bentonville, Arkansas. The meeting will begin early in the morning that day. And as always, we will video webcast the presentations, and they'll be archived on the Investor portion of our website.

During the past year, we've been working very hard to enhance our corporate website, and the new site will be live next week. You'll find the Investors tab at the new site located at www.corporate.walmart.com, and you'll be redirected if you go to our current website to the new location.

One last item. We launched the Walmart Investor Relations app in April, which has a great deal of information for our shareholders. The latest update of the app will be available the last week of August. You can download it really easily for both iOS and Android devices.

That's it for the announcements. So let's get started, Mike, with our results.

Michael Terry Duke

Thanks, Carol, and good morning, everyone. Walmart had a strong second quarter, and I'm pleased with the earnings and overall results our company delivered. Our more than 2 million associates around the world did a fantastic job of serving our customers, and they really appreciate that we help our customers save money so that they can live better.

Walmart reported second quarter diluted earnings per share of $1.18 at the top of our guidance of $1.13 to $1.18. This represents an 8.3% increase from last year's second quarter EPS of $1.09.

Let's cover some of the highlights from the second quarter. Walmart U.S. continued its momentum this quarter with comp sales growth of 2.2%. Ticket and traffic were positive, and operating income grew faster than sales. Our Walmart U.S. business now has delivered positive comp sales for 4 consecutive quarters.

I'm really proud of International's underlying performance. All countries delivered positive comp sales for the quarter. On a constant currency basis, sales would have grown 7.2%, and operating income would have been up 11.9%.

Sam's Club continues to provide value to its members by delivering consistently strong results driven by positive traffic and ticket due to quality merchandise. Comp sales without fuel increased 4.2%, and operating income grew more than twice the rate of sales. We reported consolidated net sales of $113.5 billion, up 4.5%. Currency negatively impacted net sales by approximately $2.2 billion, and without that impact, net sales would have been $115.7 billion.

It should be no surprise to hear me say that our company leveraged operating expenses again this quarter. Our intense focus on delivering productivity and reducing cost allows us to invest in lower prices for our customers and to deliver strong profitability for our shareholders. Consolidated operating income was $6.7 billion this quarter, up 4.9% from last year. We achieved our goal of growing profits faster than sales.

I'm really pleased with the continued momentum we see in our Walmart U.S. stores, and this now marks 3 consecutive quarters of positive comp traffic and 4 quarters of positive comp sales. There's such a clear focus among the leadership team to drive the strategy of broad assortment and price leadership. We continue to win back customers and attract new ones. We will not let up on our passion to reduce operating expenses so that we can invest in lower prices. This is the promise our customers expect from Walmart and what drives greater loyalty.

We are also pleased with the sales and profitability for Walmart International. Our goal is to achieve profitability and returns that are more balanced, and to do that, we must improve operational and sales productivity in some of our emerging markets. EDLP drives customer loyalty and helps reduce cost. Our full transition to EDLP is underway, and this remains central to long-term growth for International.

We are moderating our strategic investment in new stores in 3 emerging markets as we focus our leadership teams on improving comp sales in existing stores. International remains our growth engine but at a slightly slower pace, and you will hear more from Doug on the details.

We are strengthening our capital efficiency model to improve site approval, design and the review process for new stores in all operating segments. We believe this will increase the success rate of our new stores and provide for stronger comp sales in the future. Across all operating segments, we also are reducing construction cost to deliver more productive stores.

Now I love visiting Sam's Club. The quality and innovation in merchandising and services are contributing to strong comp sales with increases in traffic and ticket. On a 2-year stacked basis, Sam's continues to drive fantastic comp sales while improving quality. The result of Sam's initiatives is greater value, which helps attract new members and strong renewals.

We've been focused on stepping up the intensity of our Global eCommerce opportunity. Recruiting talent is easier now that we're gaining more respect in Silicon Valley for the innovative work that we're doing. The technology community sees our potential for the next generation of eCommerce, and there is a great deal of excitement about working for Walmart. Our goal is to have a deeper relationship with our customers to drive greater loyalty, and eCommerce is key to that strategy. We're also constantly driving innovation. We're building a new global platform to take our assortment and services to every one of our markets simultaneously.

As you know, we previously took a minority position in Yihaodian, a fast-growing eCommerce business in China. We're pleased that this week, our potential increased investment in Yihaodian received conditional approval by the antitrust regulatory authority in China. We still have a few important steps before the agreement is completed, but we're encouraged by the progress and pleased with the response from the government.

On July 2, we marked the 50th anniversary of our company, and we're pleased that our mission to save people money so that they can live better continues to drive us. The Walmart Every Day Low Price model is as relevant today as it was in 1962. For today's customers, the paycheck cycle remains pronounced in the United States and in our international markets. Given the continuing economic pressures, we believe that our price leadership and value are growing in importance to customers across income levels.

Before I close, I'm going to share some comments about our associates and the strength of the morale around the Walmart world. During the second quarter, I visited stores in Chicago, Texas, the Pacific Northwest, also the U.K. I am inspired by our associates and the conditions of our stores. They are happy to work for Walmart and to serve our customers.

As we continue to deliver greater results, we appreciate that Walmart customers and shareholders recognize the consistency of our results, the strategic steps we're taking to improve our business and the value of the investments we're making for the future. I believe that Walmart remains the healthiest and the best-positioned retailer for delivering growth, leverage and returns.

Now I'll turn it over to Jeff for the financial details. Jeff?

Jeffery Davis

Thank you, Mike. For the second quarter of fiscal 2013, Walmart reported diluted earnings per share from continuing operations of $1.18, which compares to $1.09 last year. Recall last year, we had $115 million of pretax items that increased operating expenses and $17 million of pretax items that reduced gross profit. The sum of these pretax items negatively impacted EPS from continuing operations by approximately $0.03.

Now let's get to our results for the second quarter. Net sales increased 4.5% or $4.9 billion to $113.5 billion for the quarter. The increase included $1.9 billion of net sales from acquisitions, offset by a negative impact from currency exchange rate fluctuations of approximately $2.2 billion. On a constant currency basis, net sales would have increased 4.7% to $113.8 billion.

As you can see, our company is not unlike many other global companies that were impacted by the strengthening of the U.S. dollar versus other foreign currencies. The U.S. dollar strengthened approximately 6% against our non-U.S. market currencies, with the greatest impact coming from Mexico and Brazil. As a result, net sales were negatively impacted by approximately $3 billion year-to-date.

Moving to our comp sales. Total U.S. comps without fuel increased 2.5% for the 13-week period ended July 27. Bill and Roz will provide more details on the strength of our comp sales for Walmart U.S. and Sam's Club.

Membership and other income grew 4.7% compared to the second quarter of last year. Therefore, we closed the quarter with total revenue of $114.3 billion, up 4.5% from $109.4 billion last year.

Gross profit increased 3.8%, which corresponds to an 18-basis-point reduction in gross margin compared to last year. This is primarily due to price investments in Walmart U.S. and key international markets.

Our company continues to drive operating expense leverage. Operating expenses as a percentage of sales decreased approximately 20 basis points to 19.3% from 19.5% last year. Not only did the company leverage on a reported basis, we also leveraged expenses without the $115 million of pretax expenses realized last year.

Other unallocated expenses grew 14.4%. As a reminder, the components of other unallocated includes 3 areas: core corporate, Global eCommerce and global leverage services. Recall for comparability, last year in the second quarter, we had a $49 million loss on mark-to-market foreign currency derivative positions. Without this item, other unallocated increased 26.7%.

So let me provide additional detail on this increase. Within core corporate, we incurred approximately $34 million in expenses related to third-party advisors reviewing matters involving the Foreign Corrupt Practices Act, and we expect these expenses to continue through the rest of the year. Excluding the expenses related to the FCPA, core corporate rose 13.2%, primarily due to higher incentive accruals resulting from better operating performance. You heard an update from Mike earlier on Global eCommerce activities, and we will continue to make ongoing investments in this important growth area moving forward.

As you know, one of our key financial metrics is to grow operating income faster than sales growth. Second quarter consolidated operating income grew 4.9% to $6.7 billion, which was faster than the rate of growth for sales. On a constant currency basis, operating income grew 6.4% compared to 4.7% for net sales. However, on a constant currency basis and giving effect to the $132 million prior year pretax items, consolidated operating income increased modestly, slower than sales at 4.3%. Net interest expense was $505 million, which was 12.6% lower than last year, primarily due to lower interest accruals on tax-related matters and reduced debt levels.

Debt to total capitalization declined to 43.7% at the end of the quarter compared to 45.7% last year. Our improvement was driven by strong earnings performance, which also allowed us to reduce our outstanding debt balance.

The effective tax rate for the second quarter of fiscal year 2013 was 32.8%, and we expect the effective tax rate for fiscal 2013 to be at the lower end of the previous guidance of 32.5% to 33.5%. You may see quarterly fluctuations in our effective tax rate that may be impacted by a number of factors, including changes in our assessment of certain tax contingencies, valuation allowances, tax law changes, audit results, discrete items and the mix of earnings among our U.S. and International operations. This leads us to income from continuing operations attributable to Walmart of $4 billion, an increase of 5.7% from last year's second quarter of $3.8 billion.

During the quarter, we paid out $1.3 billion in dividends and returned $1.8 billion to shareholders through share repurchases. Since our Board of Directors approved the $15 billion share repurchase authorization in June

2011, the company retired $7.1 billion, leaving $7.9 billion for additional share repurchase.

Free cash flow was $6.1 billion for the 6 months ended July 31, 2012, a 50% increase compared to $4 billion last year. The change was driven by the improvement in net inventory investment, changes in our 401(k) plan which affected the timing of accrued liabilities and improved operating results.

Consolidated inventory grew 4.4% compared to last year, in line with our net sales increase of 4.5%. Recall that our corporate goal is to grow inventory at or less than the rate of sales. We are proud that we are making progress on this important goal, and this is an improvement in our previous trends. Payables as a percentage of inventory were 89%, which is in line with the 90% we reported this time last year.

Return on investment for the trailing 12 months ended July 31, 2012, was 18.1% compared to 18.4% for the previous year. Increased levels of average working capital, capital expenditures and acquisitions affected ROI.

Capital expenditures were $3.1 billion in the second quarter. During the quarter, we added a total of 6 million square feet through 120 net new expanded and relocated units.

You will hear more from Doug on the changes in our capital plans for International, and Charles will update the total company forecast. Now let's turn it over to our operating segments. We'll start with Walmart U.S. Bill?

William S. Simon

Thank you, Jeff. I'm very pleased to report today that Walmart U.S. had another strong quarter. We delivered positive comps and continued to grow sales. We leveraged expenses and contributed very strong profits to the company by growing operating income faster than sales.

Now let's get into the specifics. Walmart U.S. generated a 2.2% sales comp, above the midpoint of our guidance of 1% to 3%. The momentum was continued throughout the quarter. In fact, July was one of our strongest months this year, delivering positive comps on top of positive comps last year.

I'm particularly energized by these results and proud of this performance. It highlights the effectiveness of our strategy, which enables us to consistently deliver results for our customers and for our shareholders. We're focused and aligned, driving the productivity loop throughout our business. In the second quarter, we again leveraged expenses across our operation, invested in price and helped our customers save.

Customers are responding to our continued focus on providing the right assortment at Every Day Low Prices. During the quarter, our average comp traffic increase was equal to serving, on average, 80,000 additional customers every day of the 13-week period. These visits represented a 0.4% increase in comp traffic in addition to a 1.8% increase in ticket for the quarter. When I think about our comp in terms of pure customer numbers, it's pretty amazing. Sales growth in the quarter was well balanced, with positive comps across all 3 geographic business units and in all of our store formats.

Our 1.4 million associates did an outstanding job serving our customers, and I'm particularly pleased with the results we achieved during the key holiday events of Mother's Day, Father's Day and the Fourth of July. Despite a midweek holiday, July 4 sales, especially in key categories like food, significantly exceeded our expectations.

As you know, price leadership is at the center of our strategy. Our marketing team is focused on ensuring the price message resonates with our customers and sets us apart from the competition. You've likely seen a few of our market basket challenge commercials. These ads are tailored for individual markets, but the message is always the same: Walmart wins on the overall basket of items.

The TV spots are currently running in key markets and clearly show the price separation Walmart offers with competitors in grocery and drug. For those of you who haven't seen one of our commercials, I encourage you to visit the Investor portion of our company's website to see one.

Customers are responding favorably to the message, which is running in 25 metro markets. We're proud that we do so well competitively on the basket challenges. Keep in mind, these are actual baskets the customer has purchased, not just a key item comparison. We're also pleased with the sales and traffic results versus the control markets. Our customers appreciate value, especially in uncertain economic times. We'll continue to lead on price through the back-to-school season and into the second half of the year.

Now I'd like to discuss the details of our second quarter performance. Net sales were $67.4 billion, an increase of 3.8% over last year. Adding an additional $2.5 billion in sales on top of a nearly $65 billion base is no small feat, yet our teams continue to do it quarter after quarter by simply focusing on serving our customers.

Gross profit dollars were up 3% year-over-year to $18.6 billion. Similar to last quarter, the gross profit rate was down 20 basis points from last year.

As we noted last quarter, you'll continue to see a decrease in our gross margin rate versus last year as we execute our strategic price investment.

As you may know, in addition to their regular pay, we offer hourly associates a quarterly bonus. Our operating performance continues to result in historically high field incentives. For the second consecutive quarter, more than 80% of our eligible hourly associates will benefit from that near-record incentive payout. We're pleased to share this success with our associates and know they appreciate the immediacy of the payout.

Overall operating expenses were up 2.5% in the second quarter to $13.6 billion, well below our sales growth. Even with the impact of these higher field incentive payouts, we leveraged operating expenses by 27 basis points this quarter.

Operating income grew faster than sales, rising 5.3% over last year to almost $5.3 billion. We continue to increase efficiency throughout the business and drive additional dollars to the bottom line.

Our inventory was up 3.6% versus last year, which was slightly below the rate of sales growth for the second quarter. We're refining our local assortment while focusing on back-to-school and the holiday season. We're excited about our plans, and we feel our inventory position will help us drive sales in the back half of the year.

Most of our merchandising areas again delivered solid performance, though industry trends in electronics continue to impact the broader entertainment category. We're seeing market share growth across grocery and health and wellness. You can expect to hear more about market share and how we're using Nielsen data during our annual analyst meeting in October.

Grocery, which includes food and consumables, delivered a low single-digit positive comp for the quarter. Our focus on winning key seasonal events paid off as we saw very strong food sales around Fourth of July holiday.

Another big success this quarter has been our USDA Choice steak program. The program has helped drive sales to the entire meat department, which outperformed the overall food business by approximately 300 basis points in the second quarter. The unmatched combination of quality and value has resonated with a large number of our customers, including many who had not previously shopped our meat department.

In consumables, sales remain strong as our continued focus on price and assortment drove positive traffic. For the third consecutive quarter, all departments reported positive comps as customers responded favorably to product innovation and value-driven pricing. Our health and wellness business also performed well, delivering a low single-digit positive comp.

In OTC, our broadened assortment, particularly our focus on opening price point, resonated well with customers and drove growth through the quarter. As expected, our prescription business experienced an increase in brand-to-generic conversion as drugs such as Plavix and Lipitor were affected by new generic offerings. While this has had an impact on top line sales, we benefited in profitability. More importantly, these generic drugs provide an opportunity to help our customers live better by lowering the cost of their prescriptions. As generic conversions accelerate in the third and fourth quarters, we'll continue to actively manage through the transitions and deliver additional value for our customers.

At walmart.com, our team is committed to making it easier for our pharmacy customers to shop. In conjunction with @WalmartLabs, we redesigned our pharmacy website and simplified the process of ordering prescriptions online. Since the relaunch in May, script comps have increased every month.

Hardlines continued its positive trend with a low single-digit positive comp. A stronger and broader assortment is driving sales across all categories, and we feel good about the balanced growth of this business. Stationery and crafts improved significantly this quarter, while sporting goods, automotive and hardware also performed well.

Within crafts, our reintroduction of fabrics resonated very well with our customers. We increased the assortment, doubled the footage of kids' crafts and added complementary merchandise. Our customers clearly noticed, and we achieved a double-digit comp in this area.

Our entertainment business had a low single-digit negative comp. While industry dynamics continue to pressure media and gaming, demand for tablets and tablet accessories remains strong. Customers continue to seek out the exclusive Walmart Straight Talk offering and our expanded assortment of smartphones. Straight Talk prepaid phones posted strong double-digit comp growth in the second quarter. We also introduced a solutions-focused merchandising approach that drove stronger printer and ink sales.

Home, including seasonal categories, had a low single-digit positive comp. Our continued focus on basics supported by strong item merchandising and a refined assortment drove strong performance in the quarter. Indoor living, led by cooking and dining, again performed well as most departments posted an increased comp versus the first quarter.

Back-to-school and back-to-college shopping is well underway. Our stores were ready to serve shoppers early in the season, and we're pleased with the results. Season-to-date, key back-to-school apparel categories are up 7%. Within home, we're seeing strong performance in college essentials, like bedding and bath.

We've stepped up our ability to serve students and teachers by integrating our stores with eCommerce. Classrooms by Walmart is a new online tool which digitized almost 55,000 school supply lists across the country. Walmart's the first major retailer to offer this feature, and it includes schools in all 50 states.

We're using other online tools to drive sales through walmart.com and in our nearly 4,000 stores. Our online integration offers fun and affordable options for college living by inspiring customers to build their own rooms. It's driving sales in furniture, storage and home, and is getting strong attention through Pinterest. Our closets for less tool helps families mix and match basic outfits and has driven increased interest in our apparel departments.

Speaking of apparel, our momentum continued in the second quarter. I'm proud of the work that the team has done, and I'm very happy to say that our focus on basics is working. For the quarter, we delivered low single-digit positive comp, our second consecutive quarter of positive comps. Our customers continue to turn to Walmart for their basics, a key element of our apparel strategy that is built around jeans, underwear, socks and tees. You see this executed in every store. In the second quarter, we had solid results in ladies' and men's department as well as positive comps in shoes, which benefited from the addition of new brands.

We're pleased with the balanced growth we're seeing across the box. Our focus on assortment and pricing is resonating well, and customers are shopping the entire store. Overall, both the grocery and general merchandise business performed well and had positive comps.

In the second quarter, we continue to see varying inflationary trends across the box. Within entertainment, deflation continues to impact sales growth in electronics. Total grocery inflation moderated slightly from what we reported in the first quarter. In categories with higher inflation, customers continue to trade down.

We are also monitoring key commodities in the severe drought across parts of the country to gauge potential impact on food prices throughout the remainder of the year. Walmart is well positioned to serve our customers in this challenging market environment.

We're gearing up for the second half of the year both online and in our stores. We also continue to grow through new stores. In the second quarter, we added 27 Supercenters, including new stores, expansions, relocations and conversions. As we continue to accelerate our small format program, we opened 17 new Neighborhood Markets this quarter, the most small format growth we had in a single quarter. So far this year, we've opened 24 of our projected 80 to 100 small formats this fiscal year.

Small formats continue to play a bigger part of our real estate strategy. Our Neighborhood Markets continue to provide strong performance with positive sales and traffic comps. We're excited about the strategic investments we're making in this format. Our first 2 California Neighborhood Markets opened this quarter and are exceeding expectations.

Our first Express stores have now been open for a year and are generating positive comp sales. We will continue to monitor and expand this test format. In the coming quarters, we're going to begin refining our distribution and operations strategy with the opening of multiple Express stores in a single markets.

During the third quarter, we expect to open between 95 and 100 total new units, which include both small formats and Supercenters, including new stores, expansions, relocations and conversions. You'll hear more about our future capital plans in October during our annual meeting for the investment community.

Within our distribution network, our logistics team again reduced cost per case shipped by 5.4% this quarter versus last year's second quarter, excluding the impact of fuel cost. We transported 65 million more cases and drove 5 million fewer miles, which lowered expenses and supported our sustainability initiatives. The logistics organization continues to be a key leverage driver for our business. Productivity improvements in this area of the business benefit both our gross profit rate and our expense leverage.

Our store operations team has implemented a number of changes to drive productivity and enhance our customers' experience. We're further leveraging automation, like our My Guide tool, which helps managers with everything from resource planning to on-shelf availability. These types of investments that scale over our nearly 4,000 stores improve our efficiency.

We're also excited about the return of our holiday layaway program, which will begin in the third quarter. Quite simply, this serves a key need for our customers, and we're happy to make it available again. We've put in a lot of hard work and are well prepared for the back half of the year.

From a comp perspective, let me remind you that last year's third quarter comp was positive 1.3%. We're forecasting comp sales for the 13-week period from July 28 through October 26, 2012, to increase between 1% and 3%.

I'm very pleased with our performance as we delivered strong, consistent results by executing our strategy. In the third quarter, we'll continue to leverage expenses and invest the savings in price to fuel the productivity loop. We'll continue to support our pricing message on TV and with other media. We have a powerful strategy, and our Walmart associates know how to drive results. I'm confident in our ability to deliver sustained strong financial performance.

Now I'll turn it over to Doug for the International update. Doug?

C. Douglas McMillon

Thank you, Bill. Walmart International continues to drive sales growth and profitability. Net sales for the second quarter grew 6.4%, and operating income grew a little slower on a reported basis at 5.4%. On a constant currency basis, sales would have grown 7.2%, and operating income would have been up 11.9%. Every market delivered positive comps, and I'm pleased that our largest markets, the U.K., Mexico and Canada, collectively delivered stable growth, solid margins and expense leverage despite challenging environments.

Let me take a moment to describe how we're driving growth in returns from the Walmart International perspective. As you know, we have a consistent purpose everywhere we operate: to save people money so they can live better. In addition to our purpose, our organizational culture is driving consistency. Our Walmart culture supports our expectations of the ways associates should behave in order to drive results.

More recently, we've worked to strengthen the consistency of our operating principles. These principles include executing EDLP and EDLC, being merchandise driven, uncovering even greater opportunities for leverage across our markets and leading on social and environmental issues. And it's no surprise that when we implement these principles consistently, we get results.

Driving our EDLP-EDLC business philosophy into our markets remained a key priority. Where we're doing it well, we're winning. For example, EDLP has progressed well in Brazil. And from a trend perspective, comp sales are better, and we leveraged operating expenses this quarter.

Regardless of the market, customers want great merchandise at great prices. When we deliver that combination, we increase sales. In our Builders Warehouse format in South Africa, we recently launched a Great Value battery. As you know, Great Value is an important Walmart brand, and this battery retails for 35% less than the average national brand, and sales are going well. When we do this item by item, category by category, we can consistently grow comp sales and fulfill our purpose.

In a business with the reach of Walmart, we can certainly leverage ideas and processes. We have teams with particular expertise on topics from managing inventory as it flows through a store to format development and from systems to training that can be perfected and exported to others. For example, the associate scheduling process refined in the U.S. is being implemented in some formats in Mexico, and this is expected to improve service and productivity in the future.

Leading on social and environmental issues is consistent with our purpose and a key operating principle. And when we can meet sustainability goals and save money, it's a winning combination. One of our largest operating costs is for energy. In markets like Mexico and Japan, energy costs continue to rise. Now in Mexico, one wind farm is supplying almost 60% of the energy needs of the 348 stores. Our annual energy costs are now $3 million less than last year. By buying power at a set rate, we lower energy costs and mitigate cost fluctuations. Our goals are simple: drive growth and improve returns. We're creative in our execution but completely focused on ensuring that our foundation to achieve these goals becomes even stronger.

Now let's get into more of the financial results. Please remember that in the following discussion, we use the term constant currency, as Carol specified earlier.

On a reported basis, International net sales were $32 billion, up 6.4%. Currency exchange rate fluctuations decreased sales by approximately $2.2 billion. Operating expenses were up 4.1%, and the segment leveraged operating expenses. Operating income was $1.5 billion, up 5.4%. Currency exchange rate fluctuations decreased operating income by $110 million.

On a constant currency basis, International's second quarter net sales would have been $32.3 billion, up 7.2%. Acquisitions generated $1.9 billion in sales. Our gross profit rate was flat with last year, and operating expenses grew slower than sales as the majority of our markets leveraged operating expenses for the quarter. Second quarter operating income was $1.6 billion, up 11.9% and growing faster than sales.

On a reported basis, inventory was up 4.6% against our sales growth of 6.4%, but we always take a closer look at inventory on a constant currency basis. We haven't let up on our goal to improve inventory management, and there remains room for further improvement. But I'm pleased to report progress. Constant currency inventory would have grown 12% over last year, an improvement since the fourth quarter of last year. I'm very pleased that inventory days on hand were well managed in the U.K., Canada and the Asia markets. In our Latin America markets, inventory days on hand are higher than we would like, but I'm pleased to see improving trends since the challenges we had coming out of the fourth quarter.

Now let's get into the results for several of our larger markets. The following discussion is on a constant currency basis. And unless otherwise stated, sales and comp sales are presented on an unadjusted nominal calendar basis.

Let's begin with EMEA, which stands for Europe, the Middle East and Africa and which also includes Canada. The U.K. had a strong second quarter, growing sales and growing operating income faster than sales, excluding fuel. Despite a difficult consumer environment and the wettest weather on record, ASDA gained market share in the second quarter according to the Kantar Worldwide Panel Total Till Roll for the 12 weeks ending July 8. Excluding fuel, net sales grew 3.2%. Comparable sales, excluding fuel, increased 0.7%, with ticket up 2.6%, and traffic decreasing 1.9%. The strongest performances were in grocery, apparel and electronics. In addition, our online business in U.K. improved its already strong performance with sales growth of 22.1% in the quarter.

ASDA's continued commitment to EDLP was recognized by The Grocer magazine in June. ASDA's been named Britain's lowest-priced supermarket for the 15th year running and Britain's favorite supermarket for the second year in a row. In addition, the ASDA Price Guarantee continues to build a loyal following. In Q2, it attracted an average of over 600,000 checks per week.

The U.K.'s gross profit rate has increased slightly from last year due to strong inventory control in nonfood merchandise. Second quarter expenses grew slower than sales as ASDA continues to develop sustainable efficiency savings through process improvements.

Moving to Canada. Walmart Canada had good sales growth, and operating income increased compared to last year's results. Net sales grew 3.8% in the second quarter compared to last year, and comparable sales in the second quarter increased 0.5%. Walmart Canada's average ticket increased 0.9%, with traffic declining 0.4%.

Walmart Canada had strong comp sales in food and consumables, health and wellness and home lines. Some of the seasonal business was pulled forward into the first quarter due to good weather, so apparel and home lines were below expectations in the second quarter. Gross profit rate increased slightly due to greater sales penetration in private label. Expenses grew faster than sales primarily due to investments in our more aggressive new store growth.

As we have announced, this year marks the largest expansion program in Walmart Canada's 18-year history, with 73 projects scheduled. We will open the first of our Zellers to Walmart conversions this month. This first converted store, located in Ontario, will be almost 70,000 square feet and will include dry grocery merchandise.

Turning to Africa. Massmart continues to deliver strong performance in Sub-Saharan Africa. As you know, Massmart is a publicly held company in South Africa with a June year end and announces results every 6 months. Massmart's next earnings release is scheduled for Wednesday, August 22. We reached the anniversary of our acquisition of Massmart, and in future quarters, we'll report comparable results of our performance in Sub-Saharan Africa as defined by Massmart's reporting schedule.

For the 12 months ended June 24, 2012, Massmart's total sales grew 15.5%, and comparable sales grew 9.6% versus the same period in 2011. Inflation was estimated at 1.8%. Massmart provided a pre-earnings release on August 7 and expects to grow net earnings by 36% to 44% for the 12 months ending June 2012.

We continue to be excited about the opportunities to share best practices and expertise with Massmart. We've worked with Massmart to implement unique Walmart-branded extended price cut promotions, which delivered significant savings to South African consumers. As part of these promotions, we partner with suppliers to improve lead times and forecasting, which is a driving factor behind our ability to provide lower prices.

Moving on to Latin America. The following summary includes the consolidated results of Mexico and Central America and is on a U.S. GAAP basis. Walmex separately reports its earnings under IFRS, so some numbers are different from Walmex reported numbers.

Walmex had solid consolidated sales growth, and operating income increased from last year. Walmex's consolidated net sales for the second quarter were up 10%. Mexico's net sales were up 10.5%, and comparable sales were up 3%. Average ticket in Mexico increased 4.1%, and customer traffic decreased 1.1% over last year.

Mexico's second quarter comp store sales for the self-service formats grew 2.7%, while ANTAD's comp store sales report for the rest of the industry, excluding Walmex, grew faster at 4.5%. As a reminder, ANTAD is the National Association of Supermarkets and Department Stores and provides industry data and market share analysis.

In Central America, overall sales increased 6.5%, and comp sales were up 0.4% on a constant currency basis. Second quarter consolidated gross profit rate for Walmex increased slightly from last year. Walmex leveraged consolidated operating expenses on store productivity initiatives, and operating income grew faster than sales.

Now let me cover our store growth plans in Mexico and Central America. In late June, Walmex announced a number of changes to its expansion program that will result in a delay of some stores by as much as 90 days. The revisions to the expansion program are partially due to additional steps Walmex is adding to its real estate process that extend the average time required to open a store. These steps include reinforcing documentation that supports real estate projects and enhancing processes with our business partners.

In addition, some stores that are scheduled to open in the latter half of December have been moved into January 2013 to allow our operations team to focus on the Christmas season. As a result of these changes, Walmex will add 5 million square feet and spend $1.3 billion in capital expenditures for fiscal 2013. By delaying our Walmex store openings, we have a decrease in our annual international square footage growth but will still spend the dollars in this year, ahead of the openings.

Moving on to Brazil. Brazil grew sales in the second quarter but had a slight operating loss for the quarter. As you know, Brazil began the EDLP journey last year, and we believe we're on our way to setting a stronger foundation and operating model in this important market.

Second quarter sales in Brazil grew 10.2% from last year, with comparable sales growing 5%. Average ticket grew 6.5%, and traffic declined 1.5% when compared to last year. The average ticket increase continues to be an encouraging sign that our customers see the value, and we will continue to demonstrate price leadership on a broad basket of goods.

Our suppliers and customers are benefiting from the simplification and efficiencies that EDLP brings to our retail business. We have not implemented EDLP in our wholesale formats yet, but that work is underway. Food and consumables in our retail formats were the first categories to have EDLP, because they drive customer loyalty.

Brazil leveraged operating expenses in the second quarter, growing them slower than sales. There's an ongoing focus on improving Brazil's operating income through expense management. Our in-country leadership continues to drive the productivity loop and invests the savings back into price to further drive sales growth. The sales growth and stability that they have already achieved from the adoption of EDLP have allowed them to focus on reducing operating costs. Brazil achieved cost reductions in areas including advertising, workforce management and freight optimization. And I'm pleased to tell you, Walmart Brazil ranked among the top 25 customer service excellence awards, a recognition given every year by Revista Exame, the most important business magazine in the country.

As we mentioned last quarter, we decided to slow down our new store growth in Brazil to ensure we are building a solid foundation to grow comp sales and to have EDLP in place. We made this decision last year, and so this year's growth has been slower than it would have been otherwise. Accordingly, we expect to decrease our square footage growth from our original plan.

Like Walmex and Massmart, Walmart Chile is also a publicly held company and will release second quarter earnings on August 30. For their previously announced first quarter results ending March 31, 2012, Chile grew first quarter 2012 sales 13.9%. First quarter operating income was lower than the prior year as prior year results were distinctively impacted by the gain on the sale of an investment.

Moving to Asia. Walmart China grew sales during the second quarter and slightly grew operating income versus a prior year loss. Net sales for the second quarter grew 10.9% over the last year, and the comparable store sales growth was 5%. Average ticket grew 10% in China, but traffic declined 5%. Second quarter gross profit rate was flat to last year. Operating expenses grew slower than sales.

Normally, at this time, I'd remind you that we're still working on closing the Trust-Mart acquisition. I'm pleased to say that during the second quarter, we completed the purchase of the remaining ownership in Trust-Mart and can now completely focus on running great stores in these locations.

In China, as with the rest of our markets, our customers want stores that are easy to shop, easy to get into and out of and are convenient for their lives. To improve our site selection and store design, we made a decision earlier this year to moderate our growth. In the past, we may have been too flexible and accepted stores that were located on too many levels or had difficult configurations. We now will open fewer stores this year than our original plan with only about half the new store square footage than we had forecast. We want all of our new stores in China to exceed customer expectations. Our locations in China are leased, so there is no significant change in capital dollars, only in square footage.

Turning to Japan. Japan's net sales, comparable sales and average ticket all grew in the second quarter in nominal terms, and Walmart Japan continues its market outperformance. Net sales grew 2%, with comp sales up 1.6%. Second quarter ticket grew 2%, and traffic was down 0.4%. According to statistics released by the Japanese Ministry of the Economy, Trade and Industry or METI, overall supermarket comparable sales for the second quarter declined by 1.9% from last year, indicating that Walmart Japan continues to outperform the market. Operating income increased from last year. Gross profit rate increased slightly, and Walmart Japan leveraged operating expenses from last year.

Across all markets, we continue to expand our store base to serve more customers, and it's important to do so in a disciplined and targeted way. As I mentioned, in certain markets, we're making separate and distinct actions to adjust our store growth in those markets.

Therefore, as a total division, we anticipate that the International square footage growth for FY '13 will be approximately 21 million to 23 million square feet and our CapEx dollars to be approximately $4.6 billion to $5 billion. Our previous forecast was 30 million to 33 million square feet and $5 billion to $5.5 billion. This forecast does not include future acquisitions, should we make any, but does include capital for Massmart growth. Let me remind you that our CapEx dollars do not decrease in direct correlation with the square footage due to the effect of leasing in China and the timing of construction costs incurred in Mexico.

Let me summarize the key takeaways for International. We have momentum in our business and are prioritizing improvement in Brazil and China to position them for success for many years to come. We're progressing on further implementation of EDLP and EDLC in several markets. We're investing in our infrastructure and driving stronger foundations to ensure we are best positioned for the future. And we're integrating sustainability and social programs to help our communities and benefit our business. As always, we remain focused on helping our customers save money so they can live better. We serve our customers with passion and with purpose, and we'll continue to do our very best to serve them well every day.

Now I'll turn it over to Roz for the update on Sam's. Roz?

Rosalind Gates Brewer

Thanks, Doug. Sam's Club had another very impressive quarter. We grew the top line, delivered positive comps and most important, grew operating income faster than sales. We continue to deliver steady traffic to the clubs. We believe that the improvements in our quality and overall merchandise offerings are key to driving these results. In fact, member engagement scores continue to achieve record levels. We're also investing in price to deliver greater value on top of these quality improvements.

Comp sales, without fuel, were up 4.2% for the 13-week period. Comp traffic and ticket for the 13-week period were up by 1.8% and 2.4%, respectively. This is on top of a 5% increase in the comparable period last year, indicating very strong member response to our business. Both Business and Advantage members helped drive increases in traffic and ticket.

Net sales, including fuel, were $14.2 billion, a 3.8% increase over last year's second quarter. Fuel prices in the second quarter were down 5.6% compared to last year, and gallons sold were up 3.9%, thus creating a drag on overall comp sales of 0.8%. Gross profit rate was up 23 basis points. Operating expenses as a percentage of net sales increased only 2 basis points, and operating income increased 10.1% to $535.8 million.

Although fuel is an important traffic driver for the clubs, volatility in fuel prices can have a notable impact on our financial results. Therefore, the remainder of our discussion today is focused on our core business and excludes fuel for comparative purposes, unless otherwise noted.

Net sales were $12.5 billion, up 4.6% from last year. All geographic regions posted good comp performance, but the north division led sales performance for the quarter. This is the result of an intense focus by our operations team on improving the member shopping experience in our clubs. Gross profit rate increased by 17 basis points compared to the second quarter last year, driven by changes in merchandising mix, while gross profit increased 5.9%.

Strategic initiatives to deliver greater value, as I mentioned earlier, led to consistent strong comp performance across the merchandise portfolio. We ran an extended eValues Savings Celebration this quarter in anticipation of the midweek July 4 celebration, which drove traffic into the clubs for the week.

As multiple retailers across various retail segments, including the club channel, invest in price, there has been greater pricing pressure in the marketplace. While this is good for members and customers, it does pressure margin. However, as members have noticed exciting merchandise offerings in higher margin categories, mix has favorably impacted our margin rate.

We have worked hard to balance our price investment with the impact of inflation. For the second quarter, Sam's retail inflation was between 175 and 225 basis points, primarily in food, versus 200 and 250 basis points in last year's second quarter. Cost inflation was slightly higher than retail inflation, putting pressure on margin. At the same time, deflation continued in certain categories, like dairy and electronics.

Like Bill, we're monitoring the potential impact of the drought in the Midwest and the pressure it is expected to have on both corn and soybeans. We will continue to evaluate how this will affect food prices as we go through the year.

Grocery, including fresh and consumables, remains key to driving traffic and attracting new members. It is a key differentiator for us in the marketplace, and as we continue to invest in price, it will remain so. We delivered high single-digit comps in grocery and mid-single-digit comps in both beverages and fresh freezer cooler despite deflation in dairy. Members continue to enjoy new products, including hybrids like pluots, a plum-apricot mix and new wine labels.

In our consumables business, where we continue to focus on price, we had solid increases in unit sales. Tabletop and personal paper categories had mid-single-digit increases. Our recent launch of the new Member's Mark paper plate is outselling comparable branded items and is creating additional margin that allows us to price more aggressively.

Tobacco sales, which remain important for our convenience store owners, were a drag on overall comp sales for the quarter, but that reduction helped drive a merchandising mix that was a positive to profit. Technology, entertainment and office achieved low single-digit comps. Performance was strong in portable electronics, including tablets but challenged by continued softness in video games, movies and books.

Focus on product quality and ensuring that we have the right brands at a great value have driven results in discretionary categories. We achieved high single-digit comps in both apparel and home, with brands like Carter for infants, Nautica for men and Lucky Brand Jeans among our new product offerings.

Health and wellness continues to be a key traffic driver as well and overall, delivered a mid-single-digit comp increase. Hearing Aid Centers achieved double-digit comps for the quarter. We had mid-single-digit comps in OTC and low single-digit comps in prescriptions. Like Walmart U.S., the recent availability of popular prescriptions that have moved from branded to generic status negatively impacted overall sales but drove profitability in unit volume. Rx script count was up mid-single digits, and we expect this trend to continue.

With an eye toward driving growth in eCommerce, we upgraded our checkout processes and enhanced the Click 'n' Pull experience. Our members continue to accelerate their adoption of mobile and tablet technologies as a means of accessing the Sam's Club brand anytime, anywhere. During the second quarter, we had triple-digit increases in daily uses of our mobile applications versus last year.

Membership and other income was up 4.6% versus last year. In other income, similar to the first quarter, we realized a financial benefit that is part of a profit sharing arrangement with our credit card provider. Last year, we recognized this benefit in full at year end. This year, however, we are recognizing this benefit each quarter.

Membership income for the second quarter increased 1.6% versus last year. Remember, for reporting purposes, membership income is recognized over the membership period rather than when it is collected. Renewal performance from primary members remained steady. However, primary new member sign-ups were lower as we anniversaried a special promotional offer from Q2 last year. Plus membership continues to grow versus last year, and we were pleased with the number of members who upgraded to the Plus membership level during our July eValues Savings Celebration. Business add-on memberships remained soft as we continue to see small businesses manage their budgets tightly. While our paid primary membership base is increasing year-over-year, we have an opportunity to accelerate that rate of growth.

Operating expenses as a percentage of net sales decreased by 5 basis points in the second quarter. Our clubs continued to manage expenses and leverage wages. Productivity initiatives are well underway to continue to improve leverage.

Through our upgraded scheduling system, we are focused on ensuring more associates are serving members during peak shopping periods. Our member engagement surveys continue to show that members are pleased with the manner in which associates are delivering value in the clubs, validating that we can be efficient without sacrificing service.

Units per labor hour were up 2.5% versus last year. The wage gains were partially offset by investments in other areas. One of those areas was marketing. Compared to last year, we have stepped up our marketing activities, and expenses are higher in this area. During the quarter, we began testing new ways to better engage prospective and existing members. For example, we're testing a new communication campaign that includes television, radio, billboard and digital media in certain metro markets. As you know, Sam's has not historically used TV advertising, so this is a more integrated and aggressive approach. Our tagline is: more in savings, more volume and more excitement.

We continue to innovate in our clubs with the expanded rollout of self-checkout and are on track to be in half of our clubs by the end of the third quarter. Clubs with self-checkout have higher member engagement scores around fast than those without self-checkout.

We are very pleased with our inventory sell-through during the second quarter, particularly in such seasonal merchandise as lawn and patio. Inventories grew 8.5%, primarily due to inflation, early merchandise flow and new items in certain categories. Inventory growth, with fuel, was 8.4%. Clubs are clean and have transitioned from summer to the fall season.

We finished the second quarter with strong profits. Operating income, without fuel, increased 10.8% to $512 million compared to last year. Our new club performance continues to exceed projections. During the quarter, we opened one new club in Denham Springs, Louisiana and relocated a club in Worcester, Mass. We also completed the expansion of our club in Monroe, Louisiana. I'm really excited that next quarter, we plan to open as many as 7 new clubs. It's been a long while since we opened that many new clubs in a quarter, and our team is energized about this rate of new growth.

Looking ahead, we expect inflation to have less contribution to the top line, though we continue to monitor the impact of the drought on certain foods. We expect comp club sales, without fuel, for the 13-week period from July 28 through October 26 to increase 3% to 5%. Last year, comp sales, excluding fuel, increased 5.7% for the comparable 13-week period.

Overall, Sam's Club is very well positioned for the rest of the year. We're investing in price and moving to even greater value for our members. We continue to add new brands, especially as we strengthen our offerings in apparel and home, and we remain focused on improving membership sign-ups.

Now I'll turn the program over to Charles for a wrap-up and guidance. Charles?

Charles M. Holley

Thanks, Roz. As Mike said, sales and earnings were strong in the second quarter, and our associate morale continues to be strong as well. Customers and shareholders alike are seeing greater value from Walmart. Heading into the second half of the year, we feel very good about our momentum, especially in our Walmart U.S. business.

Last quarter, I shared with you 4 key operating goals for having a successful year. Let me review each of these goals. The first goal, Walmart U.S. must continue its momentum. Walmart U.S. is delivering a broad assortment at the lowest price, and you heard today that customers continue to respond well. With the right mix of local relevance in every store, the breadth of assortment allows us to take better care of our customers. We have now delivered positive comp sales for 4 consecutive quarters. Our marketing is reinforcing our strong price positioning, and we believe this places us in a great position for the third and fourth quarters.

Second goal, Sam's Club must continue the success it has experienced over the last several quarters. Sam's continues to deliver solid comp growth on top of last year's strong performance. Members are seeing greater quality, and we're providing superior value for the membership fee. Technology applications and operational initiatives, like self-checkout, are adding to an improved shopping experience.

Third goal, we must improve profits and returns in Walmart International, especially for Brazil and China. Internationally, our more mature markets continue to generate the majority of our revenue and profit growth. We have seen the U.K., Mexico and Canada markets provide a solid growth foundation, and we expect that will continue through the rest of this year. We've shared that we still have challenges in Brazil and China, and results won't be quick. But with the leadership teams in place, along with our focus on Every Day Low Prices, we believe we're on the right path.

Last goal, we must expand our capabilities and increase sales in our Global eCommerce business as we integrate multichannel offerings for customers across markets. We're making progress on these eCommerce efforts, and you will continue to hear more about these activities throughout the year. You heard some specific examples earlier in the operating segment discussions, and you will hear more at the annual investor meeting in October.

On the corporate side, we continue to implement process improvements, like our SAP initiative, which allows us to manage our global business more efficiently. Like the operating segments, our corporate and shared service areas are just as focused on reducing cost and improving efficiencies.

Overall, we've delivered solid comp growth in our U.S. businesses this quarter, having built on the success of the first quarter. All markets within International had positive comp sales. We grew earnings per share in the second quarter 8.3% despite significant currency impact to the top line and profits, and we leveraged operating expenses. We added 120 net new stores for 6 million new square feet of selling space.

We were able to deliver these results because of our commitment to the productivity loop. It's not just about Every Day Low Price. Yes, we need that, but we can only drive EDLP because of our relentless focus on reducing costs. Recall that beginning this year, our goal is to reduce SG&A as a percentage of sales by at least 100 basis points over 5 years. We are off to a good start this year.

We're taking pure cost out of the business, empowering our associates and investing savings back into price reductions or profitability. The result is we are more productive for customers across our markets and for shareholder value. A few examples would include: standardizing replenishment systems to improve inventory flow; expanding the store scheduling systems to better meet peak customer demand; using market and customer data from our Global Customer Insights Group to help merchants make better decisions on items and to gain sourcing efficiencies; and consolidating our Latin American financial shared services locations into a single center in Costa Rica to allow for less costly overhead and more efficiency in our back office. You'll hear more examples at the October investor conference.

Let me comment on our returns to shareholders. We continue to prioritize dividends and share repurchase as key uses of our cash, and we have generated free cash flow of $6.1 billion so far this year. You heard the details earlier from Jeff on our dividend payout and share repurchases. We remain committed to providing strong returns to our shareholders.

Return on investment for the trailing 12 months ended July 31, 2012, was 18.1% compared to 18.4% for the previous year. I'd like to point out that the 18.1% is flat with the ROI we reported last quarter, indicating that we are moderating our normal seasonal decline. Looking forward, we will continue to strengthen our capital efficiency model in support of our growth.

During the rest of the year, we will add a significant number of units in the United States. Walmart U.S. and Sam's Club are on track with their expansion plans, but you also heard earlier from Doug about changes in the International growth plans and the resulting impact. Our new corporate CapEx forecast for fiscal 2013 is $12.6 billion to $13.5 billion and 36 million to 39 million square feet for the total company.

So how are we set up to deliver for the third quarter? Clearly, you should expect consistency as we execute our strategies. As Mike said, the paycheck cycle remains pronounced, and there continues to be a lot of uncertainty in the global economy. Despite this uncertainty, we feel confident in our ability to deliver for our customers and shareholders.

Putting together our forecast requires a little bit of science, history and art. We look at an incredible amount of data, including macroeconomic information, global indices and the needs of our customers around the world. Currency will likely continue to impact our top line and operating income.

For the Q3 period, Bill and Roz shared the comp forecasts, 1% to 3% for Walmart U.S. and 3% to 5% for Sam's Club. Our fundamental business assumptions are still in place, and we expect continued sales growth on a consolidated basis of around 5% for the full year. We expect gross margins to continue to decline slightly as we invest in price. We also expect to incur approximately $35 million to $40 million in expenses for the review of matters relating to the Foreign Corrupt Practices Act during each of the remaining quarters for this fiscal year. In addition, as Jeff noted, we estimate our full year tax rate to be around the low end of the range we have previously provided of 32.5% to 33.5%.

Taking all of this into account, we are forecasting earnings per share for the third quarter of fiscal year 2013 to range between $1.04 and $1.09, and this compares to $0.97 last year. For the full year, based on the economy, currency and the current momentum of our businesses, we are increasing our full year EPS range to $4.83 to $4.93. We are also narrowing the range by 50%, and we remain committed to share repurchase as long as it continues to create value for our shareholders. This is factored into our guidance as well. We expect to continue delivering solid financial performance and value to our shareholders.

One last thing before I close. Walmart, along with a number of other leading merchants, forms the Merchant Customer Exchange or MCX, a new company dedicated to offering consumers a versatile mobile commerce application. MCX is committed to providing a mobile commerce solution capable of seamlessly integrating a wide range of consumer offers, payments and retail programs. This solution will be available through virtually any smartphone and will reduce unnecessary cost, keeping with Walmart's mission to save our customers money.