WAL MART STORES INC
Form 10-Q
June 03, 2011

# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

**(Mark One)**

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.**
**For the quarterly period ended April 30, 2011.**

**or**

¨ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.**
**For the transition period from _____ to _____.**

**Commission file number 1-6991**

# WAL-MART STORES, INC.

**(Exact name of registrant as specified in its charter)**

| | |
|---|---|
| **Delaware** | **71-0415188** |
| **(State or other jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification No.)** |
| **702 S.W. 8th Street Bentonville, Arkansas** | **72716** |
| **(Address of principal executive offices)** | **(Zip Code)** |

**(479)273-4000**

**(Registrant s telephone number, including area code)**

**Not applicable**

**(Former name, former address and former fiscal year, if changed since last report)**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. Check One:

| | | | |
|---|---|---|---|
| Large Accelerated Filer | x | Accelerated Filer | ¨ |
| Non-Accelerated Filer | ¨ | Smaller Reporting Company | ¨ |

Indicate by a check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

Applicable Only to Corporate Issuers

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practical date.

Common Stock, $.10 Par Value 3,472,560,467 shares as of May 31, 2011.

**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**Wal-Mart Stores, Inc.**

**Condensed Consolidated Statements of Income**

**(Unaudited)**

| *(Amounts in millions, except per share data)* | Three Months Ended April 30, 2011 | Three Months Ended April 30, 2010 |
|---|---|---|
| **Revenues:** | | |
| Net sales | $ 103,415 | $ 99,097 |
| Membership and other income | 774 | 714 |
| | 104,189 | 99,811 |
| **Costs and expenses:** | | |
| Cost of sales | 78,177 | 74,618 |
| Operating, selling, general and administrative expenses | 20,116 | 19,456 |
| **Operating income** | 5,896 | 5,737 |
| **Interest:** | | |
| Debt | 491 | 455 |
| Capital leases | 71 | 67 |
| Interest income | (44) | (51) |
| Interest, net | 518 | 471 |
| **Income from continuing operations before income taxes** | 5,378 | 5,266 |
| **Provision for income taxes** | 1,800 | 1,822 |
| **Income from continuing operations** | 3,578 | 3,444 |
| **Loss from discontinued operations, net of tax** | (28) | |
| **Consolidated net income** | 3,550 | 3,444 |
| **Less consolidated net income attributable to noncontrolling interest** | (151) | (143) |
| **Consolidated net income attributable to Walmart** | $ 3,399 | $ 3,301 |
| **Basic net income per common share:** | | |
| Basic income per common share from continuing operations attributable to Walmart | $ 0.98 | $ 0.88 |
| Basic loss per common share from discontinued operations attributable to Walmart | (0.01) | |
| **Basic net income per common share attributable to Walmart** | $ 0.97 | $ 0.88 |
| **Diluted net income per common share:** | | |
| Diluted income per common share from continuing operations attributable to Walmart | $ 0.98 | $ 0.87 |
| Diluted loss per common share from discontinued operations attributable to Walmart | (0.01) | |

| | | |
|---|---|---|
| **Diluted net income per common share attributable to Walmart** | $ 0.97 | $ 0.87 |
| | | |
| **Weighted-average number of common shares:** | | |
| Basic | 3,497 | 3,765 |
| Diluted | 3,513 | 3,781 |
| **Dividends declared per common share** | $ 1.46 | $ 1.21 |

See accompanying notes.

**Wal-Mart Stores, Inc.**

**Condensed Consolidated Balance Sheets**

**(Unaudited)**

| *(Amounts in millions)* | April 30, 2011 | April 30, 2010 | January 31, 2011 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets:** | | | |
| Cash and cash equivalents | $ 9,400 | $ 8,516 | $ 7,395 |
| Receivables, net | 4,785 | 4,235 | 5,089 |
| Inventories | 38,335 | 35,021 | 36,318 |
| Prepaid expenses and other | 3,330 | 3,445 | 2,960 |
| Current assets of discontinued operations | 108 | 129 | 131 |
| Total current assets | 55,958 | 51,346 | 51,893 |
| **Property and equipment:** | | | |
| Property and equipment | 151,766 | 139,811 | 148,584 |
| Less accumulated depreciation | (45,473) | (39,602) | (43,486) |
| Property and equipment, net | 106,293 | 100,209 | 105,098 |
| **Property under capital leases:** | | | |
| Property under capital leases | 6,064 | 5,713 | 5,905 |
| Less accumulated amortization | (3,213) | (2,994) | (3,125) |
| Property under capital leases, net | 2,851 | 2,719 | 2,780 |
| Goodwill | 16,895 | 15,859 | 16,763 |
| Other assets and deferred charges | 4,068 | 3,910 | 4,129 |
| **Total assets** | $ 186,065 | $ 174,043 | $ 180,663 |
| **LIABILITIES AND EQUITY** | | | |
| **Current liabilities:** | | | |
| Short-term borrowings | $ 3,451 | $ 4,812 | $ 1,031 |
| Accounts payable | 34,321 | 31,372 | 33,557 |
| Dividends payable | 3,828 | 3,546 | |
| Accrued liabilities | 15,962 | 15,617 | 18,701 |
| Accrued income taxes | 927 | 2,704 | 157 |
| Long-term debt due within one year | 3,173 | 6,012 | 4,655 |
| Obligations under capital leases due within one year | 345 | 353 | 336 |
| Current liabilities of discontinued operations | 44 | 74 | 47 |
| Total current liabilities | 62,051 | 64,490 | 58,484 |
| Long-term debt | 45,486 | 32,668 | 40,692 |
| Long-term obligations under capital leases | 3,211 | 3,112 | 3,150 |
| Deferred income taxes and other | 6,902 | 5,152 | 6,682 |
| Redeemable noncontrolling interest | 423 | 325 | 408 |
| Commitments and contingencies | | | |
| **Equity:** | | | |
| Common stock and capital in excess of par value | 3,798 | 4,059 | 3,929 |
| Retained earnings | 60,330 | 62,180 | 63,967 |
| Accumulated other comprehensive income (loss) | 878 | (216) | 646 |

| | | | |
|---|---|---|---|
| Total Walmart shareholders equity | 65,006 | 66,023 | 68,542 |
| Noncontrolling interest | 2,986 | 2,273 | 2,705 |
| Total equity | 67,992 | 68,296 | 71,247 |
| **Total liabilities and equity** | $ 186,065 | $ 174,043 | $ 180,663 |

See accompanying notes.

**Wal-Mart Stores, Inc.**

**Condensed Consolidated Statements of Shareholders Equity**

**(Unaudited)**

| *(Amounts in millions)* | Number of Shares | Common Stock | Capital in Excess of Par Value | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total Walmart Shareholders Equity | Noncontrolling Interest | Total Equity |
|---|---|---|---|---|---|---|---|---|
| Balances February 1, 2011 | 3,516 | $ 352 | $ 3,577 | $ 63,967 | $ 646 | $ 68,542 | $ 2,705 | $ 71,247 |
| Consolidated net income (excludes redeemable noncontrolling interest) | | | | 3,399 | | 3,399 | 134 | 3,533 |
| Other comprehensive income | | | | | 232 | 232 | 102 | 334 |
| Cash dividends ($1.46 per share) | | | | (5,094) | | (5,094) | | (5,094) |
| Purchase of Company stock | (37) | (33) | (70) | (1,940) | | (2,043) | | (2,043) |
| Other | | | (28) | (2) | | (30) | 45 | 15 |
| **Balances April 30, 2011** | **3,479** | **$ 319** | **$ 3,479** | **$ 60,330** | **$ 878** | **$ 65,006** | **$ 2,986** | **$ 67,992** |

**Comprehensive Income**

**(Unaudited)**

| *(Amounts in millions)* | Three Months Ended April 30, 2011 | 2010 |
|---|---|---|
| Consolidated net income (1) | $ 3,550 | $ 3,444 |
| Other comprehensive income | | |
| Currency translation (2) | 495 | (48) |
| Net change in fair value of derivatives | (178) | 83 |
| **Total comprehensive income** | **$ 3,867** | **$ 3,479** |
| Less amounts attributable to the noncontrolling interest: | | |
| Consolidated net income (1) | $ (151) | $ (143) |
| Currency translation (2) | (85) | (181) |
| Amounts attributable to the noncontrolling interest | (236) | (324) |
| **Comprehensive income attributable to Walmart** | **$ 3,631** | **$ 3,155** |

(1) Includes $17 million and $3 million for the three months ended April 30, 2011 and 2010, respectively, related to the redeemable noncontrolling interest.

(2) Includes $(17) million and $26 million for the three months ended April 30, 2011 and 2010, respectively, related to the redeemable noncontrolling interest.

See accompanying notes.

**Wal-Mart Stores, Inc.**

**Condensed Consolidated Statements of Cash Flows**

**(Unaudited)**

| *(Amounts in millions)* | Three Months Ended April 30, 2011 | 2010 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Consolidated net income | $ 3,550 | $ 3,444 |
| Loss from discontinued operations, net of tax | 28 | |
| Income from continuing operations | 3,578 | 3,444 |
| Adjustments to reconcile income from continuing operations to net cash provided by operating activities: | | |
| Depreciation and amortization | 1,985 | 1,864 |
| Other operating activities | (209) | (696) |
| Changes in certain assets and liabilities, net of effects of acquisitions: | | |
| Accounts receivable | 341 | (97) |
| Inventories | (1,713) | (2,195) |
| Accounts payable | 205 | 392 |
| Accrued liabilities | (2,213) | (1,739) |
| Net cash provided by operating activities | 1,974 | 973 |
| **Cash flows from investing activities:** | | |
| Payments for property and equipment | (2,389) | (2,563) |
| Proceeds from disposal of property and equipment | 94 | 123 |
| Other investing activities | 426 | 204 |
| Net cash used in investing activities | (1,869) | (2,236) |
| **Cash flows from financing activities:** | | |
| Net change in short-term borrowings | 2,428 | 4,299 |
| Proceeds from issuance of long-term debt | 4,921 | 1,971 |
| Payments of long-term debt | (2,057) | (37) |
| Dividends paid | (1,274) | (1,136) |
| Purchase of Company stock | (2,129) | (2,967) |
| Other financing activities | (223) | (294) |
| Net cash provided by financing activities | 1,666 | 1,836 |
| Effect of exchange rates on cash and cash equivalents | 234 | 36 |
| Net increase in cash and cash equivalents | 2,005 | 609 |
| Cash and cash equivalents at beginning of year | 7,395 | 7,907 |
| Cash and cash equivalents at end of period | $ 9,400 | $ 8,516 |

See accompanying notes.

**Notes to Condensed Consolidated Financial Statements**

**Wal-Mart Stores, Inc.**

## Note 1. Basis of Presentation

The condensed consolidated financial statements of Wal-Mart Stores, Inc. and its subsidiaries ( Walmart, the Company or we ) included in this Quarterly Report on Form 10-Q are unaudited. In the opinion of management, all adjustments necessary for a fair presentation of the condensed consolidated financial statements have been included. Such adjustments are of a normal recurring nature. Interim results are not necessarily indicative of results for a full year. The condensed consolidated financial statements and notes thereto are presented in accordance with the rules and regulations of the Securities and Exchange Commission (the SEC ) and do not contain certain information included in the Company s Annual Report to Shareholders for the fiscal year ended January 31, 2011. Therefore, the interim condensed consolidated financial statements should be read in conjunction with that Annual Report to Shareholders. Certain prior year amounts have been reclassified to conform to the current year presentation.

## Note 2. Net Income Per Common Share

Basic net income per common share attributable to Walmart is based on the weighted-average number of outstanding common shares. Diluted net income per common share attributable to Walmart is based on the weighted-average number of outstanding common shares adjusted for the dilutive effect of stock options and other share-based awards. The dilutive effect of share-based awards was 16 million shares for the three months ended April 30, 2011 and 2010, respectively. The Company had approximately 4 million and 5 million stock options outstanding at April 30, 2011 and 2010, respectively, which were not included in the diluted net income per common share attributable to Walmart calculation because their effect would be antidilutive.

For purposes of determining consolidated net income per common share attributable to Walmart, income from continuing operations attributable to Walmart and the loss from discontinued operations, net of tax, for the three months ended April 30, 2011 and 2010 are as follows:

| | **Three Months Ended April 30,** | |
|---|---|---|
| ***(Amounts in millions)*** | **2011** | **2010** |
| Income from continuing operations | $ 3,578 | $ 3,444 |
| Less consolidated net income attributable to noncontrolling interest | (151) | (143) |
| Income from continuing operations attributable to Walmart | 3,427 | 3,301 |
| Loss from discontinued operations, net of tax | (28) | |
| Consolidated net income attributable to Walmart | $ 3,399 | $ 3,301 |

## Note 3. Receivables

Receivables consist primarily of amounts due from:

- insurance companies resulting from our pharmacy sales;
- banks for customer credit card, debit card and electronic bank transfers that take in excess of seven days to process;
- suppliers for marketing or incentive programs;
- consumer financing programs in certain of our international subsidiaries; and

real estate transactions.

Our Walmart International segment offers a limited amount of consumer credit products, principally through our subsidiaries in Chile, Canada and Mexico. At April 30, 2011, the balance of these receivables was $726 million, net of its reserve for doubtful accounts of $76 million, compared to a receivable balance of $440 million, net of its reserve for doubtful accounts of $29 million at April 30, 2010. These balances are included in receivables, net on the accompanying Condensed Consolidated Balance Sheet.

**Note 4. Inventories**

The Company values inventories at the lower of cost or market as determined primarily by the retail method of accounting, using the last-in, first-out ( LIFO ) method for substantially all of the Walmart U.S. segment s merchandise inventories. The retail method of accounting results in inventory being valued at the lower of cost or market since permanent markdowns are currently taken as a reduction of the retail value of inventory. The Sam s Club segment s merchandise is valued based on the weighted-average cost using the LIFO method. Inventories for the Walmart International operations are primarily valued by the retail method of accounting and are stated using the first-in, first-out ( FIFO ) method. At April 30, 2011 and 2010, the Company s inventories valued at LIFO approximate those inventories as if they were valued at FIFO.

**Note 5. Long-term Debt**

Information on new long-term debt issuances during the first quarter of fiscal 2012 is as follows (amounts in millions):

| Issue Date | Maturity Date | Interest Rate | Principal Amount |
|---|---|---|---|
| April 18, 2011 | April 15, 2014 | 1.625% | $1,000 |
| April 18, 2011 | April 15, 2016 | 2.800% | 1,000 |
| April 18, 2011 | April 15, 2021 | 4.250% | 1,000 |
| April 18, 2011 | April 15, 2041 | 5.625% | 2,000 |
| **Total Issuances** | | | **$5,000** |

The aggregate net proceeds from these note issuances were approximately $4.9 billion. The notes of each series require semi-annual interest payments on April 15 and October 15 of each year, commencing on October 15, 2011. Unless previously purchased and cancelled, the Company will repay the notes of each series at 100% of their principal amount, together with accrued and unpaid interest thereon, at their maturity. The notes of each series are senior, unsecured obligations of the Company.

**Note 6. Fair Value Measurements**

The Company records and discloses certain financial and non-financial assets and liabilities at their fair value. The fair value of an asset is the price at which the asset could be sold in an orderly transaction between unrelated, knowledgeable and willing parties able to engage in the transaction. A liability s fair value is defined as the amount that would be paid to transfer the liability to a new obligor in a transaction between such parties, not the amount that would be paid to settle the liability with the creditor.

Assets and liabilities recorded at fair value are measured using a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include:

Level 1 - observable inputs such as quoted prices in active markets;

Level 2 - inputs other than quoted prices in active markets that are either directly or indirectly observable; and

Level 3 - unobservable inputs in which little or no market data exists, therefore requiring the Company to develop its own assumptions.

The disclosure of fair value of certain financial assets and liabilities that are recorded at cost is as follows:

*Cash and cash equivalents:* The carrying value approximates fair value due to the short maturity of these instruments.

*Short-term debt:* The carrying value approximates fair value due to the short maturity of these instruments.

*Long-term debt:* The fair value is based on the Company s current incremental borrowing rate for similar types of borrowing arrangements or, where applicable, quoted market prices. The carrying value and fair value of the Company s long-term debt as of April 30, 2011 and January 31, 2011 are as follows:

| | Carrying Value | Carrying Value | Carrying Value | Carrying Value |
|---|---|---|---|---|
| | **April 30, 2011** | | **January 31, 2011** | |
| ***(Amounts in millions)*** | **Carrying Value** | **Fair Value** | **Carrying Value** | **Fair Value** |
| Long-term debt, including amounts due within one year | $ 48,659 | $ 50,717 | $ 45,347 | $ 47,012 |

Additionally, as of April 30, 2011 and January 31, 2011, the Company held certain derivative asset and liability positions that are required to be measured at fair value on a recurring basis. The majority of the Company s derivative instruments relate to interest rate swaps. The fair values of these interest rate swaps have been measured in accordance with Level 2 inputs of the fair value hierarchy, using the income approach. As of April 30, 2011 and January 31, 2011, the notional amounts and fair values of these interest rate swaps are as follows (asset/(liability)):

| | April 30, 2011 | | January 31, 2011 | |
|---|---|---|---|---|
| *(Amounts in millions)* | Notional Amount | Fair Value | Notional Amount | Fair Value |
| Receive fixed-rate, pay floating-rate interest rate swaps designated as fair value hedges | $ 3,945 | $ 249 | $ 4,445 | $ 267 |
| Receive fixed-rate, pay fixed-rate cross-currency interest rate swaps designated as net investment hedges | 1,250 | 165 | 1,250 | 233 |
| Receive floating-rate, pay fixed-rate interest rate swaps designated as cash flow hedges | 1,193 | (18) | 1,182 | (18) |
| Receive fixed-rate, pay fixed-rate cross-currency interest rate swaps designated as cash flow hedges | 3,150 | 241 | 2,902 | 238 |
| Total | $ 9,538 | $ 637 | $ 9,779 | $ 720 |

The fair values above are the estimated amounts the Company would receive or pay upon a termination of the agreements relating to such instruments as of the reporting dates.

**Note 7. Derivative Financial Instruments**

The Company uses derivative financial instruments for hedging and non-trading purposes to manage its exposure to changes in interest and currency exchange rates, as well as to maintain an appropriate mix of fixed- and floating-rate debt. Use of derivative financial instruments in hedging programs subjects the Company to certain risks, such as market and credit risks. Market risk represents the possibility that the value of the derivative financial instrument will change. In a hedging relationship, the change in the value of the derivative financial instrument is offset to a great extent by the change in the value of the underlying hedged item. Credit risk related to derivative financial instrument represents the possibility that the counterparty will not fulfill the terms of the contract. The notional, or contractual, amount of the Company s derivative financial instruments is used to measure interest to be paid or received and does not represent the Company s exposure due to credit risk. Credit risk is monitored through established approval procedures, including setting concentration limits by counterparty, reviewing credit ratings and requiring collateral (generally cash) from the counterparty if their derivative liability position exceeds certain thresholds.

The Company s transactions are with counterparties rated A or better by nationally recognized credit rating agencies. In connection with various derivative agreements with counterparties, the Company held $505 million in cash collateral from these counterparties at April 30, 2011. It is the Company s policy to record cash collateral exclusive of any derivative asset, and any collateral holdings are reflected in its accrued liabilities as amounts due to the counterparties. Furthermore, as part of the master netting arrangements with these counterparties, the Company is also required to post collateral if the derivative liability position exceeds $150 million. The Company has no outstanding collateral postings and in the event of providing cash collateral, the Company would record the posting as a receivable exclusive of any derivative liability.

When the Company uses derivative financial instruments for the purpose of hedging its exposure to interest and currency exchange rate risks, the contract terms of a hedged instrument closely mirror those of the hedged item, providing a high degree of risk reduction and correlation. Contracts that are effective at meeting the risk reduction and correlation criteria are recorded using hedge accounting. If a derivative financial instrument is a hedge, depending on the nature of the hedge, changes in the fair value of the instrument will either be offset against the change in fair value of the hedged assets, liabilities or firm commitments through earnings or be recognized in accumulated other comprehensive income (loss) until the hedged item is recognized in earnings. The ineffective portion of an instrument s change in fair value will be immediately recognized in earnings during the period. Instruments that do not meet the criteria for hedge accounting, or contracts for which the Company has not elected hedge accounting, are valued at fair value with unrealized gains or losses reported in earnings during the period of the change.

*Fair Value Instruments*

The Company is party to receive fixed-rate, pay floating-rate interest rate swaps to hedge the fair value of fixed-rate debt. Under certain swap agreements, the Company pays floating-rate interest and receives fixed-rate interest payments periodically over the life of the instruments. The notional amounts are used to measure interest to be paid or received and do not represent the Company s exposure due to credit loss. The Company s interest rate swaps that receive fixed-interest rate payments and pay floating-interest rate payments are designated as fair value hedges. As the specific terms and notional amounts of the derivative instruments match those of the instruments being hedged, the derivative instruments were assumed to be perfectly effective hedges, and all changes in the fair value of the hedges were recorded in long-term debt and accumulated other comprehensive income (loss) on the Condensed Consolidated Balance Sheets with no net impact on the Condensed Consolidated Statements of Income. These fair value instruments will mature on dates ranging from April 2012 to May 2014.

*Net Investment Instruments*

The Company is party to cross-currency interest rate swaps that hedge its net investment in the United Kingdom. The agreements are contracts to exchange fixed-rate payments in one currency for fixed-rate payments in another currency. All changes in the fair value of these instruments are recorded in accumulated other comprehensive income (loss), offsetting the currency translation adjustment that is also recorded in accumulated other comprehensive income (loss). These instruments will mature on dates ranging from October 2023 to February 2030.

The Company has approximately £3.0 billion of outstanding debt that is designated as a hedge of the Company s net investment in the United Kingdom as of April 30, 2011 and January 31, 2011. The Company also has outstanding ¥437 billion of debt that is designated as a hedge of the Company s net investment in Japan at April 30, 2011 and January 31, 2011. Any translation of non-U.S. denominated debt is recorded in accumulated other comprehensive income (loss), offsetting the currency translation adjustment that is also recorded in accumulated other comprehensive income (loss). These instruments will mature on dates ranging from May 2011 to January 2039.

*Cash Flow Instruments*

The Company is party to receive floating-rate, pay fixed-rate interest rate swaps to hedge the interest rate risk of certain non-U.S. denominated debt. The swaps are designated as cash flow hedges of interest expense risk. Changes in the non-U.S. benchmark interest rate result in reclassification of amounts from accumulated other comprehensive income (loss) to earnings to offset the floating-rate interest expense. These cash flow instruments will mature on dates ranging from August 2013 to July 2015.

The Company is also party to receive fixed-rate, pay fixed-rate cross-currency interest rate swaps to hedge the currency exposure associated with the forecasted payments of principal and interest of non-U.S. denominated debt. The swaps are designated as cash flow hedges of the currency risk related to payments on the non-U.S. denominated debt. Changes in the currency exchange rate result in reclassification of amounts from accumulated other comprehensive income (loss) to earnings to offset the re-measurement gain or loss on the non-U.S. denominated debt. These cash flow instruments will mature on dates ranging from September 2029 to March 2034. Any ineffectiveness related to these instruments has been and is expected to be immaterial to the Company s financial condition or results of operations.

*Financial Statement Presentation*

Hedging instruments with an unrealized gain are recorded on the Condensed Consolidated Balance Sheets as either a current or a non-current asset, based on maturity date, and those hedging instruments with an unrealized loss are recorded as either a current or a non-current liability, based on maturity date.

As of April 30, 2011 and January 31, 2011, the Company s financial instruments were classified as follows in the accompanying Condensed Consolidated Balance Sheets:

| | April 30, 2011 | | | January 31, 2011 | | |
|---|---|---|---|---|---|---|
| ***(Amounts in millions)*** | **Fair Value Instruments** | **Net Investment Instruments** | **Cash Flow Instruments** | **Fair Value Instruments** | **Net Investment Instruments** | **Cash Flow Instruments** |
| **Balance Sheet Classification:** | | | | | | |
| Other assets and deferred charges | $ 249 | $ 165 | $ 241 | $ 267 | $ 233 | $ 238 |
| **Asset subtotals** | $ 249 | $ 165 | $ 241 | $ 267 | $ 233 | $ 238 |
| Long-term debt | $ 249 | $ | $ | $ 267 | $ | $ |
| Deferred income taxes and other | | | 18 | | | 18 |
| **Liability subtotals** | $ 249 | $ | $ 18 | $ 267 | $ | $ 18 |

**Note 8. Accumulated Other Comprehensive Income (Loss)**

Amounts included in accumulated other comprehensive income (loss) for the Company s derivative instruments and minimum pension liabilities are recorded net of their related income tax effect. The following table provides further detail regarding changes in the composition of accumulated other comprehensive income (loss) for the three months ended April 30, 2011:

| *(Amounts in millions)* | **Currency Translation and Other** | **Derivative Instruments** | **Minimum Pension Liability** | **Total** |
|---|---|---|---|---|
| Balances - February 1, 2011 | $ 1,226 | $ 60 | $ (640) | $ 646 |
| Currency translation adjustment | 410 | | | 410 |
| Net change in fair value of derivatives | | (178) | | (178) |
| **Balances - April 30, 2011** | $ 1,636 | $ (118) | $ (640) | $ 878 |

The currency translation adjustment includes a net translation loss of $1.3 billion at April 30, 2011 related to net investment hedges of the Company s operations in the United Kingdom and Japan.

**Note 9. Legal Proceedings**

The Company is involved in a number of legal proceedings. The Company has made accruals with respect to these matters, where appropriate, which are reflected in the Company s Consolidated Financial Statements. For some matters, the amount of liability is not probable or the amount cannot be reasonably estimated and therefore accruals have not been made. However, where a liability is reasonably possible and material, such matters have been disclosed. The Company may enter into discussions regarding settlement of these matters, and may enter into settlement agreements, if it believes settlement is in the best interest of the Company s shareholders. The matters, or groups of related matters, discussed below, if decided adversely to or settled by the Company, individually or in the aggregate, unless stated otherwise, may result in liability material to the Company s financial condition or results of operations.

*Wage-and-Hour Class Action:* The Company is a defendant in Braun/Hummel v. Wal-Mart Stores, Inc., a class action lawsuit commenced in March 2002 in the Court of Common Pleas in Philadelphia, Pennsylvania. The plaintiffs allege that the Company failed to pay class members for all hours worked and prevented class members from taking their full meal and rest breaks. On October 13, 2006, a jury awarded back-pay damages to the plaintiffs of approximately $78 million on their claims for off-the-clock work and missed rest breaks. The jury found in favor of the Company on the plaintiffs meal-period claims. On November 14, 2007, the trial judge entered a final judgment in the approximate amount of $188 million, which included the jury s back-pay award plus statutory penalties, prejudgment interest and attorneys fees. By operation of law, post-judgment interest accrues on the judgment amount at the rate of six percent per annum from the date of entry of the judgment, which was November 14, 2007, until the judgment is paid, unless the judgment is set aside on appeal. The Company believes it has substantial factual and legal defenses to the claims at issue, and on December 7, 2007, the Company filed its Notice of Appeal. The Company filed its opening appellate brief on February 17, 2009, plaintiffs filed their response brief on April 20, 2009, and the Company filed its reply brief on June 5, 2009. Oral argument was held before the Superior Court of Appeals on August 19, 2009. The parties are currently awaiting a decision from the appellate court.

*Gender Discrimination Class Action:* The Company is a defendant in *Dukes v. Wal-Mart Stores, Inc*., a class-action lawsuit commenced in June 2001 in the United States District Court for the Northern District of California. The complaint alleges that the Company has engaged in a pattern and practice of discriminating against women in promotions, pay, training and job assignments. The complaint seeks, among other things, injunctive relief, front pay, back pay, punitive damages and attorneys fees. On June 21, 2004, the district court issued an order granting in part and denying in part the plaintiffs motion for class certification. The class, which was certified by the district court for purposes of liability, injunctive and declaratory relief, punitive damages and lost pay, subject to certain exceptions, includes all women employed at any Wal-Mart domestic retail store at any time since December 26, 1998, who have been or may be subjected to the pay and management track promotions policies and practices challenged by the plaintiffs.

On August 31, 2004, the United States Court of Appeals for the Ninth Circuit granted the Company s petition for discretionary review of the ruling. On February 6, 2007, a divided three-judge panel of the court of appeals issued a decision affirming the district court s certification order. On February 20, 2007, the Company filed a petition asking that the decision be reconsidered by a larger panel of the court. On December 11, 2007, the three-judge panel withdrew its opinion of February 6, 2007, and issued a revised opinion. As a result, the Company s Petition for Rehearing En Banc was denied as moot. The Company filed a new Petition for Rehearing En Banc on January 8, 2008. On February 13, 2009, the court of appeals issued an Order granting the Petition. On April 26, 2010, the Ninth Circuit issued a divided (6-5) opinion affirming certain portions of the district court s ruling and reversing other portions. On August 25, 2010, the Company filed a petition for a writ of certiorari to the United States Supreme Court seeking review of the Ninth Circuit s decision. On December 6, 2010, the Supreme Court granted the Company s petition for writ of certiorari. The Company filed its Brief for Petitioner on January 20, 2011; the Brief for Respondents was filed on February 22, 2011; and oral argument was held on March 29, 2011.

If the Company is not successful in its appeal of class certification, or an appellate court issues a ruling that allows for the certification of a class or classes with a different size or scope, and if there is a subsequent adverse verdict on the merits from which there is no successful appeal, or in the event of a negotiated settlement of the litigation, the resulting liability could be material to the Company s financial condition or results of operations. The plaintiffs also seek punitive damages which, if awarded, could result in the payment of additional amounts material to the Company s financial condition or results of operations. However, because of the uncertainty of the outcome of the appeal, because of the uncertainty of the balance of the proceedings contemplated by the district court, and because the Company s liability, if any, arising from the litigation, including the size of any damages awarded if plaintiffs are successful in the litigation or any negotiated settlement, could vary widely, the Company cannot reasonably estimate the possible loss or range of loss that may arise from the litigation.

*Hazardous Materials Investigations:* On November 8, 2005, the Company received a grand jury subpoena from the United States Attorney s Office for the Central District of California, seeking documents and information relating to the Company s receipt, transportation, handling, identification, recycling, treatment, storage and disposal of certain merchandise that constitutes hazardous materials or hazardous waste. The Company has been informed by the U.S. Attorney s Office for the Central District of California that it is a target of a criminal investigation into potential violations of the Resource Conservation and Recovery Act ( RCRA ), the Clean Water Act and the Hazardous Materials Transportation Statute. This U.S. Attorney s Office contends, among other things, that the use of Company trucks to transport certain returned merchandise from the Company s stores to its return centers is prohibited by RCRA because those materials may be considered hazardous waste. The government alleges that, to comply with RCRA, the Company must ship from the store certain materials as hazardous waste directly to a certified disposal facility using a certified hazardous waste carrier. The U.S. Attorney s Office in the Northern District of California subsequently joined in this investigation. The Company contends that the practice of transporting returned merchandise to its return centers for subsequent disposition, including disposal by certified facilities, is compliant with applicable laws and regulations. While management cannot predict the ultimate outcome of this matter, management does not believe the outcome will have a material effect on the Company s financial condition or results of operations.

**Note 10. Acquisitions**

*Bounteous Company Limited ( BCL ):* In February 2007, the Company purchased an initial 35% interest in BCL, which operates in China under the Trust-Mart banner. The Company paid $264 million for its initial 35% interest and, as additional consideration, paid $376 million to extinguish a third-party loan issued to the selling BCL shareholders that was secured by the pledge of the remaining equity of BCL. Concurrent with its initial investment in BCL, the Company entered into a Shareholders Agreement, which provides the Company with voting rights associated with a portion of the common stock of BCL securing the loan, amounting to an additional 30% of the aggregate outstanding shares. Pursuant to the Share Purchase Agreement, the Company was committed to purchase the remaining interest in BCL on or before November 26, 2010, subject to certain conditions. The Company and the selling shareholder have mutually agreed to extend the closing, while certain conditions of the contract are being completed. In April 2011, the Company obtained antitrust clearance and now expects to finalize the other regulatory approvals and complete the transaction by the end of fiscal year 2012.

*Netto:* In April 2011, the Company completed the acquisition of 147 Netto stores from Dansk Supermarked in the United Kingdom, and the transition is under way to convert these stores to the ASDA brand. The Company expects to complete the in-store conversions this year. The purchase price for the acquisition was £778 million ($1.3 billion). The Netto transaction and its results will impact the Company s results of operations beginning in the second quarter of fiscal 2012.

*Massmart:* On November 29, 2010, the Company announced an offer to purchase 51% of Massmart, for approximately ZAR 17 billion ($2.3 billion). Massmart operates approximately 290 units under several wholesale and retail banners in South Africa and 13 other sub-Saharan African countries. On May 31, 2011, the South African Competition Tribunal approved the merger subject to certain post-closing conditions. The Company expects the transaction to close during the second quarter of fiscal 2012.

**Note 11. Segments**

The Company is engaged in the operations of retail stores located in all 50 states of the United States and Puerto Rico, Argentina, Brazil, Canada, Central America, Chile, China, India, Japan, Mexico and the United Kingdom. The Company s operations are conducted in three reportable segments: the Walmart U.S. segment, the Walmart International segment, and the Sam s Club segment. The Company defines its segments as those business units whose operating results its chief operating decision maker ( CODM ) regularly reviews to analyze performance and allocate resources. The Company sells similar individual products and services in each of its segments. It is impractical to segregate and identify revenue for each of these individual products and services.

The Walmart U.S. segment includes the Company s mass merchant concept in the United States and Puerto Rico operating primarily under the Walmart or Wal-Mart brands, as well as walmart.com. The Walmart International segment consists of the Company s operations outside of the United States and Puerto Rico. The Sam s Club segment includes the warehouse membership clubs in the United States and Puerto Rico, as well as samsclub.com. The amounts under the caption Other in the Operating Income table below primarily represent unallocated corporate overhead items.

The Company measures the results of its segments using, among other measures, each segment s operating income which includes certain corporate overhead allocations. From time to time, the Company revises the measurement of each segment s operating income, including any corporate overhead allocations, as dictated by the information regularly reviewed by its CODM.

Net sales by operating segment were as follows (amounts in millions):

| | Three Months Ended April 30, | |
|---|---|---|
| | 2011 | 2010 |
| Net sales: | | |
| Walmart U.S. | $ 62,669 | $ 62,324 |
| Walmart International | 27,905 | 25,030 |
| Sam s Club | 12,841 | 11,743 |
| Total Company | $ 103,415 | $ 99,097 |

Operating income by segment was as follows (amounts in millions):

| | Three Months Ended April 30, | |
|---|---|---|
| | 2011 | 2010 |
| Segment operating income: | | |
| Walmart U.S. | $ 4,650 | $ 4,615 |
| Walmart International | 1,096 | 1,083 |
| Sam s Club | 459 | 429 |
| Other | (309) | (390) |
| Operating income | $ 5,896 | $ 5,737 |
| Interest expense, net | (518) | (471) |
| Income from continuing operations before income taxes | $ 5,378 | $ 5,266 |

**Note 12. Common Stock Dividends**

On March 3, 2011, the Company s Board of Directors declared an annual dividend for fiscal 2012 of $1.46 per share, an increase of 21% over the per share dividends paid in fiscal 2011. For the fiscal year ending January 31, 2012, the annual dividend will be paid in four quarterly installments according to the following record and payable dates:

| Record Date | Payable Date |
|---|---|
| March 11, 2011 | April 4, 2011 |
| May 13, 2011 | June 6, 2011 |
| August 12, 2011 | September 6, 2011 |
| December 9, 2011 | January 3, 2012 |

The dividend installment payable on April 4, 2011 was paid as scheduled.

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

Wal-Mart Stores, Inc. ( Walmart, the Company or we ) operates retail stores in various formats around the world and is committed to saving people money so they can live better. We earn the trust of our customers every day by providing a broad assortment of quality merchandise and services at every day low prices ( EDLP ), while fostering a culture that rewards and embraces mutual respect, integrity and diversity. EDLP is our pricing philosophy under which we price items at a low price every day so that our customers trust that our prices will not change under frequent promotional activities. Our focus for Sam s Club is to provide exceptional value on brand name merchandise at members only prices for both business and personal use. Internationally, we operate with similar philosophies. Our fiscal year ends on January 31 for our U.S. and Canada operations and on December 31 for all other operations.

This discussion relates to Walmart and its consolidated subsidiaries and should be read in conjunction with our condensed consolidated financial statements as of April 30, 2011, and for the three month period then ended and the accompanying notes included in Part I, Item 1 of this Quarterly Report on Form 10-Q, as well as our Consolidated Financial Statements as of January 31, 2011, and for the year then ended and the accompanying notes, and the related Management s Discussion and Analysis of Financial Condition and Results of Operations, both of which are contained in our Annual Report to Shareholders for the year ended January 31, 2011, and incorporated by reference in, and included as an exhibit to, our Annual Report on Form 10-K for the year ended January 31, 2011.

We intend for this discussion to provide the reader with information that will assist in understanding our financial statements, the changes in certain key items in those financial statements from period to period, and the primary factors that accounted for those changes. We also discuss certain performance metrics that management uses to assess our performance. The discussion also provides information about the financial results of the various segments of our business to provide a better understanding of how those segments and their results affect the financial condition and results of operations of the Company as a whole.

Our operations comprise three reportable segments: the Walmart U.S. segment, the Walmart International segment, and the Sam s Club segment. The Walmart U.S. segment includes the Company s mass merchant concept in the United States and Puerto Rico operating primarily under the Walmart or Wal-Mart brands, as well as walmart.com. The Walmart International segment consists of the Company s operations outside of the United States and Puerto Rico. The Sam s Club segment includes the warehouse membership clubs in the United States and Puerto Rico, as well as samsclub.com.

Throughout this Management s Discussion and Analysis of Financial Condition and Results of Operations, we discuss segment operating income and comparable store and club sales. The Company measures the results of its segments using, among other measures, each segment s operating income, including certain corporate overhead allocations. From time to time, we revise the measurement of each segment s operating income, including any corporate overhead allocations, as dictated by the information regularly reviewed by our chief operating decision maker. When we do so, the prior period amounts for segment operating income are reclassified to conform to the current period s presentation. The amounts under the caption Other in the table below relating to operating income are primarily unallocated corporate overhead items.

Comparable store and club sales is a measure of the performance of our existing U.S. stores and clubs that reflects the change in sales for such stores and clubs for a particular period from the corresponding period in the prior year. Walmart s definition of comparable store and club sales includes sales from stores and clubs open for the previous 12 months, including remodels, relocations and expansions. Changes in format continue to be excluded from comparable store sales when the conversion is accompanied by a relocation or expansion that results in a change in square footage of more than five percent. Comparable store sales are also referred to as same-store sales by others within the retail industry. The method of calculating comparable store sales varies across the retail industry. As a result, our calculation of comparable store sales is not necessarily comparable to similarly titled measures reported by other companies.

In discussions of our consolidated results and the operating results of our Walmart International segment, we sometimes refer to the impact of changes in currency exchange rates. When we refer to changes in currency exchange rates or currency exchange rate fluctuations, we are referring to the differences between the currency exchange rates we use to convert the Walmart International segment s operating results from local currencies into U.S. dollars for financial reporting purposes. The impacts of currency exchange rate fluctuations are typically calculated as the difference between current period activity translated using the current period s currency exchange rates and the comparable prior year period s currency exchange rates, respectively. We use this method for all countries where the functional currency is not denominated in the U.S. dollar.

**Company Performance Metrics**

The Company s performance metrics emphasize three priorities for improving shareholder value: growth, leverage and returns. The Company s priority of growth focuses on sales through comparable store or club sales and unit square footage growth; the priority of leverage encompasses the Company s objective to increase its operating income at a faster rate than the growth in net sales by growing its operating, selling, general and administrative expenses ( operating expenses ) at a slower rate than the growth of its net sales; and the priority of returns focuses on how efficiently the Company employs its assets through return on investment ( ROI ) and how effectively the Company manages working capital through free cash flow.

**<u>Growth</u>**

*Net Sales*

| | Three Months Ended April 30, | | | | |
|---|---|---|---|---|---|
| | 2011 | | | 2010 | |
| *(Dollar amounts in millions)* | **Net Sales** | **Percent of Total** | **Percent Change** | **Net Sales** | **Percent of Total** |
| Walmart U.S. | $ 62,669 | 60.6% | 0.6% | $ 62,324 | 62.9% |
| Walmart International | 27,905 | 27.0% | 11.5% | 25,030 | 25.2% |
| Sam s Club | 12,841 | 12.4% | 9.4% | 11,743 | 11.9% |
| Net sales | $ 103,415 | 100.0% | 4.4% | $ 99,097 | 100.0% |

Our consolidated net sales increased 4.4% for the three months ended April 30, 2011 when compared to the three months ended April 30, 2010. The increase in net sales is primarily due to our continued expansion activities as we grew retail square feet by 3.4% during the trailing 12 months ended April 30, 2011. Sam s Club s net sales increased as a result of strong comp sales. Currency exchange rate fluctuations related to Walmart International operations accounted for $1.3 billion of the increase in net sales. Volatility in currency exchange rates may continue to impact the Company s net sales in the future.

*Calendar Comparable Store and Club Sales*

| | With Fuel | | Fuel Impact | |
|---|---|---|---|---|
| | Three Months Ended April 30, | | Three Months Ended April 30, | |
| | **2011** | **2010** | **2011** | **2010** |
| Walmart U.S. | -0.9% | -0.8% | 0.0% | 0.0% |
| Sam s Club | 8.8% | 4.9% | 4.4% | 3.3% |
| Total U.S. | 0.7% | 0.1% | 0.8% | 0.6% |

Total comparable store and club sales in the United States, including fuel, increased 0.7 percent for the three months ended April 30, 2011. The increase in comparable store and club sales in the three month period ended April 30, 2011 was primarily driven by increase in traffic and average ticket at Sam s Club and an increase in average ticket at Walmart U.S., offset by a decrease in traffic.

**<u>Leverage</u>**

*Operating Income*

| | Three Months Ended April 30, | | | | |
|---|---|---|---|---|---|
| | 2011 | | | 2010 | |
| *(Dollar amounts in millions)* | **Operating Income** | **Percent of Total** | **Percent Change** | **Operating Income** | **Percent of Total** |
| Walmart U.S. | $ 4,650 | 78.8% | 0.8% | $ 4,615 | 80.4% |
| Walmart International | 1,096 | 18.6% | 1.2% | 1,083 | 18.9% |

| | | | | | |
|---|---|---|---|---|---|
| Sam s Club | 459 | 7.8% | 7.0% | 429 | 7.5% |
| Other | (309) | -5.2% | -20.8% | (390) | -6.8% |
| Total operating income | $ 5,896 | 100.0% | 2.8% | $ 5,737 | 100.0% |

We believe comparing the growth of our operating expenses to the growth of our net sales and comparing the growth of our operating income to the growth of our net sales are meaningful measures as they indicate how effectively we manage costs and leverage operating expenses. Our objective is to grow operating expenses at a slower rate than net sales and to grow operating income at a faster rate than net sales.

*Operating Expenses*

For the three months ended April 30, 2011 operating expenses increased 3.4% when compared to the same period in the prior year, while net sales increased 4.4% over the same periods. First quarter operating expenses included a $282 million currency exchange rate impact. Our focus on ensuring every day low cost remains a priority throughout the company.

*Operating Income*

Our operating income grew by 2.8% for the three months ended April 30, 2011 when compared to the same periods in the prior year, while net sales increased by 4.4% over net sales in the same prior year period. Operating income for the three months ended April 30, 2011 included a $49 million currency benefit.

**Returns**

*Return on Investment*

Management believes return on investment ( ROI ) is a meaningful metric to share with investors, because it helps investors assess how effectively Walmart is employing its assets. Trends in ROI can fluctuate over time as management balances long-term strategic initiatives with possible short-term impacts.

ROI was 18.5 percent and 19.2 percent for the trailing 12-month periods ended April 30, 2011 and 2010, respectively. The primary drivers of the change in ROI were the impact from currency exchange and cash held for pending acquisitions.

We define ROI as adjusted operating income (operating income plus interest income, depreciation and amortization, and rent expense) for the fiscal year or trailing twelve months divided by average invested capital during that period. We consider average invested capital to be the average of our beginning and ending total assets of continuing operations plus accumulated depreciation and amortization less accounts payable and accrued liabilities for that period, plus a rent factor equal to the rent for the fiscal year or trailing twelve months multiplied by a factor of eight.

ROI is considered a non-GAAP financial measure. We consider return on assets ( ROA ) to be the financial measure computed in accordance with generally accepted accounting principles ( GAAP ) that is the most directly comparable financial measure to ROI as we calculate that financial measure. ROI differs from ROA (which is income from continuing operations for the fiscal year or trailing twelve months divided by average total assets of continuing operations for the period) because ROI: adjusts operating income to exclude certain expense items and adds interest income; adjusts total assets from continuing operations for the impact of accumulated depreciation and amortization, accounts payable and accrued liabilities; and incorporates a factor of rent to arrive at total invested capital.

Although ROI is a standard financial metric, numerous methods exist for calculating a company s ROI. As a result, the method used by management to calculate ROI may differ from the methods other companies use to calculate their ROI. We urge you to understand the methods used by other companies to calculate their ROI before comparing our ROI to that of such other companies.

The calculation of ROI, along with a reconciliation to the calculation of ROA, the most comparable GAAP financial measurement, is as follows:

| *(Dollar amounts in millions)* | For the Twelve Months Ended April 30, 2011 | 2010 |
|---|---|---|
| **CALCULATION OF RETURN ON INVESTMENT** | | |
| **Numerator** | | |
| Operating income | $ 25,701 | $ 24,566 |
| + Interest income | 194 | 181 |
| + Depreciation and amortization | 7,762 | 7,321 |
| + Rent | 2,002 | 1,858 |
| = Adjusted operating income | $ 35,659 | $ 33,926 |
| **Denominator** | | |
| Average total assets of continuing operations[1] | $ 179,936 | $ 167,743 |
| + Average accumulated depreciation and amortization[1] | 45,641 | 39,679 |
| - Average accounts payable[1] | 32,847 | 29,957 |
| - Average accrued liabilities[1] | 15,790 | 15,440 |
| + Rent * 8 | 16,016 | 14,864 |
| = Average invested capital | $ 192,956 | $ 176,889 |
| **Return on investment (ROI)** | **18.5%** | **19.2%** |
| **CALCULATION OF RETURN ON ASSETS** | | |
| **Numerator** | | |
| Income from continuing operations | $ 16,093 | $ 15,284 |
| **Denominator** | | |
| Average total assets of continuing operations[1] | $ 179,936 | $ 167,743 |
| **Return on assets (ROA)** | **8.9%** | **9.1%** |

| | As of April 30, 2011 | 2010 | 2009 |
|---|---|---|---|
| **Certain Balance Sheet Data** | | | |
| Total assets of continuing operations[2] | $ 185,957 | $ 173,914 | $ 161,572 |
| Accumulated depreciation and amortization | 48,686 | 42,596 | 36,762 |
| Accounts payable | 34,321 | 31,372 | 28,541 |
| Accrued liabilities | 15,962 | 15,617 | 15,263 |

(1) The average is based on the addition of the account balance at the end of the current period to the account balance at the end of the prior period and dividing by 2.

(2) Based on continuing operations only and therefore excludes the impact of discontinued operations. Total assets as of April 30, 2011, 2010 and 2009 in the table above exclude assets of discontinued operations that are reflected in the Condensed Consolidated Balance Sheets of $108 million, $129 million and $155 million, respectively.

*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. Negative free cash flow was $0.4 billion at April 30, 2011, due to our increased investment in inventory and timing of payments for accrued liabilities, compared to $1.6 billion for the three months ended April 30, 2010.

Free cash flow is considered a non-GAAP financial measure. Management believes, however, that free cash flow, which measures our ability to generate additional cash from our business operations, is an important financial measure for use in evaluating the Company s financial performance. 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 statements 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 other companies to calculate their free cash flow before comparing our free cash flow to that of such other companies.

The following table sets forth a reconciliation of free cash flow, a non-GAAP financial measure, to net cash provided by operating activities, a GAAP measure, which we believe to be the GAAP financial measure most directly comparable to free cash flow, as well as information regarding net cash used in investing activities and net cash provided by financing activities.

| | Three Months Ended April 30, | |
|---|---|---|
| | 2011 | 2010 |
| *(Amounts in millions)* | | |
| Net cash provided by operating activities | $ 1,974 | $ 973 |
| Payments for property and equipment | (2,389) | (2,563) |
| Free cash flow | $ (415) | $ (1,590) |
| Net cash used in investing activities | $ (1,869) | $ (2,236) |
| Net cash provided by financing activities | $ 1,666 | $ 1,836 |

**Results of Operations**

The following discussion of our Results of Operations is based on our continuing operations and, therefore, excludes any results or discussion of our discontinued operations.

We had several discrete items that impacted the first quarter. We realized approximately $117 million from mark-to-market gains on foreign currency derivative positions, which impacted unallocated Other ; ASDA recorded an approximate $67 million charge related to the removal of future benefit accruals and the effect of future pay increases from its defined benefit plan; Walmart Japan recorded approximately a $51 million casualty loss related to the March earthquake and tsunami; and Walmart Chile recorded approximately a $51 million gain from the sale of an investment. All of these items are pre-tax and included in operating expenses, with the exception of the gain from the sale in Chile, which is recorded in Membership and Other Income.

<u>Consolidated Results of Operations</u>

| *(Amounts in millions, except unit counts)* | Three Months Ended April 30, | |
|---|---|---|
| | 2011 | 2010 |
| Net sales | $ 103,415 | $ 99,097 |
| Percentage change from comparable period | 4.4% | 6.0% |
| Total U.S. calendar comparable store and club sales | 0.7% | 0.1% |
| Gross profit margin as a percentage of sales | 24.4% | 24.7% |
| Operating income | $ 5,896 | $ 5,737 |
| Operating income as a percentage of net sales | 5.7% | 5.8% |
| Unit counts | 9,029 | 8,488 |
| Retail square feet | 989 | 956 |

Our consolidated net sales increased 4.4% for the three months ended April 30, 2011, when compared to the three months ended April 30, 2010. The increases in net sales are primarily due to our continued expansion activities as we grew retail square feet by 3.4% during the trailing 12 months ended April 30, 2011. In addition, $1.3 billion of the increase in net sales resulted from currency exchange rate fluctuations. Volatility in currency exchange rates may continue to impact the Company s net sales in the future.

Our gross profit, as a percentage of net sales ( gross profit margin ), for the three months ended April 30, 2011, decreased 30 basis points when compared to the same period in the prior year, driven by Walmart International s shift in sales mix due to Easter timing and investment in price, as well as increased fuel costs related to the Sam s Club segment.

Operating expenses, as a percentage of net sales, were 19.5% and 19.6% for the three months ended April 30, 2011 and 2010, respectively. First quarter operating expenses included a $282 million currency exchange rate impact. Our focus on ensuring every day low cost remains a priority throughout the company.

Our effective income tax rate was 33.5% and 34.6% for the three months ended April 30, 2011 and 2010, respectively. We expect the fiscal 2012 annual effective tax rate to be approximately 33.5% to 34.5%. Significant factors that may impact our effective tax rate include changes in our assessment of certain tax contingencies and the mix of earnings among our U.S. and international operations where the statutory rates are generally lower than the U.S. statutory rate.

As a result of the factors discussed above, we reported $3.6 billion and $3.4 billion of income from continuing operations for the three months ended April 30, 2011 and 2010, respectively.

Walmart U.S. Segment

| | Three Months Ended April 30, | |
|---|---|---|
| *(Amounts in millions, except unit counts)* | **2011** | **2010** |
| Net sales | $ 62,669 | $ 62,324 |
| Percentage change from comparable period | 0.6% | 1.1% |
| Calendar comparable store sales | -0.9% | -0.8% |
| Operating income | $ 4,650 | $ 4,615 |
| Operating income as a percentage of net sales | 7.4% | 7.4% |
| Unit counts | 3,809 | 3,759 |
| Retail square feet | 618 | 607 |

Net sales for the Walmart U.S. segment increased slightly during the three months ended April 30, 2011 when compared to the three months ended April 30, 2010. The increases in net sales are primarily due to a 1.8% increase in year-over-year retail square feet, offset by a decline in comparable store sales. Comparable store sales decreased 0.9% for the three months ended April 30, 2011 primarily due to a decline in customer traffic, partially offset by an increase in average ticket.

Gross profit margin was flat for the three months ended April 30, 2011 compared to the same period in the prior year.

Operating expenses, as a percentage of segment net sales, were relatively flat for the three months ended April 30, 2011 and 2010, respectively.

Walmart International Segment

| | Three Months Ended April 30, | |
|---|---|---|
| *(Amounts in millions, except unit counts)* | **2011** | **2010** |
| Net sales | $ 27,905 | $ 25,030 |
| Percentage change from comparable period | 11.5% | 21.4% |
| Operating income | $ 1,096 | $ 1,083 |
| Operating income as a percentage of net sales | 3.9% | 4.3% |
| Unit counts | 4,611 | 4,124 |
| Retail square feet | 289 | 268 |

Net sales for the Walmart International segment increased 11.5% for the three months ended April 30, 2011 when compared to the three months ended April 30, 2010. The increases in net sales are primarily due to a combination of growth in comp sales, as well as new stores, as our continued expansion activities, principally in Mexico, Brazil, and China, grew overall retail square footage by 7.9% during the trailing twelve month period ended April 30, 2011. Additionally, fluctuations in currency exchange rates provided a favorable impact of $1.3 billion to the Walmart International segment s net sales for the three months ended April 30, 2011. Volatility in currency exchange rates may continue to affect the Walmart International segment in the future.

Gross profit margin decreased by 38 basis points for the three months ended April 30, 2011 compared to the same period in the prior year. The gross profit margin declined from last year is primarily due to the change in sales mix associated with the Easter calendar shift and investment in price.

Operating expenses, as a percentage of segment net sales, were 20.6% and 20.3% for the three months ended April 30, 2011 and 2010, respectively. During the three month period ended April 30, 2011, operating expense increases were offset by expense reductions from strong expense management in Canada and Chile. In addition, operating expenses during the three months ended April 30, 2011 include charges of $67 million for changes associated with the ASDA defined benefit plan and $51 million for the 2011 earthquake and tsunami in Japan. Operating expenses for the three months ended April 30, 2010 included a charge of $26 million for the 2010 earthquake in Chile.

Operating income for the three months ended April 30, 2011 includes approximately $51 million gain, included in Membership and Other Income, from the sale of an investment and a benefit of $49 million resulting from currency exchange rate fluctuations. Volatility in currency exchange rates may continue to affect the Walmart International segment in the future.

Sam s Club Segment

| *(Amounts in millions, except store counts)* | **Three Months Ended April 30,** 2011 | 2010 |
|---|---|---|
| Net sales | $ 12,841 | $ 11,743 |
| Percentage change from comparable period | 9.4% | 4.6% |
| Calendar comparable club sales | 8.8% | 4.9% |
| Operating income | $ 459 | $ 429 |
| Operating income as a percentage of net sales | 3.6% | 3.7% |
| Unit counts | 609 | 605 |
| Retail square feet | 81 | 81 |
| ***Excluding Fuel*** | | |
| Net sales | $ 11,292 | $ 10,764 |
| Percentage change from comparable period | 4.9% | 1.3% |
| Calendar comparable club sales | 4.4% | 1.6% |
| Operating income | $ 457 | $ 430 |
| Operating income as a percentage of net sales | 4.0% | 4.0% |

Net sales for the Sam s Club segment increased 9.4% for the three months ended April 30, 2011 when compared to the three months ended April 30, 2010. The net sales increase is primarily due to an increase of 8.8% in comparable club sales driven by increased customer traffic, increased average ticket and increased fuel sales. Higher fuel sales driven by higher fuel prices and increased gallons sold, positively impacted comparable sales by 4.4% during the three month period ended April 30, 2011. Fuel price volatility has a notable impact on financial results and may continue to impact the Sam s Club segment in the future.

Gross profit margin, as a percentage of sales, decreased by 50 basis points for the three months ended April 30, 2011 compared to the same period in the prior year as a result of the rising cost of fuel. Fuel sales have increased significantly; however, fuel profit dollars were relatively flat when compared to the same period last year. Excluding the impact of fuel, gross profit margin was flat when compared to the first quarter of fiscal 2011.

Operating expenses, as a percentage of segment net sales, declined by 58 basis points for the three months ended April 30, 2011 when compared to the same period last year. Excluding fuel, Sam s Club operating expenses as a percentage of segment net sales declined by 17 basis points during the three months ended April 30, 2011. Wage management was the primary driver of the basis point reduction in operating expenses as a percentage of segment net sales.

Membership and other income, as a percentage of segment net sales, for the three months ended April 30, 2011 decreased 16 basis points when compared to the three months ended April 30, 2010. Membership income, which is recognized over the term of the membership, increased 41 basis points when compared to the same period last year.

**Liquidity and Capital Resources**

Cash flows provided by operating activities have historically supplied us with a significant source of liquidity. We use these cash flows, supplemented with long-term debt and short-term borrowings, to fund our operations and global expansion activities. Generally, some or all of the remaining free cash flow, if any, funds all or part of the dividends on our common stock and share repurchases.

| (Amounts in millions) | Three Months Ended April 30, 2011 | 2010 |
|---|---|---|
| Net cash provided by operating activities | $ 1,974 | $ 973 |
| Payments for property and equipment | (2,389) | (2,563) |
| Free cash flow | $ (415) | $ (1,590) |
| Net cash used in investing activities | $ (1,869) | $ (2,236) |
| Net cash provided by financing activities | $ 1,666 | $ 1,836 |

Cash Flows from Operating Activities

Cash flows provided by operating activities were $2.0 billion and $1.0 billion for the three months ended April 30, 2011 and 2010, respectively. The increase in cash flows provided by operating activities for the three months ended April 30, 2011 from the prior year period was primarily related to the timing of accrued liabilities and an increase in accounts receivable.

*Cash Equivalents and Working Capital*

Cash and cash equivalents were $9.4 billion and $8.5 billion at April 30, 2011 and 2010, respectively. Our working capital deficits were $6.1 billion and $13.1 billion at April 30, 2011 and 2010, respectively. We generally operate with a working capital deficit due to our efficient use of cash in funding operations and in providing returns to our shareholders in the form of stock repurchases and payments of dividends.

*Cash Flows from Investing Activities*

Cash flows from investing activities generally consist of payments for property and equipment, which were $2.4 billion and $2.6 billion during the three months ended April 30, 2011 and 2010, respectively. These capital expenditures primarily relate to new store growth, as well as remodeling costs for existing stores. We expect capital expenditures for our fiscal year ending January 31, 2012 to range between $12.5 billion and $13.5 billion, excluding acquisitions.

Cash Flows from Financing Activities

Cash flows from financing activities generally consist of transactions related to our short- and long-term debt, as well as dividends paid and the repurchase of Company stock.

*Short-Term Borrowings*

During the three months ended April 30, 2011, we increased our net short-term borrowings by $2.4 billion as compared to an increase of $4.3 billion during the same period in the prior year. From time to time, we utilize the liquidity under our short-term borrowing programs to fund our operations, dividend payments, share repurchases, capital expenditures, and for other cash requirements and corporate purposes on an as-needed basis.

*Long-Term Debt*

Proceeds from the issuance of long-term debt were $4.9 billion and $2.0 billion, for the three months ended April 30, 2011 and 2010, respectively. The proceeds from the issuance of long-term debt were used to pay down or refinance existing debt, and for other general corporate purposes.

Information on new long-term debt issuances during the first quarter of fiscal 2012 is as follows:

*(Amounts in millions)*

| Issue Date | Maturity Date | Interest Rate | Principal Amount |
|---|---|---|---|
| April 18, 2011 | April 15, 2014 | 1.625% | $1,000 |

| | | | |
|---|---|---|---|
| April 18, 2011 | April 15, 2016 | 2.800% | 1,000 |
| April 18, 2011 | April 15, 2021 | 4.250% | 1,000 |
| April 18, 2011 | April 15, 2041 | 5.625% | 2,000 |
| **Total Issuances** | | | **$5,000** |

The notes of each series require semi-annual interest payments on April 15 and October 15 of each year, commencing on October 15, 2011. Unless previously purchased and cancelled, the Company will repay the notes of each series at 100% of their principal amount, together with accrued and unpaid interest thereon, at their maturity. The notes of each series are senior, unsecured obligations of the Company.

*Dividends*

On March 3, 2011, the Company s Board of Directors declared an annual dividend for fiscal 2012 of $1.46 per share, an increase of 21% over the per share dividends paid in fiscal 2011. For the fiscal year ending January 31, 2012, the annual dividend will be paid in four quarterly installments according to the following record and payable dates:

| Record Date | Payable Date |
|---|---|
| March 11, 2011 | April 4, 2011 |
| May 13, 2011 | June 6, 2011 |
| August 12, 2011 | September 6, 2011 |
| December 9, 2011 | January 3, 2012 |

The dividend installment payable on April 4, 2011 was paid as scheduled.

*Company Share Repurchase Program*

From time to time, we have repurchased shares of our common stock under a $15.0 billion share repurchase program authorized by our Board of Directors on June 3, 2010 and announced on June 4, 2010. On June 2, 2011, the Company s Board of Directors replaced that share repurchase program, which had approximately $2.1 billion of remaining authorization for share repurchase as of that date, with a new $15.0 billion share repurchase program, announced on June 3, 2011. As a result, we have terminated and will make no further share repurchases under the program announced on June 4, 2010. As was the case with the replaced share repurchase program, the new program has no expiration date or other restriction limiting the period over which we can make our share repurchases and will expire only when and if we have repurchased $15.0 billion of our shares under the newly authorized program or we earlier terminate or replace the newly authorized program. Any repurchased shares are constructively retired and returned to an unissued status. We spent approximately $2.1 billion and $3.0 billion for share repurchases during the first quarters of fiscal years 2012 and 2011, respectively. We consider several factors in determining when to execute the share repurchases, including, among other things, our current cash needs, our capacity for leverage, our cost of borrowings and the market price of our common stock.

Capital Resources

Management believes cash flows from continuing operations and proceeds from the issuance of short-term borrowings will be sufficient to finance seasonal buildups in merchandise inventories and meet other cash requirements. If our operating cash flows are not sufficient to pay dividends and to fund our capital expenditures, we anticipate funding any shortfall in these expenditures with a combination of short-term borrowings and long-term debt. We plan to refinance existing long-term debt as it matures and may desire to obtain additional long-term financing for other corporate purposes.

Our access to the commercial paper and long-term debt markets has historically provided us with substantial sources of liquidity. We anticipate no difficulty in obtaining financing from those markets in the future in view of our favorable experiences in the debt markets in the recent past. Our ability to continue to access the commercial paper and long-term debt markets on favorable interest rates and other terms will depend, to a significant degree, on the ratings assigned by the credit rating agencies to our indebtedness continuing to be at or above the level of our current ratings. At April 30, 2011, the ratings assigned to our commercial paper and rated series of our outstanding long-term debt were as follows:

| Rating agency | Commercial paper | Long-term debt |
|---|---|---|
| Standard & Poor s | A-1+ | AA |
| Moody s Investors Service | P-1 | Aa2 |
| Fitch Ratings | F1+ | AA |
| DBRS Limited | R-1(middle) | AA |

In the event that the ratings of our commercial paper or any rated series of our outstanding long-term debt issues were lowered or withdrawn for any reason or if the ratings assigned to any new issue of the Company s long-term debt securities were lower than those noted above, our ability to access the debt markets would be adversely affected. In addition, in such a case, our cost of funds for new issues of commercial paper and long-term debt, (i.e., the rate of interest on any such indebtedness), would be higher than our cost

of funds had the ratings of those new issues been at or above the level of the ratings noted above. The rating agency ratings are not recommendations to buy, sell or hold our commercial paper or debt securities. Each rating may be subject to revision or withdrawal at any time by the assigning rating organization and should be evaluated independently of any other rating. Moreover, each credit rating is specific to the security to which it applies.

To monitor our credit rating and our capacity for long-term financing, we consider various qualitative and quantitative factors. For the purpose of this calculation, debt is defined as the sum of short-term borrowings, long-term debt due within one year, obligations under capital leases due in one year, long-term debt and long-term obligations under capital leases. Total capitalization is defined as debt plus total Walmart shareholders equity. We monitor the ratio of our debt to our total capitalization as support for our long-term financing decisions. At April 30, 2011 and 2010, the ratio of our debt-to-total capitalization was 46.1% and 41.6%, respectively. Our ratio of debt to our total capitalization increased during the three months ended April 30, 2011 as a result of an increase in our long-term debt coupled with a decline in shareholders equity, primarily as a result of the amounts expended for cash dividends and share repurchases over the trailing twelve months ended April 30, 2011.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

Market risks relating to our operations result primarily from changes in interest rates and changes in currency exchange rates. Our market risks at April 30, 2011 are similar to those disclosed in our Form 10-K for the year ended January 31, 2011.

The information concerning market risk under the sub-caption Market Risk of the caption Management s Discussion and Analysis of Financial Condition and Results of Operations on page 17 of the Annual Report to Shareholders for the year ended January 31, 2011 that is Exhibit 13 to our Annual Report on Form 10-K for the year ended January 31, 2011, is hereby incorporated by reference into this Quarterly Report on Form 10-Q.

**Item 4. Controls and Procedures**

We maintain a system of disclosure controls and procedures that are designed to provide reasonable assurance that information, which is required to be timely disclosed, is accumulated and communicated to management in a timely fashion. In designing and evaluating such controls and procedures, we recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. Our management is necessarily required to use judgment in evaluating controls and procedures. Also, we may have investments in certain unconsolidated entities. Since we do not control or manage those entities, our controls and procedures with respect to those entities are substantially more limited than those we maintain with respect to our consolidated subsidiaries.

In the ordinary course of business, we review our system of internal control over financial reporting and make changes to our systems and processes to improve such controls and increase efficiency, while ensuring that we maintain an effective internal control environment. Changes may include such activities as implementing new, more efficient systems and automating manual processes. In the second quarter of fiscal 2010, we began implementing a new financial system in stages and to date, have completed implementations in the United States and Puerto Rico, the United Kingdom, Canada and Japan. During the second quarter of fiscal 2012, we completed the system implementation in Mexico and began the implementation in Central America. The new financial system is a significant component of our internal control over financial reporting. We will continue to implement our new financial system in stages, and each implementation may become a significant component of our internal control over financial reporting.

An evaluation of the effectiveness of the design and operation of our disclosure controls and procedures was performed as of the end of the period covered by this report. This evaluation was performed under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure and are effective to provide reasonable assurance that such information is recorded, processed, summarized and reported within the time periods specified by the SEC s rules and forms.

Except for the new system implementation noted above, there has been no change in the Company s internal control over financial reporting that occurred during the fiscal quarter ended April 30, 2011, that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

## PART II. OTHER INFORMATION

**Item 1. Legal Proceedings**

**I. SUPPLEMENTAL INFORMATION:** We discuss certain legal proceedings in Part 1 of this Quarterly Report on Form 10-Q under the caption Item 1. Financial Statements, in Note 9 of our Condensed Consolidated Financial Statements, which is captioned Legal Proceedings, and refer you to that discussion for important information concerning those legal proceedings, including the basis for such actions and, where known, the relief sought. We provide the following additional information concerning those legal proceedings, including the name of the lawsuit, the court in which the lawsuit is pending, and the date on which the petition commencing the lawsuit was filed. In each lawsuit s name, the letters WM refer to Wal-Mart Stores, Inc.

**Wage-and-Hour Class Action:** *Braun/Hummel v. WM*, Ct. of Common Pleas, Philadelphia County, PA, 3/20/02 & 8/30/04; Superior Ct. of PA, Eastern Dist., Philadelphia, PA, 12/07/07.

**Gender Discrimination Class Action:** *Dukes v. WM*, USDC, Northern Dist. of CA, San Francisco Div., 6/19/01; 9th Circuit Ct. of Appeals, San Francisco, CA, 8/26/04; US Supreme Court, Washington DC, 8/25/10.

**II. ENVIRONMENTAL MATTERS:** Item 103 of SEC Regulation S-K requires disclosure of certain environmental matters. The following matters are disclosed in accordance with that requirement:

On November 8, 2005, the Company received a grand jury subpoena from the United States Attorney s Office for the Central District of California, seeking documents and information relating to the Company s receipt, transportation, handling, identification, recycling, treatment, storage and disposal of certain merchandise that constitutes hazardous materials or hazardous waste. The Company has been informed by the U.S. Attorney s Office for the Central District of California that it is a target of a criminal investigation into potential violations of the Resource Conservation and Recovery Act (the RCRA ), the Clean Water Act and the Hazardous Materials Transportation Statute. This U.S. Attorney s Office contends, among other things, that the use of Company trucks to transport certain returned merchandise from the Company s stores to its return centers is prohibited by RCRA because those materials may be considered hazardous waste. The government alleges that, to comply with RCRA, the Company must ship from the store certain materials as hazardous waste directly to a certified disposal facility using a certified hazardous waste carrier. The U.S. Attorney s Office in the Northern District of California subsequently joined in this investigation. The Company contends that the practice of transporting returned merchandise to its return centers for subsequent disposition, including disposal by certified facilities, is compliant with applicable laws and regulations. While management cannot predict the ultimate outcome of this matter, management does not believe the outcome will have a material effect on the Company s financial condition or results of operations.

The U.S. Environmental Protection Agency (the EPA ) approached a grocery industry group to resolve issues relating to refrigerant-handling practices and to reduce the use of ozone-depleting refrigerants in refrigeration equipment. The Company then approached the EPA independently to address these issues, and proposed a plan for removing ozone-depleting refrigerants from certain types of refrigeration equipment. While management cannot predict the ultimate outcome of this matter, management does not believe the outcome will have a material effect on the Company s financial condition or results of operations.

In January 2007, Wal-Mart Puerto Rico, Inc. became aware that the U.S. Army Corps of Engineers (the USACE ) was concerned about alleged violations of a permit issued by that agency in 2003, for the fill of 0.23 acres of a creek and its contiguous wetlands during the construction of the Wal-Mart Store in Caguas, Puerto Rico. On January 19, 2007, Wal-Mart Puerto Rico responded to these issues in writing. On January 25, 2007, the USACE issued a formal Notice of Non-Compliance to Wal-Mart Puerto Rico regarding this matter. Wal-Mart Puerto Rico filed a formal response, implemented mitigation measures, and continues to monitor and provide the required maintenance to the mitigation area. While management cannot predict the ultimate outcome of this matter, management does not believe the outcome will have a material effect on the Company s financial condition or results of operations.

On March 28, 2008, the Company received a Notice of Violation from the Missouri Department of Natural Resources (the Department ) alleging various violations of Missouri hazardous waste laws and regulations in connection with the activities of a third-party contractor with whom the Company had contracted for recycling services. The Department alleges that the Company provided certain items to the contractor for recycling that should have been managed as hazardous waste. The EPA has inspected the contractor s facilities, and both the EPA and the U.S. Attorney s Office for the Western District of Missouri are conducting investigations. The Company has submitted a response to the Notice of Violation and is cooperating with these authorities. While management cannot predict the ultimate outcome of this matter, management does not believe the outcome will have a material effect on the Company s financial condition or results of operations.

In January, 2011, the Environmental Department of Porto Alegre Municipality formally notified WMS Supermercados do Brasil Ltda of soil inspection reports indicating soil contamination due to leakage of oil from power generating equipment at nine store locations in Brazil. WMS

Supermercados do Brasil Ltda is cooperating with the agency as well as the District Attorney s Office for the State of

Rio Grande do Sul and has filed a mitigation plan to address the situation. While management cannot predict the ultimate outcome of this matter, management does not believe the outcome will have a material effect on the Company s financial condition or results of operations.

**Item 1A. Risk Factors**

The risks described in Item 1A. Risk Factors, in our Annual Report on Form 10-K for the year ended January 31, 2011, could materially and adversely affect our business, financial condition and results of operations. The risk factors discussed in that Form 10-K do not identify all risks that we face because our business operations could also be affected by additional factors that are not presently known to us or that we currently consider to be immaterial to our operations. No material change in the risk factors discussed in that Form 10-K has occurred.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

Share repurchase activity under our share repurchase program was as follows during the three months ended April 30, 2011:

| Fiscal Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (billions) |
|---|---|---|---|---|
| February 1-28, 2011 | 20,774,812 | $ 55.53 | 20,774,812 | $ 3.7 |
| March 1-31, 2011 | 10,175,608 | 52.09 | 10,175,608 | 3.1 |
| April 1-30, 2011 | 8,395,472 | 53.06 | 8,395,472 | 2.7 |
| Total | 39,345,892 | | 39,345,892 | |

**Item 5. Other Information**

***Amendment to the Company s Amended and Restated Bylaws***

On June 2, 2011, the Company s Board of Directors approved amendments to the Company s Bylaws relating to the appointment of vice presidents of the Company.

***Forward-looking Statements***

This Quarterly Report on Form 10-Q contains statements that Walmart believes are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, and intended to enjoy the protection of the safe harbor for forward-looking statements provided by that Act. These forward-looking statements include: (1) a statement in Note 7 to Walmart s condensed consolidated financial statements as of and for the quarter ended April 30, 2011 regarding the expected immateriality of any ineffectiveness of certain cash flow instruments to which Walmart is a party; statements in Note 9 to those condensed consolidated financial statements regarding the possible outcome of certain litigation and other proceedings to which Walmart is a party; statements in Note 10 to those condensed consolidated financial statements as to the expected time of completion of the acquisition and in-store conversion of the Netto stores acquired by the Company, as well as concerning the steps in the approval process of our pending acquisition of Massmart; a statement in Note 12 to those condensed consolidated financial statements regarding the payment of dividends in the remainder of fiscal year 2012; (2) in Part I., Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations: under the caption Company Performance Metrics Growth a statement (that also appears under the caption Results of Operations Consolidated ) relating to the possible continuing impact of volatility in currency exchange rates on Walmart s net sales, a statement relating to the possible continuing impact of volatility in fuel prices on Walmart s Sam s Club segment s comparable club sales, and a statement relating to the possible continuing impact of volatility in fuel prices on Walmart s total U.S. comparable store sales; statements under the caption Results of Operations Consolidated regarding the forecasted full year effective tax rate for Walmart s fiscal year 2012 and the factors that may impact that effective tax rate; statements under the caption Results of Operations Walmart International

Segment relating to the possible continuing impact of volatility in currency exchange rates on the Walmart International segment s net sales and operating results income; statements under the caption Results of Operations Sam s Club Segment relating to the possible continuing impact of volatility in fuel prices on the Sam s Club segment s net sales; a statement under the caption Liquidity and Capital Resources Cash Flows from Financing Activities Dividends Paid regarding the payment of dividends in the remainder of fiscal 2012; a statement under the caption Liquidity and Capital Resources Cash Flows from Investing Activities regarding management s expectations as to the aggregate amount of capital expenditures Walmart will make in fiscal year 2012; a statement under the caption Liquidity and Capital Resources Cash Flows from Financing Activities Company Share Repurchase Program regarding management s expectations as to factors to be considered in repurchasing shares under a share repurchase program; and statements under the caption Liquidity and Capital Resources Capital Resources regarding management s expectations regarding the sufficiency of cash flows from operations and the proceeds from the issuance of short-term borrowings to finance seasonal inventory buildups and to meet other cash requirements, management s expectations regarding funding certain cash flow shortfalls with a combination of short-term borrowings and long-term debt securities, management s plans to refinance existing long-term debt as it matures, management s expectations as to obtaining additional long-term financing for other corporate purposes and Walmart s ability to do so, and management s expectation that Walmart s ability to access the commercial paper and long-term debt markets on favorable terms will depend on Walmart s credit ratings and the effect that lower ratings would have on that access and Walmart s cost of funds; (3) a statement in Part I., Item 4. Controls and Procedures regarding management s expectations that each implementation of Walmart s new financial system may become a significant component of Walmart s internal control over financial reporting; and (4) statements in Part II., Item 1. Legal Proceedings regarding the outcome of certain legal proceedings to which Walmart is a party, as well as other statements about Walmart s future performance, occurrences, plans and objectives. These statements are identified by the use of the words anticipate, believe, consider, could be, could result, expect, expected, may become, may continu may impact, may result, plan, will be, will be paid, will continue, will depend, would be or a variation of one of those words or phra statements or by the use of words or phrases of similar import. These forward-looking statements are subject to risks, uncertainties and other factors, domestically and internationally, including general economic conditions, including the current economic crisis and disruption in the financial markets, unemployment levels, consumer credit availability, levels of consumer disposable income, consumer spending patterns and debt levels, inflation, deflation, the cost of the goods that Walmart sells, labor costs, transportation costs, the cost of diesel fuel, gasoline, natural gas and electricity, the cost of healthcare benefits, accident costs, Walmart s casualty and other insurance costs, information security costs, the cost of construction materials, availability of acceptable building sites for new stores, clubs and other formats, competitive pressures, accident-related costs, weather patterns, catastrophic events, storm and other damage to Walmart s stores and distribution centers, weather-related closing of stores, availability and transport of goods from domestic and international suppliers, currency exchange fluctuations and volatility, trade restrictions, changes in tariff and freight rates, adoption of or changes in tax and other laws and regulations that affect Walmart s business, costs of compliance with laws and regulations, the outcome of legal proceedings to which Walmart is a party, interest rate fluctuations, changes in employment legislation and other capital market, pandemics, economic and geo-political conditions and events, including civil unrest and terrorist attacks, and other risks. Walmart discusses certain of these matters more fully, as well as certain risk factors that may affect its business operations, financial condition and results of operations, in other of Walmart s filings with the SEC, including its Annual Report on Form 10-K for the year ended January 31, 2011. This Quarterly Report on Form 10-Q should be read in conjunction with that Annual Report on Form 10-K and all of Walmart s other filings, including Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, made with the SEC through the date of this report. Walmart urges you to consider all of these risks, uncertainties and other factors carefully in evaluating the forward-looking statements contained in this Quarterly Report on Form 10-Q. As a result of these and other matters, including changes in facts, assumptions not being realized or other factors, the actual results relating to the subject matter of any forward-looking statement in this Quarterly Report on Form 10-Q may differ materially from the anticipated results expressed or implied in that forward-looking statement. The forward-looking statements included in this Quarterly Report on Form 10-Q are made only as of the date of this report, and Walmart undertakes no obligation to update any of these forward-looking statements to reflect subsequent events or circumstances.

**Item 6. Exhibits**

The following documents are filed as an exhibit to this Quarterly Report on Form 10-Q:

| | |
|---|---|
| Exhibit 3(i) | Restated Certificate of Incorporation of the Company is incorporated herein by reference to Exhibit 3(a) to the Annual Report on Form 10-K of the Company for the year ended January 31, 1989 (which document may be found and reviewed in the SEC s Public Reference Room at 100 F Street, NE, Room 1580, Washington, D.C. 20549, in the files therein relating to the Company, whose SEC file number is No. 1-6991), the Certificate of Amendment to the Restated Certificate of Incorporation is incorporated herein by reference to Registration Statement on Form S-8 (File Number 33-43315) and the Certificate of Amendment to the Restated Certificate of Incorporation is incorporated herein by reference to the Current Report on Form 8-K of the Company, dated August 11, 1999 (which document may be found and reviewed in the SEC s Public Reference Room at 100 F Street, NE, Room 1580, Washington, D.C. 20549, in the files therein relating to the Company, whose SEC file number is No. 1-6991). |
| Exhibit 3(ii)* | Amended and Restated Bylaws of the Company |
| Exhibit 12.1* | Ratio of Earnings to Fixed Charges |
| Exhibit 31.1* | Chief Executive Officer Section 302 Certification |
| Exhibit 31.2* | Chief Financial Officer Section 302 Certification |
| Exhibit 32.1** | Chief Executive Officer Section 906 Certification |
| Exhibit 32.2** | Chief Financial Officer Section 906 Certification |
| Exhibit 99 | The information incorporated by reference in Part I, Item 3 of this Quarterly Report on Form 10-Q is incorporated by reference to the material set forth under the sub-caption Market Risk in Management s Discussion and Analysis of Financial Condition and Results of Operations, which is contained in Exhibit 13 to the Company s Annual Report on Form 10-K for the year ended January 31, 2011, as filed with the Securities and Exchange Commission. |
| Exhibit 101.INS**+ | XBRL Instance Document |
| Exhibit 101.SCH**+ | XBRL Taxonomy Extension Schema Document |
| Exhibit 101.CAL**+ | XBRL Taxonomy Extension Calculation Linkbase Document |
| Exhibit 101.DEF**+ | XBRL Taxonomy Extension Definition Linkbase Document |
| Exhibit 101.LAB**+ | XBRL Taxonomy Extension Label Linkbase Document |
| Exhibit 101.PRE**+ | XBRL Taxonomy Extension Presentation Linkbase Document |

* Filed herewith as an Exhibit.

** Furnished herewith as an Exhibit.

\+ Submitted electronically with this Quarterly Report.

## SIGNATURES

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

| | | |
|---|---|---|
| | | **WAL-MART STORES, INC.** |
| Date: June 3, 2011 | By: | /s/ Michael T. Duke<br>**Michael T. Duke**<br>**President and Chief Executive Officer**<br>**(Principal Executive Officer)** |
| Date: June 3, 2011 | By: | /s/ Charles M. Holley, Jr.<br>**Charles M. Holley, Jr.**<br>**Executive Vice President and Chief Financial Officer**<br>**(Principal Financial Officer)** |
| Date: June 3, 2011 | By: | /s/ Steven P. Whaley<br>**Steven P. Whaley**<br>**Senior Vice President and Controller**<br>**(Principal Accounting Officer)** |

**Index to Exhibits**

The following documents are filed as an exhibit to this Quarterly Report on Form 10-Q:

| | |
|---|---|
| Exhibit 3(i) | Restated Certificate of Incorporation of the Company is incorporated herein by reference to Exhibit 3(a) to the Annual Report on Form 10-K of the Company for the year ended January 31, 1989 (which document may be found and reviewed in the SEC s Public Reference Room at 100 F Street, NE, Room 1580, Washington, D.C. 20549, in the files therein relating to the Company, whose SEC file number is No. 1-6991), the Certificate of Amendment to the Restated Certificate of Incorporation is incorporated herein by reference to Registration Statement on Form S-8 (File Number 33-43315) and the Certificate of Amendment to the Restated Certificate of Incorporation is incorporated hereby by reference to the Current Report on Form 8-K of the Company, dated August 11, 1999 (which document may be found and reviewed in the SEC s Public Reference Room at 100 F Street, NE, Room 1580, Washington, D.C. 20549, in the files therein relating to the Company, whose SEC file number is No. 1-6991). |
| Exhibit 3(ii)* | Amended and Restated Bylaws of the Company |
| Exhibit 12.1* | Ratio of Earnings to Fixed Charges |
| Exhibit 31.1* | Chief Executive Officer Section 302 Certification |
| Exhibit 31.2* | Chief Financial Officer Section 302 Certification |
| Exhibit 32.1** | Chief Executive Officer Section 906 Certification |
| Exhibit 32.2** | Chief Financial Officer Section 906 Certification |
| Exhibit 99 | The information incorporated by reference in Part I, Item 3 of this Quarterly Report on Form 10-Q is incorporated by reference to the material set forth under the sub-caption Market Risk in Management s Discussion and Analysis of Financial Condition and Results of Operations, which is contained in Exhibit 13 to the Company s Annual Report on Form 10-K for the year ended January 31, 2011, as filed with the Securities and Exchange Commission. |
| Exhibit 101.INS**+ | XBRL Instance Document |
| Exhibit 101.SCH**+ | XBRL Taxonomy Extension Schema Document |
| Exhibit 101.CAL**+ | XBRL Taxonomy Extension Calculation Linkbase Document |
| Exhibit 101.DEF**+ | XBRL Taxonomy Extension Definition Linkbase Document |
| Exhibit 101.LAB**+ | XBRL Taxonomy Extension Label Linkbase Document |
| Exhibit 101.PRE**+ | XBRL Taxonomy Extension Presentation Linkbase Document |

* Filed herewith as an Exhibit.
** Furnished herewith as an Exhibit.
\+ Submitted electronically with this Quarterly Report.

size: 1pt">

| | | | | |
|---|---|---|---|---|
| Call Options Written | $ (7,558,625 ) | $ | $ | $ (7,558,625 ) |
| Put Options Written | | (1,275,535 ) | | (1,275,535 ) |
| **Total** | **$ (7,558,625 )** | **$ (1,275,535 )** | **$** | **$ (8,834,160 )** |

* Includes foreign equity securities whose values were adjusted to reflect market trading of comparable securities or other correlated instruments that occurred after the close of trading in their applicable foreign markets.

The Fund held no investments or other financial instruments as of December 31, 2009 whose fair value was determined using Level 3 inputs. At December 31, 2010, the value of investments transferred between Level 1 and

Level 2, if any, during the year then ended was not significant.

Eaton Vance Risk-Managed Diversified Equity Income Fund as of December 31, 2010

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Trustees and Shareholders of Eaton Vance Risk-Managed Diversified Equity Income Fund:
We have audited the accompanying statement of assets and liabilities of Eaton Vance Risk-Managed Diversified Equity Income Fund (the Fund ), including the portfolio of investments, as of December 31, 2010, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the three years in the period then ended and for the period from the start of business, July 31, 2007, to December 31, 2007. These financial statements and financial highlights are the responsibility of the Fund s management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. The Fund is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of December 31, 2010, by correspondence with the custodian and brokers; where replies were not received from brokers, we performed other auditing procedures. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Eaton Vance Risk-Managed Diversified Equity Income Fund as of December 31, 2010, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the three years in the period then ended and for the period from the start of business, July 31, 2007, to December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

DELOITTE & TOUCHE LLP
Boston, Massachusetts
February 17, 2011

Eaton Vance Risk-Managed Diversified Equity Income Fund as of December 31, 2010

FEDERAL TAX INFORMATION (Unaudited)

The Form 1099-DIV you received in January 2011 showed the tax status of all distributions paid to your account in calendar year 2010. Shareholders are advised to consult their own tax adviser with respect to the tax consequences of their investment in the Fund. As required by the Internal Revenue Code and/or regulations, shareholders must be notified within 60 days of the Fund s fiscal year end regarding the status of qualified dividend income for individuals and the dividends received deduction for corporations.

**Qualified Dividend Income.** The Fund designates approximately $19,088,292 or up to the maximum amount of such dividends allowable pursuant to the Internal Revenue Code, as qualified dividend income eligible for the reduced tax rate of 15%.

**Dividends Received Deduction.** Corporate shareholders are generally entitled to take the dividends received deduction on the portion of the Fund s dividend distribution that qualifies under tax law. For the Fund s fiscal 2010 ordinary income dividends, 100.00% qualifies for the corporate dividends received deduction.

Eaton Vance Risk-Managed Diversified Equity Income Fund

NOTICE TO SHAREHOLDERS

Effective November 1, 2010, the Fund s investment policies were amended to permit the sale of out-of-the-money index put options in combination with the purchase of index put options at a higher exercise price, a strategy known as buying put option spreads. Under normal market conditions, the Fund purchases index put options with respect to at least 80% of the value of its investments in common stocks to protect the Fund against loss of value in the event of a stock market decline. By purchasing put option spreads rather than standalone put options, the Fund can lower the net cost of its market hedging activities, since the premiums received from selling index put options will offset, in part, the premiums paid to purchase the index put options. Although less expensive than buying a standalone index put option, buying a put option spread will expose the Fund to incremental loss if the value of the index at contract expiration is below the exercise price of the put option sold. Eaton Vance Management, the Fund s investment adviser, believes that it may be more advantageous for the Fund to purchase index put option spreads rather than standalone index put options under certain market conditions.

18

Eaton Vance Risk-Managed Diversified Equity Income Fund

DIVIDEND REINVESTMENT PLAN

The Fund offers a dividend reinvestment plan (the Plan) pursuant to which shareholders automatically have distributions reinvested in common shares (the Shares) of the Fund unless they elect otherwise through their investment dealer. On the distribution payment date, if the net asset value per Share is equal to or less than the market price per Share plus estimated brokerage commissions, then new Shares will be issued. The number of Shares shall be determined by the greater of the net asset value per Share or 95% of the market price. Otherwise, Shares generally will be purchased on the open market by the Plan Agent, American Stock Transfer & Trust Company (AST), who is also the Fund s transfer agent. Distributions subject to income tax (if any) are taxable whether or not shares are reinvested.

If your Shares are in the name of a brokerage firm, bank, or other nominee, you can ask the firm or nominee to participate in the Plan on your behalf. If the nominee does not offer the Plan, you will need to request that your Shares be re-registered in your name with AST or you will not be able to participate.

The Plan Agent s service fee for handling distributions will be paid by the Fund. Each participant will be charged their pro-rata share of brokerage commissions on all open-market purchases.

Plan participants may withdraw from the Plan at any time by writing to the Plan Agent at the address noted on the following page. If you withdraw, you will receive shares in your name for all Shares credited to your account under the Plan. If a participant elects by written notice to the Plan Agent to have the Plan Agent sell part or all of his or her Shares and remit the proceeds, the Plan Agent is authorized to deduct a $5.00 fee plus brokerage commissions from the proceeds.

If you wish to participate in the Plan and your Shares are held in your own name, you may complete the form on the following page and deliver it to the Plan Agent.

Any inquiries regarding the Plan can be directed to the Plan Agent at 1-866-439-6787.

Eaton Vance Risk-Managed Diversified Equity Income Fund

APPLICATION FOR PARTICIPATION IN DIVIDEND REINVESTMENT PLAN

This form is for shareholders who hold their common shares in their own names. If your common shares are held in the name of a brokerage firm, bank, or other nominee, you should contact your nominee to see if it will participate in the Plan on your behalf. If you wish to participate in the Plan, but your brokerage firm, bank, or nominee is unable to participate on your behalf, you should request that your common shares be re-registered in your own name which will enable your participation in the Plan.

The following authorization and appointment is given with the understanding that I may terminate it at any time by terminating my participation in the Plan as provided in the terms and conditions of the Plan.

Please print exact name on account:

| | |
|---|---|
| Shareholder signature | Date |
| Shareholder signature | Date |

Please sign exactly as your common shares are registered. All persons whose names appear on the share certificate must sign.

**YOU SHOULD NOT RETURN THIS FORM IF YOU WISH TO RECEIVE YOUR DISTRIBUTIONS IN CASH. THIS IS NOT A PROXY.**

*This authorization form, when signed, should be mailed to the following address:*

Eaton Vance Risk-Managed Diversified Equity Income Fund
c/o American Stock Transfer & Trust Company
P.O. Box 922
Wall Street Station
New York, NY 10269-0560

**Number of Employees**
The Fund is organized as a Massachusetts business trust and is registered under the Investment Company Act of 1940, as amended, as a closed-end management investment company and has no employees.

**Number of Shareholders**
As of December 31, 2010, our records indicate that there are 43 registered shareholders and approximately 48,185 shareholders owning the Fund shares in street name, such as through brokers, banks, and financial intermediaries.

If you are a street name shareholder and wish to receive Fund reports directly, which contain important information about the Fund, please write or call:

Eaton Vance Distributors, Inc.
Two International Place
Boston, MA 02110
1-800-262-1122

**New York Stock Exchange symbol**

The New York Stock Exchange symbol is ETJ.

Eaton Vance Risk-Managed Diversified Equity Income Fund

BOARD OF TRUSTEES CONTRACT APPROVAL

**Overview of the Contract Review Process**

The Investment Company Act of 1940, as amended (the 1940 Act ), provides, in substance, that each investment advisory agreement between a fund and its investment adviser will continue in effect from year to year only if its continuance is approved at least annually by the fund s board of trustees, including by a vote of a majority of the trustees who are not interested persons of the fund ( Independent Trustees ), cast in person at a meeting called for the purpose of considering such approval.

At a meeting of the Boards of Trustees (each a Board ) of the Eaton Vance group of mutual funds (the Eaton Vance Funds ) held on April 26, 2010, the Board, including a majority of the Independent Trustees, voted to approve continuation of existing advisory and sub-advisory agreements for the Eaton Vance Funds for an additional one-year period. In voting its approval, the Board relied upon the affirmative recommendation of the Contract Review Committee of the Board, which is a committee comprised exclusively of Independent Trustees. Prior to making its recommendation, the Contract Review Committee reviewed information furnished for a series of meetings of the Contract Review Committee held between February and April 2010. Such information included, among other things, the following:

*Information about Fees, Performance and Expenses*

- An independent report comparing the advisory and related fees paid by each fund with fees paid by comparable funds;
- An independent report comparing each fund s total expense ratio and its components to comparable funds;
- An independent report comparing the investment performance of each fund (including yield where relevant) to the investment performance of comparable funds over various time periods;
- Data regarding investment performance in comparison to relevant peer groups of similarly managed funds and appropriate indices;
- For each fund, comparative information concerning the fees charged and the services provided by each adviser in managing other mutual funds and institutional accounts using investment strategies and techniques similar to those used in managing such fund;
- Profitability analyses for each adviser with respect to each fund;

*Information about Portfolio Management*

- Descriptions of the investment management services provided to each fund, including the investment strategies and processes employed, and any changes in portfolio management processes and personnel;
- Information concerning the allocation of brokerage and the benefits received by each adviser as a result of brokerage allocation, including information concerning the acquisition of research through soft dollar benefits received in connection with the funds brokerage, and the implementation of a soft dollar reimbursement program established with respect to the funds;
- Data relating to portfolio turnover rates of each fund;
- The procedures and processes used to determine the fair value of fund assets and actions taken to monitor and test the effectiveness of such procedures and processes;

*Information about each Adviser*

Reports detailing the financial results and condition of each adviser;
Descriptions of the qualifications, education and experience of the individual investment professionals whose responsibilities include portfolio management and investment research for the funds, and information relating to their compensation and responsibilities with respect to managing other mutual funds and investment accounts;
Copies of the Codes of Ethics of each adviser and its affiliates, together with information relating to compliance with and the administration of such codes;
Copies of or descriptions of each adviser s policies and procedures relating to proxy voting, the handling of corporate actions and class actions;
Information concerning the resources devoted to compliance efforts undertaken by each adviser and its affiliates on behalf of the funds (including descriptions of various compliance programs) and their record of compliance with investment policies and restrictions, including policies with respect to market-timing, late trading and selective portfolio disclosure, and with policies on personal securities transactions;
Descriptions of the business continuity and disaster recovery plans of each adviser and its affiliates;
A description of Eaton Vance Management s procedures for overseeing third party advisers and sub-advisers;

*Other Relevant Information*

Information concerning the nature, cost and character of the administrative and other non-investment management services provided by Eaton Vance Management and its affiliates;
Information concerning management of the relationship with the custodian, subcustodians and fund accountants by each adviser or the funds administrator; and
The terms of each advisory agreement.

Eaton Vance Risk-Managed Diversified Equity Income Fund

BOARD OF TRUSTEES CONTRACT APPROVAL CONT D

In addition to the information identified above, the Contract Review Committee considered information provided from time to time by each adviser throughout the year at meetings of the Board and its committees. Over the course of the twelve-month period ended April 30, 2010, with respect to one or more Funds, the Board met ten times and the Contract Review Committee, the Audit Committee, the Governance Committee, the Portfolio Management Committee and the Compliance Reports and Regulatory Matters Committee, each of which is a Committee comprised solely of Independent Trustees, met nine, thirteen, three, eight and fifteen times, respectively. At such meetings, the Trustees received, among other things, presentations by the portfolio managers and other investment professionals of each adviser relating to the investment performance of each fund and the investment strategies used in pursuing the fund s investment objective including, where relevant, the use of derivative instruments, as well as trading policies and procedures and risk management techniques.

For funds that invest through one or more underlying portfolios, the Board considered similar information about the portfolio(s) when considering the approval of advisory agreements. In addition, in cases where the fund s investment adviser has engaged a sub-adviser, the Board considered similar information about the sub-adviser when considering the approval of any sub-advisory agreement.

The Contract Review Committee was assisted throughout the contract review process by Goodwin Procter LLP, legal counsel for the Independent Trustees. The members of the Contract Review Committee relied upon the advice of such counsel and their own business judgment in determining the material factors to be considered in evaluating each advisory and sub-advisory agreement and the weight to be given to each such factor. The conclusions reached with respect to each advisory and sub-advisory agreement were based on a comprehensive evaluation of all the information provided and not any single factor. Moreover, each member of the Contract Review Committee may have placed varying emphasis on particular factors in reaching conclusions with respect to each advisory and sub-advisory agreement.

**Results of the Process**

Based on its consideration of the foregoing, and such other information as it deemed relevant, including the factors and conclusions described below, the Contract Review Committee concluded that the continuance of the investment advisory agreement of Eaton Vance Risk-Managed Diversified Equity Income Fund (the Fund ) with Eaton Vance Management (the Adviser ), including its fee structure, is in the interests of shareholders and, therefore, the Contract Review Committee recommended to the Board approval of the agreement. The Board accepted the recommendation of the Contract Review Committee as well as the factors considered and conclusions reached by the Contract Review Committee with respect to the agreement. Accordingly, the Board, including a majority of the Independent Trustees, voted to approve continuation of the investment advisory agreement for the Fund.

**Nature, Extent and Quality of Services**

In considering whether to approve the investment advisory agreement of the Fund, the Board evaluated the nature, extent and quality of services provided to the Fund by the Adviser.

The Board considered the Adviser s management capabilities and investment process with respect to the types of investments held by the Fund, including the education, experience and number of its investment professionals and other personnel who provide portfolio management, investment research, and similar services to the Fund. The Board evaluated the abilities and experience of such investment personnel in analyzing factors such as tax efficiency and special considerations relevant to investing in stocks and selling call options on various indexes. The Board also took into account the resources dedicated to portfolio management and other services, including the compensation methods to recruit and retain investment personnel, and the time and attention devoted to the Fund by senior management.

The Board also reviewed the compliance programs of the Adviser and relevant affiliates thereof. Among other matters, the Board considered compliance and reporting matters relating to personal trading by investment personnel, selective disclosure of portfolio holdings, late trading, frequent trading, portfolio valuation, business continuity and the allocation of investment opportunities.

The Board also evaluated the responses of the Adviser and its affiliates to requests in recent years from regulatory authorities such as the Securities and Exchange Commission and the Financial Industry Regulatory Authority.

The Board considered shareholder and other administrative services provided or managed by the Adviser and its affiliates, including transfer agency and accounting services. The Board evaluated the benefits to shareholders of investing in a fund that is a part of a large family of funds.

After consideration of the foregoing factors, among others, the Board concluded that the nature, extent and quality of services provided by the Adviser, taken as a whole, are appropriate and consistent with the terms of the investment advisory agreement.

Eaton Vance Risk-Managed Diversified Equity Income Fund

BOARD OF TRUSTEES CONTRACT APPROVAL CONT D

**Fund Performance**

The Board compared the Fund s investment performance to a relevant universe of comparable funds identified by an independent data provider as well as a peer group of similarly managed funds and appropriate benchmark indices. The Board reviewed comparative performance data for the one-year period ended September 30, 2009 for the Fund. The Board concluded that the performance of the Fund was satisfactory.

**Management Fees and Expenses**

The Board reviewed contractual investment advisory fee rates payable by the Fund (referred to as management fees ). As part of its review, the Board considered the management fees and the Fund s total expense ratio for the year ended September 30, 2009, as compared to a group of similarly managed funds selected by an independent data provider. The Board also considered factors that had an impact on Fund expense ratios, as identified by management in response to inquiries from the Contract Review Committee, as well as actions being taken to reduce expenses at the Eaton Vance fund complex level.

After reviewing the foregoing information, and in light of the nature, extent and quality of the services provided by the Adviser, the Board concluded that the management fees charged for advisory and related services are reasonable.

**Profitability**

The Board reviewed the level of profits realized by the Adviser and relevant affiliates in providing investment advisory and administrative services to the Fund and to all Eaton Vance Funds as a group. The Board considered the level of profits realized with and without regard to revenue sharing or other payments by the Adviser and its affiliates to third parties in respect of distribution services. The Board also considered other direct or indirect benefits received by the Adviser and its affiliates in connection with its relationship with the Fund, including the benefits of research services that may be available to the Adviser as a result of securities transactions effected for the Fund and other investment advisory clients.

The Board concluded that, in light of the foregoing factors and the nature, extent and quality of the services rendered, the profits realized by the Adviser and its affiliates are reasonable.

**Economies of Scale**

In reviewing management fees and profitability, the Board also considered the extent to which the Adviser and its affiliates, on the one hand, and the Fund, on the other hand, can expect to realize benefits from economies of scale as the assets of the Fund increase. The Board acknowledged the difficulty in accurately measuring the benefits resulting from the economies of scale with respect to the management of any specific fund or group of funds. The Board also considered the fact that the Fund is not continuously offered and concluded that, in light of the level of the Adviser s profits with respect to the Fund, the implementation of breakpoints in the advisory fee schedule is not appropriate at this time. Based upon the foregoing, the Board concluded that the benefits from economies of scale are currently being shared equitably by the Adviser and its affiliates and the Fund.

Eaton Vance Risk-Managed Diversified Equity Income Fund

MANAGEMENT AND ORGANIZATION

**Fund Management.** The Trustees of Eaton Vance Risk-Managed Diversified Equity Income Fund (the Fund) are responsible for the overall management and supervision of the Fund s affairs. The Trustees and officers of the Fund are listed below. Except as indicated, each individual has held the office shown or other offices in the same company for the last five years. The Noninterested Trustees consist of those Trustees who are not interested persons of the Fund, as that term is defined under the 1940 Act. The business address of each Trustee and officer is Two International Place, Boston, Massachusetts 02110. As used below, EVC refers to Eaton Vance Corporation, EV refers to Eaton Vance, Inc., EVM refers to Eaton Vance Management, BMR refers to Boston Management and Research and EVD refers to Eaton Vance Distributors, Inc. EVC and EV are the corporate parent and trustee, respectively, of EVM and BMR. EVD is the Fund s principal underwriter and a wholly-owned subsidiary of EVC. Each officer affiliated with Eaton Vance may hold a position with other Eaton Vance affiliates that is comparable to his or her position with EVM listed below.

| Name and Year of Birth | Position(s) with the Fund | Term of Office and Length of Service | Principal Occupation(s) During Past Five Years and Other Relevant Experience | Number of Portfolios in Fund Complex Overseen By Trustee(1) | Other Directorships Held During the Last Five Years(2) |
|---|---|---|---|---|---|
| Interested Trustee | | | | | |
| Thomas E. Faust Jr. 1958 | Class I Trustee | Until 2011. 3 years. Trustee since 2007. | Chairman, Chief Executive Officer and President of EVC, Director and President of EV, Chief Executive Officer and President of EVM and BMR, and Director of EVD. Trustee and/or officer of 175 registered investment companies and 1 private investment company managed by EVM or BMR. Mr. Faust is an interested person because of his positions with EVM, BMR, EVD, EVC and EV, which are affiliates of the Fund. | 175 | Director of EVC. |

Noninterested Trustees

| | | | | | |
|---|---|---|---|---|---|
| Benjamin C. Esty 1963 | Class I Trustee | Until 2011. 3 years. Trustee since 2007. | Roy and Elizabeth Simmons Professor of Business Administration and Finance Unit Head, Harvard University Graduate School of Business Administration. | 175 | None |
| Allen R. Freedman 1940 | Class I Trustee | Until 2011. 3 years. Trustee since 2007. | Private Investor and Consultant. Former Chairman (2002-2004) and a Director (1983-2004) of Systems & Computer Technology Corp. (provider of software to higher education). Formerly, a Director of Loring Ward International (fund distributor) (2005-2007). Formerly, Chairman and a Director of Indus International, Inc. (provider of enterprise management software to the power generating industry) (2005-2007). | 175 | Director of Assurant, Inc. (insurance provider) and Stonemor Partners, L.P. (owner and operator of cemeteries). |
| William H. Park 1947 | Class II Trustee | Until 2012. 3 years. Trustee since 2007. | Chief Financial Officer, Aveon Group L.P. (an investment management firm) (since 2010). Formerly, Vice Chairman, Commercial Industrial Finance Corp. (specialty finance company) (2006-2010). Formerly, President and Chief Executive Officer, Prizm Capital Management, LLC (investment management firm) (2002-2005). Formerly, Executive Vice President and Chief Financial Officer, United Asset Management Corporation (an institutional investment management firm) (1982-2001). Formerly, Senior Manager, Price Waterhouse (now PricewaterhouseCoopers) (an independent registered public accounting firm) (1972-1981). | 175 | None |

| | | | | | |
|---|---|---|---|---|---|
| Ronald A. Pearlman 1940 | Class II Trustee | Until 2012. 3 years. Trustee since 2007. | Professor of Law, Georgetown University Law Center. Formerly, Deputy Assistant Secretary (Tax Policy) and Assistant Secretary (Tax Policy), U.S. Department of the Treasury (1983-1985). Formerly, Chief of Staff, Joint Committee on Taxation, U.S. Congress (1988-1990). | 175 | None |
| Helen Frame Peters 1948 | Class II Trustee | Until 2012. 3 years. Trustee since 2008. | Professor of Finance, Carroll School of Management, Boston College. Formerly, Dean, Carroll School of Management, Boston College (2000-2002). Formerly, Chief Investment Officer, Fixed Income, Scudder Kemper Investments (investment management firm) (1998-1999). Formerly, Chief Investment Officer, Equity and Fixed Income, Colonial Management Associates (investment management firm) (1991-1998). | 175 | Director of BJ s Wholesale Club, Inc. (wholesale club retailer). Formerly, Trustee of SPDR Index Shares Funds and SPDR Series Trust (exchange traded funds) (2000-2009). Formerly, Director of Federal Home Loan Bank of Boston (a bank for banks) (2007-2009). |

Eaton Vance Risk-Managed Diversified Equity Income Fund

MANAGEMENT AND ORGANIZATION CONT D

| Name and Year of Birth | Position(s) with the Fund | Term of Office and Length of Service | Principal Occupation(s) During Past Five Years and Other Relevant Experience | Number of Portfolios in Fund Complex Overseen By Trustee[1] | Other Directorships Held During the Last Five Years[2] |
|---|---|---|---|---|---|
| Noninterested Trustees (continued) | | | | | |
| Lynn A. Stout 1957 | Class III Trustee | Until 2013. 3 years. Trustee since 2007. | Paul Hastings Professor of Corporate and Securities Law (since 2006) and Professor of Law (2001-2006), University of California at Los Angeles School of Law. Professor Stout teaches classes in corporate law and securities regulation and is the author of numerous academic and professional papers on these areas. | 175 | None |
| Ralph F. Verni 1943 | Chairman of the Board and Class III Trustee | Until 2013. 3 years. Chairman of the Board and Trustee since 2007. | Consultant and private investor. Formerly, Chief Investment Officer (1982-1992), Chief Financial Officer (1988-1990) and Director (1982-1992), New England Life. Formerly, Chairperson, New England Mutual Funds (1982-1992). Formerly, President and Chief Executive Officer, State Street Management & Research (1992-2000). Formerly, Chairperson, State Street Research Mutual Funds (1992-2000). Formerly, Director, W.P. Carey, LLC | 175 | None |

(1998-2004) and First Pioneer
Farm Credit Corp.
(2002-2006).

Principal Officers who are not Trustees

| Name and Year of Birth | Position(s) with the Fund | Term of Office and Length of Service | Principal Occupation(s) During Past Five Years |
|---|---|---|---|
| Walter A. Row, III 1957 | President(3) | Since 2011 | Vice President of EVM and BMR. Officer of 32 registered investment companies managed by EVM or BMR. |
| Michael A. Allison 1964 | Vice President | Since 2007 | Vice President of EVM and BMR. Officer of 27 registered investment companies managed by EVM or BMR. |
| Duncan W. Richardson 1957 | Vice President(4) | Since 2011 | Director of EVC and Executive Vice President and Chief Equity Investment Officer of EVC, EVM and BMR. Officer of 88 registered investment companies managed by EVM or BMR. |
| Barbara E. Campbell 1957 | Treasurer | Since 2007 | Vice President of EVM and BMR. Officer of 175 registered investment companies managed by EVM or BMR. |
| Maureen A. Gemma 1960 | Secretary and Chief Legal Officer | Secretary since 2007 and Chief Legal Officer since 2008 | Vice President of EVM and BMR. Officer of 175 registered investment companies managed by EVM or BMR. |
| Paul M. O Neil 1953 | Chief Compliance Officer | Since 2007 | Vice President of EVM and BMR. Officer of 175 registered investment companies managed by EVM or BMR. |

(1) Includes both master and feeder funds in a master-feeder structure.

(2) During their respective tenures, the Trustees also served as trustees of one or more of the following Eaton Vance funds (which operated in the years noted): Eaton Vance Credit Opportunities Fund (launched in 2005 and terminated in 2010); Eaton Vance Insured Florida Plus Municipal Bond Fund (launched in 2002 and terminated in 2009); and Eaton Vance National Municipal Income Trust (launched in 1998 and terminated in 2009).

(3) Prior to 2011, Mr. Row served as Vice President of the Fund since 2007.

(4) Prior to 2011, Mr. Richardson served as President of the Fund since 2007.

25

This Page Intentionally Left Blank

This Page Intentionally Left Blank

This Page Intentionally Left Blank

## IMPORTANT NOTICE ABOUT PRIVACY

The Eaton Vance organization is committed to ensuring your financial privacy. Each of the financial institutions identified below has in effect the following policy (Privacy Policy) with respect to nonpublic personal information about its customers:

Only such information received from you, through application forms or otherwise, and information about your Eaton Vance fund transactions will be collected. This may include information such as name, address, social security number, tax status, account balances and transactions.

None of such information about you (or former customers) will be disclosed to anyone, except as permitted by law (which includes disclosure to employees necessary to service your account). In the normal course of servicing a customer s account, Eaton Vance may share information with unaffiliated third parties that perform various required services such as transfer agents, custodians and broker/dealers.

Policies and procedures (including physical, electronic and procedural safeguards) are in place that are designed to protect the confidentiality of such information.

We reserve the right to change our Privacy Policy at any time upon proper notification to you. Customers may want to review our Privacy Policy periodically for changes by accessing the link on our homepage: www.eatonvance.com.

Our pledge of privacy applies to the following entities within the Eaton Vance organization: the Eaton Vance Family of Funds, Eaton Vance Management, Eaton Vance Investment Counsel, Boston Management and Research, and Eaton Vance Distributors, Inc. Our Privacy Policy applies only to those Eaton Vance customers who are individuals and who have a direct relationship with us. If a customer s account (i.e., fund shares) is held in the name of a third-party financial adviser/broker-dealer, it is likely that only such adviser s privacy policies apply to the customer. This notice supersedes all previously issued privacy disclosures. For more information about Eaton Vance s Privacy Policy, please call 1-800-262-1122.

**Investment Adviser and Administrator of**
**Eaton Vance Risk-Managed Diversified Equity Income Fund**
**Eaton Vance Management**
Two International Place
Boston, MA 02110

**Custodian**
**State Street Bank and Trust Company**
200 Clarendon Street
Boston, MA 02116

**Transfer Agent**

**American Stock Transfer & Trust Company**
59 Maiden Lane
Plaza Level
New York, NY 10038

**Independent Registered Public Accounting Firm**
**Deloitte & Touche LLP**
200 Berkeley Street
Boston, MA 02116-5022

**Eaton Vance Risk-Managed Diversified Equity Income Fund**
**Two International Place**
**Boston, MA 02110**

**3079-2/11** **CE-ETJSRC**

**Item 2. Code of Ethics**

The registrant has adopted a code of ethics applicable to its Principal Executive Officer, Principal Financial Officer and Principal Accounting Officer. The registrant undertakes to provide a copy of such code of ethics to any person upon request, without charge, by calling 1-800-262-1122.

**Item 3. Audit Committee Financial Expert**

The registrant s Board has designated William H. Park, an independent trustee, as its audit committee financial expert. Mr. Park is a certified public accountant who is the Chief Financial Officer of Aveon Group, L.P. (an investment management firm). Previously, he served as the Vice Chairman of Commercial Industrial Finance Corp. (specialty finance company), as President and Chief Executive Officer of Prizm Capital Management, LLC (investment management firm), as Executive Vice President and Chief Financial Officer of United Asset Management Corporation (an institutional investment management firm) and as a Senior Manager at Price Waterhouse (now PricewaterhouseCoopers) (an independent registered public accounting firm).

**Item 4. Principal Accountant Fees and Services**

**(a) (d)**

The following table presents the aggregate fees billed to the registrant for the registrant s fiscal years ended December 31, 2009 and December 31, 2010 by the registrant s principal accountant, Deloitte & Touche LLP ( D&T ), for professional services rendered for the audit of the registrant s annual financial statements and fees billed for other services rendered by D&T during such periods.

| **Fiscal Years Ended** | **12/31/09** | **12/31/10** |
|---|---|---|
| Audit Fees | $59,000 | $59,000 |
| Audit-Related Fees[(1)] | $ 0 | $ 0 |
| Tax Fees[(2)] | $ 9,380 | $ 9,380 |
| All Other Fees[(3)] | $ 2,500 | $ 1,900 |
| Total | $70,880 | $70,280 |

(1) Audit-related fees consist of the aggregate fees billed for assurance and related services that are reasonably related to the performance of the audit of financial statements and are not reported under the category of audit fees.

(2) Tax fees consist of the aggregate fees billed for professional services rendered by the principal accountant relating to tax compliance, tax advice, and tax planning and specifically include fees for tax return preparation.

(3) All other fees consist of the aggregate fees billed for products and services provided by the principal accountant other than audit, audit-related, and tax services.

(e)(1) The registrant s audit committee has adopted policies and procedures relating to the pre-approval of services provided by the registrant s principal accountant (the Pre-Approval Policies ). The Pre-Approval Policies establish a framework intended to assist the audit committee in the proper discharge of its pre-approval responsibilities. As a general matter, the Pre-Approval Policies (i) specify certain types of audit, audit-related, tax, and other services determined to be pre-approved by the audit committee; and (ii) delineate specific procedures governing the mechanics of the pre-approval process, including the approval and monitoring of audit and non-audit service fees. Unless a service is specifically pre-approved under the Pre-Approval Policies, it must be separately pre-approved by the audit

committee.
The Pre-Approval Policies and the types of audit and non-audit services pre-approved therein must be reviewed and ratified by the registrant s audit committee at least annually. The registrant s audit committee maintains full responsibility for the appointment, compensation, and oversight of the work of the registrant s principal accountant.
(e)(2) No services described in paragraphs (b)-(d) above were approved by the registrant s audit committee pursuant to the de minimis exception set forth in Rule 2-01(c)(7)(i)(C) of Regulation S-X.
(f) Not applicable.

(g) The following table presents (i) the aggregate non-audit fees (i.e., fees for audit-related, tax, and other services) billed to the registrant by D&T for the registrant s fiscal years ended December 31, 2009 and December 31, 2010; and (ii) the aggregate non-audit fees (i.e., fees for audit-related, tax, and other services) billed to the Eaton Vance organization by D&T for the same time periods.

| **Fiscal Years Ended** | **12/31/09** | **12/31/10** |
|---|---|---|
| **Registrant** | $ 11,880 | $ 11,280 |
| **Eaton Vance**(1) | $288,295 | $250,973 |

(1) The investment adviser to the registrant, as well as any of its affiliates that provide ongoing services to the registrant, are subsidiaries of Eaton Vance Corp.

(h) The registrant s audit committee has considered whether the provision by the registrant s principal accountant of non-audit services to the registrant s investment adviser and any entity controlling, controlled by, or under common control with the adviser that provides ongoing services to the registrant that were not pre-approved pursuant to Rule 2-01(c)(7)(ii) of Regulation S-X is compatible with maintaining the principal accountant s independence.

**Item 5. Audit Committee of Listed Registrants**

The registrant has a separately-designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Securities and Exchange Act of 1934, as amended. William H. Park (Chair), Helen Frame Peters, Lynn A. Stout and Ralph F. Verni are the members of the registrant s audit committee.

**Item 6. Schedule of Investments**

Please see schedule of investments contained in the Report to Stockholders included under Item 1 of this Form N-CSR.

**Item 7. Disclosure of Proxy Voting Policies and Procedures for Closed-End Management Investment Companies**

The Board of Trustees of the Trust has adopted a proxy voting policy and procedure (the Fund Policy ), pursuant to which the Trustees have delegated proxy voting responsibility to the Fund s investment adviser and adopted the investment adviser s proxy voting policies and procedures (the Policies ) which are described below. The Trustees will review the Fund s proxy voting records from time to time and will annually consider approving the Policies for the upcoming year. In the event that a conflict of interest arises between the Fund s shareholders and the investment adviser, the administrator, or any of their affiliates or any affiliate of the Fund, the investment adviser will generally refrain from voting the proxies related to the companies giving rise to such conflict until it consults with the Board s Special Committee except as contemplated under the Fund Policy. The Board s Special Committee will instruct the investment adviser on the appropriate course of action.

The Policies are designed to promote accountability of a company s management to its shareholders and to align the interests of management with those shareholders. An independent proxy voting service ( Agent ), currently Institutional Shareholder Services, Inc., has been retained to assist in the voting of proxies through the provision of vote analysis, implementation and recordkeeping and disclosure services. The investment adviser will generally vote proxies through the Agent. The Agent is required to vote all proxies and/or refer them back to the investment adviser pursuant to the Policies. It is generally the policy of the investment adviser to vote in accordance with the recommendation of the Agent. The Agent shall refer to the investment adviser proxies relating to mergers and restructurings, and the disposition of assets, termination, liquidation and mergers contained in mutual fund proxies. The investment adviser will normally vote against anti-takeover measures and other proposals designed to limit the ability of shareholders to act on possible transactions, except in the case of closed-end management investment companies. The investment adviser generally supports management on social and environmental proposals. The investment adviser may abstain from voting from time to time where it determines that the costs associated with voting a proxy outweighs the benefits derived from exercising the right to vote or the economic effect on shareholders interests or the value of the portfolio holding is indeterminable or insignificant.

In addition, the investment adviser will monitor situations that may result in a conflict of interest between the Fund s shareholders and the investment adviser, the administrator, or any of their affiliates or any affiliate of the Fund by maintaining a list of significant existing and prospective corporate clients. The investment adviser s personnel responsible for reviewing and voting proxies on behalf of the Fund will report any proxy received or expected to be received from a company included on that list to the personnel of the investment adviser identified in the Policies. If such personnel expects to instruct the Agent to vote such proxies in a manner inconsistent with the guidelines of the Policies or the recommendation of the Agent, the personnel will consult with members of senior management of the investment adviser to determine if a material conflict of interests exists. If it is determined that a material conflict does exist, the investment adviser will seek instruction on how to vote from the Special Committee.

Information on how the Fund voted proxies relating to portfolio securities during the most recent 12 month period ended June 30 is available (1) without charge, upon request, by calling 1-800-262-1122, and (2) on the Securities and Exchange Commission s website at http://www.sec.gov.

**Item 8. Portfolio Managers of Closed-End Management Investment Companies**

Walter A. Row, Michael A. Allison and other Eaton Vance Management ( EVM ) investment professionals comprise the investment team responsible for the overall management of the Fund s investments. Mr. Row and Mr. Allison are the portfolio managers responsible for the day-to-day management of EVM s responsibilities with respect to the Fund s investment portfolio. Mr. Row is a Vice President and Head of Structured Equity Portfolios at EVM. He is a member of EVM s Equity Strategy Committee and co-manages other Eaton Vance registered investment companies. He joined Eaton Vance s equity group in 1996. Mr. Allison is a Vice President of EVM and a co-portfolio manager for other Eaton Vance registered investment companies. He is a member of EVM s Equity Strategy Committee. He first joined Eaton Vance s equity group in 2000.

The following table shows, as of the Fund s most recent fiscal year end, the number of accounts each portfolio manager managed in each of the listed categories and the total assets (in millions of dollars) in the accounts managed within each category. The table also shows the number of accounts with respect to which the advisory fee is based on the performance of the account, if any, and the total assets (in millions of dollars) in those accounts.

| | Number of All Accounts | Total Assets of All Accounts | Number of Accounts Paying a Performance Fee | Total Assets of Accounts Paying a Performance Fee |
|---|---|---|---|---|
| Walter A. Row | | | | |
| Registered Investment Companies | 10 | $ 10,482.7 | 0 | $ 0 |
| Other Pooled Investment Vehicles | 1 | $ 2.5 | 0 | $ 0 |
| Other Accounts | 0 | $ 0 | 0 | $ 0 |
| Michael A. Allison | | | | |
| Registered Investment Companies | 8 | $ 16,826.0 | 0 | $ 0 |
| Other Pooled Investment Vehicles | 16 | $ 7,186.1[(1)] | 0 | $ 0 |
| Other Accounts | 0 | $ 0 | 0 | $ 0 |

(1) Certain of these Other Pooled Investment Vehicles invest a substantial portion of their assets in a registered investment company or in a separate unregistered pooled investment vehicle managed by this portfolio manager.

The following table shows the dollar range of Fund shares beneficially owned by each portfolio manager as of the Fund s most recent fiscal year end.

| Portfolio Manager | Dollar Range of Equity Securities Owned in the Fund |
|---|---|
| Walter A. Row | $100,001-$500,000 |
| Michael A. Allison | $10,001-$50,000 |

*Potential for Conflicts of Interest*. It is possible that conflicts of interest may arise in connection with a portfolio manager s management of a Fund s investments on the one hand and the investments of other accounts for which the portfolio manager is responsible on the other. For example, a portfolio manager may have conflicts of interest in allocating management time, resources and investment opportunities among the Fund and other accounts he or she advises. In addition, due to differences in the investment strategies or restrictions between a Fund and the other accounts, a portfolio manager may take action with respect to another account that differs from the action taken with respect to the Fund. In some cases, another account managed by a portfolio manager may compensate EVM or the sub-adviser based on the performance of the securities held by that account. The existence of such a performance based fee may create additional conflicts of interest for the portfolio manager in the allocation of management time, resources and investment opportunities. Whenever conflicts of interest arise, the portfolio manager will endeavor to exercise his or her discretion in a manner that he or she believes is equitable to all interested persons. EVM and the sub-adviser have adopted several policies and procedures designed to address these potential conflicts including a code of ethics and policies which govern EVM s and the sub-adviser s trading practices, including among other things the aggregation and allocation of trades among clients, brokerage allocation, cross trades and best execution.

**Compensation Structure for EVM**

Compensation of EVM s portfolio managers and other investment professionals has three primary components: (1) a base salary, (2) an annual cash bonus, and (3) annual stock-based compensation consisting of options to purchase shares of EVC s nonvoting common stock and restricted shares of EVC s nonvoting common stock. EVM s investment professionals also receive certain retirement, insurance and other benefits that are broadly available to EVM s employees. Compensation of EVM s investment professionals is reviewed primarily on an annual basis. Cash bonuses, stock-based compensation awards, and adjustments in base salary are typically paid or put into effect at or shortly after the October 31st fiscal year end of EVC.

*Method to Determine Compensation*. EVM compensates its portfolio managers based primarily on the scale and complexity of their portfolio responsibilities and the total return performance of managed funds and accounts versus the benchmark(s) stated in the prospectus, as well as an appropriate peer group (as described below). In addition to rankings within peer groups of funds on the basis of absolute performance, consideration may also be given to relative risk-adjusted performance. Risk-adjusted performance measures include, but are not limited to, the Sharpe Ratio. Performance is normally based on periods ending on the September 30th preceding fiscal year end. Fund performance is normally evaluated primarily versus peer groups of funds as determined by Lipper Inc. and/or Morningstar, Inc. When a fund s peer group as determined by Lipper or Morningstar is deemed by EVM s management not to provide a fair comparison, performance may instead be evaluated primarily against a custom peer group. In evaluating the performance of a fund and its manager, primary emphasis is normally placed on three-year performance, with secondary consideration of performance over longer and shorter periods. For funds that are tax-managed or otherwise have an objective of after-tax returns, performance is measured net of taxes. For other funds, performance is evaluated on a pre-tax basis. For funds with an investment objective other than total return (such as current income), consideration will also be given to the fund s success in achieving its objective. For managers responsible for multiple funds and accounts, investment performance is evaluated on an aggregate basis, based on averages or weighted averages among managed funds and accounts. Funds and accounts that have performance-based advisory fees are not accorded disproportionate weightings in measuring aggregate portfolio manager performance.

The compensation of portfolio managers with other job responsibilities (such as heading an investment group or providing analytical support to other portfolios) will include consideration of the scope of such responsibilities and the managers performance in meeting them. EVM seeks to compensate portfolio managers commensurate with their responsibilities and performance, and competitive with other firms within the investment management industry. EVM participates in investment-industry compensation surveys and utilizes survey data as a factor in determining salary, bonus and stock-based compensation levels for portfolio managers and other investment professionals. Salaries, bonuses and stock-based compensation are also influenced by the operating performance of EVM and its parent company. The overall annual cash bonus pool is based on a substantially fixed percentage of pre-bonus operating income. While the salaries of EVM s portfolio managers are comparatively fixed, cash bonuses and stock-based compensation may fluctuate significantly from year to year, based on changes in manager performance and other factors as described herein. For a high performing portfolio manager, cash bonuses and stock-based compensation may represent a substantial portion of total compensation.

**Item 9. Purchases of Equity Securities by Closed-End Management Investment Company and Affiliated Purchasers**

No such purchases this period.

**Item 10. Submission of Matters to a Vote of Security Holders**

No Material Changes.

**Item 11. Controls and Procedures**

(a) It is the conclusion of the registrant s principal executive officer and principal financial officer that the effectiveness of the registrant s current disclosure controls and procedures (such disclosure controls and procedures having been evaluated within 90 days of the date of this filing) provide reasonable

assurance that the information required to be disclosed by the registrant has been recorded, processed, summarized and reported within the time period specified in the Commission s rules and forms and that the information required to be disclosed by the registrant has been accumulated and communicated to the registrant s principal executive officer and principal financial officer in order to allow timely decisions regarding required disclosure.
(b) There have been no changes in the registrant s internal controls over financial reporting during the second fiscal quarter of the period covered by this report that has materially affected, or is reasonably likely to materially affect, the registrant s internal control over financial reporting.

**Item 12. Exhibits**

| | |
|---|---|
| (a)(1) | Registrant s Code of Ethics Not applicable (please see Item 2). |
| (a)(2)(i) | Treasurer s Section 302 certification. |
| (a)(2)(ii) | President s Section 302 certification. |
| (b) | Combined Section 906 certification. |
| (c) | Registrant s notices to shareholders pursuant to Registrant s exemptive order granting an exemption from Section 19(b) of the 1940 Act and Rule 19b-1 thereunder regarding distributions paid pursuant to the Registrant s Managed Distribution Plan. |

**Signatures**

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Eaton Vance Risk-Managed Diversified Equity Income Fund

By: /s/ Walter A. Row, III

Walter A. Row, III
President

Date: February 15, 2011

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ Barbara E. Campbell

Barbara E. Campbell
Treasurer

Date: February 15, 2011

By: /s/ Walter A. Row, III

Walter A. Row, III
President

Date: February 15, 2011