

BJS WHOLESALE CLUB INC  
Form 10-Q  
September 06, 2006

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# SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

Quarterly Report Pursuant to Section 13 or 15(d)

of the Securities Exchange Act of 1934

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## FORM 10-Q

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For Quarter Ended July 29, 2006

Commission file number 001-13143

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## BJ S WHOLESALE CLUB, INC.

(Exact name of Registrant as specified in its charter)

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**DELAWARE**  
(State or other jurisdiction of  
incorporation or organization)

**04-3360747**  
(I.R.S. Employer  
Identification No.)

**One Mercer Road**  
**Natick, Massachusetts**  
(Address of principal executive offices)

**01760**  
(Zip Code)

**(508) 651-7400**

(Registrant's telephone number, including area code)

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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 for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer ☒ Accelerated

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filer " Non-accelerated filer "

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

The number of shares of the Registrant's common stock outstanding as of August 26, 2006: 64,900,476

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## BJS WHOLESALE CLUB, INC.

## CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	Thirteen Weeks Ended	
	July 29,	July 30,
	2006	2005
	(Dollars in Thousands except Per Share Amounts)	
Net sales	\$ 2,093,524	\$ 1,981,593
Membership fees and other	43,381	40,945
Total revenues	2,136,905	2,022,538
Cost of sales, including buying and occupancy costs	1,926,922	1,816,478
Selling, general and administrative expenses	166,221	154,385
Preopening expenses	1,306	1,950
Operating income	42,456	49,725
Interest income, net	954	572
Income from continuing operations before income taxes	43,410	50,297
Provision for income taxes	16,936	19,767
Income from continuing operations	26,474	30,530
Loss from discontinued operations, net of income tax benefit of \$48 and \$51	(73)	(77)
Net income	\$ 26,401	\$ 30,453
Basic earnings per share:		
Income from continuing operations	\$ 0.40	\$ 0.45
Loss from discontinued operations		
Net income	\$ 0.40	\$ 0.45
Diluted earnings per share:		
Income from continuing operations	\$ 0.40	\$ 0.44
Loss from discontinued operations	(0.01)	
Net income	\$ 0.39	\$ 0.44
Number of common shares for earnings per share computations:		
Basic	66,192,730	68,338,863
Diluted	66,952,101	69,140,923

The accompanying notes are an integral part of the financial statements.

## BJ S WHOLESALE CLUB, INC.

## CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	Twenty-Six Weeks Ended	
	July 29,	July 30,
	2006	2005
	(Dollars in Thousands except Per Share Amounts)	
Net sales	\$ 3,973,597	\$ 3,750,382
Membership fees and other	85,869	81,706
Total revenues	4,059,466	3,832,088
Cost of sales, including buying and occupancy costs	3,665,951	3,452,459
Selling, general and administrative expenses	327,585	298,876
Provision for credit card claims		3,000
Preopening expenses	2,581	3,047
Operating income	63,349	74,706
Interest income, net	2,030	847
Gain on contingent lease obligations	3,119	4,277
Income from continuing operations before income taxes	68,498	79,830
Provision for income taxes	26,535	30,597
Income from continuing operations	41,963	49,233
Loss from discontinued operations, net of income tax benefit of \$97 and \$105	(146)	(157)
Net income	\$ 41,817	\$ 49,076
Basic earnings per common share:		
Income from continuing operations	\$ 0.63	\$ 0.72
Loss from discontinued operations		
Net income	\$ 0.63	\$ 0.72
Diluted earnings per common share:		
Income from continuing operations	\$ 0.62	\$ 0.71
Loss from discontinued operations		
Net income	\$ 0.62	\$ 0.71
Number of common shares for earnings per share computations:		
Basic	66,703,704	66,581,905
Diluted	67,508,985	69,390,817

The accompanying notes are an integral part of the financial statements.

**BJS WHOLESALE CLUB, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**(Unaudited)**

	July 29, 2006	January 28, 2006 (Dollars in Thousands)	July 30, 2005
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 76,127	\$ 162,164	\$ 150,776
Marketable securities	37		
Accounts receivable	90,694	101,435	81,803
Merchandise inventories	802,694	813,270	766,719
Current deferred income taxes	25,385	24,805	22,486
Prepaid expenses	17,272	18,195	19,597
Total current assets	1,012,209	1,119,869	1,041,381
Property at cost:			
Land and buildings	617,665	583,950	566,613
Leasehold costs and improvements	191,511	187,094	157,708
Furniture, fixtures and equipment	565,834	542,489	534,850
	1,375,010	1,313,533	1,259,171
Less: accumulated depreciation and amortization	511,715	466,108	454,679
	863,295	847,425	804,492
Other assets	23,470	22,555	23,866
Total assets	\$ 1,898,974	\$ 1,989,849	\$ 1,869,739
<b>LIABILITIES</b>			
Current liabilities:			
Current installments of long-term debt	\$ 476	\$ 460	\$ 444
Accounts payable	525,296	556,968	548,142
Accrued expenses and other current liabilities	229,031	252,575	215,031
Accrued federal and state income taxes	32,740	51,568	32,528
Closed store lease obligations due within one year	712	795	959
Total current liabilities	788,255	862,366	797,104
Long-term debt, less portion due within one year	2,494	2,737	2,970
Noncurrent closed store lease obligations	7,989	8,159	8,498
Other noncurrent liabilities	77,119	75,976	72,983
Deferred income taxes	20,538	24,632	30,261
Commitments and contingencies			
<b>STOCKHOLDERS' EQUITY</b>			
Preferred stock, par value \$.01, authorized 20,000,000 shares, no shares issued			
Common stock, par value \$.01, authorized 180,000,000 shares, issued 74,410,190 shares	744	744	744
Additional paid-in capital	142,666	132,781	132,042
Unearned compensation		(1,797)	(2,126)
Retained earnings	1,136,369	1,105,913	1,028,117

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Treasury stock, at cost, 9,026,114, 7,017,305 and 6,245,995 shares	(277,200)	(221,662)	(200,854)
Total stockholders' equity	1,002,579	1,015,979	957,923
Total liabilities and stockholders' equity	\$ 1,898,974	\$ 1,989,849	\$ 1,869,739

The accompanying notes are an integral part of the financial statements.

## BJS WHOLESALE CLUB, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Twenty-Six Weeks Ended	
	July 29, 2006	July 30, 2005
	(Dollars in Thousands)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 41,817	\$ 49,076
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit card claims		3,000
Provision for facility closing costs	1,646	262
Depreciation and amortization of property	52,953	52,507
Loss on property disposals	265	114
Other noncash items (net)	2,458	453
Share-based compensation expense	9,753	701
Deferred income taxes	(4,674)	1,042
Excess tax benefit from exercise of stock options	(912)	3,664
Increase (decrease) in cash due to changes in:		
Accounts receivable	10,741	5,489
Merchandise inventories	10,576	(6,977)
Prepaid expenses	923	325
Other assets	(955)	(1,316)
Accounts payable	(24,785)	20,491
Changes in book overdrafts	(6,887)	(5,694)
Accrued expenses	1,194	(5,908)
Accrued income taxes	(18,828)	(21,793)
Closed store lease obligations	(496)	(6,796)
Other noncurrent liabilities	(1,176)	(1,530)
Net cash provided by operating activities	73,613	87,110

&nbsp;spt external financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the company's financial statements that is more than inconsequential will not be prevented or detected. Auditing literature defines material weakness as a significant deficiency, or combination of significant deficiencies, that results in more than

a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.

### **Changes in Internal Control Over Financial Reporting**

There was no change in our internal control over financial reporting during the quarter ended March 31, 2005 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

### **Conclusions**

Based upon the evaluation of the effectiveness of our disclosure controls and procedures, our CEO and CFO have concluded that our disclosure controls and procedures were effective to provide reasonable assurance that material information required to be included in our Exchange Act reports, is made known to management, including the CEO and CFO, on a timely basis.

Pursuant to section 404 of Sarbanes-Oxley Act of 2002, we will be required to furnish a report of managements assessment of the effectiveness of our internal control over financial reporting as part of our Annual



Report on Form 10-K for the fiscal year ended December 31, 2006. Our independent public accountants will then be required to attest to, and report on, our assessment. In order to issue our report, management must document both the design of our internal controls and the processes that support management's evaluation and conclusion. Our management has begun the necessary processes and procedures for issuing its report. However, we may face significant challenges in implementing the required processes and procedures. There can be no assurance that we will be able to complete the work necessary for management to issue its report in a timely manner or that management will be able to report that our internal control over financial reporting are effective.

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**PART II. OTHER  
INFORMATION**

**Item 1. Legal  
Proceedings**

- (a) Beginning on July 2, 2004, three purported class action shareholder complaints were filed in the United States District Court for the Northern of California against IntraBiotics and several of its officers. The actions were consolidated and a consolidated amended complaint has been filed, purportedly brought on behalf of purchasers of IntraBiotics common stock between September 5, 2003 and June 22, 2004. The amended complaint generally alleges that IntraBiotics and several of its officers and directors made false or misleading statements concerning the clinical trial of iseganan. The plaintiffs seek unspecified monetary damages. On February 28, 2005, the Company and the individual defendants filed a motion to dismiss the amended

complaint. The Company believes the suit to be without merit and intends to defend itself vigorously. Due to the uncertainties surrounding the final outcome of this matter, no amounts have been accrued at March 31, 2005.

- (b) No legal proceedings were terminated in the first quarter.

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

None

**Item 3. Defaults Upon Senior Securities**

None

**Item 4. Submission of Matters to a Vote of Security Holders**

None

**Item 5. Other Information**

None

**Item 6. Exhibits**

The exhibits listed on the Exhibit Index (following the signature section of this Quarterly Report) are included, or incorporated by

reference, in this  
Quarterly Report.

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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.

IntraBiotics  
Pharmaceuticals,  
Inc.

/s/ Henry J.  
Fuchs

May 12, Henry J. Fuchs,  
2005 M.D.  
President and  
Chief Executive  
Officer

/s/ Gregory W.  
Schafer

May 12, Gregory W.  
2005 Schafer  
Chief Financial  
Officer

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EXHIBIT INDEX

- 3.1 Certificate of  
Amendment of  
Amended and  
Restated  
Certificate of  
Incorporation; and  
Amended and  
Restated  
Certificate of  
Incorporation.(12)
- 3.2 Amended and  
Restated Bylaws  
(16)
- 3.3 Certificate of  
Amendment to  
Amended and  
Restated  
Certificate of  
Incorporation.(15)
- 3.4 Certificate of  
Designation filed  
with the Delaware  
Secretary of State  
on May 1,  
2003.(15)
- 4.1 Amended and  
Restated Investor  
Rights Agreement  
dated October 15,  
1999.(1)
- 4.2 Form of Stock  
Purchase  
Agreement by and  
between the  
Company and each  
selling  
stockholder, dated  
January 29,  
2002.(3)
- 4.3 Form of Preferred  
Stock and Warrant

	Purchase Agreement, dated February 5, 2003, as amended on February 11, 2003.(8)
4.4	Form of Second Amendment to Preferred Stock and Warrant Purchase Agreement of February 5, 2003, dated April 10, 2003.(10)
4.5	Form of Warrant issued by the Company pursuant to Preferred Stock and Warrant Purchase Agreement of February 5, 2003, as amended of February 11, 2003 and April 10, 2003.(10)
4.6	Form of Common Stock and Warrant Purchase Agreement, dated October 6, 2003.(11)
4.7	Form of Warrant issued by the Company pursuant to the Common Stock and Warrant Purchase Agreement of October 6, 2003.(11)
10.1	Form of Indemnity Agreement.(1)
10.2	

Amended and  
Restated 1995  
Stock Option Plan,  
as amended on  
November 16,  
2002.(7)(9)

10.2.2 Amended and  
Restated Form of  
Stock Option  
Agreement and  
Notice of Grant of  
Stock Options and  
Option  
Agreement.(1)(7)

10.3 2000 Equity  
Incentive Plan, as  
amended on  
February 11,  
2003.(7)(9)

10.9 2000 Employee  
Stock Purchase  
Plan and related  
documents.(1)(7)

10.15 Senior Executive  
Severance Benefit  
Plan, as amended  
and restated on  
August 1,  
2002.(5)(7)

10.16 Executive  
Severance Benefit  
Plan, as amended  
and restated on  
August 1,  
2002.(5)(7)

10.17 Summary of  
Officer Incentive  
Bonus Plan.(2)(7)

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- 10.18 Release  
Agreement by and  
between the  
Company and  
Diversa  
Corporation dated  
July 27, 2001,  
including Warrant  
to Purchase  
Common Stock of  
the Company and  
Registration  
Rights  
Agreement.(4)
- 10.22 2002 Non-Officer  
Equity Incentive  
Plan and related  
documents, as  
amended on  
February 3,  
2003.(9)
- 10.24 Lease Termination  
Agreement by and  
between the  
Company and  
EOP-Shoreline  
Technology Park,  
L.L.C., dated  
November 22,  
2002, including  
Common Stock  
Purchase  
Agreement.(6)
- 10.27 Amendment and  
Assignment of  
Lease, Release  
and Assumption  
Agreement by and  
among the  
Company,  
PolyFuel, Inc. and  
1245 Terra Bella  
Partners, LLC,  
dated  
December 20,

2002, including  
Warrant to  
Purchase Common  
Stock of the  
Company dated  
December 31,  
2002.(9)

10.29 Lease Agreement  
by and between  
the Company and  
Embarcadero  
Corporate Center,  
dated February 10,  
2003.(9)

10.30 Common Stock  
and Warrant  
Purchase  
Agreement, dated  
October 6, 2003  
(the Purchase  
Agreement ) by  
and among the  
Company and  
each Investor as  
defined  
therein.(11)

10.31 Form of warrant  
issued by the  
Company in favor  
of each Investor,  
as defined in the  
Purchase  
Agreement.(11)

10.32 2004 Stock  
Incentive Plan.  
(13)

10.33 First Amendment  
to Office Lease,  
dated March 11,  
2004, between the  
Company and  
Embarcadero  
Corporate Center.  
(13)

10.34

Consulting  
agreement  
between the  
Company and  
Gregory W.  
Schafer the  
Company's Chief  
Financial Officer.  
\*

31.1 Certification of  
Chief Executive  
Officer pursuant to  
Rules 13a-14(a) or  
15d-14(a)  
promulgated under  
the Securities  
Exchange Act of  
1934, as  
amended.\*

31.2 Certification of  
Chief Financial  
Officer pursuant to  
Rules 13a-14(a) or  
15d-14(a)  
promulgated under  
the Securities  
Exchange Act of  
1934, as  
amended.\*

32.1 Certifications of  
Chief Executive  
Officer and Chief  
Financial Officer  
as required by  
Rule 13a-14(b) or  
Rule 15d-14(b)  
and Section 1350  
of Chapter 63 of  
Title 18 of the  
United States  
Code (18 U.S.C.  
1350).\*

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\* Filed hereto.

Confidential treatment  
request has been  
granted with respect to

certain portions of this  
exhibit. Omitted  
portions have been  
filed separately with  
the Securities and  
Exchange  
Commission.

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- (1) Incorporated by reference to exhibit to our Registration Statement on Form S-1 (File No. 333-95461) initially filed with the Securities and Exchange Commission on January 27, 2000 as subsequently amended.
- (2) Incorporated by reference to exhibit to our Form 10-Q (File No. 000-29993) filed with the Securities and Exchange Commission on August 14, 2001.
- (3) Incorporated by reference to exhibit to our Registration Statement on Form S-3 (File No. 333-82934) filed with the Securities and Exchange Commission on February 15, 2002.
- (4) Incorporated by reference to exhibit to our Registration Statement on Form S-3 (File No. 333-89840) filed with the Securities and Exchange Commission on June 5, 2002.
- (5) Incorporated by reference to exhibit

to our Form 10-Q  
(File  
No. 000-29993)  
filed with the  
Securities and  
Exchange  
Commission on  
November 14,  
2002.

(6) Incorporated by  
reference to exhibit  
to our Form 8-K  
(File  
No. 000-29993)  
filed with the  
Securities and  
Exchange  
Commission on  
November 27,  
2002.

(7) Management  
contract or  
compensatory plan,  
contract or  
arrangement.

(8) Incorporated by  
reference to  
Appendix B to the  
Definitive Proxy  
Statement for the  
Special Meeting of  
Stockholders (File  
No. 000-29993)  
filed with the  
Securities and  
Exchange  
Commission on  
March 3, 2003.

(9) Incorporated by  
reference to exhibit  
to our Form 10-K  
(File  
No. 000-29993)  
filed with the  
Securities and  
Exchange  
Commission on

March 31, 2003.

- (10) Incorporated by reference to our Form 10-Q (File No. 000-29993) filed with the Securities and Exchange Commission on May 14, 2003.
- (11) Incorporated by reference to exhibit to our Form 8-K (File No. 000-29993) filed with the Securities and Exchange Commission on October 9, 2003.
- (12) Incorporated by reference to our Form 10-Q (File No. 000-29993) filed with the Securities and Exchange Commission on November 12, 2003.
- (13) Incorporated by reference to our Registration Statement on Form S-1 (File No. 333-114451) initially filed with the Securities and Exchange Commission on April 14, 2004 as subsequently amended.
- (14) Incorporated by reference to our Form 8-K/A (File

No. 000-29993)  
filed with the  
Securities and  
Exchange  
Commission on  
November 18,  
2004.

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