

BJS WHOLESALE CLUB INC  
Form 10-Q  
September 12, 2007

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# SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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## FORM 10-Q

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Quarterly Report Pursuant to Section 13 or 15(d)

of the Securities Exchange Act of 1934

For Quarter Ended August 4, 2007

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 ☐.

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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 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 ☒.

The number of shares of the Registrant's common stock outstanding as of August 31, 2007: 65,090,387

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## BJ S WHOLESALE CLUB, INC.

## CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

|                                                                                                         | Thirteen Weeks Ended                            |              |
|---------------------------------------------------------------------------------------------------------|-------------------------------------------------|--------------|
|                                                                                                         | August 4,                                       | July 29,     |
|                                                                                                         | 2007                                            | 2006         |
|                                                                                                         | (Dollars in Thousands except Per Share Amounts) |              |
| Net sales                                                                                               | \$ 2,248,212                                    | \$ 2,081,158 |
| Membership fees and other                                                                               | 46,772                                          | 43,355       |
| Total revenues                                                                                          | 2,294,984                                       | 2,124,513    |
| Cost of sales, including buying and occupancy costs                                                     | 2,070,893                                       | 1,914,030    |
| Selling, general and administrative expenses                                                            | 173,008                                         | 164,491      |
| Preopening expenses                                                                                     | 1,244                                           | 1,306        |
| Operating income                                                                                        | 49,839                                          | 44,686       |
| Interest income, net                                                                                    | 1,102                                           | 954          |
| Gain on contingent lease obligations                                                                    |                                                 |              |
| Income from continuing operations before income taxes                                                   | 50,941                                          | 45,640       |
| Provision for income taxes                                                                              | 16,879                                          | 17,814       |
| Income from continuing operations                                                                       | 34,062                                          | 27,826       |
| Income (loss) from discontinued operations, net of income tax provision of \$1,520 and benefit of \$926 | 2,205                                           | (1,425)      |
| Net income                                                                                              | \$ 36,267                                       | \$ 26,401    |
| Basic earnings per share:                                                                               |                                                 |              |
| Income from continuing operations                                                                       | \$ 0.53                                         | \$ 0.42      |
| Income (loss) from discontinued operations                                                              | 0.03                                            | (0.02)       |
| Net income                                                                                              | \$ 0.56                                         | \$ 0.40      |
| Diluted earnings per share:                                                                             |                                                 |              |
| Income from continuing operations                                                                       | \$ 0.52                                         | \$ 0.41      |
| Income (loss) from discontinued operations                                                              | 0.03                                            | (0.02)       |
| Net income                                                                                              | \$ 0.55                                         | \$ 0.39      |
| Number of common shares for earnings per share computations:                                            |                                                 |              |
| Basic                                                                                                   | 64,733,835                                      | 66,192,730   |
| Diluted                                                                                                 | 65,700,032                                      | 66,952,101   |

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                          |              |
|-----------------------------------------------------------------------------------------------------------|-------------------------------------------------|--------------|
|                                                                                                           | August 4,                                       | July 29,     |
|                                                                                                           | 2007                                            | 2006         |
|                                                                                                           | (Dollars in Thousands except Per Share Amounts) |              |
| Net sales                                                                                                 | \$ 4,259,351                                    | \$ 3,951,120 |
| Membership fees and other                                                                                 | 93,644                                          | 85,816       |
| Total revenues                                                                                            | 4,352,995                                       | 4,036,936    |
| Cost of sales, including buying and occupancy costs                                                       | 3,941,302                                       | 3,642,257    |
| Selling, general and administrative expenses                                                              | 336,163                                         | 324,308      |
| Preopening expenses                                                                                       | 2,538                                           | 2,581        |
| Operating income                                                                                          | 72,992                                          | 67,790       |
| Interest income, net                                                                                      | 1,347                                           | 2,030        |
| Gain on contingent lease obligations                                                                      |                                                 | 3,119        |
| Income from continuing operations before income taxes                                                     | 74,339                                          | 72,939       |
| Provision for income taxes                                                                                | 26,472                                          | 28,280       |
| Income from continuing operations                                                                         | 47,867                                          | 44,659       |
| Income (loss) from discontinued operations, net of income tax provision of \$1,415 and benefit of \$1,843 | 2,054                                           | (2,842)      |
| Net income                                                                                                | \$ 49,921                                       | \$ 41,817    |
| Basic earnings per share:                                                                                 |                                                 |              |
| Income from continuing operations                                                                         | \$ 0.74                                         | \$ 0.67      |
| Income (loss) from discontinued operations                                                                | 0.03                                            | (0.04)       |
| Net income                                                                                                | \$ 0.77                                         | \$ 0.63      |
| Diluted earnings per share:                                                                               |                                                 |              |
| Income from continuing operations                                                                         | \$ 0.73                                         | \$ 0.66      |
| Income (loss) from discontinued operations                                                                | 0.03                                            | (0.04)       |
| Net income                                                                                                | \$ 0.76                                         | \$ 0.62      |
| Number of common shares for earnings per share computations:                                              |                                                 |              |
| Basic                                                                                                     | 64,601,045                                      | 66,703,704   |
| Diluted                                                                                                   | 65,569,004                                      | 67,508,985   |

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

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

|                                                                                        | August 4,<br>2007      | February 3,<br>2007 | July 29,<br>2006 |
|----------------------------------------------------------------------------------------|------------------------|---------------------|------------------|
|                                                                                        | (Dollars in Thousands) |                     |                  |
| <b>ASSETS</b>                                                                          |                        |                     |                  |
| Current assets:                                                                        |                        |                     |                  |
| Cash and cash equivalents                                                              | \$ 154,415             | \$ 55,877           | \$ 76,127        |
| Marketable securities                                                                  |                        |                     | 37               |
| Accounts receivable                                                                    | 94,472                 | 101,292             | 90,694           |
| Merchandise inventories                                                                | 820,581                | 850,902             | 802,694          |
| Current deferred income taxes                                                          | 33,323                 | 34,633              | 25,385           |
| Prepaid expenses                                                                       | 24,520                 | 26,874              | 17,272           |
| Total current assets                                                                   | 1,127,311              | 1,069,578           | 1,012,209        |
| Property at cost:                                                                      |                        |                     |                  |
| Land and buildings                                                                     | 635,120                | 639,284             | 617,665          |
| Leasehold costs and improvements                                                       | 199,497                | 196,206             | 191,511          |
| Furniture, fixtures and equipment                                                      | 539,389                | 572,522             | 565,834          |
|                                                                                        | 1,374,006              | 1,408,012           | 1,375,010        |
| Less: accumulated depreciation and amortization                                        | 500,555                | 507,864             | 511,715          |
|                                                                                        | 873,451                | 900,148             | 863,295          |
| Deferred income taxes                                                                  | 307                    |                     |                  |
| Other assets                                                                           | 22,697                 | 23,085              | 23,470           |
| Total assets                                                                           | \$ 2,023,766           | \$ 1,992,811        | \$ 1,898,974     |
| <b>LIABILITIES</b>                                                                     |                        |                     |                  |
| Current liabilities:                                                                   |                        |                     |                  |
| Current installments of long-term debt                                                 | \$ 511                 | \$ 493              | \$ 476           |
| Accounts payable                                                                       | 571,462                | 560,406             | 525,292          |
| Accrued expenses and other current liabilities                                         | 256,450                | 266,864             | 227,633          |
| Accrued federal and state income taxes                                                 | 23,167                 | 34,626              | 32,740           |
| Closed store lease obligations due within one year                                     | 2,135                  | 4,189               | 2,114            |
| Total current liabilities                                                              | 853,725                | 866,578             | 788,255          |
| Long-term debt, less portion due within one year                                       | 1,984                  | 2,243               | 2,494            |
| Noncurrent closed store lease obligations                                              | 10,663                 | 14,794              | 7,989            |
| Other noncurrent liabilities                                                           | 104,849                | 83,377              | 77,119           |
| Deferred income taxes                                                                  |                        | 5,932               | 20,538           |
| <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                                                             | 167,905                | 154,020             | 142,666          |
| Retained earnings                                                                      | 1,168,628              | 1,158,137           | 1,136,369        |
| Accumulated other comprehensive loss                                                   | (723)                  | (723)               |                  |
| Treasury stock, at cost, 9,104,340 and 9,629,542 and 9,026,114 shares                  | (284,009)              | (292,291)           | (277,200)        |

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|                                            |              |              |              |
|--------------------------------------------|--------------|--------------|--------------|
| Total stockholders' equity                 | 1,052,545    | 1,019,887    | 1,002,579    |
| Total liabilities and stockholders' equity | \$ 2,023,766 | \$ 1,992,811 | \$ 1,898,974 |

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

## BJ S WHOLESALE CLUB, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

|                                                                                   | Twenty-Six Weeks Ended |                  |
|-----------------------------------------------------------------------------------|------------------------|------------------|
|                                                                                   | August 4,<br>2007      | July 29,<br>2006 |
|                                                                                   | (Dollars in Thousands) |                  |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                       |                        |                  |
| Net income                                                                        | \$ 49,921              | \$ 41,817        |
| Adjustments to reconcile net income to net cash provided by operating activities: |                        |                  |
| Provision for (reversal of) closing costs                                         | (4,213)                | 1,646            |
| Depreciation and amortization of property                                         | 53,219                 | 52,953           |
| Loss on property disposals                                                        | 1,215                  | 265              |
| Other noncash items (net)                                                         | 545                    | 529              |
| Share-based compensation expense                                                  | 9,343                  | 9,753            |
| Deferred income taxes                                                             | (1,630)                | (4,674)          |
| Excess tax benefit from exercise of stock options                                 | (2,648)                | (1,356)          |
| Tax benefit from exercise of stock options                                        | 4,542                  | 1,929            |
| Increase (decrease) in cash due to changes in:                                    |                        |                  |
| Accounts receivable                                                               | 6,820                  | 10,741           |
| Merchandise inventories                                                           | 30,321                 | 10,576           |
| Prepaid expenses                                                                  | 2,354                  | 923              |
| Other assets                                                                      | 348                    | (955)            |
| Accounts payable                                                                  | 17,721                 | (24,789)         |
| Changes in book overdrafts                                                        | (6,665)                | (6,887)          |
| Accrued expenses                                                                  | 5,937                  | 1,198            |
| Accrued income taxes                                                              | (20,910)               | (18,828)         |
| Closed store lease obligations                                                    | (1,917)                | (496)            |
| Other noncurrent liabilities                                                      | 20,537                 | (1,176)          |
| Net cash provided by operating activities                                         | 164,840                | 73,169           |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                       |                        |                  |
| Property additions                                                                | (43,784)               | (93,388)         |
| Proceeds from property disposals                                                  | 52                     | 20               |
| Purchase of marketable securities                                                 | (1,137)                | (68)             |
| Sale of marketable securities                                                     | 1,156                  |                  |
| Net cash used in investing activities                                             | (43,713)               | (93,436)         |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                       |                        |                  |
| Excess tax benefit from exercise of stock options                                 | 2,648                  | 1,356            |
| Repayment of long-term debt                                                       | (241)                  | (227)            |
| Proceeds from issuance of common stock                                            | 34,585                 | 8,479            |
| Purchase of treasury stock                                                        | (59,581)               | (75,378)         |
| Net cash used in financing activities                                             | (22,589)               | (65,770)         |
| Net increase (decrease) in cash and cash equivalents                              | 98,538                 | (86,037)         |
| Cash and cash equivalents at beginning of year                                    | 55,877                 | 162,164          |
| Cash and cash equivalents at end of period                                        | \$ 154,415             | \$ 76,127        |

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### Noncash financing and investing activities:

|                                    |    |     |    |       |
|------------------------------------|----|-----|----|-------|
| Addition of asset retirement costs | \$ | 356 | \$ | 1,861 |
|------------------------------------|----|-----|----|-------|

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

**BJS WHOLESALE CLUB, INC.****CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY****(Unaudited)**

|                                             | Common Stock |        | Additional<br>Paid-in<br>Capital | Unearned<br>Compensation | Retained<br>Earnings<br>(In Thousands) | Accumulated<br>Other<br>Comprehensive<br>Loss | Treasury Stock |              | Total<br>Stockholders<br>Equity |
|---------------------------------------------|--------------|--------|----------------------------------|--------------------------|----------------------------------------|-----------------------------------------------|----------------|--------------|---------------------------------|
|                                             | Shares       | Amount |                                  |                          |                                        |                                               | Shares         | Amount       |                                 |
| Balance, January 28, 2006                   | 74,410       | \$ 744 | \$ 132,781                       | \$ (1,797)               | \$ 1,105,913                           | \$                                            | (7,017)        | \$ (221,662) | \$ 1,015,979                    |
| Net income                                  |              |        |                                  |                          | 41,817                                 |                                               |                |              | 41,817                          |
| Issuance of common stock                    |              |        | 1,929                            |                          | (11,361)                               |                                               | 630            | 19,840       | 10,408                          |
| Purchase of treasury stock                  |              |        |                                  |                          |                                        |                                               | (2,639)        | (75,378)     | (75,378)                        |
| Elimination of unearned compensation        |              |        | (1,797)                          | 1,797                    |                                        |                                               |                |              |                                 |
| Stock compensation expense                  |              |        | 9,753                            |                          |                                        |                                               |                |              | 9,753                           |
| Balance, July 29, 2006                      | 74,410       | \$ 744 | \$ 142,666                       | \$                       | \$ 1,136,369                           | \$                                            | (9,026)        | \$ (277,200) | \$ 1,002,579                    |
| Balance, February 3, 2007                   | 74,410       | \$ 744 | \$ 154,020                       | \$                       | \$ 1,158,137                           | \$ (723)                                      | (9,630)        | \$ (292,291) | \$ 1,019,887                    |
| Net income                                  |              |        |                                  |                          | 49,921                                 |                                               |                |              | 49,921                          |
| Issuance of common stock                    |              |        | 4,542                            |                          | (33,278)                               |                                               | 2,226          | 67,863       | 39,127                          |
| Cumulative effect of the adoption of FIN 48 |              |        |                                  |                          | (6,152)                                |                                               |                |              | (6,152)                         |
| Purchase of treasury stock                  |              |        |                                  |                          |                                        |                                               | (1,700)        | (59,581)     | (59,581)                        |
| Stock compensation expense                  |              |        | 9,343                            |                          |                                        |                                               |                |              | 9,343                           |
| Balance, August 4, 2007                     | 74,410       | \$ 744 | \$ 167,905                       | \$                       | \$ 1,168,628                           | \$ (723)                                      | (9,104)        | \$ (284,009) | \$ 1,052,545                    |

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

1. The results for BJ's Wholesale Club, Inc. (BJ's or the Company or we) for the quarter and six months ended August 4, 2007 are not necessarily indicative of the results for the full fiscal year or any future period because, among other things, our business, in common with the business of retailers generally, is subject to seasonal influences. Our sales and operating income have typically been highest in the fourth quarter holiday season and lowest in the first quarter of each fiscal year.

2. The interim financial statements are unaudited and reflect all normal recurring adjustments we considered necessary for a fair statement of our financial statements in accordance with generally accepted accounting principles.

3. These interim financial statements should be read in conjunction with the consolidated financial statements and related notes in our Annual Report on Form 10-K for the fiscal year ended February 3, 2007.

4. We adopted the provisions of FASB Interpretation No. 48 Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109 (FIN 48) as of February 4, 2007, the beginning of this year's first quarter. In connection with the implementation of FIN 48, we recorded a reduction of \$6.2 million to the opening balance of retained earnings. Net income was not affected.

During the second quarter of this year, we recorded a reduction in our income tax provision totaling \$3.6 million, as a result of favorable state income tax audit settlements. Of this total, \$2.8 million reflected a reduction in income tax reserves, and \$0.8 million reflected a reduction in interest reserves, as noted below.

As of February 4, 2007, we had \$37.4 million of unrecognized tax benefits (\$24.4 million, net of federal tax benefit). The entire \$24.4 million of these unrecognized tax benefits, if recognized, would decrease the effective income tax rate.

As of August 4, 2007, unrecognized tax benefits were \$23.2 million (\$15.1 million, net of federal tax benefit). The entire \$15.1 million of these unrecognized tax benefits, if recognized, would decrease the effective income tax rate. Unrecognized tax benefits decreased by \$14.5 million (\$9.4 million, net of federal tax benefit) in the second quarter ended August 4, 2007, and income tax expense decreased by \$2.8 million, primarily as a result of the settlement of state income tax audits for prior years. Unrecognized tax benefits are classified in other noncurrent liabilities, except for the portion of unrecognized tax benefits that are expected to be paid within the next twelve months, which are classified as current liabilities. Amounts that we record in current liabilities are determined by the status of audits undertaken by the taxing authorities.

As of August 4, 2007, management has determined it is reasonably possible that the total amount of unrecognized tax benefits could decrease within the next 12 months by as much as \$15.0 million (\$9.8 million, net of federal tax benefit), due to the resolution of state tax audits.

We have Federal tax years from 2005 that remain open and are subject to examination by the IRS. We also have tax years from 1996 that remain open and are subject to examination by state taxing authorities.

We classify interest expense and any penalties related to income tax uncertainties as a component of income tax expense, which is consistent with the recognition of these items in prior reporting periods. As of February 4, 2007, we had \$11.1 million of accrued interest (\$6.5 million, net of federal and state tax benefit) related to income tax uncertainties. As of August 4, 2007, we had \$8.0 million of accrued interest (\$4.8 million, net of federal and state tax benefit) related to income tax uncertainties. Accrued interest decreased by \$4.2 million (\$2.5 million, net of federal and state tax benefit) in the second quarter, and income tax expense decreased by \$0.8 million, primarily as a result of the second quarter settlement of state income tax audits for prior years.

5. During the second quarter ended August 4, 2007, we granted 464,900 restricted shares. No stock options were granted in this year's second quarter. In last year's second quarter, we granted 777,650 stock options and 190,100 restricted shares. In this year's first half, we granted 384,000 stock options and 839,400 restricted shares. In last year's first half, we granted 801,650 stock options and 209,100 restricted shares.

Presented below is information regarding pretax share-based compensation for this year's and last year's second quarters and for this year's and last year's first halves:

|                          | Thirteen Weeks Ended   |                 | Twenty-Six Weeks Ended |                 |
|--------------------------|------------------------|-----------------|------------------------|-----------------|
|                          | Aug. 4, 2007           | July 29, 2006   | Aug. 4, 2007           | July 29, 2006   |
|                          | (Dollars in Thousands) |                 | (Dollars in Thousands) |                 |
| Stock option expense     | \$ 1,779               | \$ 5,082        | \$ 4,802               | \$ 8,864        |
| Restricted stock expense | 2,769                  | 627             | 4,541                  | 889             |
| <b>Total</b>             | <b>\$ 4,548</b>        | <b>\$ 5,709</b> | <b>\$ 9,343</b>        | <b>\$ 9,753</b> |

6. The components of interest income, net were as follows:

|                             | Thirteen Weeks Ended   |               | Twenty-Six Weeks Ended |                 |
|-----------------------------|------------------------|---------------|------------------------|-----------------|
|                             | Aug. 4, 2007           | July 29, 2006 | Aug. 4, 2007           | July 29, 2006   |
|                             | (Dollars in Thousands) |               | (Dollars in Thousands) |                 |
| Interest income             | \$ 1,269               | \$ 1,039      | \$ 1,671               | \$ 2,115        |
| Capitalized interest        | 9                      | 80            | 16                     | 247             |
| Interest expense on debt    | (176)                  | (165)         | (340)                  | (332)           |
| <b>Interest income, net</b> | <b>\$ 1,102</b>        | <b>\$ 954</b> | <b>\$ 1,347</b>        | <b>\$ 2,030</b> |

7. The following details the calculation of earnings per share from continuing operations for the periods presented below (amounts in thousands, except per share amounts):

|                                                                                        | Thirteen Weeks Ended   |               | Twenty-Six Weeks Ended |               |
|----------------------------------------------------------------------------------------|------------------------|---------------|------------------------|---------------|
|                                                                                        | Aug. 4, 2007           | July 29, 2006 | Aug. 4, 2007           | July 29, 2006 |
|                                                                                        | (Dollars in Thousands) |               | (Dollars in Thousands) |               |
| Income from continuing operations                                                      | \$ 34,062              | \$ 27,826     | \$ 47,867              | \$ 44,659     |
| Weighted-average number of common shares outstanding, used for basic computation       | 64,734                 | 66,193        | 64,601                 | 66,704        |
| Plus: Incremental shares from assumed conversion of stock options and restricted stock | 966                    | 759           | 968                    | 805           |
| Weighted-average number of common and dilutive potential shares outstanding            | 65,700                 | 66,952        | 65,569                 | 67,509        |
| Basic earnings per share                                                               | \$ 0.53                | \$ 0.42       | \$ 0.74                | \$ 0.67       |
| Diluted earnings per share                                                             | \$ 0.52                | \$ 0.41       | \$ 0.73                | \$ 0.66       |

Options to purchase the following shares were outstanding at August 4, 2007 and July 29, 2006, but were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of the common shares for the periods indicated:

|                                      | Number    | Weighted-Average |
|--------------------------------------|-----------|------------------|
|                                      | of Shares | Exercise Price   |
| Thirteen weeks ended Aug. 4, 2007    | 397,925   | \$ 38.93         |
| Twenty-six weeks ended Aug. 4, 2007  | 397,925   | \$ 38.93         |
| Thirteen weeks ended July 29, 2006   | 2,498,674 | \$ 31.61         |
| Twenty-six weeks ended July 29, 2006 | 1,887,524 | \$ 32.25         |

At the 2007 Annual Meeting of Stockholders of the Company, BJS stockholders approved the adoption of our 2007 Stock Incentive Plan (the 2007 Plan) on May 24, 2007. The 2007 Plan replaces BJS 1997 Stock Incentive Plan (the 1997 Plan), which expired on July 27, 2007. No further grants will be made under the 1997 Plan.

Awards may be made under the 2007 Plan for up to 4,000,000 shares of BJS common stock (subject to adjustment for changes in capitalization, including stock splits and other similar events).

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The 2007 Plan provides that all full value awards, which generally means awards other than stock options and stock appreciation rights, will count against the 4,000,000 maximum shares issuable under the 2007 Plan at a ratio of two to one.

8. The following table summarizes activity for the six months ended August 4, 2007 associated with our discontinued operations, which consist of the closing of both of our ProFoods clubs in January 2007 and three BJ's clubs in 2002 (dollars in thousands):

|                   | Discontinued Operations |          |            | Cumulative      |           |
|-------------------|-------------------------|----------|------------|-----------------|-----------|
|                   | Increases               |          |            | Charges         |           |
|                   | Liabilities             | To       |            | Liabilities     | To Date   |
|                   | February 3,<br>2007     | Reserves | Reductions | Aug. 4,<br>2007 |           |
| ProFoods clubs    | \$ 8,750                | \$ 224   | \$ (4,882) | \$ 4,092        | \$ 21,926 |
| BJ's clubs        | 8,294                   | 223      | (572)      | 7,945           | 24,687    |
| Total             | \$ 17,044               | \$ 447   | \$ (5,454) | \$ 12,037       | \$ 46,613 |
| Current portion   | \$ 3,077                |          |            | \$ 2,064        |           |
| Long-term portion | 13,967                  |          |            | 9,973           |           |
| Total             | \$ 17,044               |          |            | \$ 12,037       |           |

Both ProFoods clubs were closed by the end of the fourth quarter ended February 3, 2007. The operating results of these clubs are included in discontinued operations for all periods presented. We recorded a pretax charge of \$25.7 million to close these clubs in the fourth quarter of 2006. This charge consisted mainly of fixed asset write-downs of \$14.0 million, lease obligation costs of \$8.8 million and \$1.0 million for employee termination benefits. In last year's first six months, ProFoods posted revenues of \$22.5 million and a net loss of \$2.7 million. All of the ProFoods and BJ's clubs reserves at August 4, 2007 were related to lease obligation costs.

During this year's second quarter, we settled the lease for one of the two closed ProFoods locations, and subleased the other ProFoods location for a portion of its remaining lease term, resulting in pretax income of \$4.0 million (\$2.4 million post-tax) in discontinued operations. Increases to the reserves in the table above consisted of interest accretion charges. As a result of the ProFoods lease settlement, we reduced the reserve by \$4.0 million. The remainder of the reserve reductions consisted of lease obligation payments.

The charges for lease obligations were based on the present value of rent liabilities under the two ProFoods leases, including estimated real estate taxes and common area maintenance charges, reduced by estimated income from the potential subleasing of these properties. An annual discount rate of 6% was used to calculate the present value of the obligations. The liabilities for the closed club leases are included in current and noncurrent closed store lease obligations on our balance sheet.

On November 9, 2002, we closed both of our clubs in the Columbus, Ohio, market and a club in North Dade, Florida. The operating results of these clubs are included in discontinued operations for all periods presented. There were no revenues after 2002. In each of 2004 and 2005, we made lump sum payments to settle two of the three leases. The reserve for BJ's closed clubs at August 4, 2007 was related to lease obligations for the remaining closed club.

The following table summarizes activity for the six months ended August 4, 2007 associated with our 2006 restructuring activities, which consisted of the relocation of our Franklin, MA, cross-dock facility to a new facility in Uxbridge, MA, in July 2006, and the closing of all of BJs 46 in-club pharmacies, 14 of which closed in the fourth quarter ended February 3, 2007. The remainder closed in the first quarter ended May 5, 2007 (dollars in thousands):

|                     | Restructuring Activities |                |            | Cumulative        |          |
|---------------------|--------------------------|----------------|------------|-------------------|----------|
|                     | Liabilities              | Increases      |            | Liabilities       | Charges  |
|                     | February 3,<br>2007      | To<br>Reserves | Reductions | August 4,<br>2007 | To Date  |
| Franklin relocation | \$ 1,939                 | \$             | \$ (1,177) | \$ 762            | \$ 1,610 |
| Pharmacy closings   | 50                       | 1,316          | (1,366)    |                   | 6,196    |
| Total               | \$ 1,989                 | \$ 1,316       | \$ (2,543) | \$ 762            | \$ 7,806 |
| Current portion     | \$ 1,162                 |                |            | \$ 71             |          |
| Long-term portion   | 827                      |                |            | 691               |          |
| Total               | \$ 1,989                 |                |            | \$ 762            |          |

In connection with vacating the Franklin cross-dock facility, we established a reserve for our remaining lease liabilities for this property in 2006. The charges for this reserve were based on our rent liabilities under the lease, reduced by estimated potential sublease rentals, and were recorded in selling, general and administrative ( SG&A ) expenses. In this year s second quarter, we subleased the Franklin facility for a portion of its remaining lease term at a rate favorable to our initial estimate of sublease income. In connection with this sublease, we recorded pretax income of \$0.7 million in SG&A and reduced the Franklin reserve by the same amount. The liability for the facility is included in current and noncurrent closed store lease obligations in the balance sheet.

In the fourth quarter of 2006, we recorded a pretax charge of \$7.2 million in connection with closing our in-club pharmacies, which consisted mainly of fixed asset write-downs of \$4.2 million and employee termination benefits of \$2.7 million. In the first half of this year, we recorded \$1.0 million of pretax income, primarily composed of \$2.3 million of proceeds received from the sale of prescription files and inventory, offset by payments of approximately \$1.4 million, which were related to the removal of fixtures. Income and expense items related to the pharmacy closings are recorded in SG&A expenses. No liability remains in the pharmacy closing reserve as of August 4, 2007, as we do not expect to record any further material adjustments in connection with the pharmacy closings.

9. Early in 2004 we were notified by credit card issuers that credit and debit card accounts used legitimately at BJs were subsequently used in fraudulent transactions at non-BJ s locations. In response, we retained a leading computer security firm to conduct a forensic analysis of our information technology systems with a goal of determining whether a breach had in fact occurred. While no conclusive evidence of a breach was found, the computer security firm concluded that: (1) our centralized computer system that serves as the aggregation point for all BJs credit and debit card transactions chain-wide had not been breached and (2) any breach would have likely occurred in a more decentralized fashion involving club-level systems. On March 12, 2004, after our receipt of the computer security firm s preliminary report of findings, we issued a public statement alerting consumers to the potential security breach.

In 2004, we recorded pretax charges of \$7.0 million to establish a reserve for claims seeking reimbursement for fraudulent credit and debit card charges and the cost of replacing cards, monitoring expenses and related fees and expenses. In 2005 and 2006, we recorded additional pretax charges totaling \$6.0 million to increase our reserve. These additional charges were driven primarily by an increase in our estimate of legal costs to be incurred in connection with this matter. No charges were recorded in connection with this matter in the first halves of this year and last year. As of August 4, 2007, the balance in the reserve was \$5.2 million, which represented our best estimate of the remaining costs and expenses related to this matter at that time. This reserve is included in accrued expenses and other current liabilities on our balance sheet.

As of September 1, 2007, the amount of outstanding claims, which are primarily from credit card issuing banks, was approximately \$13 million. We are unable to predict whether further claims will be asserted. We have contested and will continue to vigorously contest the claims made against us and continue to explore our defenses and possible claims against others.

The ultimate outcome of this matter could differ from the amounts recorded. While that difference could be material to the results of operations for any affected reporting period, it is not expected to have a material impact on our consolidated financial position or liquidity.

10. Net periodic benefit cost recognized for our unfunded defined benefit postretirement medical plan was as follows:

|                           | Thirteen Weeks Ended   |               | Twenty-Six Weeks Ended |               |
|---------------------------|------------------------|---------------|------------------------|---------------|
|                           | Aug. 4, 2007           | July 29, 2006 | Aug. 4, 2007           | July 29, 2006 |
|                           | (Dollars in Thousands) |               | (Dollars in Thousands) |               |
| Service cost              | \$ 152                 | \$ 152        | \$ 305                 | \$ 305        |
| Interest cost             | 82                     | 73            | 164                    | 146           |
| Amortization of net loss  | 5                      | 17            | 9                      | 34            |
| Net periodic benefit cost | \$ 239                 | \$ 242        | \$ 478                 | \$ 485        |

11. We have a \$225 million unsecured credit agreement with a group of banks which expires April 27, 2010. The agreement includes a \$50 million sub-facility for letters of credit, of which no amount was outstanding at August 4, 2007. We are required to pay an annual facility fee which is currently 0.20% of the total commitment. Interest on borrowings is payable at BJs option either at (a) the Eurodollar rate plus a margin which is currently 0.80% or (b) a rate equal to the higher of (i) the sum of the Federal Funds Effective Rate plus 0.50% or (ii) the agent bank's prime rate. We are also required to pay a usage fee whenever the amount of loans and undrawn or unreimbursed letters of credit outstanding exceeds 50% of the total commitment. The usage fee, if applicable, would currently be at an annual rate of 0.125% of the amount borrowed. The facility fee and Eurodollar margin are subject to change based upon our fixed charge coverage ratio. The agreement contains financial covenants which include a minimum fixed charge coverage requirement and a maximum adjusted debt to capital limitation. We are required to comply with these covenants on a quarterly basis.

Under the credit agreement, we may pay dividends or repurchase our own stock in any amount so long as we remain in compliance with all requirements under the agreement. We have no credit rating triggers that would accelerate the maturity date if borrowings were outstanding under our credit agreement. We were in compliance with the covenants and other requirements set forth in our credit agreement at August 4, 2007.

In addition to the credit agreement, we maintain a separate \$82 million facility for letters of credit, primarily to support the purchase of inventories, of which \$47.5 million was outstanding at August 4, 2007, and also maintain a \$25 million uncommitted credit line for short-term borrowings which expires on April 30, 2008. As of August 4, 2007, we also had a stand-alone letter of credit in the amount of \$5.7 million outstanding, which is used to support our self-insurance program for workers' compensation.

There were no borrowings outstanding under our bank credit agreement or our uncommitted credit line at August 4, 2007, February 3, 2007 and July 29, 2006.

12. BJ's filed proofs of claim against House2Home, Inc. for claims arising under certain agreements between BJ's and House2Home in connection with the BJ's spin-off from Waban Inc. in July 1997. These claims arose primarily from BJ's indemnification of TJX with respect to TJX's guarantee of House2Home leases and from the Tax Sharing Agreement dated July 28, 1997 between BJ's and House2Home. House2Home and BJ's have settled BJ's claims against House2Home. As part of the settlement, BJ's has been released of all claims that House2Home and its bankruptcy estate may have had against BJ's.

In the six months ended July 29, 2006, we received first quarter bankruptcy recoveries of \$3.1 million on account of our House2Home bankruptcy claims. These recoveries are recorded in gain on contingent lease obligations in the statements of income. On a post-tax basis, these gains were \$2.1 million. The Bankruptcy Court has closed the House2Home case and we do not expect to receive further payments on our claims.

13. The FASB issued the following standard which became effective in 2007:

In June 2006, the FASB ratified Emerging Issues Task Force (EITF) Issue 06-3, How Sales Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation). In accordance with EITF 06-3, the presentation of taxes within the scope of the issue on either a gross (included in revenues and costs) or a net (excluded from revenues) basis is an accounting policy decision that should be disclosed pursuant to APB Opinion 22. EITF 06-3 became effective in the first quarter of the fiscal year 2007. We have presented sales taxes collected from customers on a net basis. Therefore, implementation of EITF 06-3 does not have a material effect on the Company's financial statements.

The FASB issued the following standards which will become effective in 2008:

FASB Statement No. 157, Fair Value Measurement (FASB 157) was issued in September 2006. FASB 157 provides a definition of fair value, provides guidance for measuring fair value in U.S. GAAP and expands disclosures about fair value measurements. FASB 157 will be effective at the beginning of fiscal 2008. We are presently evaluating the impact of the adoption of FASB 157 on our results of operations and financial position.

FASB Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities ( FASB 159 )" was issued in February 2007. FASB 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently measured at fair value. FASB 159 will be effective at the beginning of fiscal 2008. We are currently evaluating the impact of the adoption of FASB 159 on our results of operations and financial position.

14. During this year's first six months, we repurchased 1,700,147 shares of our common stock for \$59.6 million. In last year's first half, we repurchased 2,639,200 shares of our common stock for \$75.4 million. On May 23, 2007, the Board of Directors authorized the repurchase of up to an additional \$100 million of the Company's common stock. As of August 4, 2007, our remaining repurchase authorization was \$93.9 million.

15. Certain amounts in the prior year's financial statements have been reclassified to conform to the current year presentation. We have reclassified our prior year's financial statements to reflect the operating results of ProFoods in discontinued operations and to reflect the reserve for the Franklin cross-dock facility in current and noncurrent closed store lease obligations for all periods presented.

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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**Thirteen Weeks (Second Quarter) and Twenty-Six Weeks Ended August 4, 2007 versus Thirteen and Twenty-Six Weeks Ended July 29, 2006.**

**Critical Accounting Policies and Estimates**

The preparation of our unaudited quarterly financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Some accounting policies have a significant impact on amounts reported in these financial statements. A description of our critical accounting policies is contained in our Annual Report on Form 10-K for the fiscal year ended February 3, 2007 in the Critical Accounting Policies and Estimates section of Management's Discussion and Analysis of Financial Condition and Results of Operations. Except as set forth below, there have not been any material changes to these critical accounting policies.

*Income Tax Reserves*

We pay income taxes to federal, state and municipal taxing authorities. We are subject to audit by these jurisdictions and maintain reserves for those uncertain tax positions which we believe may be subject to challenge. Our reserves are based on our estimate of the likely outcome of these audits, and are revised periodically based on changes in tax law and court cases involving taxpayers with similar circumstances.

FIN 48 addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under FIN 48, we may recognize the financial statement impact of a tax position when it is more likely than not that the position will be sustained upon examination. If the tax position meets the more-likely-than-not recognition threshold, the tax effect is recognized at the largest amount of the benefit that is greater than fifty percent likely of being realized upon ultimate settlement. FIN 48 also provides guidance on recognition, derecognition, classification, interest and penalties, accounting in interim periods and requires increased disclosures. We adopted the provisions of FIN 48 on February 4, 2007, the beginning of fiscal 2007. See Note 4 in Notes to the Consolidated Financial Statements for further discussion of the effect of FIN 48.

**Results of Operations**

Net sales for the quarter ended August 4, 2007 rose 8.0% to \$2.25 billion from \$2.08 billion reported in last year's second quarter. Net sales for the first half of the current year totaled \$4.26 billion, 7.8% higher than last year's comparable period. These increases were due to the opening of new clubs and gasoline stations and to comparable club sales increases. The increase in comparable club sales represented approximately 45% of the increase in total net sales from the second quarter of 2006 to the second quarter of 2007,

and approximately 41% of the increase in year-to-date sales. New clubs and gasoline stations accounted for the remainder of the increase. Food accounted for 62% of total food and general merchandise sales in this year's second quarter versus 61% in last year's second quarter. For the year-to-date period, food also accounted for 62% of total food and general merchandise sales this year versus 61% in last year's comparable period.

Comparable club sales increased by 3.7% over last year in the second quarter, including a 0.7% contribution from gasoline sales, and increased by 3.0% for the first half of the year, including a 1.1% contribution from sales of gasoline. The comparable club sales increases included a detriment from lack of pharmacy sales versus last year of approximately 0.4% in both the second quarter and the year-to-date periods. On a comparable club basis, food sales increased by approximately 5% in this year's second quarter and by approximately 4% year-to-date. Comparable club general merchandise sales increased by approximately 0.5% in the second quarter and decreased by approximately 1% in the year-to-date period. On a comparable club basis, excluding sales of gasoline, customer count increased by approximately 1% in this year's second quarter and decreased by approximately 0.4% in the year-to-date period. Average sales per transaction increased by approximately 3% in both this year's second quarter and year-to-date period. Stronger performing departments as compared to last year's second quarter included bakery, cheese, dairy, frozen foods, juices, meat, milk, soda, water, office supplies, televisions and storage. Weaker performing departments included air conditioners, computer equipment, jewelry, residential furniture, tires and toys. The weakness in furniture and toys reflected space reductions in those departments versus last year.

Total revenues included membership fees of \$43.6 million in this year's second quarter versus \$39.9 million in last year's comparable period. For the year-to-date period, membership fees were \$87.2 million this year compared with \$78.9 million last year. These increases were due principally to the \$5 membership fee increase that became effective on January 1, 2006 and to the opening of new clubs. Because members renew throughout the year and because membership fee income is amortized over the life of the membership, the full impact of the fee increase is spread over a two-year period. Through the end of this year's second quarter, Rewards members accounted for approximately 5% of all primary memberships and approximately 13% of food and general merchandise sales, about the same levels as last year.

Cost of sales (including buying and occupancy costs) was 92.11% of net sales in this year's second quarter versus 91.97% in last year's second quarter. In this year's second quarter, the 14 basis point increase in cost of sales reflected a decrease in merchandise gross margin of approximately 17 basis points and an increase in buying and occupancy costs of approximately 7 basis points, partially offset by a favorable impact from strong gasoline margins worth approximately 10 basis points.

The decrease in merchandise margin was due mainly to an unfavorable change in the mix of sales. While we continued to see strong sales growth in high margin perishables, particularly produce and meat, we also experienced very strong sales in a number of below-average margin departments such as televisions and books, and weaker sales in a number of above-average margin departments such as air conditioners and jewelry.

The increase in buying and occupancy costs was due in part to higher utilities costs. The increase in gasoline margin was due to decreasing gasoline prices during this year's second quarter as compared to increasing prices in last year's second quarter.

For the first six months of this year, cost of sales (including buying and occupancy costs) was 92.53% versus 92.18% last year. The 35 basis point increase reflected a decrease in merchandise gross margins of approximately 22 basis points, an increase in buying and occupancy costs of approximately 3 basis points and an unfavorable impact from gasoline margins of 10 basis points. Merchandise margins were negatively impacted by competitive price reductions taken early in the first quarter, as well as an unfavorable change in the mix of sales. Steadily rising gasoline prices throughout the first quarter also added significant pressure to gasoline margins.

SG&A expenses were 7.70% of net sales in the second quarter versus 7.90% in last year's comparable period. The decrease of 20 basis points in the second quarter was attributable mainly to decreases of 14 basis points for savings in pharmacy operating expenses; a decrease in advertising expenses of 9 basis points; a favorable impact of approximately 9 basis points in connection with the reserve for BJ's former cross-dock facility in Franklin, MA, as a result of subleasing the facility; and a decrease of approximately 16 basis points in payroll and stock-based compensation, reflecting the favorable impact of our home office restructuring late last year. These favorable factors were partially offset by increased cash-based incentive pay accruals as compared to last year's unusually low levels, worth almost 29 basis points.

Year-to-date SG&A expenses were 7.89% of net sales this year versus 8.21% last year. The decrease of 32 basis points in the year-to-date period was driven largely by many of the same factors as those cited in the second quarter. The decrease for the six-month period was higher than that for the second quarter, primarily because of a higher overall decrease in advertising and a lower overall increase in cash-based incentive pay for the year-to-date period.

Total SG&A expenses rose by \$8.5 million from the second quarter of 2006 to the second quarter of 2007. Payroll and benefits accounted for 76% of all SG&A expenses in this year's second quarter versus 74% last year. For the year-to-date period, total SG&A expenses rose by \$11.9 million this year. Payroll and payroll benefits accounted for 75% of all SG&A expenses in both this year's first six months and last year's first six months.

Preopening expenses were \$1.2 million in this year's second quarter versus \$1.3 million in last year's second quarter. Year-to-date preopening expenses totaled \$2.5 million this year versus \$2.6 million last year. In this year's first half, we opened three new clubs, two of which opened in the second quarter. In last year's first half, we opened two new clubs, both of which opened in the first quarter, and a new cross-dock facility in the second quarter.

Net interest income was \$1.1 million in this year's second quarter versus \$1.0 million in last year's second quarter. Net interest income for the first six months of this year was \$1.3 million versus \$2.0 million in last year's comparable period. This decrease was due mainly to lower invested cash in the first quarter.

In last year's first quarter, we received pretax bankruptcy recoveries of \$3.1 million on account of our House2Home bankruptcy claims. These recoveries were recorded as a gain on contingent lease obligations in the statements of income. On a post-tax basis these gains were \$2.1 million. The Bankruptcy Court has closed the House2Home case and we do not expect to receive further payments on our claims.

Our income tax provision was 33.1% of pretax income from continuing operations in the second quarter of 2007 versus 39.0% in last year's second quarter. Our income tax provision was 35.6% of pretax income from continuing operations in the first half of 2007 versus 38.8% in last year's first half. This year's lower rates reflected the favorable settlement of state income tax audits in the second quarter, which reduced our provision for income taxes by \$3.6 million. (See Note 4 of Notes to Consolidated Financial Statements.) For the full 2007 year, we expect our ongoing income tax rate to be approximately 40% to 41% versus 38.1% in 2006. The higher rate for this full year is due to certain portions of this year's incentive compensation which is not expected to be tax deductible under Section 162(m) of the Internal Revenue Code, and to higher tax accruals and interest amounts required by FIN 48. In addition, last year's full-year tax rate was lower, due in part to a portion of the House2Home bankruptcy recoveries which was nontaxable, and to state tax credits realized in connection with the opening of our cross-dock facility in Uxbridge, MA.

Income from continuing operations was \$34.1 million, or \$.52 per diluted share, in this year's second quarter versus \$27.8 million, or \$.41 per diluted share, in last year's comparable period. For the first six months, income from continuing operations was \$47.9 million, or \$.73 per diluted share, this year versus \$44.7 million, or \$.66 per diluted share, last year.

In this year's second quarter, we recorded net income from discontinued operations of \$2.2 million, or \$.03 per diluted share, versus a loss of \$1.4 million, or \$.02 per diluted share, in last year's second quarter. For the first half of this year, we recorded net income from discontinued operations of \$2.1 million, or \$.03 per diluted share, versus a loss of \$2.8 million, or \$.04 per diluted share in last year's comparable period.

Net income for the second quarter was \$36.3 million, or \$.55 per diluted share, this year versus \$26.4 million, or \$.39 per diluted share, last year. This year's results included post-tax income of \$3.6 million from favorable state income tax audit settlements, which were recorded in continuing operations, and post-tax income of \$2.4 million, primarily resulting from the settlement of a lease for one of the two ProFoods clubs, which were closed in January 2007. This item was recorded in discontinued operations. Results for last year's second quarter included post-tax expense of \$0.8 million associated with the closing of the Franklin cross-dock facility.

Net income for the first six months of this year was \$49.9 million, or \$.76 per diluted share, versus \$41.8 million, or \$.62 per diluted share, last year. This year's amounts included post-tax income of \$3.6 million, as a result of the favorable income tax audit settlements and post-tax income of \$2.4 million from the settlement of the ProFoods lease mentioned above. Net income for the year-to-date period also included income of \$1.0 million from the sale of pharmacy related assets in the first quarter, which were included in continuing operations.

For the first half of 2006, net income included expense of \$2.7 million related to the operations of ProFoods, which are recorded in discontinued operations. This amount included second quarter expense of \$1.4 million. In last year's first half, net income included a post-tax gain of \$2.1 million related to recoveries of House2Home bankruptcy claims in the first quarter and the post-tax expense of \$0.8 million associated with the closing of the Franklin facility.

The Company operated 175 clubs on August 4, 2007 versus 165 BJ's clubs and two ProFoods clubs on July 29, 2006.

### **Seasonality**

Our business, in common with the business of retailers generally, is subject to seasonal influences. Our sales and operating income have typically been highest in the fourth quarter holiday season and lowest in the first quarter of each fiscal year.

### **Recent Accounting Standards**

See Note 13 in Notes to Consolidated Financial Statements for a summary of recently issued standards.

### **Liquidity and Capital Resources**

Net cash provided by operating activities was \$164.8 million in the first six months of 2007 versus \$73.2 million in last year's comparable period. Cash provided by changes in merchandise inventories, net of accounts payable, increased by \$48.0 million in the first six months of this year versus a decrease of \$14.2 million in last year's comparable period.

This favorable variance was due mainly to a 2.4% decrease in inventory per club as compared to the end of last year's second quarter. The inventory decrease was due to the benefits of our SKU reduction efforts this year as compared to last year's inventory build-up to support coupon-based marketing programs and to facilitate the July 2006 switch to our new cross-dock facility in Uxbridge, MA. The ratio of accounts payable to merchandise inventories was 69.6% at the end of this year's second quarter versus 65.4% at the end of last year's second quarter. The increase in noncurrent liabilities was due mainly to an increase in noncurrent income taxes payable.

Cash expended for property additions was \$43.8 million in this year's first six months versus \$93.4 million in last year's comparable period. In this year's first half, we opened three new clubs, two of which opened in the second quarter. We also opened three new gasoline stations, all of which were in the second quarter. In last year's first half, we opened two new clubs, both of which opened in the first quarter, and our new owned cross-dock facility in the second quarter. Our full-year capital expenditures are expected to total approximately \$110 to \$120 million in 2007, based on plans to open approximately five new clubs and four or five new gasoline stations in this fiscal year. The timing of actual openings and the amount of related expenditures could vary from these estimates due, among other things, to the complexity of the real estate development process.

On May 23, 2007, the Board of Directors authorized the repurchase of up to an additional \$100 million of the Company's common stock. During the first six months of 2007, we repurchased 1,700,147 shares of our common stock for \$59.6 million. In last year's first six months, we repurchased 2,639,200 shares of our common stock for \$75.4 million. As of August 4, 2007, our remaining repurchase authorization was \$93.9 million.

We have a \$225 million unsecured credit agreement with a group of banks which expires April 27, 2010. The agreement includes a \$50 million sub-facility for letters of credit, of which no amount was outstanding at August 4, 2007. We were in compliance with the covenants and other requirements set forth in our credit agreement at August 4, 2007. See Note 11 for further discussion of our credit agreement.

In addition to the credit agreement, we maintain a separate \$82 million facility for letters of credit, primarily to support the purchase of inventories, of which \$47.5 million was outstanding at August 4, 2007, and also maintain a \$25 million uncommitted credit line for short-term borrowings which expires on April 30, 2008. As of August 4, 2007, we also had a stand-alone letter of credit in the amount of \$5.7 million outstanding, which is used to support our self-insurance program for workers' compensation.

There were no borrowings outstanding under our bank credit agreement or our uncommitted credit line at August 4, 2007, February 3, 2007 and July 29, 2006.

In 2006, we established reserves for our liabilities related to leases for the two ProFoods clubs, which closed in the fourth quarter, and for our Franklin, MA, cross-dock facility, which was relocated to a new facility in Uxbridge, MA, in the second quarter. We recorded a pretax charge of \$25.7 million to close the ProFoods clubs, which included \$14.0 million for fixed asset write-downs and a charge of \$8.8 million for lease obligation costs. The charges for ProFoods' lease obligations were based on the present value of rent liabilities under the two leases, including estimated real estate taxes and common area maintenance charges, reduced by estimated future income from the potential subleasing of these properties. An annual discount rate of 6% was used to calculate the present value of the obligations.

During this year's second quarter, we settled the lease for one of the two ProFoods closed locations, and subleased the other ProFoods location for a portion of the remaining lease term, resulting in pretax income of \$4.0 million, (\$2.4 million post-tax) in discontinued operations, primarily as a result of the lease settlement. As of August 4, 2007, our reserve for our ProFoods obligations was \$4.1 million.

In connection with the closing of the Franklin, MA, cross-dock facility, we recorded pretax charges of \$2.4 million in 2006 for our remaining lease obligations for this property. These charges were based on our rent liabilities under the lease, reduced by estimated potential future sublease income. In this year's second quarter, we subleased the Franklin facility for a portion of its remaining lease term. In connection with this sublease, we recorded pretax income of \$0.7 million to reduce our reserve. As of August 4, 2007, our reserve for this obligation was \$0.8 million.

During the third quarter of 2002, we established reserves for our liabilities related to leases for three BJ's clubs which closed on November 9, 2002. In 2004 and 2005, we made lump sum payments to settle the leases for two of the three closed clubs. Our reserve of \$7.9 million as of August 4, 2007 is based on the present value of our rent liability under the lease for the remaining club, including real estate taxes and common area maintenance charges, reduced by estimated future income from subleasing the property. An annual discount rate of 6% was used to calculate the present value of the obligation.

We believe that the liabilities recorded in the financial statements adequately provide for these lease obligations. However, there can be no assurance that our actual liability for closed store lease obligations will not differ materially from amounts recorded in the financial statements due to a number of factors, including future economic factors which may affect the ability to successfully sublease, assign or otherwise settle liabilities related to these properties. We consider our maximum reasonably possible undiscounted pretax exposure for our closed store lease obligations to be approximately \$24.0 million at August 4, 2007.

Early in 2004 we were notified by credit card issuers that credit and debit card accounts used legitimately at BJ's were subsequently used in fraudulent transactions at non-BJ's locations. In response, we retained a leading computer security firm to conduct a forensic analysis of our information technology systems with a goal of determining whether a breach had in fact occurred. (See Note 9 for additional information.) While no conclusive evidence of a breach was found, we recorded pretax charges of \$7.0 million in 2004 to establish a reserve for claims seeking reimbursement for fraudulent credit and debit card charges and the cost of replacing cards, monitoring expenses and related fees and expenses.

In 2005 and 2006, we recorded additional pretax charges totaling \$6.0 million to increase our reserve. These additional charges were driven primarily by an increase in our estimate of legal costs to be incurred in connection with this matter. As of August 4, 2007, the balance in the reserve was \$5.2 million, which represented our best estimate of the remaining costs and expenses related to this matter at that time. This reserve is included in accrued expenses and other current liabilities on our balance sheet.

As of September 1, 2007, the amount of outstanding claims, which are primarily from credit card issuing banks, was approximately \$13 million. We are unable to predict whether further claims will be asserted. We have contested and will continue to vigorously contest the claims made against us and continue to explore our defenses and possible claims against others.

The ultimate outcome of this matter could differ from the amounts recorded. While that difference could be material to the results of operations for any affected reporting period, it is not expected to have a material impact on consolidated financial position or liquidity.

Cash and cash equivalents totaled \$154.4 million as of August 4, 2007. We believe that our current resources, together with anticipated cash flow from operations, will be sufficient to finance our operations through the term of our credit agreement. However, we may from time to time seek to obtain additional financing.

### **Cautionary Note Regarding Forward-Looking Statements**

This report contains a number of forward-looking statements, including statements regarding planned capital expenditures, planned club and gas station openings, expected provision for income taxes, BJ's reserve for credit and debit card claims, lease obligations in connection with a closed BJ's club and a closed ProFoods club, and other information with respect to our plans and strategies. Any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, the words believes, anticipates, plans, estimates, expects and similar expressions are intended to identify forward-looking statements. There are a number of important factors that could cause actual events or our actual results to differ materially from those indicated by such forward-looking statements, including, without limitation, levels of customer demand, economic and weather conditions and state and local regulation in our markets; competitive conditions; our success in settling lease obligations for closed clubs; and our success in settling credit and debit card claims. Each of these and other factors are discussed in more detail in our Annual Report on Form 10-K for the fiscal year ended February 3, 2007.

Any forward-looking statements represent our estimates only as of the day this quarterly report was first filed with the Securities and Exchange Commission (SEC) and should not be relied upon as representing our estimates as of any subsequent date. While we may elect to update forward-looking statements at some point in the future, we specifically disclaim any obligation to do so, even if our estimates change.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

We believe that our potential exposure to market risk as of August 4, 2007 is not material because of the short contractual maturities of our cash and cash equivalents on that date. There were no borrowings outstanding under our bank credit agreement or our uncommitted credit line at August 4, 2007.

### **Item 4. Controls and Procedures**

The Company's management, with the participation of the Company's chief executive officer and chief financial officer, evaluated the effectiveness of the Company's disclosure controls and procedures as of August 4, 2007. The term disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the

evaluation of the Company's disclosure controls and procedures as of August 4, 2007, the Company's chief executive officer and chief financial officer concluded that, as of such date, the Company's disclosure controls and procedures were effective at the reasonable assurance level.

No change in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended August 4, 2007 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

Discussions of the consumer credit and debit card matter appear in Part I of this Form 10-Q and are incorporated herein by reference.

### Item 1A Risk Factors

Information regarding risk factors appears in Management's Discussion and Analysis of Financial Condition and Results of Operations Cautionary Note Regarding Forward-Looking Statements, in Part I Item 2 of this Form 10-Q and in Part I Item 1A of BJ's Annual Report on Form 10-K for the year ended February 3, 2007. There have been no material changes from the risk factors previously disclosed in BJ's Annual Report on Form 10-K.

### Item 2 Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities

The following table summarizes our share repurchase activity in the quarter ended August 4, 2007:

| Period                |              |               | Total Number of     |    | Maximum Dollar         |
|-----------------------|--------------|---------------|---------------------|----|------------------------|
|                       |              |               | Shares Purchased    |    | Amount that May        |
|                       |              |               | as Part of Publicly |    | Yet Be Purchased       |
|                       |              |               | Announced           |    | Under the              |
|                       | Total Number | Average Price | Shares Purchased    |    | Program                |
|                       | of Shares    | Paid per      | as Part of Publicly |    | (Dollars in Thousands) |
|                       | Purchased    | Share         | Program             |    |                        |
| <b>2007</b>           |              |               |                     |    |                        |
| May 6 - June 2        | 101,700      | \$ 35.25      | 101,700             | \$ | 132,917*               |
| June 3 - July 7       | 343,500      | 36.75         | 343,500             |    | 120,294                |
| July 8 - Aug. 4       | 754,947      | 34.99         | 754,947             |    | 93,878                 |
| Total for the quarter | 1,200,147    | \$ 35.52      | 1,200,147           | \$ | 93,878                 |

\* Includes an additional \$100 million that was authorized by the Board of Directors on May 23, 2007 and was publicly announced the same day.

We publicly announced in a press release dated August 26, 1998 that the Board of Directors authorized a program to repurchase up to \$50 million of the Company's common stock. We subsequently announced that the Board authorized increases in the program of \$50 million each in press releases dated September 16, 1999, May 25, 2000, and May 25, 2001; and additional increases of \$100 million each in press releases dated September 26, 2001, August 20, 2002, March 1, 2005, April 5, 2006 and May 23, 2007. Under the program, repurchases may be made at management's discretion, in the open market (including through Rule 10b5-1 plans) or in privately negotiated transactions. No expiration dates were set under any of the Board's authorizations. From the inception of the program through August 4, 2007, we repurchased approximately 19.9 million shares for a total of \$606.1 million, leaving a remaining authorization of \$93.9 million.

**Item 6 Exhibits**

- 31.1 Chief Executive Officer Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Chief Financial Officer Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Chief Executive Officer Certification pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Chief Financial Officer Certification pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

**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.

BJS WHOLESALE CLUB, INC.

(Registrant)

Date: September 12, 2007

/s/ HERBERT J ZARKIN

Herbert J Zarkin

Chairman of the Board

President and Chief Executive Officer

(Principal Executive Officer)

Date: September 12, 2007

/s/ FRANK D. FORWARD

Frank D. Forward

Executive Vice President and Chief Financial Officer

(Principal Financial and Accounting Officer)