GERON CORP
Form 10-K
March 07, 2012

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

x	ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2011

or

o	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____.

Commission File Number: 0-20859

GERON CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	75-2287752
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
230 Constitution Drive, Menlo Park, CA	94025
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code: (650) 473-7700

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.001 par value	Nasdaq Global Select Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

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 x No o

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

o	Large accelerated filer	x	Accelerated filer
o	Non-accelerated filer (Do not check if a smaller reporting company)	o	Smaller reporting company

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

The aggregate market value of voting and non-voting common equity held by non-affiliates of the registrant was approximately $508,641,000 based upon the closing price of the common stock on June 30, 2011 on the Nasdaq Global Select Market. Shares of common stock held by each officer, director and holder of five percent or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of February 22, 2012, there were 132,488,871 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Document	Form 10-K Parts
Portions of the Registrant s definitive proxy statement for the 2012 annual meeting of stockholders to be filed pursuant to Regulation 14A within 120 days of the Registrant s fiscal year ended December 31, 2011	III

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Forward-Looking Statements

This annual report on Form 10-K, including Business in Part I, Item 1 and Management s Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7, contains forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause the results of Geron Corporation (Geron or the Company) to differ materially from those expressed or implied by such forward-looking statements. All statements other than statements of historical fact are statements that could be deemed forward-looking statements. In some cases, forward-looking statements can be identified by the use of terminology such as may, expects, plans, anticipates, estimates, potential, or continue or the negative thereof or other comparable terminology. The risks and uncert referred to above include, without limitation, risks related to our research and development efforts, need for future capital, timely completion of our clinical trials, uncertainty of clinical trial results or regulatory approvals or clearances, manufacturing of our product candidates at scales and costs appropriate for commercialization, enforcement of our patent and proprietary rights, reliance upon our collaborative partners, potential competition and other risks that are described herein and that are otherwise described from time to time in Geron s Securities and Exchange Commission reports including, but not limited to, the factors described in Item 1A, Risk Factors, of this annual report. Geron assumes no obligation and does not intend to update these forward-looking statements.

PART I

ITEM 1. BUSINESS

Overview

Geron is a biopharmaceutical company developing first-in-class therapies for cancer. We have two lead product candidates in clinical development, imetelstat and GRN1005. Imetelstat, a telomerase inhibitor, is being evaluated in four Phase 2 clinical trials: metastatic breast cancer, advanced non-small cell lung cancer, essential thrombocythemia and multiple myeloma. GRN1005, a novel peptide-drug conjugate that is designed to transport a proven anti-cancer drug, paclitaxel, across the blood brain barrier, is being evaluated in two Phase 2 clinical trials: brain metastases arising from breast cancer and brain metastases arising from non-small cell lung cancer. We have developed imetelstat from inception and own exclusive worldwide commercial rights with U.S. patent coverage extending until at least 2026. We in-licensed GRN1005 on an exclusive, worldwide basis, with U.S. patent coverage extending until at least 2025.

Imetelstat

Imetelstat targets telomerase, an enzyme which is required for the unlimited cell proliferation fundamental to all cancers. Expression and activity of telomerase are increased in bulk tumor cells and cancer progenitor cells in a broad range of cancer types. Our research has shown that imetelstat is a potent and specific inhibitor of telomerase activity. In addition, the effects of imetelstat on tumor cells, including cancer progenitor cells, have been well characterized in numerous preclinical studies.

We are evaluating imetelstat in two randomized, controlled Phase 2 trials in solid tumors, one in metastatic breast cancer and the other in advanced non-small cell lung cancer (NSCLC). Both are diseases in which the prognosis for patients remains poor, and there is evidence that disease progression, relapse and metastasis are driven in part by cancer progenitor cells. We are also evaluating imetelstat in two single-arm Phase 2 trials in hematologic (blood-based) cancers, one in essential thrombocythemia and the other in multiple myeloma, where the effect of the drug on the malignant progenitor cells responsible for the disease can be more directly observed than is the case in solid tumors.

Our metastatic breast cancer and NSCLC trials require that a sufficient number of progression events must occur in order to perform the planned data analyses. We anticipate an accrual of events that will allow us to report top-line results by the end of 2012. We also expect top-line results from our single-arm trials in essential thrombocythemia and multiple myeloma by the end of 2012.

GRN1005

GRN1005 is a peptide-drug conjugate designed to utilize a physiologic molecular transport mechanism known as lipoprotein receptor-related protein-1, or LRP-1, to deliver paclitaxel across the blood-brain barrier and into tumors in the brain. The blood-brain barrier prevents most drugs, including oncology drugs, from reaching the brain at levels that are clinically effective. GRN1005 is designed to overcome this challenge by linking paclitaxel to

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a proprietary peptide, Angiopep-2, which is a ligand for LRP-1. This enables GRN1005 to be actively transported across the blood-brain barrier by LRP-1. The LRP-1 transport mechanism also facilitates uptake of the conjugate into tumor cells inside and outside of the brain. The bond linking Angiopep-2 peptide and paclitaxel is cleaved when it is taken up into cells, including tumor cells both inside and outside of the brain, releasing active paclitaxel.

Brain metastases in cancer patients are associated with considerable morbidity and mortality. Current treatments for brain metastases include whole brain radiation therapy (WBRT), stereotactic radiosurgery (SRS), and/or surgical resection, each of which provides limited efficacy and is associated with significant side effects. There is no approved drug therapy for brain metastases.

We are conducting two single-arm Phase 2 trials of GRN1005, one in patients with brain metastases associated with breast cancer and the other in brain metastases associated with non-small cell lung cancer. We selected these indications because in Phase 1 trials clinical activity was observed in patients with these tumor types. We expect to have top-line data from these two Phase 2 trials by the end of the second quarter of 2013.

A summary of our ongoing clinical trials and the expected timing for top-line results from each of the trials is summarized in the table below.

Imetelstat: Telomerase Inhibitor for Treating Solid Tumors and Hematologic Malignancies

Overview

Imetelstat is a potent and specific inhibitor of telomerase currently in clinical development as a therapeutic agent for the treatment of solid tumors and hematologic malignancies. This first-in-class compound is a specially designed and modified oligonucleotide which targets and binds with high affinity directly to the RNA template component of telomerase. The proprietary oligonucleotide chemistry improves binding affinity and stability, and the lipid modification enhances cellular and tissue penetration.

Scientific Rationale

Telomerase as a Molecular Target in Oncology

Telomeres are repeats of a DNA sequence located at the ends of chromosomes. They act as protective caps to maintain stability and integrity of the chromosomes, which contain the cell s genetic material. Telomerase is an enzyme that can rebuild telomeres and prevent them from shortening during cell division. The telomerase enzyme includes a protein component and an RNA template component.

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Because of the role of telomerase in extending cancer cell longevity and proliferation, we believe that inhibiting telomerase may be an effective strategy for treating a broad range of malignancies. Elevated expression and activity of telomerase is associated with the limitless cellular replication characteristic of cancer. Telomerase expression has been found to be present in approximately 90% of biopsies from a broad range of human cancers, and its activity is generally found to increase with grade and stage of tumor.

Based on the results of preclinical and clinical studies, it is believed that progression, relapse and metastasis of many cancers are driven by cancer progenitor cells, many of which have been found to express high levels of telomerase and have high levels of telomerase activity. Standard chemotherapy and other conventional agents are effective against bulk tumor cells, but are not as effective against cancer progenitor cells. As a result, after initial responses to standard treatments, tumors may re-grow due to proliferation and differentiation of progenitor cells, causing relapse of the disease. For this reason, cancer progenitor cells have become important targets for novel therapies. Because cancer progenitor cells have increased telomerase activity, they may be susceptible to telomerase inhibition by imetelstat.

Imetelstat: Our Telomerase Inhibitor

Despite the clinical potential of telomerase as a target for developing new cancer treatments, small molecule telomerase inhibitors have not progressed to the clinic due to lack of potency or specificity. Consequently, we utilized a proprietary nucleic acid chemistry platform to develop imetelstat as a short, modified oligonucleotide to be a potent and specific inhibitor of telomerase. Imetelstat binds with high affinity to the RNA template of telomerase, thereby directly inhibiting telomerase activity. It has a proprietary nucleic acid backbone which provides resistance to the effect of cellular nucleases, thus conferring improved stability in plasma and tissues, as well as significantly improved binding affinity to its target. To improve cell permeability, we conjugated the oligonucleotide to a lipid group. Imetelstat is the first telomerase inhibitor to advance to clinical development.

Imetelstat Preclinical Data

The effects of imetelstat on tumor cells, including breast and lung cancers, have been well characterized in numerous preclinical studies conducted by scientists at Geron and academic collaborators. Results of these studies demonstrated that:

- Imetelstat inhibits telomerase activity, leading to the inhibition of cancer cell growth;
- Imetelstat inhibits the growth of a variety of tumor types in cell culture systems and in rodent models of human cancers (xenograft and orthotopic models), impacting the growth of primary tumors and reducing metastases;
- Imetelstat has additive and synergistic anti-tumor effects in a variety of tumor cell culture systems and xenograft models when administered in combination with approved anti-cancer therapies including radiation, conventional chemotherapies and targeted agents; and
- Imetelstat is an effective inhibitor of cancer progenitor cell proliferation in a broad range of tumor types, including breast cancer, lung cancer, myeloma and myeloproliferative neoplasms such as essential thrombocythemia.

Imetelstat Clinical Experience

Phase 1 Clinical Trials

We conducted six Phase 1 trials, treating 183 patients, to evaluate the safety, tolerability, pharmacokinetics and pharmacodynamics of imetelstat, both alone and in combination with other standard therapies in patients with solid tumors and hematological malignancies. Results from the trials include the following findings:

- Imetelstat was well tolerated with adverse events that were manageable and reversible. The dose-limiting toxicities were thrombocytopenia (reduced platelet count) and neutropenia (reduced white blood cell count);

- Target exposures to imetelstat in patients were achieved at a dose and schedule that had acceptable tolerability, and were consistent with the exposures required for efficacy in mouse models of cancer;

- Inhibition of telomerase activity was observed following administration of imetelstat in various types of tissue in which telomerase activity is measurable, including normal bone marrow hematopoietic cells, malignant plasma cells, hair follicle cells, and peripheral blood mononuclear cells; and

- Clinical responses were observed in combination with cytotoxic chemotherapy in patients with breast cancer. No single agent clinical responses were observed.

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Current Clinical Trials

Based on the results seen in preclinical studies and Phase 1 clinical trials, we are currently conducting four Phase 2 clinical trials of imetelstat. For these trials, we have specifically selected cancers where there is evidence that disease progression, relapse and metastasis is driven by cancer progenitor cells. We believe that using imetelstat in combination with or following standard debulking chemotherapy may extend the duration of response and progression-free survival (PFS) in patients by inhibiting the subsequent proliferation of cancer progenitor cells. Based on this rationale and the unmet medical need in both diseases, we are studying imetelstat in two randomized, controlled Phase 2 trials, one in metastatic breast cancer and the other in advanced non-small cell lung cancer (NSCLC). We are also conducting two single-arm Phase 2 trials of imetelstat in hematologic malignancies in order to directly assess the impact of imetelstat on cancer progenitor cells. Our imetelstat Phase 2 program is summarized below:

Indication	**Trial Design Summary**	**Population**	**Number of Patients**	**Primary / Other Endpoints**
Metastatic Breast Cancer	Open-label, multi-center, randomized; imetelstat plus paclitaxel (+/-bevacizumab) vs. paclitaxel +/- bevacizumab only	Locally recurrent or metastatic disease without prior chemotherapy or after one non-taxane based chemotherapy in the metastatic setting	166 Enrolled	Progression-free survival
Advanced Non-Small Cell Lung Cancer (NSCLC)	Open-label, multi-center, randomized; imetelstat as maintenance therapy plus standard therapy (observation +/- bevacizumab) vs. standard therapy only	Recurrent locally advanced or Stage IV disease (completed first line platinum-based doublet induction therapy +/- bevacizumab)	Approx. 96	Progression-free survival
Essential Thrombocythemia (ET)	Open-label, single-arm, single agent	Disease requiring cytoreduction and have failed/intolerant of prior therapy or refuse standard therapy	Up to 40	Hematologic response rate; mutant JAK2 or MPL allelic burden
Multiple Myeloma	Open-label, single-arm; imetelstat +/- lenalidomide	Detectable but non-progressing disease after prior therapy	Up to 48	Improvement in response; *ex vivo* measures of myeloma progenitor cell proliferation

Our metastatic breast cancer and NSCLC trials require that a sufficient number of progression events must occur in order to perform the planned data analyses. We anticipate an accrual of events that will allow us to report top-line results by the end of 2012. We also expect top-line results from our single-arm trials in essential thrombocythemia and multiple myeloma by the end of 2012.

Imetelstat in Metastatic Breast Cancer

Disease Background

Excluding cancers of the skin, breast cancer is the most frequently diagnosed cancer in women in the United States, with nearly 227,000 new cases of invasive breast cancer expected to occur in 2012. Based on SEER *(Surveillance Epidemiology and End Results*) data, we estimate that roughly 65,000 breast cancer patients will be diagnosed with metastatic disease or progress to first metastases from an earlier stage of disease in 2012. Despite advances in the treatment of breast cancer, 40,000 women are expected to die of the disease in the United States in 2012. For metastatic breast cancer patients in particular, prognosis is poor, and novel approaches and new therapies are needed.

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Current treatments for metastatic breast cancer aim to achieve disease control (generally defined as durable tumor response, disease stabilization or improvement in progression-free survival), palliate symptoms and prolong overall survival, while maintaining quality of life. Current standards of care include cytotoxic, hormonal and targeted therapies. The choice of treatment regimens depends on many factors, including the receptor status of the tumor, extent of the metastases, other medical co-morbidities, age, and the toxicities from treatment that are acceptable for an individual patient.

In general, metastatic breast cancer patients whose tumors over-express estrogen (ER-positive) or progesterone (PR-positive) hormone receptors, or human epidermal growth factor receptor-2 (HER2-positive) are candidates for hormonal therapies or HER2-directed therapies, which have led to improvements in survival. However, HER2-negative patients who have failed hormonal therapy or who have triple negative disease (ER-negative, PR-negative, HER2-negative) continue to have poor outcomes on current therapies, and, as a result, represent a significant unmet medical need.

Breast cancer is a disease in which there is evidence that disease progression, relapse and metastasis is driven in part by cancer progenitor cells. Our research has shown that imetelstat is a potent and specific inhibitor of telomerase and that it inhibits the proliferation of breast cancer cells, including breast cancer progenitor cells, both in cell culture systems and in breast cancer xenograft models, suppressing tumor growth and metastases. Imetelstat was also observed to act synergistically with paclitaxel to inhibit breast cancer cell proliferation *in vitro*. We believe that the use of imetelstat in combination with standard debulking chemotherapy, such as paclitaxel, may increase the duration of response and progression-free survival (PFS) in metastatic breast cancer patients.

Imetelstat in HER2-Negative Locally Recurrent or Metastatic Breast Cancer (Trial B014)

We are conducting a Phase 2 clinical trial to evaluate the potential benefit of imetelstat, in combination with paclitaxel, for patients with locally recurrent or metastatic breast cancer. Patients with triple negative disease, and patients with hormone-receptor positive disease who had failed hormonal therapy or had symptomatic visceral metastases, are included in this trial. Eligible patients either have not received chemotherapy previously for metastatic breast cancer (1st line) or have previously received one non-taxane based chemotherapeutic drug for metastatic breast cancer (2nd line). This trial completed patient enrollment in February 2012.

Patients have been randomized on a 1:1 basis to receive imetelstat in addition to paclitaxel (treatment arm) or to receive paclitaxel alone (comparator arm). The protocol allows up to 30% of patients in both arms of the trial to also receive bevacizumab, or Avastin, based on the investigator s decision and drug availability to the patient. We will stratify the analysis for efficacy based on whether patients were receiving bevacizumab.

Since the trial started, the FDA has revoked the approval for bevacizumab in this patient population in the United States, and as such, we expect that the data for the patients in this trial who are not receiving bevacizumab concurrently (at least 70% of the overall trial) will be more relevant for our analysis. Bevacizumab remains approved for metastatic breast cancer in various jurisdictions around the world, including the EU.

The primary objective of this trial is to obtain an estimate of the PFS in metastatic breast cancer patients receiving imetelstat in addition to paclitaxel and, optionally, bevacizumab. While we have not powered this trial to demonstrate statistical significance of efficacy results, we will focus our analysis on the efficacy trends in the overall patient population as well as in important subgroups, such as 1st line vs. 2nd line and ER negative/PR negative breast cancer, or triple negative. Based on historical results taken from the Eastern Cooperative Oncology Group-sponsored E2100 study of 1st line patients with metastatic breast cancer and the Genentech-sponsored RIBBON 2 study of 2nd line patients with metastatic breast cancer, we estimate that patients on the comparator arm will have a median PFS of approximately seven months. We believe that an improvement in the treatment arm of approximately three months in PFS compared to the comparator arm would be consistent with a meaningful clinical benefit, assuming a representative patient population was enrolled and the safety and tolerability profile is consistent with our Phase 1 data. The trial also has a number of secondary endpoints for efficacy, including objective response rate and clinical benefit rate.

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Imetelstat in Advanced Non-Small Cell Lung Cancer (NSCLC)

Disease Background

Lung cancer is the leading cause of cancer-related mortality worldwide. In the United States alone, an estimated 226,000 new cases and an estimated 160,000 deaths due to lung cancer are expected in 2012. Non-small cell lung cancer (NSCLC) accounts for 80-85% of incident lung cancers. Based on SEER data, we estimate that 162,000 NSCLC cancer patients will be diagnosed with metastatic disease or progress to advanced disease from an earlier stage of disease in the United States in 2012. For advanced NSCLC patients in particular, prognosis is poor, and novel approaches and new therapies are needed.

Platinum-based doublet chemotherapy (cisplatin or carboplatin in combination with one of several other agents) is a recognized standard of care for patients with advanced NSCLC. Other cytotoxic agents, such as pemetrexed, are also being used. Bevacizumab may be added to the regimen for patients with non-squamous cell histology. Following chemotherapy, patients who have responded to treatment or have stable disease may be continued on a portion of the initial therapy, known as continuation maintenance therapy, until progression. More recently, the concept of introducing a new agent in the maintenance setting, or switch maintenance, was shown in trials of erlotinib and pemetrexed to be potentially effective in extending survival and PFS in some patients. Despite the availability of these agents, the outcomes for patients with advanced NSCLC remain poor.

NSCLC is a disease in which there is evidence that disease progression, relapse and metastasis is driven in part by cancer progenitor cells. Our research has shown that imetelstat is a potent and specific inhibitor of telomerase and that it inhibits the proliferation of NSCLC cells, including progenitor cells, both in cell culture systems and in xenograft models, suppressing tumor growth and metastases. Imetelstat was also observed to have an additive effect in combination with bevacizumab to inhibit lung cancer growth *in vivo*. We believe that the use of imetelstat as maintenance therapy after standard debulking chemotherapy may increase the duration of response and progression-free survival (PFS) in advanced NSCLC patients.

Imetelstat in Advanced NSCLC (Trial B012)

We are conducting a Phase 2 clinical trial to evaluate the potential benefit of imetelstat as maintenance therapy for patients with advanced NSCLC. Patients who have not progressed after platinum-based induction chemotherapy are eligible for this trial. Patients are randomized on a 2:1 basis to receive either imetelstat in addition to standard of care (treatment arm) or standard of care alone (comparator arm). The standard of care in this trial is observation or observation with bevacizumab. Patients who previously received bevacizumab with their induction chemotherapy will continue to receive bevacizumab in this trial.

The primary objective of this trial is to obtain an estimate of PFS in NSCLC patients receiving imetelstat as maintenance therapy. While we have not powered this trial to demonstrate statistical significance of efficacy results, we will focus our analysis on the efficacy trends in the overall patient population as well as in important subgroups, such as imetelstat monotherapy vs. combination with bevacizumab and adenocarcinoma vs. squamous histology. Based on historical results from other trials, we estimate that patients on the comparator arm will have a median PFS of approximately three and one-half months. We believe that an improvement of approximately two months in PFS in the treatment arm compared to the comparator arm would be consistent with a meaningful clinical benefit, assuming a representative patient population was enrolled and the safety and tolerability profile is consistent with our Phase 1 data. The trial also has a number of secondary endpoints for efficacy including objective response rate.

Imetelstat in Essential Thrombocythemia (ET)

Disease Background

Essential thrombocythemia (ET, also known as essential thrombocytosis) is representative of a group of diseases known as myeloproliferative neoplasms (MPNs), which also includes primary polycythemia and myelofibrosis. ET is a chronic blood disorder characterized by increased numbers of platelets in the blood. These platelets may have abnormal function, which can lead to an increased risk of thrombotic or hemorrhagic complications. Patients with ET may also develop myelofibrosis or acute myeloid leukemia.

In the United States, we estimate there will be 8,000 new cases of MPNs in 2012, of which approximately 25%, or 2,000, will be ET.

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ET is driven by malignant hematopoietic progenitor cells in the bone marrow. Some currently used treatments, such as hydroxyurea and anagrelide, can be effective in reducing platelet counts in patients with ET by causing nonspecific suppression of the bone marrow, but they do not specifically target the malignant bone marrow progenitor cells. Another therapy, interferon-alpha, may have a selective effect on the malignant cells; however, its utility is limited by tolerability concerns. Clinical resistance to or intolerance of these treatments may occur in a substantial proportion of patients.

Ex vivo studies have shown that imetelstat can inhibit growth of malignant platelet progenitor cells (megakaryocytes) from patients with ET. As a consequence, we believe that imetelstat has the potential to impact the malignant progenitor cells in the bone marrow that produce the high platelet counts in patients with ET. In addition, significant decreases in platelet counts were observed in Phase 1 trials of imetelstat. Thus, we believe that imetelstat may be able to reduce the high platelet counts that accompany ET.

Approximately 50% of patients with ET have mutations in the genes for Janus kinase 2 (JAK2) or, less frequently, myeloproliferative leukemia (MPL). These mutations can serve as specific markers of the malignant cells. By measuring the relative proportion of mutant compared to normal versions of these genes in blood cells, we believe we can directly assess the specific impact of imetelstat on the malignant cells in these patients.

Imetelstat in Essential Thrombocythemia (Trial B015)

We are conducting an open-label, single-arm Phase 2 clinical trial designed to evaluate the activity of imetelstat in patients with ET. This study is enrolling patients who have failed or are intolerant to at least one prior therapy, or who have chosen not to receive standard therapy.

The primary endpoints in the trial are hematologic response (as measured by a reduction in platelets), and in patients with JAK2 or MPL gene mutations, molecular response (as measured by a reduction in mutant JAK2 or MPL allelic burden). The study will be considered successful if greater than 60% of patients show a hematologic response, and at least 35% of patients with JAK2 or MPL gene mutations show a molecular response.

The study will also measure the duration of any responses observed. In patients who have a mutation in the JAK2 or MPL genes, we will collect data to evaluate the rate of molecular response.

While we may choose to enroll as many as 40 patients in this trial (including up to 20 with JAK2 or MPL gene mutations), we may enroll fewer based on early results, either positive or negative. Encouraging results from this trial may enable us to expand the imetelstat program into other myeloproliferative diseases such as primary polycythemia and myelofibrosis.

Imetelstat in Multiple Myeloma

Disease Background

Multiple myeloma arises from malignant hematopoietic progenitor cells in the bone marrow. Despite improvements in the standard of care, the majority of multiple myeloma patients relapse after initial therapy, eventually become refractory to all therapies and die from the disease. In the United States, an estimated 22,000 new cases and an estimated 11,000 deaths due to multiple myeloma are expected in 2012.

Cancer progenitor cells are thought to drive progression and relapse in multiple myeloma, and imetelstat has been shown in preclinical research to inhibit proliferation of those cancer progenitor cells. Since we can sample the bone marrow of patients with this disease before and during treatment with imetelstat, we may be able to determine whether imetelstat is specifically inhibiting proliferation of the multiple myeloma progenitor cells. If this is the case, it could provide compelling clinical evidence that imetelstat directly inhibits the proliferation of cancer progenitor cells, thus confirming this important mechanism of action.

Imetelstat in Multiple Myeloma (Trial B013)

We are conducting an open label, single-arm Phase 2 clinical trial designed to evaluate the effect of imetelstat in patients with multiple myeloma who have non-progressing but residual disease after initial cytoreductive therapy. This patient population has a high risk of relapse, yet should be able to be dosed for a sufficient period of time to evaluate the effect of imetelstat treatment. Imetelstat is being administered alone or

in combination with lenalidomide in a maintenance setting.

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The important endpoint in this study is to measure the change in the growth of myeloma progenitor cell populations taken from the patients bone marrow over time. *Ex vivo* measurements of myeloma progenitor cell proliferation, obtained by bone marrow aspiration before and after imetelstat treatment, will measure the direct effects of imetelstat on these cancer progenitor cells. Other endpoints include PFS and improvement in response.

While we may choose to enroll as many as 48 patients in this trial, we may enroll fewer based on early results, either positive or negative.

GRN1005: LRP-Directed Peptide-Drug Conjugate for Treating Patients with Brain Metastases

Overview

GRN1005 is a peptide-drug conjugate designed to deliver a proven anti-cancer drug (paclitaxel) to the brain to treat brain metastases. Brain metastases are associated with considerable morbidity and mortality, and there are currently no approved drug therapies. Brain cancers are very difficult to treat because the blood-brain barrier (BBB) prevents most drugs, including oncology drugs such as paclitaxel, from reaching the brain at levels that are clinically therapeutic. Enabling transport across the BBB and into tumors is critical for developing effective treatments for cancer in the brain.

GRN1005 was designed to overcome this challenge by conjugating three molecules of paclitaxel to a proprietary peptide, AngioPep-2. This peptide binds to lipoprotein receptor-related protein-1, or LRP-1, a physiologic transporter of large molecules across the BBB. This enables GRN1005 to be actively transported across the BBB by LRP-1. The LRP-1 transport mechanism also facilitates uptake of the conjugate into tumor cells inside and outside the brain.

We licensed GRN1005 from Angiochem, Inc. in December 2010. Our exclusive worldwide license provides us access to Angiochem s proprietary peptide technology that facilitates the transport of anti-cancer compounds across the BBB to enable the treatment of primary brain cancers and cancers that have metastasized to the brain. The license agreement covers Angiochem s proprietary receptor-targeting peptides conjugated to tubulin disassembly inhibitors, which include, but are not limited to, taxanes and epothilones and their derivatives.

Scientific Rationale

The BBB has two major functions: to protect the brain and regulate brain homeostasis. The brain is protected by tight junctions between the endothelial cells of the capillaries in the brain. As a consequence, most small molecules, proteins and peptides do not cross the BBB. However, the brain needs many molecules for survival, including insulin and low-density lipoprotein. Certain receptors present on the BBB actively transport these molecules from the blood into the brain.

The LRP-1 receptor is one of the most highly expressed receptors in the BBB and naturally transports numerous proteins to the brain. By linking an LRP-1 peptide binding moiety to therapeutic agents, such as paclitaxel, the receptor can be targeted to exploit this native mechanism for crossing the BBB to deliver therapeutic agents into the brain.

LRP-1 is also upregulated in many tumors; thus entry into tumor cells may also occur via LRP-1. As a result, GRN1005 may enter tumors in the brain and outside the brain using the same receptor-mediated pathway, making it an attractive strategy for treating brain metastases as well as the primary tumors that cause them.

Disease Background

The incidence of metastatic cancer in the brain is increasing. This may be due to a number of factors, including improved central nervous system screening and imaging. It may also relate to the improvement in therapies to treat disease outside of the brain, resulting in prolonged survival and increased risk of brain metastases. Lung cancer is the most common cause of brain metastases, followed by breast cancer.

Brain metastases are associated with considerable morbidity and mortality, and there are no approved drug therapies. Current treatments for brain metastases include whole brain radiation therapy (WBRT), stereotactic radiosurgery (SRS), and/or surgical resection.

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GRN1005 Clinical Experience

Phase 1 Clinical Trials

GRN1005 has been evaluated in two separate Phase 1 trials conducted by Angiochem. These were multi-center, open-label, dose escalation clinical trials to identify the maximum tolerated dose and obtain data on safety, tolerability and preliminary evidence of efficacy in patients with heavily pre-treated advanced solid tumors with brain metastases and in patients with recurrent malignant glioma.

In these trials, GRN1005 demonstrated evidence of single agent activity against brain metastases arising from a variety of epithelial malignancies, including NSCLC and breast cancer. In that Phase 1 clinical trial, the overall response rate in patients who received the maximum tolerated dose of GRN1005 was 20% (5/20). Furthermore, 24% (4/17) of patients with brain metastases had >30% shrinkage in brain lesions and 50% (5/10) of patients with lung lesions had >30% shrinkage in those lesions. Shrinkage of tumors was observed in patients previously treated with a taxane and indicated that GRN1005 has the potential to be effective against paclitaxel resistant tumors. In addition to metastases in the brain, responses were also observed in lesions in the lung, liver and lymph nodes, suggesting that GRN1005 has activity both inside and outside the brain.

In a sub-study of patients with malignant glioma, concentrations of GRN1005, well above those required for cytotoxicity, were detected in brain tumor samples taken from patients who had received a single dose of the drug prior to undergoing debulking surgery, indicating that the drug successfully crossed the BBB and entered the tumor.

Toxicity of GRN1005 in these Phase 1 trials was similar to that observed in other trials of paclitaxel alone, with dose-limiting toxicity due to neutropenia, which was manageable. No central nervous system toxicity was observed in patients as assessed by neurocognitive testing.

Current Clinical Trials

Based on the results of preclinical studies and Phase 1 clinical trials, we are now conducting two Phase 2 clinical trials of GRN1005. Our Phase 2 program is summarized below:

Indication	Trial Design Summary	Population	Number of Patients	Primary Endpoint
Brain Metastases from Breast Cancer (GRABM-B)	Open label, single arm, single agent or in combination with trastuzumab	Patients with metastatic breast cancer who may or may not have had whole brain radiation therapy	50 HER2-positive 50 HER2-negative	Intra-cranial response rate
Brain Metastases from Non-Small Cell Lung Cancer (NSCLC) (GRABM-L)	Open label, single-arm, single agent	Patients with metastatic NSCLC who may or may not have had whole brain radiation therapy	50	Overall response rate

GRN1005 in Brain Metastases from Breast Cancer (GRABM-B)

We are conducting a single-arm, open-label Phase 2 clinical trial to evaluate the potential benefit of GRN1005 in patients whose breast cancer has metastasized to the brain.

The study consists of two cohorts: patients with HER2-negative disease (including hormone receptor positive and triple negative), and patients with HER2-positive disease. The HER2-negative and HER2-positive patients will be assessed as separate cohorts because the natural history, treatment and outcomes for patients with brain metastases from these subtypes of breast cancer differ.

The standard of care for HER2-positive breast cancer outside of the brain is trastuzumab, or Herceptin, and patients with brain metastases have better overall outcomes when this drug is administered due to extra-cranial disease control. As a result, for patients with brain metastases from HER2-positive disease, GRN1005 will be assessed in combination with trastuzumab. GRN1005 will be evaluated as a single agent in patients with brain metastases from HER2-negative metastatic breast cancer.

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Patients are allowed to enroll in this study whether or not they have received prior whole brain radiation therapy, or WBRT. Some patients and their physicians may decide to defer WBRT until disease progression for a variety of reasons, including the possibility of associated neurotoxicity.

The primary endpoint of this trial is intra-cranial response rate. We are specifically assessing the intra-cranial activity of GRN1005 in this trial because therapies used to control extra-cranial disease have minimal efficacy against metastases inside the brain. We believe that an intra-cranial response rate significantly higher than the historical control, which is approximately 5% in metastatic breast cancer patients progressing after prior cranial radiation, would be considered clinically meaningful in this patient population. In addition, secondary endpoints include duration of intra-cranial response, three-month intra-cranial PFS, duration of intra-cranial PFS and six-month overall survival.

GRN1005 in Brain Metastases from NSCLC (GRABM-L)

We are conducting a single-arm, open-label Phase 2 clinical trial to evaluate the potential benefit of GRN1005 in patients whose non-small cell lung cancer (NSCLC) has metastasized to the brain. Patients are allowed to enroll in this study whether or not they have received prior WBRT. Some patients and their physicians may decide to defer WBRT until disease progression for a variety of reasons, including the possibility of associated neurotoxicity.

In patients with advanced NSCLC, disease both inside and outside the brain is usually poorly controlled. In the Phase 1 clinical trial of GRN1005, shrinkage of lung cancer lesions was observed both inside and outside the brain. As such, in our Phase 2 trial, we are assessing the activity of GRN1005 both inside and outside the brain.

The primary endpoint of this trial is overall response rates in both intra-cranial and extra-cranial disease. In contrast to many types of metastatic breast cancer, advanced NSCLC often progresses both inside the brain and outside the brain at the same time; therefore we are measuring response rates in both areas. We believe that an overall response rate significantly higher than the historical control, which is approximately 8% in NSCLC patients receiving salvage therapy, would be considered clinically meaningful in this patient population. In addition, secondary endpoints include the duration of PFS, six-month overall survival and the duration of overall objective response.

Discovery Research Programs

We have developed a deep expertise in the science of telomerase and telomerase inhibition, as well as nucleic acid chemistry. We are engaged in continued research to generate new drug candidates for clinical development leveraging our knowledge and technology. Our discovery research includes:

- Using our proprietary nucleic acid platform to develop drug candidates against new targets.
- Finding additional modalities to target telomerase and telomere function.
- Investigating the use of peptides to transport telomere-targeted agents into the brain.
- Activating telomerase in cells to restore functional capacity.

Telomerase Activation

Accelerated telomere loss or dysfunction of telomerase may play a role in many degenerative diseases. Controlled activation of telomerase may restore the regenerative and functional capacity of cells in various organ systems impacted by senescence, injury or chronic disease. Studies using cell-based and animal model systems have demonstrated the potential utility of small molecule telomerase activators in a range of human diseases associated with cellular senescence, fibrotic disorders and telomerase deficiency.

Data were obtained in one study using a rodent model of idiopathic pulmonary fibrosis (IPF), a chronic, progressive disease of the lung characterized by inflammation and fibrosis. Administration of GRN510, our lead small molecule telomerase activator, resulted in an increase in telomerase activity in lung tissue samples. In these preliminary studies, reductions in inflammatory cells in the lungs and improvements in lung compliance, or elasticity, were also observed.

Further studies are underway to determine the suitability of GRN510 as an investigational development candidate. If GRN510 advances to become an IND candidate for IPF or other non-oncology indications, we may seek a partner for further development.

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Divestiture of Human Embryonic Stem Cell Programs

In November 2011, we announced that we will exclusively focus on our oncology programs and consequently, we discontinued development of our stem cell programs. We continue to accrue data on the patients already enrolled in the Phase 1 trial of GRNOPC1 for spinal cord injury. We intend to divest our stem cell programs in 2012, which include GRNOPC1 for spinal cord injury, currently in a Phase 1 clinical trial, as well as programs in cardiomyocytes for heart disease, pancreatic islet cells for diabetes, dendritic cells as an immunotherapy vehicle and chondrocytes for cartilage repair.

Research and Development

For information regarding research and development expenses incurred during 2011, 2010 and 2009, see Item 7, Management Discussion and Analysis of Financial Condition and Results of Operations Research and Development Expense .

Intellectual Property

Intellectual property, including patent protection, is very important to our business. We file patent applications in the United States and other jurisdictions, and we also rely on trade secret protection and contractual arrangements to protect aspects of our business. An enforceable patent with appropriate claim coverage can provide an advantage over competitors who may seek to employ similar approaches to develop therapeutics, and so our future commercial success will be in part dependent on our intellectual property strategy. The information provided in this section should be reviewed in the context of the section entitled Risks Related to Protecting Our Intellectual Property that begins on page 28.

The development of biotechnology products, including ours, typically includes the early development of a technology, followed by rounds of increasingly focused innovation around a product opportunity, including identification and definition of a specific product candidate, manufacturing processes, product formulation and administration methods. The result of this process is that biotechnology products are often protected by several families of patent filings that are filed at different times during product development and cover different aspects of the product. Consequently, earlier filed, broad technology patents will usually expire ahead of patents covering later developments such as product formulations, so that patent expirations on a product may span several years. Patent coverage may also vary from country to country based on the scope of available patent protection. There are also opportunities to obtain extension of patent coverage for a product in certain countries, which add further complexity to the determination of patent life.

Oncology

The following table shows the estimated expiration dates for later filed composition of matter patents or patent applications for our two oncology drug product candidates. Because these product candidates are still under development, subsequent innovation and associated patent filings may provide additional patent coverage with later expiration dates. Examination of overseas patent applications typically lags behind U.S. examination particularly where cases are filed first in the United States. The stated expiration dates also do not account for potential patent extensions that may be available.

Product Candidate	**U.S. Patent Status / Expiration Date**	**Europe Patent Status / Expiration Date**	**Japan Patent Status / Expiration Date**
Imetelstat	Issued / 2026	Issued / 2020*	Issued / 2024
GRN1005	Issued / 2025	Pending / 2026	Pending / 2026

* An additional composition of matter patent application has been filed and, if issued, will provide European patent protection until 2024.

Our patent rights for imetelstat include those covering the nucleic acid sequence of hTR, the RNA component of telomerase, against which the oligonucleotide component of imetelstat is targeted, and the amidate nucleic acid chemistry used in that oligonucleotide, as well as manufacturing processes for the drug and composition claims to the drug molecule. These patents and patent applications are wholly owned by Geron. The expiration dates on these patent families currently range from 2014 to 2026.

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We hold a worldwide, exclusive license to GRN1005 from Angiochem, Inc., under which we have rights to an issued U.S. patent providing coverage for GRN1005 until 2025. In addition, the license includes patent applications in the United States and other countries covering proprietary peptides facilitating transport of therapeutic payloads across the BBB as well as patent claims to specific therapeutic compounds that employ these peptides, including GRN1005.

Our oncology research programs make use of our assets and expertise in areas including telomerase biology and nucleic acid chemistry. Our patent rights relating to telomerase, in addition to imetelstat, cover the cloned genes that encode the RNA component (hTR) and the catalytic protein component (hTERT) of human telomerase, cells that are immortalized by expression of recombinant hTERT, and cancer diagnostics based on detecting the expression of telomerase in cancer cells. Certain of these patents are in-licensed or co-owned with other entities including the Universities of Colorado, California and Texas Southwestern Medical Center. Our proprietary nucleic acid chemistry is covered by patent families that we acquired in 2002 from Lynx Therapeutics, Inc., as well as in patents that we filed for further developments of this chemistry.

Human Embryonic Stem Cells

Geron played a leading role in the development of human embryonic stem cell (hESC) technologies for more than a decade, ranging from funding the original isolation of the cells in the laboratory of Dr. James Thomson to the initiation of the first FDA-approved Phase 1 clinical trial of a hESC-derived cell therapy. Over that time, Geron scientists and collaborators developed technologies for differentiating and manufacturing hESCs and we sought to protect these developments through patent filings. As of December 31, 2011, our hESC patent portfolio includes 51 issued or allowed United States patents, 147 granted or accepted foreign patents and 245 patent applications pending worldwide. In addition to Geron-owned patents, the portfolio includes patents licensed to us (exclusively and non-exclusively, varying by field of use) from the Wisconsin Alumni Research Foundation (WARF); and patent families exclusively licensed to us by the University of California, the University of Oxford, the University of Edinburgh, and the Robarts Research Institute of the University of Western Ontario. By way of example, our hESC portfolio includes patents and patent applications covering technologies that we believe may facilitate the commercial-scale production of hESCs, such as methods for growing the cells without the need for cell feeder layers, and novel synthetic growth surfaces that were developed in a collaboration between Geron and Corning Life Sciences. We also own or have licensed patent rights covering cell types that can be made from hESCs, including hepatocytes (liver cells), cardiomyocytes (heart muscle cells), neural cells (nerve cells, including dopaminergic neurons and oligodendrocytes), chondrocytes (cartilage cells), pancreatic islet ß cells, osteoblasts (bone cells), hematopoietic cells (blood-forming cells) and dendritic cells.

In November 2011, we announced that we intend to divest our stem cell programs.

Proceedings

We endeavor to monitor worldwide patent filings by third parties that are relevant to our business. Based on this monitoring, we may determine that an action is appropriate to protect our business interests. Such actions may include negotiating patent licenses where appropriate, filing oppositions or reexaminations against a patent, or filing a request for the declaration of an interference with a U.S. patent application or issued patent. In 2009, as part of our stem cell related business activities, we initiated a patent interference proceeding involving patent rights relating to the production of endoderm cells from hESCs, and that proceeding, and a second related interference, are currently ongoing. We are currently also involved in patent opposition proceedings before the European Patent Office and the Australian Patent Office both as the party holding the opposed patent, and in opposition to patents granted or proposed to be granted to another entity.

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Intellectual Property Licensing

We have granted licenses to a number of other organizations to utilize aspects of our technologies to develop and commercialize products outside of our oncology programs. These include:

- A worldwide exclusive license to ViaGen, Inc. under our patent rights for nuclear transfer technology for use in non-human applications. ViaGen provides animal cloning services in North America across a number of species for both agricultural and biomedical uses, and serves other parts of the world through partnerships and sublicenses. Geron holds a 40% equity position in ViaGen;
- Licenses to several biotechnology and pharmaceutical companies to use telomerase-immortalized cells in drug discovery research;
- Licenses to several companies to commercialize telomerase-immortalized cells for drug discovery applications;
- Licenses to several companies to sell antibodies specific to telomerase for research purposes;
- Licenses to several companies to develop and commercialize reagent kits, or to provide services, for the measurement of telomere length or telomerase activity for research purposes;
- A license to Sienna Cancer Diagnostics to develop and commercialize a particular telomerase-based technology for cancer detection;
- A license to a company for the development of cancer immunotherapies for veterinary applications;
- A worldwide, exclusive license to GE Healthcare to develop and commercialize hESC-derived cells to serve the drug discovery and toxicity testing market;
- A license to Corning Life Sciences to develop and market synthetic surfaces to support the growth of hESCs;
- Licenses to several companies to develop and commercialize reagents useful for hESC culture, such as growth media; and
- An exclusive license to Asia Biotechnology Corporation (d/b/a TA Sciences) to commercialize telomerase activators for nutraceutical and cosmetic applications.

Competition

The pharmaceutical and biotechnology industries are intensely competitive. Other pharmaceutical and biotechnology companies and research organizations currently engage in or have in the past engaged in efforts related to the biological mechanisms that are the focus of our programs in oncology, including the study of telomeres, telomerase and receptor-targeting peptides crossing the BBB.

We believe that the quality and breadth of our technology platforms, the skills of our employees and our ability to recruit and retain skilled employees, our patent portfolio and our capabilities for research and development are competitive strengths. However, many large pharmaceutical and biotechnology companies have significantly larger intellectual property estates than we do, more substantial capital resources than we have, and greater capabilities and experience than we do in preclinical and clinical development, sales, marketing, manufacturing and regulatory affairs.

Many companies are developing alternative therapies to treat cancer and, in this regard, are competitors of ours. There are more than 200 approved anti-cancer products on the market in the United States, and several thousand in clinical development. Many of the pharmaceutical companies developing and marketing these competing products (e.g., GlaxoSmithKline, Bristol-Myers Squibb Company and Novartis AG) have significantly greater financial resources and expertise than we do in research and development, manufacturing, preclinical and clinical testing, obtaining regulatory approvals and marketing, sales and distribution.

Smaller companies may also prove to be significant competitors, particularly through collaborative arrangements with large and established companies. Academic institutions, government agencies and other public and private research organizations may also conduct research, seek patent protection and establish collaborative

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arrangements for research, clinical development and marketing of products similar to ours. These companies and institutions compete with us in recruiting and retaining qualified scientific and management personnel as well as in acquiring technologies complementary to our programs.

We believe that our ability to successfully compete will depend on, among other things:

- efficacy, safety and reliability of our product candidates;
- timing and scope of regulatory approvals and clearances;
- the speed at which we develop product candidates;
- our ability to complete preclinical testing and clinical development and obtaining regulatory approvals and clearances for product candidates;
- our ability to manufacture and sell commercial quantities of a product to the market;
- the availability of reimbursement for product use in approved indications;
- product acceptance by physicians and other health care providers;
- quality and breadth of our technology;
- skills of our employees and our ability to recruit and retain skilled employees;
- protection of our intellectual property; and
- availability of substantial capital resources to fund development and commercialization activities.

Any products that we may develop or discover are likely to be in highly competitive markets. We are aware of products in research or development by our competitors that address the diseases we are targeting, and any of these products may compete with our product candidates. Our competitors may succeed in developing their products before we do, obtaining approvals from the FDA or other regulatory agencies for their products more rapidly than we do, or developing products that are more effective than our product candidates. These products or technologies might render our technology obsolete or noncompetitive. There may also be product candidates of which we are not aware at an earlier stage of development that may compete with our product candidates.

In addition, any product candidate that we successfully develop may need to compete or combine with existing therapies, many with long histories of use. Approved and established therapies in metastatic breast cancer include gemcitabine, paclitaxel, ixabepilone and capecitabine. Approved and established therapies in metastatic NSCLC include bevacizumab, crizotinib, erlotinib and pemetrexed. Approved and established therapies in essential thrombocythemia include hydroxyurea, anagrelide and interferon alfa-2B. Approved and established therapies in multiple myeloma include bortezomib, lenalidomide and thalidomide. Imetelstat may compete or combine with these or other therapies.

Whole brain radiation therapy (WBRT) and stereotactic radiosurgery (SRS) are standards of care for brain metastases. GRN1005 may compete or combine with these or other therapies.

Government Regulation

Regulation by governmental authorities in the United States and other countries is a significant factor in the development, manufacture and marketing of our proposed products and in our ongoing research and product development activities. The nature and extent to which such regulation applies to us will vary depending on the nature of any products which may be developed by us. We anticipate that many, if not all, of our proposed products will require regulatory approval by governmental agencies prior to commercialization. In particular, human therapeutic products are subject to rigorous preclinical and clinical testing and other approval procedures of the FDA and similar regulatory authorities in

European and other countries. Various governmental statutes and regulations also govern or influence testing, manufacturing, safety, labeling, storage and recordkeeping related to such products and their marketing. The process of obtaining these approvals and the subsequent compliance with appropriate statutes and regulations require the expenditure of substantial time and money, and there can be no guarantee that approvals will be granted.

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United States Food and Drug Administration (FDA) Approval Process

Prior to commencement of clinical trials involving humans, preclinical testing of new pharmaceutical products is generally conducted on animals in the laboratory to evaluate the potential efficacy and safety of the product candidate. The results of these studies are submitted to the FDA as part of an IND application, which must be cleared by the FDA before clinical testing in humans can begin. Typically, clinical evaluation involves a time-consuming and costly three-phase trial process. In Phase 1, clinical trials are conducted with a small number of healthy volunteers or patients afflicted with a specific disease to assess safety and to evaluate the pattern of drug distribution and metabolism within the body. In Phase 2, clinical trials are conducted with groups of patients afflicted with a specific disease in order to determine preliminary efficacy, optimal dosages and expanded evidence of safety. The Phase 2 trials can be conducted comparing the investigational treatment to a comparator arm, or not. If used, a comparator usually includes standard of care therapy. Safety and efficacy data from Phase 2 clinical trials, even if favorable, may not provide sufficient rationale for proceeding to a Phase 3 clinical trial. In Phase 3, large-scale, multi-center, comparative trials are conducted with patients afflicted with a target disease to provide sufficient data to demonstrate the efficacy and safety required by the FDA. The FDA closely monitors the progress of each of the three phases of clinical testing and may, at its discretion, re-evaluate, alter, suspend, or terminate the trials.

The results of the preclinical and clinical testing of small molecules or on non-biologic drugs are submitted to the FDA in the form of a New Drug Application (NDA) for review and for approval prior to commencement of commercial sales. In the case of large molecules, vaccines or gene and cell therapies, the results of clinical trials are submitted to the FDA as a Biologics License Application (BLA). In responding to an NDA/ BLA submission, the FDA may grant marketing authorization, may request additional information, may deny the application if it determines that the application does not provide an adequate basis for approval, and may also refuse to review an application that has been submitted if it determines that the application does not provide an adequate basis for filing and review.

European and Other Regulatory Approval Process

Prior to initiating clinical trials in a region outside of the United States, a clinical trial application will need to be submitted and reviewed by the appropriate regulatory authority regulating the country in which the trial will be conducted. Whether or not FDA clearance or approval has been obtained, approval of a product by comparable regulatory authorities in Europe and other countries will be necessary prior to commencement of marketing the product in such countries. The regulatory authorities in each country may impose their own requirements and may refuse to grant an approval, or may require additional data before granting it, even though the relevant product has been cleared or approved by the FDA or another authority. As with the FDA, the regulatory authorities in the European Union (EU) and other developed countries have lengthy approval processes for pharmaceutical products. The process for gaining approval in particular countries varies, but generally follows a similar sequence to that described for FDA approval. In Europe, the European Medicine Agency (EMA) and the European Committee for Proprietary Medicinal Products (CPMP) provide a mechanism for EU-member states to exchange information on all aspects of product licensing. The EU has established a European Medicine Agency for the evaluation of medical products, with both a centralized procedure with which the marketing authorization is recognized in all EU member states and a decentralized procedure, the latter being based on the principle of licensing within one member country followed by mutual recognition by the other member countries.

Other Regulations

We are also subject to various and often changing federal, state, local and international laws, rules, regulations, guidelines and recommendations relating to safe working conditions, laboratory and manufacturing practices and the use and disposal of hazardous or potentially hazardous substances, including radioactive compounds and infectious disease agents.

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Manufacturing

A typical sequence of steps in the manufacture of imetelstat and GRN1005 drug products includes the following key components:

- starting materials, which are well defined materials that are incorporated as significant structural fragments into the structure of a bulk drug substance;
- bulk drug substance, which is the active ingredient in a drug product that provides pharmacological activity or other direct effect in the treatment of disease; and
- final drug product, which is the finished dosage form that contains the drug substance, often in association with other active or inactive ingredients, that is shipped to the clinic for patient treatment.

The final drug products we use in clinical trials are produced by outside contractors. We have no long-term commitments or supply agreements with any of our imetelstat or GRN1005 suppliers. If we are able to achieve regulatory approval in the United States or other countries to market and sell our products, we intend to continue to rely on outside contractors for the production of necessary supplies. We are not planning to establish our own manufacturing capabilities.

Imetelstat

We currently employ a dual-supplier strategy for production of starting materials used in the manufacture of imetelstat, as well as for production of imetelstat bulk drug substance and final drug product. These manufacturers currently provide our clinical supply requirements on a proposal-by-proposal basis under master supply agreements.

We currently have a master service agreement with a single contractor for labeling and packaging of imetelstat final drug product and for distribution of imetelstat to clinical sites in North America. In addition, we have a single contractor for Qualified Person release and distribution of imetelstat drug product to clinical sites in Europe. These contractors provide services on a proposal-by-proposal basis.

We have also entered into quality agreements with our imetelstat bulk drug substance and final drug product manufacturers, and our labeling, packaging and distribution service providers. The master and quality agreements are designed to ensure product quality, compliance with cGMP, and oversight over all critical aspects of imetelstat production, testing, release, labeling and packaging, storage and distribution.

GRN1005

We currently have only a single supplier of GRN1005 bulk drug substance. We employ a dual-supplier strategy for production of the paclitaxel and Angiopep-2 peptide used in the manufacture of GRN1005 as well as for the production of GRN1005 final drug product. Our manufacturers provide our clinical supply requirements on a proposal-by-proposal basis under master supply agreements.

We currently have an agreement with only one contractor for distribution of GRN1005 and imetelstat drug product to clinical sites in North America. This contractor provides distribution services under a master services agreement on a proposal-by-proposal basis.

We have also entered into quality agreements with our primary GRN1005 bulk drug substance and final drug product manufacturers. The master and quality agreements are designed to ensure product quality, compliance with cGMP, and oversight over all critical aspects of GRN1005 production, testing, release, labeling and packaging, storage and distribution.

Scientific Consultants

We have consulting agreements with a number of leading academic scientists and clinicians. These individuals serve as key consultants, expert witnesses, or as members of clinical focus group panels with respect to our product development programs and strategies or in legal proceedings. We use consultants to provide us with expert advice and consultation on our scientific and clinical programs and strategies, as well as on the ethical aspects of our work. They also serve as important contacts for us throughout the broader scientific community. They are

distinguished scientists and clinicians with expertise in numerous scientific and medical fields, including telomere and telomerase biology, developmental biology, cellular biology, molecular biology and oncology.

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We retain each consultant according to the terms of a consulting agreement. Under such agreements, we pay them a consulting fee and reimburse them for out-of-pocket expenses incurred in performing their services for us. In addition, some consultants hold options to purchase our common stock and restricted stock awards, subject to the vesting requirements contained in the consulting agreements. Our consultants may be employed by other entities and therefore may have commitments to their employer, or may have other consulting or advisory agreements that may limit their availability to us.

Executive Officers of the Company

The following table sets forth certain information with respect to our current executive officers:

Name	Age	Position
John A. Scarlett, M.D.	61	President and Chief Executive Officer
Graham K. Cooper	42	Executive Vice President, Finance and Business Development, and Chief Financial Officer
Stephen M. Kelsey, M.D., F.R.C.P., F.R.C.Path.	51	Executive Vice President, Head of R&D, and Chief Medical Officer
Stephen N. Rosenfield, J.D.	62	Executive Vice President, General Counsel and Corporate Secretary
David J. Earp, J.D., Ph.D.	47	Senior Vice President, Corporate Transactions, and Chief Legal Officer
Melissa A. Kelly Behrs	48	Senior Vice President, Strategic Portfolio Management and Product Development and Manufacturing
Melanie I. Nallicheri	43	Senior Vice President, Corporate Development
Olivia K. Bloom	43	Vice President, Chief Accounting Officer, and Treasurer

John A. Scarlett, M.D., has served as our Chief Executive Officer and a director since September 2011 and President since January 2012. Prior to joining Geron, Dr. Scarlett served as President, Chief Executive Officer and a member of the board of directors of Proteolix, Inc., a privately held, oncology-oriented biopharmaceutical company, from February 2009 until its acquisition by Onyx Pharmaceuticals, Inc., an oncology-oriented biopharmaceutical company, in November 2009. From February 2002 until its acquisition by Ipsen, S.A. in October 2008, Dr. Scarlett served as the Chief Executive Officer and a member of the board of directors of Tercica, Inc., an endocrinology-oriented biopharmaceutical company, and also as its President from February 2002 through February 2007. From March 1993 to May 2001, Dr. Scarlett served as President and Chief Executive Officer of Sensus Drug Development Corporation. In 1995, he co-founded Covance Biotechnology Services, Inc. and served as a member of its board of directors from inception to 2000. From 1991 to 1993, Dr. Scarlett headed the North American Clinical Development Center and served as Senior Vice President of Medical and Scientific Affairs at Novo Nordisk Pharmaceuticals, Inc., a wholly owned subsidiary of Novo Nordisk A/S. Dr. Scarlett received his B.A. degree in chemistry from Earlham College and his M.D. from the University of Chicago, Pritzker School of Medicine.

Graham K. Cooper has served as our as Executive Vice President, Finance and Business Development, and Chief Financial Officer, since January 2012. From May 2006 until March 2011, Mr. Cooper served as Senior Vice President, Chief Financial Officer and Treasurer of Orexigen Therapeutics, a biopharmaceutical company focused on the treatment of obesity. He was instrumental in growing Orexigen from a venture-backed startup into a sizable public company, completing a large Phase 3 obesity program and filing an NDA with the FDA. Previously, Mr. Cooper held the position of Director, Health Care Investment Banking, at Deutsche Bank Securities, a leading global investment bank, where for approximately eight years he was responsible for executing and managing a wide variety of financing and merger and acquisition transactions in the life sciences field. Mr. Cooper has earned a C.P.A., holds a B.A. in Economics from the University of California at Berkeley and an M.B.A. from the Stanford Graduate School of Business.

Stephen M. Kelsey, M.D., F.R.C.P., F.R.C.Path., has served as our Executive Vice President and Chief Medical Officer, Oncology since April 2009. From June 2002 until April 2009, Dr. Kelsey held various positions at Genentech, Inc., a leading biotechnology company (now a member of the Roche group), most recently as vice president, clinical hematology/oncology. From June 2000 to June 2002, Dr. Kelsey was the director of clinical affairs at Pharmacia Corporation (SUGEN, Inc.) in South San Francisco and director of global clinical development

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(oncology) at Pharmacia Corporation, a global pharmaceutical company, in Milan, Italy. From July 1993 to June 2000, Dr. Kelsey served as a senior lecturer in hematology/oncology at St. Bartholomews and the Royal London School of Medicine and Dentistry and visiting fellow at Vancouver General Hospital and Terry Fox Laboratories. Dr. Kelsey earned his B.Sc. in Pharmacology, M.B., Ch.B., and Doctorate of Medicine (M.D.) degrees from the University of Birmingham in the United Kingdom.

Stephen N. Rosenfield, J.D., has served as our Executive Vice President, General Counsel and Corporate Secretary since February 2012, General Counsel and Secretary since January 2012 and Secretary since October 2011. From July 2009 to February 2012, Mr. Rosenfield has been a consultant to private companies. From October 2008 until June 2009, Mr. Rosenfield was the General Counsel and Secretary of Tercica, Inc., a U.S. subsidiary of Ipsen, SA., a global pharmaceutical company. From June 2004 until October 2008, Mr. Rosenfield was the General Counsel and Secretary of Tercica, Inc., an endocrinology-oriented biopharmaceutical company, from January 2006 until October 2008, he was also the Executive Vice President of Legal Affairs, and from June 2004 until January 2006, Mr. Rosenfield was the Senior Vice President of Legal Affairs. Prior to joining Tercica, Mr. Rosenfield served as the Executive Vice President of Legal Affairs, General Counsel and Secretary of InterMune, Inc., a biotechnology company focused in pulmonology and fibrotic diseases. Prior to joining InterMune, Mr. Rosenfield was an attorney at Cooley Godward LLP, an international law firm, where he served as outside counsel for biotechnology and technology clients. Mr. Rosenfield received a B.S. from Hofstra University and a J.D. from Northeastern University School of Law.

David J. Earp, J.D., Ph.D., has served as our Senior Vice President, Corporate Transactions, and Chief Legal Officer since May 2011. He is also a director of our wholly owned subsidiary, Geron Bio-Med, Ltd. and Executive Chairman of ViaGen, Inc., a Geron affiliate. From May 2004 until May 2011, Dr. Earp served as our Senior Vice President, Business Development and Chief Patent Counsel. From October 1999 until May 2004, he served as our Vice President, Intellectual Property. Prior to joining Geron, Dr. Earp was a partner at the intellectual property law firm of Klarquist Sparkman, LLP. Dr. Earp holds a B.Sc. in microbiology from the University of Leeds, England, a Ph.D. from the biochemistry department of The University of Cambridge, England, and conducted postdoctoral research at the University of California at Berkeley/U.S.D.A. Plant Gene Expression Center. He received his J.D. from the Northwestern School of Law of Lewis and Clark College.

Melissa A. Kelly Behrs has served as our Senior Vice President, Strategic Portfolio Management and Product Development and Manufacturing, since May 2011. She served as Senior Vice President, Therapeutic Development, Oncology from January 2007 until May 2011, and as Vice President, Oncology from January 2003 until January 2007. From April 2002 until January 2003, Ms. Behrs served as our Vice President, Corporate Development. From April 2001 until April 2002, Ms. Behrs served as our General Manager, Research and Development Technologies. Ms. Behrs joined us in November 1998 as Director of Corporate Development. From 1990 to 1998, Ms. Behrs worked at Genetics Institute, Inc., a biotechnology research and development company, serving initially as Assistant Treasurer and then as Associate Director of Preclinical Operations where she was responsible for all business development, regulatory, and project management activities for the Preclinical Development function. Ms. Behrs received a B.S. from Boston College and an M.B.A. from Babson College.

Melanie I. Nallicheri has served as our Senior Vice President, Corporate Development, since joining us in April 2011. Prior to Geron, Melanie was a partner and senior member of the global health team at Booz & Company/Booz Allen Hamilton, a management and technology consulting firm. She joined Booz in 1993 and advised clients across all sectors of healthcare, including large pharma, bio-pharmaceutical companies, payors and providers in both the U.S. and Europe. The focus of her work was on commercialization strategies, strategic planning, corporate strategy including M&A, due diligence, payor/provider economics and performance improvement. Ms. Nallicheri received an M.S. in Business and Economics from the WHU Otto Beisheim School in Germany and an M.B.A from Columbia Business School.

Olivia K. Bloom has served as our Vice President since January 2007, Chief Accounting Officer since September 2010 and Treasurer since February 2011. Ms. Bloom was Controller from 1996 to 2011 and joined Geron in 1994 as a Senior Financial Analyst. Prior to Geron, Ms. Bloom started her career in public accounting at KPMG Peat Marwick, a Big 4 audit, tax and advisory firm, and became a Certified Public Accountant in 1994. Ms. Bloom graduated Phi Beta Kappa with a B.S. in Business Administration from the University of California at Berkeley.

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Employees

As of December 31, 2011, we had 178 employees of whom 48 held Ph.D. degrees and 49 held other advanced degrees, most of whom were engaged in full-time research and development activities. After giving effect to the restructuring we implemented on November 14, 2011, as of February 1, 2012, we had 111 full-time employees, 29 of whom held Ph.D. degrees and 35 of whom held other advanced degrees. Of this current total workforce, 80 employees were engaged in, or directly supported, our research and development activities and 31 employees were engaged in business development, legal, finance and administration. In addition, as of February 1, 2012, we continued to employ on a full-time basis 14 employees impacted by the November 2011 restructuring who are primarily facilitating the transition of our research and development activities for our stem cell programs and are discontinuing employment with us through various dates in the first half of 2012. We also retain outside consultants. None of our employees are covered by a collective bargaining agreement, nor have we experienced work stoppages. We consider relations with our employees to be good.

Corporate Information

Geron Corporation was incorporated in the State of Delaware on November 28, 1990.

Available Information

Our internet address is www.geron.com. Information included on our website is not part of this Form 10-K. We make available free of charge on our website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission (SEC). In addition, copies of our annual reports are available free of charge upon written request. The SEC also maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The address of that site is www.sec.gov.

ITEM 1A. RISK FACTORS

Our business is subject to various risks, including those described below. You should carefully consider these risk factors, together with all of the other information included in this Form 10-K. Any of these risks could materially adversely affect our business, operating results and financial condition.

RISKS RELATED TO OUR BUSINESS

Our business is at an early stage of development, and we must overcome numerous risks and uncertainties to become successful.

Our business is at an early stage of development, in that we do not yet have product candidates in late-stage clinical trials or commercially available. Our ability to develop product candidates that progress to and through commercial launch is subject to our ability to, among other things:

- achieve success in Phase 2 and Phase 3 clinical trials;
- collaborate successfully with clinical trial sites, academic institutions, physician investigators, clinical research organizations and other third parties;
- manufacture product candidates at commercially reasonable costs;
- obtain required regulatory clearances and approvals;
- maintain and enforce adequate intellectual property protection for our product candidates; and
- obtain financing on commercially reasonable terms to fund our operations.

There are many reasons why we may need to delay or abandon efforts to research, develop or obtain regulatory approvals to market our product candidates. Our product candidates require significant clinical testing prior to regulatory approval in the United States and other countries. It may also be difficult to assess the success or failure of any of our clinical trials for many reasons, including but not limited to the subjectivity and changing landscape that accompanies the benefit-to-risk assessment in any given patient population, and because subpopulation data might not be available at the time we report top-line data or other results. Our product candidates also may prove to have undesirable and unintended side effects or other characteristics adversely affecting their safety, efficacy

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or cost-effectiveness that could prevent or limit their approval for marketing and successful commercial use. In addition, they may not prove to be more effective for treating disease than current therapies. Competitors may also have proprietary rights that prevent us from developing and marketing our products, or those competitors may sell similar, superior or lower-cost products that make our products unsuitable for marketing. Our product candidates also may not be able to be manufactured in commercial quantities at an acceptable cost. All of the foregoing factors could delay or prevent us from commercializing and marketing our product candidates, which would materially adversely affect our business.

Our research and development programs are subject to numerous risks and uncertainties.

The science and technology of telomere biology and telomerase, as well as receptor-targeting peptides that cross the blood-brain barrier (BBB), are relatively new. There is no precedent for the successful commercialization of therapeutic product candidates based on these technologies. In addition, we, our licensees, and our collaborators must undertake significant research and development activities to develop product candidates based on these technologies, which will require additional funding and may take years to accomplish, if ever.

Because of the significant scientific, regulatory and commercial milestones that must be reached for any of our research and development programs to be successful, any program may be delayed or abandoned, even after we have expended significant resources on it. Such a delay or abandonment of our programs in telomerase technology or receptor-targeting peptide technology to cross the BBB**,** would have a material adverse effect on our business.

In our Phase 1 clinical trials of imetelstat, we observed dose-limiting toxicities, including thrombocytopenia when the drug was used as a single agent, and neutropenia when the drug was used in combination with paclitaxel, as well as a low incidence of severe infusion reactions. We also did not observe single-agent efficacy with imetelstat in our Phase 1 program. Further, the information we have related to the ability of GRN1005 to penetrate brain tissue and its anti-tumor activity is preliminary and based on Phase 1 clinical trials conducted by Angiochem. In the Phase 1 trials of GRN1005, Grade 4 neutropenia was the primary dose-limiting toxicity observed. In our Phase 2 clinical trials of imetelstat or GRN1005, we may observe similar dose-limiting toxicities or other safety issues which may require us to conduct additional, unforeseen trials or abandon these programs entirely.

If we are not able to divest our stem cell assets for substantial financial value, or at all, the proceeds of the divestiture will be limited and our stock price may decline.

Our stem cell programs are at an early stage of development, and we can give no assurance regarding the consideration we will receive, if any, for their disposition. In addition, some of our investors purchased shares of our common stock because they were interested in the opportunities presented by our human embryonic stem cell programs. Thus, certain stockholders attribute substantial financial value to our stem cell assets, and that we will receive such value through the divestiture of the stem cell programs. However, we can give no assurance that we will receive the financial value that these stockholders may attribute to our stem cell assets, or any financial value at all, and, as a result, our stock price may decline.

RISKS RELATED TO CLINICAL AND COMMERCIALIZATION ACTIVITIES

Our ability to complete ongoing clinical trials on a timely basis is subject to risks and uncertainties related to factors such as patient enrollment, drug supply and regulatory approval.

Completion of ongoing clinical trials of our product candidates may be delayed, or not occur, due to insufficient patient enrollment, which is a function of many factors, including the size and nature of the patient populations, the nature of the protocols, the proximity of patients to clinical sites, the availability of effective treatments for the relevant disease, and the eligibility criteria for the clinical trials. Other delays could be caused by:

- disruptions in drug supply;
- not receiving timely regulatory clearances or approvals, including, for example, acceptance of new manufacturing specifications by regulatory authorities;
- unavailability of any study-related treatment (including comparator therapy); or

- unanticipated issues with key vendors of clinical services, such as contract research organizations.

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For example, enrollment in our Phase 2 trials of imetelstat in multiple myeloma and essential thrombocythemia has been slower than expected and with respect to our clinical studies of GRN1005, we have aggressive enrollment goals. Delays in timely completion of clinical testing of our product candidates could increase research and development costs and could prevent or would delay us from obtaining regulatory approval for our product candidates, both of which would likely have a material adverse effect on our business. Additionally, we can give no assurance that our enrollment goals will be met as we have projected, or at all.

Delays in the initiation of later-stage clinical testing of our current product candidates could result in increased costs to us and would delay our ability to generate revenues.

The commencement of later-stage clinical trials can be delayed for a variety of reasons, including delays in:

- demonstrating sufficient safety and efficacy in Phase 2 clinical trials to obtain regulatory clearance to commence a Phase 3 clinical trial;
- obtaining sufficient funding;
- manufacturing sufficient quantities of drug;
- producing drugs that meet the quality standards of the FDA and other regulatory agencies;
- ensuring our ability to manufacture drugs at acceptable costs for later-stage clinical trials and commercialization;
- obtaining clearance or approval of a proposed trial design or manufacturing specifications from the FDA and other regulatory authorities;
- reaching agreement on acceptable terms with our collaborators on all aspects of the clinical trial, including the contract research organizations and the trial sites; and
- obtaining institutional review board approval to conduct a clinical trial at a prospective site.

We may not be able to manufacture at costs or scales necessary to conduct our clinical programs or potential future commercialization activities.

Our product candidates are likely to be more expensive to manufacture than most other treatments currently available today or that may be available in the future. The commercial cost of manufacturing imetelstat and GRN1005 will need to be significantly lower than our current costs in order for these product candidates to become commercially successful products. Oligonucleotides are relatively large molecules produced using complex chemistry, and the cost of manufacturing an oligonucleotide like imetelstat is greater than the cost of making typical small-molecule drugs. Our present imetelstat manufacturing processes are conducted at a relatively modest scale appropriate for Phase 2 clinical trials. Similarly, our GRN1005 manufacturing processes are currently conducted at a relatively small scale, and there is also limited history of manufacturing of GRN1005. Accordingly, we can provide no assurance that we will achieve sufficient scale increases or cost reductions necessary for successful commercial production of imetelstat or GRN1005. Additionally, given the complexities of our manufacturing process, the resulting costs that we incur to conduct our clinical trials may be higher than would be anticipated for other comparable treatments, requiring us to expend relatively larger amounts of cash to complete our clinical trials.

Manufacturing our product candidates is subject to process and technical challenges and regulatory risk.

We face numerous risks and uncertainties with regard to manufacturing imetelstat and GRN1005. Regulatory requirements for product quality of oligonucleotide products are less well-defined than for small molecule drugs, and there is no guarantee that we will achieve sufficient product quality standards required for Phase 3 clinical trials or for commercial approval and manufacturing of imetelstat. Similarly, our GRN1005 manufacturing process, including the consistency and quality of batches made, while appropriate for Phase 2 clinical trials, will need to improve to meet regulatory requirements for Phase 3 clinical trials and commercial approval. Also, changes in our manufacturing processes

for imetelstat or GRN1005 made during later stages of clinical development, including during Phase 3 trials, may result in regulatory delays, the need for further clinical studies, or rejection of a marketing application by regulatory authorities, which would result in a material adverse effect on our business.

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We do not have experience as a company in conducting large-scale, late-stage clinical trials, or in those areas required for the successful commercialization of our product candidates.

We have no experience in conducting large-scale, late-stage clinical trials. We cannot be certain that any large-scale, late-stage planned clinical trials will begin or be completed on time, if at all. Large-scale, late-stage clinical trials will require additional financial and management resources and reliance on third-party clinical investigators, CROs and consultants. Relying on third-party clinical investigators or CROs may cause delays that are outside of our control. Any such delays could have a material adverse effect on our business.

We also do not have commercialization capabilities for our product candidates. Developing an internal sales, marketing and distribution capability would be an expensive and time-consuming process. We may not be able to enter into third-party marketing and distribution agreements on terms that are economically attractive, or at all. Even if we do enter into such agreements, these third parties may not successfully market or distribute any of our product candidates.

Obtaining regulatory approvals to market our product candidates in the United States and other countries is a costly and lengthy process, and we cannot predict whether or when we will be permitted to commercialize our product candidates.

Federal, state and local governments in the United States and governments in other countries have significant regulations in place that govern many of our activities and may prevent us from creating commercially viable products from our discoveries, and from successfully conducting our development efforts and commercializing our product candidates. The regulatory process, particularly for biopharmaceutical product candidates like ours, is uncertain, can take many years and requires the expenditure of substantial resources.

Our potential product candidates will require extensive preclinical and clinical testing prior to submission of any regulatory application seeking approval to commence commercial sales. In particular, human pharmaceutical therapeutic product candidates are subject to rigorous requirements of the FDA in the United States and similar health authorities in other countries in order to demonstrate safety and efficacy. Data obtained from preclinical and clinical activities are susceptible to varying interpretations that could delay, limit or prevent regulatory agency approvals. For example, safety and efficacy data from any of our Phase 2 clinical trials, even if favorable, may not provide sufficient rationale for us to proceed to a Phase 3 clinical trial. In addition, delays or rejections may be encountered as a result of changes in regulatory environment or regulatory agency policy during the period of product development and/or the period of review of any application for regulatory agency approval for a product candidate.

Any product candidate that we, or our collaborators, develop must receive all relevant regulatory agency approvals before it may be marketed in the United States or other countries. Obtaining regulatory approval is a lengthy, expensive and uncertain process. Because certain of our product candidates involve the application of new technologies or are based upon a new therapeutic approach, they may be subject to substantial additional review by various government regulatory authorities, and, as a result, the process of obtaining regulatory approvals for them may proceed more slowly than for product candidates based upon more conventional technologies.

Delays in obtaining regulatory agency approvals could:

- significantly harm the marketing of any products that we or our collaborators develop;
- impose costly procedures upon our activities or the activities of our collaborators;
- diminish any competitive advantages that we or our collaborators may attain; or
- adversely affect our ability to receive royalties and generate revenues and profits.

Even if we commit the necessary time and resources, the required regulatory agency approvals may not be obtained for any product candidates developed by us or in collaboration with us. If we obtain regulatory agency approval for a new product, this approval may entail limitations on the indicated uses or other aspects of the product label for which it can be marketed that could limit the potential commercial use of the product.

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Failure to achieve continued compliance with government regulation over approved products could delay or halt commercialization of our products.

Approved products and their manufacturers are subject to continual review, and discovery of previously unknown problems with a product or its manufacturer may result in restrictions on the product or manufacturer, including withdrawal of the product from the market. The future sale by us or our collaborators of any commercially viable product will be subject to government regulation related to numerous matters, including the processes of:

- manufacturing;
- advertising and promoting;
- selling and marketing;
- labeling; and
- distribution.

If, and to the extent that, we are unable to comply with these regulations, our ability to earn revenues from product sales will be materially and negatively impacted.

Failure to comply with regulatory requirements can result in severe civil and criminal penalties, including but not limited to:

- recall or seizure of products;
- injunction against the manufacture, distribution and sales and marketing of products; and
- criminal prosecution.

The imposition of any of these penalties or other commercial limitations could significantly impair our business, financial condition and results of operations.

RISKS RELATED TO OUR RELATIONSHIPS WITH THIRD PARTIES

We depend on other parties to help us develop and test our product candidates, and our ability to develop and commercialize product candidates may be impaired or delayed if collaborations are unsuccessful.

Our strategy for the development, clinical testing and commercialization of our product candidates requires that we enter into collaborations with clinical research organizations, vendors, corporate partners, licensors, licensees and others. We are dependent upon the ability of these parties to perform their responsibilities reliably. By way of example, we have contracted with two clinical research organizations that are primarily responsible for the execution of clinical site related activities for our imetelstat and GRN1005 Phase 2 clinical studies, including clinical trial site monitoring activities. In addition, we have contracted with single vendors for each of our clinical programs to develop and maintain the clinical databases for each respective program, and a single vendor maintains our safety database for both programs. Accordingly, if the performance of these services is not of the highest quality, or does not achieve necessary regulatory compliance standards, or if such organization or vendor stops or delays its performance for any reason, it would impair and delay our ability to report data from our clinical trials and make the necessary representations to regulatory authorities, if at all.

The development and commercialization of our product candidates will be delayed if collaborators, contractors or other partners fail to conduct these activities in a timely manner or at all. In addition, our collaborators could terminate their agreements with us and we may not receive any development or milestone payments. If we do not achieve milestones set forth in agreements with collaborators, or if our collaborators breach or terminate their collaborative agreements with us, our business may be materially harmed.

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Our ability to manufacture our product candidates and products is risky and uncertain because we must rely on third parties for manufacturing. There may be shortages of key materials, and we may have only one source of manufacture or supply.

We rely on other companies for certain process development, supply of starting materials, manufacturing or other technical and scientific work with respect to our imetelstat and GRN1005 product candidates, but we do not have direct control over their personnel or operations. If these companies do not perform the work which they were assigned or do not complete the work within the expected timelines, or if they choose to exit the business, our ability to develop or manufacture our product candidates could be significantly harmed. For example, we may need to change one or more of our suppliers due to these or other reasons and the change could lead to delays in drug supply. In addition, we have not established long-term agreements for the supply of imetelstat or GRN1005.

In addition, our manufacturers may need to make substantial investments to enable sufficient capacity increases, cost reductions, and to implement those regulatory and compliance standards necessary for successful Phase 3 trials and commercial production. We can provide no assurance that our manufacturers will achieve such capacity increases, cost reductions, or regulatory and compliance standards, and even if they do, that such achievements will be at a commercially reasonable cost to us.

There are other risks and uncertainties that we face with respect to manufacturing. For example, we do not have a secondary source for the supply of GRN1005 bulk drug substance (unformulated peptide-paclitaxel conjugate). In addition, we currently have an agreement with only a single contractor for distribution of imetelstat and GRN1005 final drug product to clinical sites in North America. As another example, certain commonly used reagents and solvents can experience market shortages and, if these shortages occur, they may adversely impact our ability to manufacture our product candidates.

Our reliance on the activities of our consultants, research institutions, and scientific contractors, whose activities are not wholly within our control, may lead to delays in development of our product candidates.

We rely extensively upon and have relationships with scientific consultants and contractors at academic and other institutions. Some of our scientific consultants and contractors conduct research at our request, and others assist us in formulating our research and development and clinical strategy or other matters. These consultants and contractors are not our employees and may have commitments to, or consulting or advisory contracts with, other entities that may limit their availability to us. We have limited control over the activities of these consultants and contractors and, except as otherwise required by our collaboration and consulting agreements, can expect only limited amounts of their time to be dedicated to our activities.

In addition, we have formed research collaborations with many academic and other research institutions throughout the world. These research facilities may have commitments to other commercial and noncommercial entities. We have limited control over the operations of these laboratories and can expect only limited amounts of their time to be dedicated to our research goals.

If any of these third parties are unable or refuse to contribute to projects on which we need their help, our ability to generate advances in our technologies and develop our product candidates could be significantly harmed.

RISKS RELATED TO OUR FINANCIAL POSITION AND NEED FOR ADDITIONAL FINANCING

We have a history of losses and anticipate future losses, and continued losses could impair our ability to sustain operations.

We have incurred operating losses every year since our operations began in 1990. As of December 31, 2011, our accumulated deficit was approximately $785.5 million. Losses have resulted principally from costs incurred in connection with our research and development activities and from general and administrative costs associated with our operations. We expect to incur additional operating losses and, as our development efforts and clinical testing activities continue, our operating losses may increase in size.

Substantially all of our revenues to date have been research support payments under collaboration agreements and revenues from our licensing arrangements. We may be unsuccessful in entering into any new corporate collaboration or license agreements that result in revenues. We do not expect that the revenues generated from these arrangements will be sufficient alone to continue or expand our research or development activities and otherwise sustain our operations.

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While we receive royalty revenue from licenses, we do not expect to receive sufficient royalty revenues from these licenses to independently sustain our operations. Our ability to continue or expand our research and development activities and otherwise sustain our operations is dependent on our ability, alone or with others, to, among other things, discover, develop, manufacture and market therapeutic products.

We also expect to experience negative cash flow for the foreseeable future as we fund our operating losses and capital expenditures. This will result in decreases in our working capital, total assets and stockholders equity, which may not be offset by future financings. We will need to generate significant revenues to achieve profitability. We may not be able to generate these revenues, and we may never achieve profitability. Our failure to achieve profitability could negatively impact the market price of our common stock and our ability to sustain operations. Even if we do become profitable, we cannot assure you that we would be able to sustain or increase profitability on a quarterly or annual basis.

We will need additional capital to conduct our operations and develop our product candidates, and our ability to obtain the necessary funding is uncertain.

We will require substantial capital resources in order to conduct our operations and develop our product candidates, and we cannot assure you that our existing capital resources, interest income and equipment financing arrangement will be sufficient to fund future planned operations. The timing and degree of any future capital requirements will depend on many factors, including:

- the accuracy of the assumptions underlying our estimates for our capital needs for 2012 and beyond;
- changes in our clinical development plans for our product candidates, imetelstat and GRN1005;
- our ability to meaningfully reduce manufacturing costs of current product candidates;
- the magnitude and scope of our research and development programs, including the number and type of product candidates we intend to pursue;
- the progress we make in our research and development programs, preclinical development and clinical trials;
- our ability to establish, enforce and maintain strategic arrangements for research, development, clinical testing, manufacturing and marketing;
- the timing of a divesture of or partnering for our stem cell program assets and the consideration we may receive as result of such divesture or partnering transaction;
- the time and costs involved in obtaining regulatory approvals and clearances; and
- the costs involved in preparing, filing, prosecuting, maintaining, defending and enforcing patent claims.

Additional financing through strategic collaborations, public or private equity financings, capital lease transactions or other financing sources may not be available on acceptable terms, or at all. The receptivity of the public and private equity markets to proposed financings is substantially affected by the general economic, market and political climate and by other factors which are unpredictable and over which we have no control. Additional equity financings, if we obtain them, could result in significant dilution to our stockholders. Further, in the event that additional funds are obtained through arrangements with collaborative partners, these arrangements may require us to relinquish rights to some of our technologies, product candidates or proposed products that we would otherwise seek to develop and commercialize ourselves. If sufficient capital is not available, we may be required to delay, reduce the scope of, suspend or eliminate one or more of our programs, any of which could have a material adverse effect on our business. For example, in November 2011 we announced that we were discontinuing further development of our human embryonic stem cell programs in order to focus on our oncology programs.

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RISKS RELATED TO PROTECTING OUR INTELLECTUAL PROPERTY

Our success will depend on our ability to protect our technologies and our product candidates through patents and other intellectual property rights and to operate without infringing the rights of others. If we or our licensors are unsuccessful in either of these regards, the value of our technologies and product candidates will be adversely affected and we may be unable to continue our development work.

Protection of our proprietary technology is critically important to our business. Our success will depend in part on our ability to obtain and enforce our patents and maintain trade secrets, both in the United States and in other countries. By way of example, we do not yet have issued patents for GRN1005 in Europe or Japan, or for imetelstat in Europe after 2020. Further, our patents may be challenged, invalidated or circumvented, and our patent rights may not provide proprietary protection or competitive advantages to us. In the event that we or our licensors are unsuccessful in obtaining and enforcing patents, we may not be able to further develop or commercialize our product candidates and our business would be negatively impacted. By way of example, we depend in part on the ability of Angiochem to obtain, maintain and enforce patent rights for the proprietary peptide-drug conjugate technology that we have licensed.

Publication of discoveries in scientific or patent literature tends to lag behind actual discoveries by at least several months and sometimes several years. Therefore, the persons or entities that we or our licensors name as inventors in our patents and patent applications may not have been the first to invent the inventions disclosed in the patent applications or patents, or the first to file patent applications for these inventions. As a result, we may not be able to obtain patents for discoveries that we otherwise would consider patentable and that we consider to be extremely significant to our future success.

The patent positions of pharmaceutical and biopharmaceutical companies, including ours, are highly uncertain and involve complex legal and technical questions. In particular, legal principles for biotechnology and pharmaceutical patents in the United States and in other countries are evolving, and the extent to which we will be able to obtain patent coverage to protect our technology, or enforce issued patents, is uncertain.

If we infringe the patents of others, we may be blocked from continuing development work or be required to obtain licenses on terms that may impact the value of our product candidates.

Challenges to our patent rights can result in costly and time-consuming legal proceedings that may prevent or limit development of our product candidates.

Our patents may be challenged through administrative or judicial proceedings. Such proceedings are typically lengthy and complex, and an adverse decision can result in the loss of important patent rights. For example, where more than one party seeks U.S. patent protection for the same technology, the Patent Office may declare an interference proceeding in order to ascertain the party to which the patent should be issued. Patent interferences are typically complex, highly contested legal proceedings, subject to appeal. They are usually expensive and prolonged, and can cause significant delay in the issuance of patents. Notably, under the America Invents Act (AIA) signed into law in September 2011, interference proceedings will be eliminated in March 2013, to be replaced with other types of proceedings, including post-grant review procedures. Until such time, our pending patent applications, or our issued patents, may be drawn into interference proceedings which may delay or prevent the issuance of patents, or result in the loss of issued patent rights.

Certain jurisdictions, such as Europe, New Zealand and Australia, permit oppositions to be filed against granted patents or patents proposed to be granted. Because our intent is to commercialize products internationally, securing both proprietary protection and freedom to operate outside of the United States is important to our business. We are involved in both opposing the grant of patents to others through such opposition proceedings and in defending our patent applications against oppositions filed by others. For example, we have been involved in several patent oppositions before the EPO with a series of companies (GemVax, Pharmexa and KAEL-GemVax) developing GV1001, a cancer vaccine that employs a short telomerase peptide to induce an immune response against telomerase. The rights to GV1001 passed from GemVax, a Norwegian company, to Pharmexa, a Danish company, as a result of a 2005 acquisition. In late 2008, Pharmexa reported that it sold its telomerase vaccine program to a Korean company, KAEL Co. Ltd., and the continuing company now operates under the name KAEL-GemVax. Various clinical studies of GV1001 are underway, including a Phase 3 combination study in pancreatic cancer. Pharmexa originally obtained a European patent with broad claims to the use of telomerase vaccines for the

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treatment of cancer, and we opposed that patent in 2004. In 2005, the Opposition Division (OD) of the EPO revoked the claims originally granted to Pharmexa, but permitted Pharmexa to add new, narrower claims limited to five specific small peptide fragments of telomerase. The decision was appealed to the Technical Board of Appeals (TBA). In August 2007, the TBA ruled, consistent with the decision of the OD, that Pharmexa was not entitled to the originally granted broad claims but was only entitled to the narrow claims limited to the five small peptides. KAEL-GemVax was recently granted a further related European patent covering its telomerase peptide vaccine against which we have filed an opposition. That opposition is ongoing and we cannot predict the outcome.

In parallel, Pharmexa opposed a European patent held by us, the claims of which cover many facets of human telomerase, including the use of telomerase peptides in cancer vaccines. In June 2006, the OD of the EPO revoked three of the granted claims in our patent, specifically the three claims covering telomerase peptide cancer vaccines. The remaining 47 claims were upheld, and that decision was recently affirmed by the TBA. We have now been awarded a second European patent with claims to telomerase peptides, and this patent has also been opposed by KAEL-GemVax. We believe that GV1001 is covered by our telomerase patents and our goal in these proceedings is to maintain strong patent protection that will enable us to enter into a licensing arrangement with KAEL-GemVax that could result in commercial benefit for Geron if GV1001 is successfully commercialized. We cannot predict the outcome of this opposition or any subsequent appeal of the decision in the opposition.

European opposition and appeal proceedings can take several years to reach final decision. The oppositions discussed above reflect the complexity of the patent landscape in which we operate, and illustrate the risks and uncertainties. We are also currently involved in other patent opposition proceedings in Europe and Australia.

Under the AIA, effective in March 2013, U.S. patents will be subject to post-grant review procedures similar to European oppositions. Patents owned or licensed by us may therefore be subject to post-grant review procedures, as well as other forms of review and reexamination. A decision in such proceedings adverse to our interests could result in the loss of valuable patent rights and negatively impact our business.

As more groups become engaged in scientific research and product development in the areas of telomerase biology and peptide-drug conjugates for delivery of therapeutics across the BBB, the risk of our patents being challenged through patent interferences, oppositions, reexaminations, litigation or other means will likely increase. Challenges to our patents through these procedures can be extremely expensive and time-consuming, even if the outcome is favorable to us. An adverse outcome in a patent dispute could severely harm our business by:

- causing us to lose patent rights in the relevant jurisdiction(s);
- subjecting us to litigation, or otherwise preventing us from commercializing product candidates in the relevant jurisdiction(s);
- requiring us to obtain licenses to the disputed patents;
- forcing us to cease using the disputed technology; or
- requiring us to develop or obtain alternative technologies.

By way of example, an anonymous party has recently filed papers at the European Patent Office challenging the proposed issuance of a patent to Angiochem that is relevant to GRN1005. If such challenges to our patent rights covering our drug candidates are not resolved promptly in our favor, our existing business relationships may be jeopardized and we could be delayed or prevented from entering into new collaborations or from commercializing certain products, which could materially harm our business.

If we fail to meet our obligations under license agreements, we may lose our rights to key technologies on which our business depends.

Our business depends on several critical technologies that are based in part on patents licensed from third parties, including the exclusive worldwide license rights we obtained from Angiochem in December 2010. Those third-party license agreements impose obligations on us, such as payment obligations and obligations to diligently pursue development of commercial products under the licensed patents. If a licensor believes that we have failed to meet our obligations under a license agreement, the licensor could seek to limit or terminate our license rights, which could lead to costly and time-consuming litigation and, potentially, a loss of the licensed rights. During the

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period of any such litigation our ability to carry out the development and commercialization of product candidates could be significantly and negatively affected. If our license rights were restricted or ultimately lost, our ability to continue our business based on the affected technology would be severely adversely affected.

We may be subject to infringement claims that are costly to defend, and which may limit our ability to use disputed technologies and prevent us from pursuing research and development or commercialization of product candidates.

Our commercial success depends significantly on our ability to operate without infringing patents and the proprietary rights of others. Our technologies may infringe the patents or proprietary rights of others. In addition, we may become aware of discoveries and technology controlled by third parties that are advantageous to our programs. In the event our technologies infringe the rights of others or we require the use of discoveries and technology controlled by third parties, we may be prevented from pursuing research, development or commercialization of product candidates or may be required to obtain licenses to those patents or other proprietary rights or develop or obtain alternative technologies. We have obtained licenses from several universities and companies for technologies that we anticipate incorporating into our product candidates, and we initiate negotiation for licenses to other technologies as the need or opportunity arises. We may not be able to obtain a license to patented technology on commercially favorable terms, or at all. If we do not obtain a necessary license, we may need to redesign our technologies or obtain rights to alternate technologies, the research and adoption of which could cause delays in our product development. In cases where we are unable to license necessary technologies, we could be prevented from developing certain product candidates. Our failure to obtain alternative technologies or a license to any technology that we may require to research, develop or commercialize our product candidates would significantly and negatively affect our business. By way of example, we are aware of at least one entity that is seeking to obtain patent claims that may, if granted, be argued to read on imetelstat. While such claims have not been issued, and may not be valid if they do issue, we expect that as our product candidates continue to progress in development, we will see more efforts by others to obtain patents that are positioned to cover our product candidates.

Much of the information and know-how that is critical to our business is not patentable, and we may not be able to prevent others from obtaining this information and establishing competitive enterprises.

We sometimes rely on trade secrets to protect our proprietary technology, especially in circumstances in which we believe patent protection is not appropriate or available. We attempt to protect our proprietary technology in part by confidentiality agreements with our employees, consultants, collaborators and contractors. We cannot provide assurance that these agreements will not be breached, that we would have adequate remedies for any breach, or that our trade secrets will not otherwise become known or be independently discovered by competitors, any of which would harm our business significantly.

Our ability to divest our stem cell programs, and the value that we receive from any such arrangements depends at least in part on the strength of our hESC-related intellectual property.

We developed an extensive portfolio of Geron-owned patent filings covering our prior development of hESC technologies, as well as patents that we licensed from other parties. This intellectual property is a substantial component of the stem cell assets that we are seeking to divest. Our ability to divest our hESC programs, and the value that we receive will depend in part on the strength, scope and term of the patents in our hESC portfolio, as well as our ability to maintain our license rights to the patents that we licensed from third parties. Legal developments and proceedings that may impact the value of our hESC patent portfolio include:

- *European court ruling:* In 2011, the European Court of Justice (ECJ) rendered a decision in a case known as Brüstle v. Greenpeace that is widely viewed to have effectively abolished the ability to enforce patents on hESC technologies in member states of the European Union (EU). This decision may reduce the value of our hESC patent portfolio in a partnering deal.

- *Patent interferences:* Two of our patent applications covering the production of endoderm from hESCs (part of the process for making pancreatic islet cells) are involved in interferences with patents held by ViaCyte, Inc. A number of outcomes are possible: (i) the claims may be awarded to ViaCyte; (ii) the claims may be awarded to us, or (iii) neither party may be found to be entitled to the claims. The decision from the Patent Office may also be subject to appeal. Since the interferences are still ongoing, we cannot predict what the outcome will be.

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- *Reexaminations:* In July 2006, requests were filed on behalf of the Foundation for Taxpayer and Consumer Rights (now renamed as Consumer Watchdog) for reexamination of three issued U.S. patents owned by the Wisconsin Alumni Foundation (WARF). These three patents (U.S. Patent Nos. 5,843,780, 6,200,806 and 7,029,913) are licensed to us pursuant to a January 2002 license agreement which conveys exclusive rights to us under the WARF patents for the development and commercialization of therapeutics based on neural cells, cardiomyocytes and pancreatic islet cells, derived from hESCs, as well as non-exclusive rights for other product opportunities. After initially rejecting the patent claims, the Patent Office issued decisions in all three cases upholding the patentability of the claims as amended. The decisions to uphold the 5,843,780 and 6,200,806 patents are final and not subject to further appeal. Consumer Watchdog appealed the decision on the 7,029,913 patent and, in April 2010, the Board of Patent Appeals and Interferences reversed the earlier decision of the Patent Office on the 7,029,913 patent and remanded the case back to the Patent Office for further prosecution. In November, 2011, the Patent Office again upheld the patentability of the claims. The case could be subject to further appeal.

RISKS RELATED TO COMPETITIVE FACTORS

The loss of key personnel could slow our ability to conduct research and develop product candidates.

Our future success depends to a significant extent on the skills, experience and efforts of our executive officers and key members of our clinical and scientific staff. We face intense competition for qualified individuals from numerous pharmaceutical, biopharmaceutical and biotechnology companies, as well as academic and other research institutions. We may be unable to retain our current personnel or attract or assimilate other highly qualified management and scientific personnel in the future on acceptable terms. The loss of any or all of these individuals could harm our business and might significantly delay or prevent the achievement of research, development or business objectives.

Some of our competitors may develop technologies that are superior to or more cost-effective than ours, which may significantly impact the commercial viability of our technologies and damage our ability to sustain operations.

The pharmaceutical and biotechnology industries are intensely competitive. Other pharmaceutical and biotechnology companies and research organizations currently engage in or have in the past engaged in efforts related to the biological mechanisms that are the focus of our programs in oncology therapies, including the study of telomeres, telomerase and receptor-targeting peptides crossing the BBB. In addition, other products and therapies that could directly compete with the product candidates that we are seeking to develop and market currently exist or are being developed by pharmaceutical and biopharmaceutical companies and by academic and other research organizations.

Many companies are developing alternative therapies to treat cancer and, in this regard, are competitors of ours. There are more than 200 approved anti-cancer products on the market in the United States, and several thousand in clinical development. Many of the pharmaceutical companies developing and marketing these competing products (e.g., GlaxoSmithKline, Bristol-Myers Squibb Company and Novartis AG) have significantly greater financial resources and expertise than we do in:

- research and development;
- manufacturing;
- preclinical and clinical testing;
- obtaining regulatory approvals; and
- marketing, sales and distribution.

Smaller companies may also prove to be significant competitors, particularly through collaborative arrangements with large and established companies. Academic institutions, government agencies and other public and private research organizations may also conduct research, seek patent protection and establish collaborative arrangements for research, clinical development and marketing of products similar to ours. These companies and institutions compete with us in recruiting and retaining qualified scientific and management personnel as well as in acquiring technologies complementary to our programs.

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In addition to the above factors, we expect to face competition in the following areas:

- product efficacy and safety;
- the timing and scope of regulatory consents;
- availability of resources;
- reimbursement coverage;
- price; and
- patent position, including potentially dominant patent positions of others.

As a result of the foregoing, our competitors may develop more effective or more affordable products, or achieve earlier patent protection or product commercialization than we do. Most significantly, competitive products may render any product candidates that we develop obsolete, which would negatively impact our business and ability to sustain operations.

To be successful, our product candidates must be accepted by the health care community, which can be very slow to adopt or unreceptive to new technologies and products.

Our product candidates and those developed by our collaborators, if approved for marketing, may not achieve market acceptance since hospitals, physicians, patients or the medical community in general may decide not to accept and utilize these products. The product candidates that we are attempting to develop will compete with a number of conventional drugs and therapies manufactured and marketed by major pharmaceutical companies. The degree of market acceptance of any of our developed product candidates will depend on a number of factors, including:

- our establishment and demonstration to the medical community of the clinical efficacy and safety of our product candidates;
- our ability to create products that are superior to alternatives currently on the market;
- our ability to establish in the medical community the potential advantage of our treatments over alternative treatment methods; and
- reimbursement policies of government and third-party payers.

If the health care community does not accept our product candidates for any of the foregoing reasons, or for any other reason, our business would be materially harmed.

If we fail to obtain acceptable prices or adequate reimbursement for our product candidates, the use of our product candidates could be severely limited.

Our ability to successfully commercialize our product candidates will depend significantly on our ability to obtain acceptable prices and the availability of reimbursement to the patient from third-party payers. In March 2010, the Patient Protection and Affordability Care Act, as amended by the Health Care and Education Affordability Reconciliation Act (collectively, the PPACA) became law. The PPACA contains numerous initiatives that impact the pharmaceutical industry. These include, among other things:

- increasing existing price rebates in federally funded health care programs;
- expanding rebates, or other pharmaceutical company discounts, into new programs;
- imposing a new non-deductible excise tax on sales of certain prescription pharmaceutical products by prescription drug manufacturers and importers;

- reducing incentives for employer-sponsored health care;
- creating an independent commission to propose changes to Medicare with a particular focus on the cost of biopharmaceuticals in Medicare Part D;
- providing a government-run public option with biopharmaceutical price-setting capabilities;

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- allowing the Secretary of Health and Human Services to negotiate drug prices within Medicare Part D directly with pharmaceutical manufacturers;

- reducing the number of years of data exclusivity for innovative biological products potentially leading to earlier biosimilar competition; and

- increasing oversight by the FDA of pharmaceutical research and development processes and commercialization tactics.

While the PPACA may increase the number of patients who have insurance coverage for our product candidates, its cost containment measures could also adversely affect reimbursement for our product candidates. Cost control initiatives could decrease the price that we receive for any product candidate we may develop in the future. If our product candidates are not considered cost-effective or if we fail to generate adequate third-party reimbursement for the users of our product candidates and treatments, then we may be unable to maintain price levels sufficient to realize an appropriate return on our investment for product candidates currently in development, which could have an adverse impact on our business.

RISKS RELATED TO ENVIRONMENTAL AND PRODUCT LIABILITY

Our activities involve hazardous materials, and improper handling of these materials by our employees, contractors, or agents could expose us to significant legal and financial penalties.

Our research and development activities involve the controlled use of hazardous materials, chemicals and various radioactive compounds. As a consequence, we, our contractors and agents are subject to numerous environmental and safety laws and regulations, including those governing laboratory procedures, exposure to blood-borne pathogens and the handling of biohazardous materials. As an example, one of the components of GRN1005, paclitaxel, is considered a cytotoxic agent, which makes the manufacturing of GRN1005 subject to additional regulations, and limits the number of manufacturing facilities in which GRN1005 can be made. We, our contractors or agents may be required to incur significant costs to comply with current or future environmental laws and regulations and may be adversely affected by the cost of compliance with these laws and regulations.

Although we believe that our safety procedures for using, handling, storing and disposing of hazardous materials comply with the standards prescribed by state and federal regulations, the risk of accidental contamination or injury from these materials cannot be eliminated. In the event of such an accident, state or federal authorities could curtail our use of these materials and we, our contractors or agents could be liable for any civil damages that result, the cost of which could be substantial. Further, any failure by us to control the use, disposal, removal or storage, or to adequately restrict the discharge, or assist in the clean up, of hazardous chemicals or hazardous, infectious or toxic substances could subject us to significant liabilities, including joint and several liability under certain statutes. Any such liability could exceed our resources and could have a material adverse effect on our business, financial condition and results of operations. Additionally, an accident could damage our research and manufacturing facilities and operations.

Additional federal, state and local laws and regulations affecting us may be adopted in the future. We, our contractors and agents may incur substantial costs to comply with these laws and regulations and substantial fines or penalties if we violate any of these laws or regulations, which would adversely affect our business.

We may not be able to obtain or maintain sufficient insurance on commercially reasonable terms or with adequate coverage against potential liabilities in order to protect ourselves against product liability claims.

Our business exposes us to potential product liability risks that are inherent in the testing, manufacturing and marketing of human therapeutic and diagnostic products. We may become subject to product liability claims if the use of our product candidates is alleged to have injured subjects or patients. This risk exists for our product candidates currently being tested in human clinical trials as well as product candidates that are sold commercially in the future. We currently have limited clinical trial liability insurance and we may not be able to maintain this type of insurance for any of our clinical trials. In addition, product liability insurance is becoming increasingly expensive. Being unable to obtain or maintain product liability insurance in the future on acceptable terms or with adequate coverage against potential liabilities could have a material adverse effect on our business.

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RISKS RELATED TO OUR COMMON STOCK AND FINANCIAL REPORTING

Historically, our stock price has been extremely volatile.

Stock prices and trading volumes for many biopharmaceutical companies fluctuate widely for a number of reasons, including factors which may be unrelated to their businesses or results of operations such as media coverage, legislative and regulatory measures and the activities of various interest groups or organizations. This market volatility, as well as general domestic or international economic, market and political conditions, could materially and adversely affect the market price of our common stock and the return on your investment.

Historically, our stock price has been extremely volatile. Between January 1, 2002 and December 31, 2011, our stock has traded as high as $16.80 per share and as low as $1.35 per share. Between January 1, 2009 and December 31, 2011, the price has ranged between a high of $9.24 per share and a low of $1.35 per share. The significant market price fluctuations of our common stock are due to a variety of factors, including:

- announcements regarding our clinical trial results;
- the demand in the market for our common stock;
- the experimental nature of our product candidates;
- fluctuations in our operating results;
- our declining cash balance as a result of operating losses;
- market conditions relating to the biopharmaceutical and pharmaceutical industries;
- announcements of technological innovations, new commercial products, or clinical progress or lack thereof by us, our collaborative partners or our competitors;
- announcements concerning regulatory developments, developments with respect to proprietary rights and our collaborations;
- comments by securities analysts;
- general market conditions;
- the issuance of common stock to partners, vendors or to investors to raise additional capital; and
- the occurrence of any of those risks and uncertainties discussed in this Item 1A, Risk Factors .

In addition, the stock market is subject to other factors outside our control that can cause extreme price and volume fluctuations. Since the latter half of 2008, broad distress in the financial markets and the economy have resulted in greatly increased market uncertainty and instability in both U.S. and international capital and credit markets. These conditions, combined with foreign credit concerns, declining business and consumer confidence and high unemployment have recently contributed to substantial market volatility, and if such market conditions persist, the price of our common stock may fluctuate or decline.

We may be subject to litigation that will be costly to defend or pursue and uncertain in its outcome.

Securities-related class action litigation has often been brought against companies, including many biotechnology companies, which experience volatility in the market price of their securities. This risk is especially relevant for us because biotechnology and biopharmaceutical companies often experience significant stock price volatility in connection with their product development programs. For example, after we announced the discontinuation of our stem cell business, our stock price declined 20%. Further, if the results of our Phase 2 trials are not successful, or if we are unable to receive what stockholders believe to be adequate compensation for our stem cell assets, our stock price would likely decline, and may result in litigation. Securities-related litigation may be filed in the future and a decision adverse to our interests in any such lawsuit could result in the payment of substantial damages by us, and could have a material adverse effect on our cash flow, results of operations and financial position.

Our business may bring us into conflict with our licensees, licensors, or others with whom we have contractual or other business relationships, or with our competitors or others whose interests differ from ours. If we are unable to resolve those conflicts on terms that are satisfactory to all parties, we may become involved in litigation brought

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by or against us. Monitoring and defending against legal actions is time-consuming for our management, is likely to be expensive and may detract from our ability to fully focus our internal resources on our business activities. The outcome of litigation is always uncertain, and in some cases could include judgments against us that require us to pay damages, enjoin us from certain activities, or otherwise affect our legal or contractual rights, which could have a significant adverse effect on our business. In addition, the inherent uncertainty of such litigation could lead to increased volatility in our stock price.

The sale of a substantial number of shares may adversely affect the market price of our common stock.

The sale of a substantial number of shares of our common stock in the public market, or the perception that such sales could occur, could significantly and negatively affect the market price of our common stock. As of December 31, 2011, we had 200,000,000 shares of common stock authorized for issuance and 131,443,148 shares of common stock outstanding. In addition, as of December 31, 2011, we had reserved approximately 36,609,895 shares of common stock for future issuance pursuant to our option and equity incentive plans, potential milestone payments and outstanding warrants.

In addition, we have issued common stock to certain third parties, such as vendors and service providers, as payment for products and services. Under these arrangements, we have typically agreed to register the shares for resale soon after their issuance. We may continue to pay for certain goods and services in this manner, which would dilute your interest in us. Also, sales of the shares issued in this manner could negatively affect the market price of our common stock.

Future sales of the shares of the common stock, or the registration for sale of such common stock, or the issuance of common stock to satisfy our current or future cash payment obligations or to acquire technology, property, or other businesses, could cause immediate dilution and adversely affect the market price of our common stock. By way of example, in July 2009 we filed a universal shelf registration statement to sell any combination of debt securities, common stock, preferred stock and warrants in one or more offerings. The cumulative value allowed to be sold of all securities under this universal shelf registration statement is limited to $250 million and as of December 31, 2011, we have approximately $113 million remaining available. The sale or issuance of such stock, as well as the existence of outstanding options and shares of common stock reserved for issuance under our option and equity incentive plans, also may adversely affect the terms upon which we are able to obtain additional capital through the sale of equity securities.

Our undesignated preferred stock may inhibit potential acquisition bids; this may adversely affect the market price of our common stock and the voting rights of holders of our common stock.

Our certificate of incorporation provides our Board of Directors with the authority to issue up to 3,000,000 shares of undesignated preferred stock and to determine or alter the rights, preferences, privileges and restrictions granted to or imported upon these shares without further vote or action by our stockholders. The issuance of shares of preferred stock may delay or prevent a change in control transaction without further action by our stockholders. As a result, the market price of our common stock may be adversely affected.

In addition, if we issue preferred stock in the future that has preference over our common stock with respect to the payment of dividends or upon our liquidation, dissolution or winding up, or if we issue preferred stock with voting rights that dilute the voting power of our common stock, the rights of holders of our common stock or the market price of our common stock could be adversely affected.

Provisions in our charter, bylaws and Delaware law may inhibit potential acquisition bids for us, which may prevent holders of our common stock from benefiting from what they believe may be the positive aspects of acquisitions and takeovers.

Provisions of our charter documents and bylaws may make it substantially more difficult for a third party to acquire control of us and may prevent changes in our management, including provisions that:

- prevent stockholders from taking actions by written consent;
- divide the Board of Directors into separate classes with terms of office that are structured to prevent all of the directors from being elected in any one year; and
- set forth procedures for nominating directors and submitting proposals for considem:0px; text-indent:4%">In 2006, income from continuing operations included the following post-tax income and expense items:

Expense of $5.2 million, or $0.08 per diluted share, to record impairment of long-lived assets.

Expense of $4.3 million, or $0.06 per diluted share, to record the closing of our in-club pharmacies.

Expense of $2.9 million, or $0.04 per diluted share, to record severance pay and associated expenses related to our corporate restructuring.

Expense of $1.2 million, or $0.02 per diluted share, to increase the reserve for credit card claims.

Income of $4.0 million, or $0.06 per diluted share, resulting from the 53rd week of sales.

Income of $2.1 million, or $0.03 per diluted share, from House2Home bankruptcy recoveries.

In 2007, we recorded income from discontinued operations of $1.5 million, or $0.02 per diluted share, which consisted of post-tax income of $2.4 million, primarily resulting from the settlement of a lease for one of the two ProFoods clubs which closed in January 2007 and the subleasing of the other ProFoods location for a portion of its remaining lease term. This income was partially offset by a post-tax increase in the reserve of $0.4 million for a BJ s club which closed in 2002 and interest accretion charges related to the partially subleased ProFoods club and the closed BJ s club.

In 2006, we recorded a loss from discontinued operations of $20.8 million, or $0.32 per diluted share. This loss consisted of post-tax expenses of $15.2 million incurred in connection with closing the two ProFoods clubs, a net loss of $5.5 million incurred by the ProFoods clubs in 2006 and post-tax income of $0.1 million for our 2008 closed club. The remainder of the loss from discontinued operations was attributable to interest accretion charges related to the BJ s club which closed in November 2002.

Net income was $122.9 million, or $1.90 per diluted share, in 2007 versus $72.0 million, or $1.08 per diluted share, in 2006.

Seasonality

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

Recently Issued Accounting Standards

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

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Liquidity and Capital Resources

Net cash provided by operating activities was $223.9 million in 2008 compared with $304.8 million in 2007 and $172.9 million in 2006. The decrease in net cash provided by operating activities in 2008 versus 2007 was due to an increase in inventories net of accounts payable of $46.7 million and higher cash payments for taxes of $30.0 million offset by higher net income of $11.7 million. The remaining balance of the decrease was due to changes in certain balance sheet accounts which were affected by the timing of payments and other factors.

The decrease in cash due to the increase of merchandise inventories net of accounts payable was $18.3 million in 2008 versus a decrease in inventories net of accounts payable of $28.4 million in 2007. 2007 had an extraordinary amount of cash flow due to a successful SKU reduction effort and improved inventory management. The ratio of accounts payable to merchandise inventories was 71.0% at the end of 2007 versus 67.9% at the end of 2008. This decrease reflected the unfavorable impact of decreased fourth quarter sales of gasoline, which has a very fast turning inventory. The mix of our merchandise sales also unfavorably affected the payables ratio as perishable sales, which have shorter average payment terms, grew faster than general merchandise sales, which have longer average payment terms.

Inventories were well controlled at the end of 2008 with the average inventory per club at $4.8 million, or 3.7% below last year. This decrease reflected successful execution by our Merchandising and Logistics teams in managing the number of SKUs and the clearance of seasonal inventories.

The increase of $131.9 million in net cash provided by operating activities in 2007 versus 2006 was due to a decrease in inventories, net of accounts payable, of $67.6 million and a higher net income of $50.8 million. The remaining balance of the increase was related to changes in certain balance sheet accounts which were affected by the timing of payments and other factors.

Cash expended for property additions was $138.0 million in 2008, $89.9 million in 2007 and $190.8 million in 2006. In 2008, we opened four new clubs; one owned, one leased and two owned buildings that are subject to ground leases. Three of the four new clubs in 2008 also have gasoline stations. The remaining increase in capital expenditures compared to 2007 was due to spending on our IT Roadmap technology program and club renovations. In 2007, we opened five new clubs, each of which is leased, and four new gasoline stations. In 2006, we opened nine new clubs, one of which is owned at a location that is subject to a ground lease. The other new clubs are leased. We also opened nine new gasoline stations and our cross-dock facility in Uxbridge, MA, in 2006.

We expect that capital expenditures will total approximately $180 to $200 million in 2009, based on plans to open six to eight new clubs, including one relocation, and increased capital spending on the IT Roadmap. The timing of actual openings and the amount of related expenditures could vary from the estimates above due, among other things, to the complexity of the real estate development process.

In 2008, we repurchased 5,425,357 shares of our common stock for $180.8 million, or an average price of $33.33 per share. In 2007, we repurchased 7,154,898 shares of common stock for $228.8 million, or an average price of $31.98 per share. In 2006, we repurchased 4,166,048 shares of our common stock for $118.4 million, or an average price of $28.43 per share. From the inception of our share repurchase activities in August 1998, we have repurchased a total of $956.2 million of common stock at an average cost of $31.07 per share. As of January 31, 2009, the Company s remaining repurchase authorization from the Board of Directors was $193.8 million. We intend to continue to repurchase stock in 2009 and have repurchased 1,881,075 shares for $55.6 million since January 31, 2009.

In January 2004, we assumed a real estate mortgage with a principal balance of $4,025,000 in connection with the purchase of a club that was previously leased. This debt carries an interest rate of 7%, is payable in monthly installments maturing on November 1, 2011 and has a significant prepayment penalty. The principal balance at January 31, 2009 was $1.7 million.

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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 January 31, 2009. We are required to pay an annual facility fee which is currently 0.15% of the total commitment. Interest on borrowings is payable at BJ s option either at (a) the Eurodollar rate plus a margin which is currently 0.475% 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 of debt 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 January 31, 2009.

In addition to the credit agreement, we maintain two separate facilities totaling $95 million for letters of credit, primarily to support the purchase of inventories, of which $15.7 million was outstanding at January 31, 2009, and also maintain a $25 million uncommitted credit line for short-term borrowings which expires on April 30, 2009. We anticipate that this line will be renewed before it expires. As of January 31, 2009, 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 January 31, 2009 and February 2, 2008.

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. In 2008, we recorded pretax expense of $0.5 million to increase our reserve for the remaining BJ s closed club. Our reserve of $7.9 million as of January 31, 2009 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.

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 charge of $25.7 million to close the ProFoods clubs, which included a charge of $8.8 million for lease obligation costs 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. As of January 31, 2009, our reserve for ProFoods obligations was $3.2 million.

In connection with the relocation of our Franklin, MA, cross-dock facility, we recorded 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 future sublease income. Our lease expires in January 2010. As of January 31, 2009, our reserve for these obligations was $0.3 million.

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 obligations will not differ materially from amounts recorded in the financial statements due to a number of factors, including future

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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 $17.6 million at January 31, 2009.

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 F of Notes to Consolidated Financial Statements for additional information.) We have recorded total charges of $13.0 million to date 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. As of January 31, 2009, the balance in the reserve was $4.2 million, which represented our best estimate of the remaining cost and expenses related to this matter at that time. As of March 13, 2009, the amount of outstanding claims, which are primarily from credit card issuing institutions, was approximately $13.0 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.

BJ s had no significant off-balance sheet arrangements at any time during any of the periods presented in this Form 10-K.

The following summarizes our contractual cash obligations as of January 31, 2009 and the effect these obligations are expected to have on our liquidity and cash flows in future periods:

	Payments Due by Period				
Contractual Obligations	**2009**	**2010 to 2011**	**2012 to 2013**	**2014 and thereafter**	**Total**
	(Dollars in Thousands)				
Long-term debt	$ 669	$ 1,227	$	$	$ 1,896
Operating leases	155,545	330,591	309,869	1,675,177	2,471,182
Purchase obligations	419,193				419,193
Closed store lease obligations	2,006	3,080	3,113	3,143	11,342
Other long-term liabilities	76	22,447	15,464	38,614	76,601
	$ 577,489	$ 357,345	$ 328,446	$ 1,716,934	$ 2,980,214

In the table above, long-term debt consists of a real estate mortgage which matures on November 1, 2011. Amounts for long-term debt include interest as well as principal. We have no obligations under capital leases at January 31, 2009.

Amounts for operating leases reflect future minimum lease payments, excluding insurance, taxes or maintenance costs as disclosed in Note E of Notes to Consolidated Financial Statements. We have options to renew all but one of our leases. The table above does not reflect any lease payments we would make pursuant to such renewal options, except for ground leases that include reasonably assured renewal options.

Approximately 86% of purchase obligations represent future payments for merchandise purchases. The remainder consists primarily of capital commitments and purchased services.

Amounts for closed store lease obligations includes our liabilities on the balance sheet at January 31, 2009 for a closed ProFoods club, a closed cross-dock facility and a closed BJ s club. Timing of payments was based on our estimates of when these liabilities would likely be satisfied through lease payments, net of estimated potential sublease income.

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Amounts for other long-term liabilities consist mainly of payments for self-insured workers compensation and general liability claims and for asset retirement obligations, both of which are included on our balance sheet at January 31, 2009. The estimated timing of payments for insurance claims was based primarily on recent payment experience. The timing of asset retirement obligation payments corresponds to the end of the estimated useful life assigned to the assets. Not included in other long-term liabilities in the table above were payments of $33.0 million for our rent escalation liabilities because they are already included in the operating leases line, and deferred revenue of $2.5 million, which is not a cash obligation.

As of January 31, 2009 we had accrued $9.2 million of unrecognized tax benefits for uncertain tax positions and related interest under FIN 48. $3.9 million of this amount is classified as current liabilities since it is expected to be paid within twelve months. The remaining $5.3 million is classified as noncurrent liabilities. We are not able to provide a reasonably reliable estimate of the timing of future payments relating to these obligations, as the timing of examinations and ultimate resolution of those examinations are uncertain.

Cash and cash equivalents totaled $51.2 million as of January 31, 2009. We believe that our current resources, together with anticipated cash flow from operations, will be sufficient to finance our operations in the future. Although we have not regularly utilized our bank credit agreement, which expires in April 2010, we may from time to time seek to obtain additional financing.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We believe that our potential exposure to market risk as of January 31, 2009 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 January 31, 2009. There were also no derivatives at January 31, 2009. See Summary of Accounting Policies Disclosures about Fair Value of Financial Instruments in Note A in Notes to Consolidated Financial Statements.

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Item 8. Financial Statements and Supplementary Data

INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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BJ S WHOLESALE CLUB, INC.

CONSOLIDATED STATEMENTS OF INCOME

	Fiscal Year Ended		
	January 31, 2009	February 2, 2008	February 3, 2007 (53 weeks)
	(Dollars in Thousands except Per Share Amounts)		
Net sales	$ 9,802,237	$ 8,791,618	$ 8,280,379
Membership fees	177,530	175,782	161,747
Other revenues	47,599	47,065	54,496
Total revenues	10,027,366	9,014,465	8,496,622
Cost of sales, including buying and occupancy costs	9,003,978	8,090,581	7,601,282
Selling, general and administrative expenses	798,725	724,077	739,702
Provision for credit card claims			2,000
Preopening expenses	3,736	4,555	9,524
Operating income	220,927	195,252	144,114
Interest income, net	764	3,742	2,638
Gain on contingent lease obligations			3,119
Income from continuing operations before income taxes	221,691	198,994	149,871
Provision for income taxes	85,871	77,613	57,081
Income from continuing operations	135,820	121,381	92,790
Income (loss) from discontinued operations, net of income tax benefit of $849, provision of $1,019 and benefit of $14,331, respectively	(1,237)	1,480	(20,774)
Net income	$ 134,583	$ 122,861	$ 72,016
Basic earnings per share:			
Income from continuing operations	$ 2.34	$ 1.91	$ 1.42
Income (loss) from discontinued operations	(0.02)	0.02	(0.32)
Net income	$ 2.32	$ 1.93	$ 1.10
Diluted earnings per share:			
Income from continuing operations	$ 2.30	$ 1.88	$ 1.40
Income (loss) from discontinued operations	(0.02)	0.02	(0.32)
Net income	$ 2.28	$ 1.90	$ 1.08
Number of common shares for earnings per share computations:			
Basic	58,058,061	63,669,088	65,530,278
Diluted	58,948,955	64,557,393	66,387,755

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

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BJ S WHOLESALE CLUB, INC.

CONSOLIDATED BALANCE SHEETS

	January 31, 2009	February 2, 2008
	(Dollars in Thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 51,157	$ 97,314
Accounts receivable	124,498	115,228
Merchandise inventories	859,520	877,466
Current deferred income taxes	13,936	26,340
Prepaid expenses	27,364	28,991
Total current assets	1,076,475	1,145,339
Property at cost:		
Land and buildings	684,807	642,277
Leasehold costs and improvements	220,073	207,071
Furniture, fixtures and equipment	544,744	563,463
	1,449,624	1,412,811
Less: accumulated depreciation and amortization	535,046	538,358
	914,578	874,453
Deferred income taxes	8,033	4,321
Other assets	22,350	22,406
Total assets	$ 2,021,436	$ 2,046,519
LIABILITIES		
Current liabilities:		
Current installments of long-term debt	$ 567	$ 529
Accounts payable	583,367	622,965
Accrued expenses and other current liabilities	309,271	277,005
Accrued federal and state income taxes	13,488	44,209
Closed store lease obligations due within one year	2,006	1,726
Total current liabilities	908,699	946,434
Long-term debt, less portion due within one year	1,148	1,715
Noncurrent closed store lease obligations	9,336	10,633
Other noncurrent liabilities	117,449	107,245
STOCKHOLDERS EQUITY		
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
Additional paid-in capital	200,973	177,134
Retained earnings	1,351,217	1,239,639
Accumulated other comprehensive loss	(270)	(540)
Treasury stock, at cost, 17,872,220 and 14,027,576 shares	(567,860)	(436,485)
Total stockholders equity	984,804	980,492
Total liabilities and stockholders equity	$ 2,021,436	$ 2,046,519

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

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BJ S WHOLESALE CLUB, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Fiscal Year Ended		
	January 31, 2009	February 2, 2008	February 3, 2007 (53 weeks)
	(Dollars in Thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 134,583	$ 122,861	$ 72,016
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for credit card claims			2,000
Provision for (reversal of) club closing and impairment costs	1,371	(2,847)	44,444
Depreciation and amortization of property	107,609	106,403	105,253
Loss on property disposals	475	2,052	1,938
Other noncash items (net)	1,261	1,051	1,405
Stock-based compensation expense	19,398	19,018	18,467
Deferred income taxes	8,507	1,213	(28,030)
Excess tax benefit from exercise of stock options	(3,338)	(3,001)	(2,754)
Tax benefit from exercise of stock options	4,441	4,096	4,570
Increase (decrease) in cash due to changes in:			
Accounts receivable	(9,270)	(13,733)	(60)
Merchandise inventories	17,946	(26,564)	(37,632)
Prepaid expenses	1,627	(2,117)	(8,679)
Other assets	(23)	600	(649)
Accounts payable	(36,218)	54,986	(1,611)
Changes in book overdrafts	(3,380)	7,573	5,049
Accrued expenses	4,945	13,881	14,627
Accrued income taxes	(30,721)	132	(16,942)
Closed store lease obligations	(2,269)	(3,309)	(1,138)
Other noncurrent liabilities	6,997	22,516	615
Net cash provided by operating activities	$ 223,941	$ 304,811	$ 172,889
CASH FLOWS FROM INVESTING ACTIVITIES			
Property additions	$ (138,039)	$ (89,857)	$ (190,758)
Proceeds from property disposals	8,722	118	91
Purchase of marketable securities	(245)	(1,510)	(917)
Sale of marketable securities	349	1,614	536
Net cash used in investing activities	$ (129,213)	$ (89,635)	$ (191,048)
CASH FLOWS FROM FINANCING ACTIVITIES			
Excess tax benefit from exercise of stock options	$ 3,338	$ 3,001	$ 2,754
Repayment of long-term debt	(529)	(492)	(461)
Dividends paid	(25)	(25)	(25)
Proceeds from issuance of common stock	26,494	49,405	28,050
Repurchase of common stock	(170,163)	(225,628)	(118,446)
Net cash used in financing activities	$ (140,885)	$ (173,739)	$ (88,128)
Net increase (decrease) in cash and cash equivalents	$ (46,157)	$ 41,437	$ (106,287)
Cash and cash equivalents at beginning of year	97,314	55,877	162,164
Cash and cash equivalents at end of period	$ 51,157	$ 97,314	$ 55,877

Supplemental cash flow information:			
Treasury stock issued for compensation plans	$ 17,723	$ 26,852	$ 9,679
Interest paid, net of capitalized interest	284	552	571
Income taxes paid	107,236	77,287	87,722
Noncash financing and investing activities:			
Addition of asset retirement costs	2,452	474	4,233

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

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BJ S WHOLESALE CLUB, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

	Common Stock		Additional Paid-in Capital	Unearned Compensation	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock		Total Stockholders Equity
	Shares	Amount			(In Thousands)		Shares	Amount	
Balance, January 28, 2006	74,410	$ 744	$ 132,781	$ (1,797)	$ 1,105,913	$	(7,017)	$ (221,662)	$ 1,015,979
Comprehensive Income:									
Net income					72,016				72,016
FAS 158 adjustment, net of tax of $498						(723)			(723)
Comprehensive income									71,293
Issuance of common stock			4,569		(19,767)		1,553	47,817	32,619
Dividends paid					(25)				(25)
Repurchase of common stock							(4,166)	(118,446)	(118,446)
Elimination of unearned compensation			(1,797)	1,797					
Stock compensation expense			18,467						18,467
Balance, February 3, 2007	74,410	$ 744	$ 154,020	$	$ 1,158,137	$ (723)	(9,630)	$ (292,291)	$ 1,019,887
Comprehensive Income:									
Net income					122,861				122,861
Postretirement medical plan adjustment, net of tax of $125						183			183
Comprehensive income									123,044
Issuance of common stock			4,096		(35,182)		2,757	84,587	53,501
Dividends paid					(25)				(25)
Cumulative effect of the adoption of FIN 48					(6,152)				(6,152)
Repurchase of common stock							(7,155)	(228,781)	(228,781)
Stock compensation expense			19,018						19,018
Balance, February 2, 2008	74,410	$ 744	$ 177,134	$	$ 1,239,639	$ (540)	(14,028)	$ (436,485)	$ 980,492
Comprehensive Income:									
Net income					134,583				134,583
Postretirement medical plan adjustment, net of tax of $185						270			270
Comprehensive income									134,853
Issuance of common stock			4,441		(22,980)		1,581	49,474	30,935
Dividends paid					(25)				(25)
Repurchase of common stock							(5,425)	(180,849)	(180,849)
Stock compensation expense			19,398						19,398
Balance, January 31, 2009	74,410	$ 744	$ 200,973	$	$ 1,351,217	$ (270)	(17,872)	$ (567,860)	$ 984,804

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

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BJ S WHOLESALE CLUB, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A. Summary of Accounting Policies

Basis of Presentation

The consolidated financial statements of BJ s Wholesale Club, Inc. (BJ s or the Company or we) include the financial statements of all of the Company s subsidiaries, all of whose common stock is wholly owned by the Company.

Fiscal Year

Our fiscal year ends on the Saturday closest to January 31. The fiscal years ended January 31, 2009 and February 2, 2008 each included 52 weeks. The fiscal year ended February 3, 2007 included 53 weeks. A majority of our income and expense items were affected directly by the 53rd week in 2006. These would include sales, gross profit, inventory shrinkage, membership fee revenues, gasoline income, payroll, payroll benefits, utilities, and all other variable club operating expenses. Expenses that were not affected by the 53rd week included rent, common area maintenance, depreciation and real estate taxes.

Estimates Included in Financial Statements

The preparation of 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 the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents and Marketable Securities

We consider highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents. Investments with maturities exceeding three months are classified as marketable securities. We had no marketable securities at January 31, 2009 and February 2, 2008.

Accounts Receivable

Accounts receivable consist primarily of credit card receivables and vendor rebates and allowances and are stated net of allowances for doubtful accounts of $1,069,000 at January 31, 2009 and $1,502,000 at February 2, 2008. The determination of the allowance for doubtful accounts is based on BJ s historical experience applied to an aging of accounts and a review of individual accounts with a known potential for write-off.

Merchandise Inventories

Inventories are stated at the lower of cost, determined under the average cost method, or market. We recognize the write-down of slow-moving or obsolete inventory in cost of sales when such write-downs are probable and estimable. We recognize a reserve for inventory shrinkage for the period between physical inventories based on historical results of previous physical inventories, shrinkage trends or other judgments management believes to be reasonable under the circumstances.

Property and Equipment

Property and equipment are stated at cost. Property is depreciated by use of the straight-line method for financial reporting purposes. Buildings are depreciated over 33 1/3 years. Leasehold costs and improvements are amortized over the required lease term (which includes renewal periods that are reasonably assured) or their

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estimated useful life, whichever is shorter. Leasehold costs and improvements that are placed in service significantly after and not contemplated at or near the beginning of the lease term are amortized over the term that includes the required lease term and renewal periods that are reasonably assured, or their estimated useful life, whichever is shorter. Furniture, fixtures and equipment are depreciated over three to ten years. Interest related to the development of buildings is capitalized to the extent that debt is incurred during the construction period.

We capitalize certain computer software costs incurred in connection with developing or obtaining computer software for internal use. Capitalized software costs are included in furniture, fixtures, and equipment and amortized on a straight-line basis over the estimated useful lives of the software.

Normal repairs and maintenance are expensed as incurred.

Impairment of Long-lived Assets

We review the realizability of our long-lived assets annually and whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Current and expected operating results and cash flows and other factors are considered in connection with our reviews. For purposes of evaluating the recoverability of long-lived assets, the recoverability test is performed using undiscounted net cash flows of individual clubs and consolidated net cash flows for long-lived assets not identifiable to individual clubs. Impairment losses are measured as the difference between the carrying amount and the fair value of the impaired assets.

We recorded pretax asset impairment charges of $131,000 in 2008, $357,000 in 2007, and $8,747,000 in 2006 to write down leasehold improvements and certain fixtures and equipment to fair value at underperforming clubs that were projected to have cash flow losses. The fair value of the assets was based primarily on past experience in disposing of similar assets. Asset impairment charges are included in selling, general and administrative expenses.

Self-Insurance Reserves

We are primarily self-insured for worker s compensation and general liability claims. Reported reserves for these claims are derived from estimated ultimate costs based upon individual claim file reserves and estimates for incurred but not reported claims.

Revenue Recognition

We recognize revenue from the sale of merchandise, net of estimated returns, at the time of purchase by the customer in the club. In the limited instances when the customer is not able to take delivery at the point of sale, revenue from the sale of merchandise is not recognized until title and risk of loss pass to the customer. For sales of merchandise on our website, revenue is also recognized when title and risk of loss pass to the customer, which is normally at the time the merchandise is received by the customer. Membership fee revenue is recognized on a straight-line basis over the life of the membership, which is typically twelve months.

The Company s Rewards members qualify for a 2% reward (which can only be redeemed at BJ s clubs), up to a maximum of $500 per year, on all qualified purchases made at BJ s. The Company accounts for this 2% reward as a reduction in sales, with the related liability being classified within other current liabilities. The reduction in sales for the fiscal years ended January 31, 2009, February 2, 2008 and February 3, 2007, and the related liability as of those dates were as follows:

	2008	2007	2006
	(Dollars in Thousands)		
Rewards earned	$ 18,337	$ 17,100	$ 15,822
Liability for unredeemed awards	6,431	5,898	4,268

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Gift cards are available for purchase at all of our clubs. We do not charge administrative fees on unused gift cards and gift cards do not have an expiration date. Revenue from gift card sales is recognized upon redemption of the gift card.

In determining comparable club sales, we include all clubs that were open for at least 13 months at the beginning of the period and were in operation during all of both periods being compared. However, if a club is in the process of closing, it is excluded from comparable clubs. We include relocated clubs and expansions in comparable clubs.

The years ended January 31, 2009 and February 2, 2008 were 52-week years. Sales for the 52 weeks ended January 31, 2009 were compared with sales for the 52 weeks ended February 2, 2008 to determine comparable club sales information for the fiscal 2008 year. The year ended February 3, 2007 was a 53-week year. Sales for the 52 weeks ended February 2, 2008 were compared with sales for the 52 weeks ended February 3, 2007 to determine comparable club sales information for the fiscal 2007 year.

Warranty Programs

We offer an extended warranty on tires sold at our clubs, under which BJ s customers receive tire repair services or tire replacement in certain circumstances. We have insured this liability through a third party and, therefore, retain no liability in connection with the tire warranty program other than for the premiums paid to the third-party carrier. As we are the primary obligor in these arrangements, associated revenue is deferred and amortized over the warranty period. We also offer extended warranties on certain types of products such as electronics and jewelry. These warranties are provided by a third party at fixed prices to BJ s. We retain no liability to satisfy warranty claims under these arrangements. We are not the primary obligor under these warranties, and as such record revenue on these arrangements at the time of sale. Revenue from all warranty sales is included in Other revenues on the income statement.

Presentation of Sales Tax Collected from Customers and Remitted to Governmental Authorities

In the ordinary course of business, we collect sales tax on items purchased by our members that are taxable in the jurisdictions when the purchases take place. These taxes are then remitted to the appropriate taxing authority. We exclude these taxes collected from revenues in our financial statements.

Vendor Rebates and Allowances

We receive various types of cash consideration from vendors, principally in the form of rebates based on purchasing or selling certain volumes of product; time-based rebates or allowances, which may include product placement allowances or exclusivity arrangements covering a predetermined period of time; price protection rebates and allowances for retail price reductions on certain merchandise; and salvage allowances for product that is damaged, defective or becomes out-of-date. We recognize such vendor rebates and allowances based on a systematic and rational allocation of the cash consideration offered to the underlying transaction that results in progress by BJ s toward earning the rebates and allowances, provided the amounts to be earned are probable and reasonably estimable. Otherwise, rebates and allowances are recognized only when predetermined milestones are met. We recognize product placement allowances as a reduction of cost of sales in the period in which we complete the arranged placement of the product. Time-based rebates or allowances are recognized as a reduction of cost of sales over the performance period on a straight-line basis. All other vendor rebates and allowances are realized as a reduction of cost of sales when the merchandise is sold or otherwise disposed.

We also receive cash consideration from vendors for demonstrating their products in the clubs and for advertising their products, particularly in the *BJ s Journal*, a publication sent to a subset of BJ s members periodically throughout the year. In both cases, such cash consideration is recognized as a reduction of selling, general and administrative (SG&A) expenses to the extent it represents a reimbursement of specific, incremental and identifiable SG&A costs incurred by BJ s to sell the vendors products. If the cash consideration

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exceeds the costs being reimbursed, the excess is characterized as a reduction of cost of sales. Cash consideration for product demonstrations is recognized in the period during which the demonstrations are performed. Cash consideration for advertising vendors products is recognized in the period in which the advertising takes place.

Manufacturers Incentives Tendered by Consumers

We follow the provisions of EITF Issue No. 03-10, Application of EITF Issue No. 02-16 by Resellers to Sales Incentives Offered to Consumers by Manufacturers (EITF 03-10), which provides guidance for the reporting of vendor consideration received by a reseller as it relates to manufacturers incentives (such as rebates or coupons) tendered by consumers. We include such vendor consideration in revenues only if all of the criteria defined in EITF 03-10 are met. Otherwise, such consideration is recorded as a decrease in cost of sales.

Rent Expenses

Rent expense for operating leases is recognized on a straight-line basis over the term of the leases. We begin recognizing rent expense in the preopening period when we take possession of the club. Our owned buildings, including those located on leased land, are depreciated on a straight-line basis over 33 1/3 years. We calculate rent for ground leases over periods that equal or exceed the time periods for depreciation of the buildings, which would include reasonably assured lease renewal periods.

Preopening Costs

Preopening costs consist of direct incremental costs of opening or relocating a facility and are charged to operations as incurred.

Advertising Costs

Advertising costs generally consist of promoting new memberships and new store openings and also typically include television and radio advertising (some of which is vendor-funded). BJ s expenses advertising costs as incurred. Advertising expenses were less than 0.35% of net sales in each of the last three years.

Legal Costs

Legal costs expected to be incurred in connection with a loss contingency are recognized at the same time that the loss contingency meets the criteria to be recorded.

Stock-Based Compensation

As of January 31, 2009, we had one stock-based employee compensation plan, which is described more fully in Note H. We adopted the provisions of Statement of Financial Accounting Standards No. 123(R), Share-Based Payment (SFAS 123(R)), as of January 29, 2006, the beginning of the first quarter of 2006. We used the modified prospective application (MPA) transition method in implementing the new standard. Under the MPA method we are recognizing stock-based compensation cost for all awards granted on or after the adoption date and for any portion of awards granted before the adoption date that had not vested by the date we adopted SFAS 123(R). Measurement and attribution of compensation cost for those existing awards are based on the original grant-date fair value and the same attribution methods we used for pro forma disclosure under Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (SFAS 123), in prior years. As of the adoption date, we discontinued our past practice of recognizing forfeitures only as they occur, and during the remaining vesting period, we are estimating forfeitures for those earlier awards and are truing up our estimates so that compensation cost is recognized only for awards that vest. We evaluate the need to change our forfeiture estimates at the end of each quarter and true up our estimates at the end of each fiscal year. Because we are using the MPA method, we did not restate prior year financial statements.

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We elected the Short Cut method of Financial Staff Position FAS 123(R)-3 to calculate our historical pool of windfall tax benefits. The gross amount of windfall tax benefits resulting from the exercise of stock options is reported in the financing activities section of the cash flow statement. If applicable, gross tax shortfalls are classified in the operating activities section of the cash flow statement.

Most of BJ s stock option awards specify that eligible participants whose employment terminates on or after their normal retirement date (as defined) may exercise options within the period of one year following their termination. Shares continue to become exercisable during this period in accordance with the stock option agreement. Notwithstanding the foregoing, options are not exercisable after the end of the contractual term of the option. For pro forma reporting purposes under SFAS 123, we recognized compensation cost for this type of arrangement over the nominal vesting period (the nominal vesting period approach). Issue 19 of EITF Issue No. 00-23, Issues Related to the Accounting for Stock Compensation under APB 25 and FIN 44 (EITF 00-23), and paragraph 27 of SFAS 123 specify that an award is vested when the employee s retention of the award is no longer contingent on providing subsequent service (the non-substantive vesting period approach).

We will continue to follow the nominal vesting period approach for the remaining portion of unvested outstanding awards granted prior to adopting SFAS 123(R). Upon adopting SFAS 123(R), we are applying the non-substantive vesting period approach described in paragraphs A57-58 of SFAS 123(R) to new grants that have retirement eligibility provisions. Applying the non-substantive vesting period approach instead of the nominal vesting period approach would have decreased post-tax stock option expense by $0.6 million in 2008 and $0.7 million in both 2007 and 2006.

Our pro forma disclosures did not include capitalized stock-based compensation costs because such amounts were not material.

Disclosures about Fair Value of Financial Instruments

The carrying amount of long-term debt, including current installments, was $1,715,000 and $2,244,000 as of January 31, 2009 and February 2, 2008, respectively. The fair value of this debt was $1,817,000 and $2,317,000 as of January 31, 2009 and February 2, 2008, respectively. Fair value was based on our estimate of current rates on debt with similar remaining maturities for companies with credit ratings similar to BJ s.

New Accounting Pronouncements

Effective February 3, 2008 (the first day of our 2008 fiscal year), we adopted Statement of Financial Accounting Standards No. 157, Fair Value Measurements (FASB 157). 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. In February 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position No. FAS 157-2, Effective Date of FASB Statement No. 157, which provides a one-year deferral of the effective date of FASB 157 for non-financial assets and non-financial liabilities except those that are recognized or disclosed in the financial statements at fair value at least annually.

The adoption of FASB 157 for our financial assets and financial liabilities did not have a material impact on our financial statements. We do not expect that the implementation of this standard for nonfinancial assets and nonfinancial liabilities will have a material effect on our financial statements upon full adoption in 2009.

In October 2008, the FASB issued FASB Staff Position No. FAS 157-3, Determining the Fair Value of a Financial Asset in a Market That Is Not Active (FASB 157-3). FASB 157-3 clarifies the application of FASB 157 when the market for a financial asset is inactive. The guidance in FASB 157-3 is effective immediately and had no effect on our financial statements.

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In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141(R), Business Combinations (FASB 141(R)). The provisions, which change the way companies account for business combinations, are effective at the beginning of fiscal 2009. FASB 141(R) requires the acquiring entity in a business combination to recognize assets acquired and liabilities assumed in the transaction; establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose all information needed by investors to understand the nature and financial effect of the business combination. We do not expect the adoption of this statement to have an impact on our financial statements.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of Accounting Research Bulletin No. 51 (FASB 160). FASB 160 requires that noncontrolling interests in subsidiaries be reported in the equity section of the company s balance sheet. It also changes the manner in which the net income of the subsidiary is reported and disclosed in the controlling company s income statement. FASB 160 will be effective at the beginning of fiscal 2009. We do not expect the adoption of this statement to have an impact on our financial statements.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities (FASB 161). FASB 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand the effects of the derivative instruments on an entity s financial position, financial performance, and cash flows. FASB 161 will become effective at the beginning of fiscal 2009. We do not expect the adoption of this statement to have a material impact on our financial statements.

In December 2008, the FASB issued FSP FAS No. 132(R)-1, Employers Disclosures about Postretirement Benefit Plan Assets (FASB 132(R)-1). FASB 132(R)-1 provides guidance on an employer s disclosures about plan assets of a defined benefit pension or other postretirement plan and will become effective at the beginning of fiscal 2010. We do not expect the adoption of this statement to have a material impact on our financial statements.

Revisions

The classification of certain amounts in the prior year s financial statements has been revised to conform to the current year presentation. Within the Statement of Income we have revised the classification of a number of miscellaneous revenues that had been previously reported on a net basis in Selling, general and administrative expenses to Other revenues and Cost of sales, including buying and occupancy costs . Additionally, the membership fees component of our previously disclosed Membership fees and other is now classified in its own line and the remainder of the former Membership fees and other line now resides in Other revenues . Please refer to the Current Report on Form 8-K submitted on November 19, 2008 for further information on these revised classifications.

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B. Discontinued Operations

The following tables summarize the activity for the years ended January 31, 2009 and February 2, 2008 associated with our discontinued operations, which consist of the closing of both our ProFoods clubs in January 2007, three BJ s clubs in 2002 and one BJ s club in 2008 (dollars in thousands):

	Discontinued Operations				
	Liabilities February 2, 2008	Increases To Reserves	Reductions	Liabilities January 31, 2009	Cumulative Charges To Date, Net
ProFoods clubs	$ 3,439	$ 178	$ (464)	$ 3,153	$ 22,198
BJ s clubs 2002	8,128	944	(1,247)	7,825	26,490
BJ s club 2008		404	(354)	50	404
Total	$ 11,567	$ 1,526	$ (2,065)	$ 11,028	$ 49,092
Current portion	$ 1,560			$ 1,692	
Long-term portion	10,007			9,336	
Total	$ 11,567			$ 11,028	

	Discontinued Operations			
	Liabilities February 3, 2007	Increases To Reserves	Reductions	Liabilities February 2, 2008
ProFoods clubs	$ 8,750	$ 318	$ (5,629)	$ 3,439
BJ s clubs	8,294	1,082	(1,248)	8,128
Total	$ 17,044	$ 1,400	$ (6,877)	$ 11,567
Current portion	$ 3,077			$ 1,560
Long-term portion	13,967			10,007
Total	$ 17,044			$ 11,567

Closure of ProFoods

In fiscal 2005, we began testing a concept that was new to BJ s by opening two new clubs in the Metro New York market exclusively for food service businesses under the name ProFoods Restaurant Supply (ProFoods).

Both ProFoods clubs were closed in the fourth quarter ended February 3, 2007. The operating results of these clubs are included in discontinued operations for all periods presented. In 2006, ProFoods incurred a pretax loss of $9.2 million and had revenues of $43.8 million. We also 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.

During the second quarter of 2007, 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. As a result of the ProFoods lease settlement we recorded pretax income of $4.0 million and reduced our reserve by the same amount. The remainder of the reserve reductions of approximately $1.6 million consisted of lease obligation payments and increases to the reserve consisted of interest accretion charges.

In 2008, increases to the reserve consisted of interest accretion charges and reductions to the reserve consisted of lease obligation payments. ProFoods clubs reserves as of January 31, 2009 were related to lease obligation costs for the remaining club under lease, reduced by the estimated sublease rentals.

2002 Closure of Three BJ s Locations

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 presented in discontinued operations in the statements of income for all periods presented.

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In 2004 and 2005, we made lump sum payments to settle two of the three leases. The reserve for BJ s closed clubs at January 31, 2009 was related to the lease obligations for the remaining closed club.

In 2007, based on our evaluation of the status of the remaining closed club, we recorded a pretax charge of $0.6 million to increase our reserve for this club. We recorded a similar increase of $0.5 million in 2008. Interest accretion charges were $0.4 million in each of 2008 and 2007. Reductions to the reserve consisted of lease obligation payments of $1.2 million in each of 2008 and 2007.

The charges for both ProFoods and BJ s lease obligations were based on the present value of rent liabilities under the relevant 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 obligations on our balance sheet.

2008 Closure of One BJ s Location

On October 7, 2008, we sold our owned club in Greenville, South Carolina, for $8.5 million and subsequently ceased operations on October 14, 2008. The operating results of the club are presented in discontinued operations in the statements of income for all periods presented. For 2008, 2007 and 2006, the club had total revenues of $17.7 million, $23.6 million and $23.8 million, respectively. The club had a pretax operating loss of $0.4 million in 2008 and pretax operating income of $39,000 and $0.3 million in 2007 and 2006, respectively. We recorded a pretax loss of $0.4 million this year to close the club. The loss consisted mainly of a $0.3 million loss on inventory liquidation, $0.2 million for employee termination benefits, $0.2 million for membership refunds, $0.2 million in other exit costs, offset by a $0.5 million gain on the sale of fixed assets. The remaining reserve balance at January 31, 2009 consisted of insubstantial exit costs that are expected to be paid in the first quarter of 2009.

C. Restructuring Activities

The following tables summarize the activity for the years ended January 31, 2009 and February 2, 2008 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 BJ s 46 in-club pharmacies. All pharmacies were closed by February 21, 2007 (dollars in thousands):

		Restructuring Activities			
	Liabilities February 2, 2008	Increases To Reserves	Reductions	Liabilities January 31, 2009	Cumulative Charges To Date
Franklin relocation	$ 792	$	$ (478)	$ 314	$ 1,205
Current portion	166			314	
Long-term portion	626				
Total	$ 792			$ 314	

		Restructuring Activities		
	Liabilities February 3, 2007	Increases To Reserves	Reductions	Liabilities February 2, 2008
Franklin relocation	$ 1,939	$	$ (1,147)	$ 792
Pharmacy closings	50	1,316	(1,366)	
Total	$ 1,989	$ 1,316	$ (2,513)	$ 792
Current portion	1,162			166

Long-term portion	827	626
Total	$ 1,989	$ 792

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Franklin Cross-dock Relocation

In connection with vacating the Franklin cross-dock facility in 2006, we established reserves of $2.4 million for our remaining lease liabilities for this property. The charges for this reserve were based on our rent liabilities under the lease, reduced by estimated potential sublease rentals, and were recorded in SG&A expenses. In the second quarter of 2007, we subleased the Franklin facility for a portion of its remaining lease term at a rate favorable to our initial estimate of sublease income. As a result, we recorded income of $0.7 million and reduced the reserve by the same amount. The remaining reserve reductions in 2007 consisted of lease payments.

In the second quarter of 2008, we subleased this facility for an additional portion of its remaining lease term. As a result, we recorded income of $0.4 million and reduced the reserve by the same amount. In 2008, we paid lease obligations of $0.1 million. The remaining liability for this facility is included in current closed store lease obligations in the balance sheet since our lease expires in January 2010. We do not expect any material future expense related to the Franklin facility.

Closure of BJ s Pharmacies

On January 4, 2007, we announced our plans to close all 46 of our in-club pharmacies because of their disappointing sales and profitability results, lower than expected growth in new prescriptions and because of an increasingly competitive landscape. Fourteen of our pharmacies were closed by the end of the fiscal year ended February 3, 2007. The last of the remaining pharmacies closed on February 21, 2007. The operating results of the pharmacies are included in continuing operations. The pretax loss of $7.2 million, which we incurred in the fourth quarter of 2006 to close the pharmacies, consisted mainly of fixed asset write-downs of $4.2 million and employee termination benefits of $2.7 million.

In 2007, we recorded $1.0 million of pharmacy-related pretax income, primarily composed of $2.4 million of proceeds received from the sale of prescription files and inventory, offset by payments of $1.4 million, which were related to the removal of fixtures. Income and expense items related to the pharmacy closings were recorded in SG&A expenses. No liability remains in the pharmacy closing reserve as of January 31, 2009. We do not expect to record any further adjustments in connection with the pharmacy closings.

D. Debt

As of January 31, 2009, long-term debt, less the portion due within one year, consisted entirely of real estate debt, bearing interest at 7%, maturing through November 1, 2011. The aggregate maturities of long-term debt outstanding at January 31, 2009 were as follows:

Fiscal Years Ending	Dollars In Thousands
January 29, 2011	$ 608
January 28, 2012	540
Total	$ 1,148

Real estate debt was collateralized by land and buildings with a net book value of $10,232,000.

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 January 31, 2009. We are required to pay an annual facility fee which is currently 0.15% of the total commitment. Interest on borrowings is payable at BJ s option either at (a) the Eurodollar rate plus a margin which is currently 0.475% 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,

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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.

In addition to the credit agreement, we maintain two separate facilities totaling $95 million for letters of credit, primarily to support the purchase of inventories, of which $15.7 million was outstanding at January 31, 2009, and also maintain a $25 million uncommitted credit line for short-term borrowings which expires on April 30, 2009. We anticipate that this line will be renewed before it expires. As of January 31, 2009, 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 January 31, 2009 and February 2, 2008.

E. Commitments and Contingencies

We are obligated under long-term leases for the rental of real estate. In addition, we are generally required to pay insurance, real estate taxes and other operating expenses and, in some cases, additional rentals based on a percentage of sales in excess of certain amounts, or other factors. Many of our leases require escalating payments during the lease term. Rent expense for such leases is recognized on a straight-line basis over the lease term. The initial primary term of our real estate leases (excluding ground leases) ranges from 4 to 25 years. Most of these leases have an initial term of 20 years. The initial primary term of our ground leases ranges from 15 to 44 years, and averages approximately 25 years. As of January 31, 2009, we have options to renew all but one of our leases for periods that range from 5 to 65 years, and average approximately 21 years. Future minimum lease payments as of January 31, 2009 were:

Fiscal Years Ending	Dollars in Thousands
January 30, 2010	$ 155,545
January 29, 2011	164,797
January 28, 2012	165,794
February 2, 2013	158,944
February 1, 2014	150,925
Later years	1,675,177
Total	$ 2,471,182

The payments above do not include future payments due under the leases for one remaining ProFoods club, which closed in 2006, one cross-dock facility, which also closed in 2006, and one BJ s club, which closed in November 2002. Rent liabilities for the closed locations are included in current and noncurrent closed store lease obligations in the balance sheets (see Notes B and C for additional information).

Rental expense under operating leases (including contingent rentals, which were not material) amounted to $148,788,000, $142,213,000 and $131,725,000 in 2008, 2007 and 2006, respectively.

We are involved in various legal proceedings that are typical of a retail business. Although it is not possible to predict the outcome of these proceedings or any related claims, we believe that such proceedings or claims will not, individually or in the aggregate, have a material adverse effect on our financial condition or results of operations.

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As permitted by Delaware law, BJ s has entered into agreements whereby it indemnifies its directors and officers for certain events or occurrences while the director or officer is or was serving, at the Company s request, in such capacity. The maximum potential amount of future payments that BJ s could be required to make under these agreements is not limited. However, BJ s carries insurance for current and former directors and officers that covers its exposure up to certain limits. As a result of our insurance coverage, we believe that the estimated fair value of our indemnification agreements with directors and officers is minimal. No liabilities have been recorded for these agreements as of January 31, 2009 nor have any claims been made.

F. Provision for Credit Card Claims

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. 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 BJ s 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. On August 5, 2008, the U.S. Attorney s Office in Boston charged 11 individuals with allegedly breaching the credit card security systems of a number of retailers, including BJ s in 2004.

To date, we have recorded total pretax charges of $13.0 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. No charges have been recorded in connection with this matter since 2006. As of January 31, 2009, the balance in the reserve was $4.2 million, which represented our best estimate of the remaining costs and expenses related to this matter. This reserve is included in accrued expenses and other current liabilities on our balance sheet.

We are under an obligation to indemnify our credit card acquirer, Fifth Third Bank, for losses incurred in the performance of their services. Fifth Third and BJ s are subject to the same claims in this matter. As such, and to mitigate Fifth Third s past costs of defense, during 2008 we entered into an agreement with Fifth Third whereby we share Fifth Third s past costs of defense related to certain of the claims.

As of March 13, 2009, the amount of outstanding claims, which are primarily from credit card issuing institutions, 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.

G. Capital Stock

BJ s had a shareholder rights plan which was originally adopted in 1997 and amended in 1999 and 2003. The rights plan expired in July 2007 in accordance with its terms and the preferred share purchase rights are no longer outstanding.

We repurchased 5,425,357 shares of our common stock for $180,849,000 in 2008, 7,154,898 shares of our common stock for $228,781,000 in 2007, and 4,166,048 shares for $118,446,000 in 2006. As of January 31, 2009, the Company s remaining repurchase authorization from the Board of Directors was $193,828,000. These

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amounts differ from the stock repurchase amounts in the statement of cash flows due to transactions that had not settled at the end of the fiscal year.

In December 1997, one of BJ s subsidiaries issued 126 shares of non-voting preferred stock to individual stockholders, at $2,200 per share. These shares are entitled to receive ongoing annual dividends of $200 per share. The minority interest in this subsidiary is equal to the preferred shares preference in an involuntary liquidation of $277,200 and is included in other noncurrent liabilities in our consolidated balance sheets at January 31, 2009 and February 2, 2008.

H. Stock Incentive Plans

On May 24, 2007, at the 2007 Annual Meeting of Shareholders of the Company, BJ s stockholders approved the adoption of our 2007 Stock Incentive Plan (the 2007 Plan). As of May 24, 2007, the 2007 Plan replaced BJ s 1997 Stock Incentive Plan (the 1997 Plan) and no further grants would be made under the 1997 Plan.

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

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. Stock options and stock appreciation rights will count against shares issuable at a ratio of one to one.

If an award expires, terminates, is cancelled or otherwise results in shares not being issued, the unused shares covered by such award will generally become available for future grant under the 2007 Plan.

Under the 2007 Plan, stock options must be granted at an exercise price equal to or greater than the closing price of BJ s common stock on the date of grant. Options may not be granted for a term in excess of ten years.

The 2007 Plan provides for the automatic grant of options to members of the Board of Directors who are not BJ s employees. On the commencement of service on the Board, each non-employee director will receive a non-statutory stock option to purchase 10,000 shares. In addition, on the date of each Annual Meeting of Shareholders, each non-employee director who is serving as a director immediately before and after such meeting will receive a non-statutory option grant to purchase 5,000 shares. Director options vest on a cumulative basis in three equal annual installments beginning on the first day of the month which includes the first anniversary of the grant. The Board may issue other stock-based awards in lieu of some or all of the options otherwise issuable.

The 2007 Plan generally requires that all stock options have a minimum one-year vesting period. In general, restricted stock awards that vest solely on the passage of time may not vest sooner than ratably over three years and such awards that do not vest solely on the passage of time may not vest prior to the first anniversary of the grant.

These minimum vesting requirements can be waived in extraordinary circumstances, including death, disability or retirement, estate planning needs, or the occurrence of a business combination, recapitalization or change of control. In addition, restricted stock and RSU awards and other stock-based awards for up to an aggregate of 100,000 shares of Common Stock may be granted without satisfying the minimum vesting requirements. The 100,000 number already reflects application of the two-to-one fungible share ratio described above.

Under its 1997 Plan, BJ s granted certain key employees and directors options to purchase common stock at prices equal to 100% of market price on the grant date. These options, which generally expire ten years from the grant date, are generally exercisable 25% per year starting one year after the grant date. Options granted to non-employee directors expire ten years from the grant date, but are exercisable in three equal annual installments beginning on the first day of the month which includes the first anniversary of the date of grant.

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As of January 31, 2009 and February 2, 2008, respectively, 2,051,530 and 3,002,000 shares were reserved for all future stock awards under BJ s stock incentive plans.

Total share-based compensation recognized in the financial statements was $19.4 million ($11.5 million post-tax) in the fiscal year ended January 31, 2009, $19.0 ($11.3 million post-tax) million in the fiscal year ended February 2, 2008 and $18.5 million ($10.9 million post-tax) in the fiscal year ended February 3, 2007.

As of January 31, 2009, there was $28.9 million of total share-based compensation cost related to nonvested awards not yet recognized. That cost is expected to be recognized over a weighted-average period of 1.8 years.

The fair value of BJ s stock options was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions (no dividends were expected):

	Fiscal Year Ended		
	January 31, 2009	February 2, 2008	February 3, 2007
Risk-free interest rate	2.08%	4.55%	4.75%
Expected volatility factor	38.8%	36.5%	37.0%
Expected option life (yrs.)	5.5	5.5	5.5
Weighted-average grant-date fair value	$ 13.35	$ 13.48	$ 12.64

Expected volatility for the years ended January 31, 2009, February 2, 2008, and February 3, 2007 was based on a combination of implied volatility from traded options on our stock and historical volatility of our stock. 75% of our overall volatility assumption was based on a review of BJ s daily stock price volatility over the last five years. 25% was based on the implied volatility of near at-the-money exchange-traded options. We use historical data to estimate option exercise and employee termination behavior within the valuation model. The expected option life represents an estimate of the period of time options are expected to remain outstanding based upon historical option exercise trends. The risk-free rate is for periods within the expected life of the option and is based on the U.S. Treasury yield curve in effect at the time of the grant.

Presented below is a summary of the status of stock option activity and weighted-average exercise prices for the last three fiscal years (number of options in thousands):

	Fiscal Year Ended					
	January 31, 2009		February 2, 2008		February 3, 2007	
	Options	Exercise Price	Options	Exercise Price	Options	Exercise Price
Outstanding, beginning of year	3,466	$ 27.55	5,394	$ 26.71	6,728	$ 25.52
Granted	20	34.41	426	32.24	823	29.70
Exercised	(1,133)	23.39	(1,933)	25.55	(1,304)	21.51
Forfeited	(53)	32.33	(421)	30.60	(853)	28.16
Outstanding, end of year	2,300	29.55	3,466	27.55	5,394	26.71
Exercisable, end of year	1,709	28.98	2,346	26.19	3,434	26.45

Presented below is a summary of stock option exercises (dollars in millions):

	Fiscal Year Ended		
	January 31, 2009	February 2, 2008	February 3, 2007
Intrinsic value of stock options exercised	$ 16.8	$ 19.4	$ 12.6

Related income tax benefit	6.8	7.9	5.1
Cash received from option exercises	26.5	49.4	28.1

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Presented below is information regarding stock options outstanding that are expected to vest and stock options outstanding that are exercisable at January 31, 2009. Options outstanding expected to vest represent 0.6 million nonvested options, less anticipated forfeitures (amounts of options and aggregate intrinsic value are in thousands):

	Options	Aggregate Intrinsic Value	Weighted-Average Remaining Contract Life	Weighted-Average Exercise Price
Nonvested options outstanding expected to vest	585	$ 1	7.4 years	$ 31.20
Options exercisable (vested)	1,709	3,685	4.0 years	28.98
Total	2,294	$ 3,686	4.9 years	29.55

Presented below is a summary of our nonvested restricted shares and weighted-average grant-date fair values for the periods ended January 31, 2009, February 2, 2008, and February 3, 2007 (restricted shares in thousands):

	Fiscal Year Ended January 31, 2009		February 2, 2008		February 3, 2007	
	Shares	Fair Value	Shares	Fair Value	Shares	Fair Value
Nonvested at beginning of period	1,089	$ 33.81	384	$ 28.10	149	$ 23.37
Granted	568	38.85	879	34.82	312	30.36
Vested	(135)	32.30	(118)	23.08	(15)	26.80
Forfeited	(120)	36.49	(56)	33.19	(62)	28.39
Nonvested at end of period	1,402	$ 35.77	1,089	$ 33.81	384	$ 28.10

The total fair value of restricted shares vested was $4.4 million in the year ended January 31, 2009, $2.7 million in the year ended February 2, 2008, and $0.4 million in the year ended February 3, 2007.

Restricted stock awards are issued at no cost to the recipients and have service restrictions that generally lapse over three to four years from the date of grant. Grant-date fair value of the award is charged to income ratably over the period during which the restrictions lapse. Approximately 79,000 of the restricted shares issued in 2008 and 143,000 of the restricted shares issued in 2007 also have performance condition vesting features. When achievement of the performance condition is deemed probable we recognize compensation cost on a straight-line basis over the awards expected vesting periods.

The Company had one modification of stock awards in 2007 which related to the accelerated vesting of the unvested awards for a former director, who died while serving as a director. The total incremental pretax expense as a result of the modification was not material to the Company s operations in 2007.

The Company had one modification of stock awards in 2006. Under the terms of a Severance Agreement and General Release dated November 22, 2006 (the Severance Agreement) entered into by Michael T. Wedge and the Company, Mr. Wedge resigned from his employment with the Company, including his positions as the Company s President and Chief Executive Officer, and as a member of the Company s Board of Directors, effective November 22, 2006.

The Severance Agreement provided for accelerated vesting of any unvested outstanding option grants, except to the extent that the terms of such options already expressly provided for continued vesting of any portion of the grant following Mr. Wedge s termination of employment. Because Mr. Wedge was deemed to have retired from the Company under the terms of his outstanding stock options, all of his options remained outstanding for one year. In connection with the Severance Agreement, the Company incurred incremental pretax expense of $1,126,000 and accelerated expense of $591,000 in the fourth quarter of 2006.

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I. Earnings Per Share

The following details the calculation of earnings per share from continuing operations for the last three fiscal years:

	Fiscal Year Ended		
	January 31, 2009	February 2, 2008	February 3, 2007
	(Dollars in Thousands except Per Share Amounts)		
Income from continuing operations	$ 135,820	$ 121,381	$ 92,790
Less: Preferred stock dividends	25	25	25
Income available to common stockholders	$ 135,795	$ 121,356	$ 92,765
Weighted-average number of common shares outstanding, used for basic computation	58,058,061	63,669,088	65,530,278
Plus: Incremental shares from conversion of stock options and vesting of restricted stock	890,894	888,305	857,477
Weighted-average number of common and dilutive potential common shares outstanding	58,948,955	64,557,393	66,387,755
Basic earnings per share from continuing operations	$ 2.34	$ 1.91	$ 1.42
Diluted earnings per share from continuing operations	$ 2.30	$ 1.88	$ 1.40

Options to purchase 335,300 shares at a weighted-average exercise price of $38.36, 346,925 shares at a weighted-average exercise price of $38.46, and 2,058,970 shares at a weighted-average exercise price of $31.93 were outstanding at January 31, 2009, February 2, 2008, and February 3, 2007, respectively, but were not included in the computation of diluted earnings per share because the options exercise price was greater than the average market price of the common shares for the years then ended.

J. Income Taxes

The provision for income taxes includes the following:

	Fiscal Year Ended		
	January 31, 2009	February 2, 2008	February 3, 2007
	(Dollars in Thousands)		
Federal:			
Current	$ 62,589	$ 67,835	$ 58,353
Deferred	10,047	(2,404)	(21,570)
State:			
Current	13,926	8,391	12,427
Deferred	(1,540)	4,810	(6,460)
Total income tax provision	$ 85,022	$ 78,632	$ 42,750
Components of income tax provision:			
Continuing operations	$ 85,871	$ 77,613	$ 57,081
Discontinued operations	(849)	1,019	(14,331)
	$ 85,022	$ 78,632	$ 42,750

During the year ended January 31, 2009, we recorded a reduction in our income tax provision totaling $3.3 million, as a result of favorable state income tax audit settlements. Of this total, $2.1 million reflected a reduction in income tax reserves, and $1.2 million reflected a reduction in interest reserves. During the year ended February 2, 2008, we recorded a reduction in our income tax provision totaling $3.6 million, also as a result of favorable state income tax audit settlements.

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The following is a reconciliation of the statutory federal income tax rates and the effective income tax rates:

	Fiscal Year Ended		
	January 31, 2009	February 2, 2008	February 3, 2007
Statutory federal income tax rates	35%	35%	35%
State income taxes, net of federal tax benefit	4	4	4
Other			(1)
Effective income tax rates	39%	39%	38%

Significant components of the Company s deferred tax assets and liabilities as of January 31, 2009 and February 2, 2008 were as follows:

	January 31, 2009	February 2, 2008
	(Dollars in Thousands)	
Deferred tax assets:		
Closed store lease obligations	$ 4,431	$ 4,649
Self-insurance reserves	19,427	17,407
Rental step liabilities	10,469	8,908
Compensation and benefits	28,418	21,431
Other	28,334	32,766
Total deferred tax assets	91,079	85,161
Deferred tax liabilities:		
Accelerated depreciation property	55,796	45,047
Property taxes	5,621	5,029
Other	7,693	4,424
Total deferred tax liabilities	69,110	54,500
Net deferred tax assets	$ 21,969	$ 30,661

We have not established a valuation allowance because our deferred tax assets can be utilized by offsetting deferred tax liabilities and future taxable income, which management believes will more likely than not be earned, based on our historical earnings record and projected future earnings.

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 last 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.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	January 31, 2009	February 2, 2008
	(Dollars in Thousands)	
Beginning balance	$ 20,654	$ 37,409
Additions for tax positions taken during prior years	1,067	833
Reductions for tax positions taken during prior years		(2,189)

Additions for tax positions taken during the current year	576	635
Settlements	(15,280)	(15,080)
Lapse in statutes of limitations	(746)	(954)
Ending balance	$ 6,271	$ 20,654

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The total amount of unrecognized tax benefits, reflective of federal tax benefits, that, if recognized would decrease the effective tax rate at January 31, 2009 was $4.3 million and at February 2, 2008 was $13.6 million.

As of January 31, 2009, management has determined it is reasonably possible that the total amount of unrecognized tax benefits could decrease within the next twelve months by as much as $2.3 million ($1.5 million, net of federal tax benefit), due to the expected resolution of state tax audits. We have 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 various 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. For the years ended January 31, 2009 and February 2, 2008, we recognized $2.0 million ($1.1 million, net of federal and state tax benefit) and $1.3 million ($0.8 million, net of federal and state tax benefit), respectively, in interest expense. As of February 2, 2008, we had $9.5 million of accrued interest ($5.7 million, net of federal and state tax benefit) related to income tax uncertainties. Accrued interest decreased by $6.6 million ($4.0 million, net of federal and state benefit) for the year ended January 31, 2009 to $2.9 million ($1.7 million, net of federal and state benefit). This decrease was primarily attributable to state income tax audit settlements, partially offset by the accrual of interest on outstanding income tax reserve balances during the period.

K. Retirement Plans

Under BJ s 401(k) Savings plans, participating employees may make pretax contributions up to 50% of covered compensation subject to Federal limits. BJ s matches employee contributions at 100% of the first one percent of covered compensation and 50% of the next four percent. The Company s expense under these plans was $6,941,000, $5,813,000, and $5,589,000 in 2008, 2007, and 2006, respectively.

We have a non-contributory defined contribution retirement plan for certain key employees. Under this plan, BJ s funds annual retirement contributions for the designated participants on an after-tax basis. For the last three years, the Company s contributions equaled 5% of the participants base salary. Participants become fully vested in their contribution accounts at the end of the fiscal year in which they complete four years of service. Our pretax expense under this plan was $1,633,000, $1,416,000, and $1,060,000, in 2008, 2007 and 2006, respectively.

L. Postretirement Medical Benefits

We have a defined benefit postretirement medical plan which covers employees who retire after age 55 with at least 10 years of service, who are not eligible for Medicare, and who participated in a Company-sponsored medical plan. Spouses and eligible dependents are also covered under the plan. Amounts contributed by retired employees under this plan are based on years of service prior to retirement. The plan is not funded. The discount rates presented in the tables below were selected by referencing yields on high quality corporate bonds, using the Citigroup Pension Yield Curve.

We adopted Statement of Financial Accounting Standards No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R) (SFAS 158), as of February 3, 2007. SFAS 158 requires us to recognize the funded status of the postretirement medical plan on our balance sheet. Funded status represents the difference between the projected benefit liability obligation of the plan and the market value of the plan s assets. Previously unrecognized deferred amounts such as actuarial gains and losses and the impact of historical plan changes are included in accumulated other comprehensive income (loss) under SFAS 158. Changes in these amounts in future years are adjusted as they occur through accumulated other comprehensive income (loss).

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Obligation and Funded Status

The change in benefit obligation and funded status of the plan at January 31, 2009 and February 2, 2008, were as follows:

	Fiscal Year Ended	
	January 31, 2009	February 2, 2008
	(Dollars in Thousands)	
Change in Projected Benefit Obligation		
Projected benefit obligation at beginning of year	$ 6,916	$ 6,281
Company service cost	702	610
Interest cost	405	328
Plan participants contributions	73	55
Net actuarial gain	(431)	(289)
Benefit payments directly by the Company	(103)	(69)
Other adjustments	(72)	
Projected benefit obligation at end of year	7,490	6,916
Change in Plan Assets		
Fair value of plan assets at beginning of year		
Company contributions	30	14
Plan participants contributions	73	55
Benefit payments directly by the Company	(103)	(69)
Fair value of plan assets at end of year		
Funded status at end of year	$ (7,490)	$ (6,916)

The funded status of the plan as of January 31, 2009 and February 2, 2008 has been recognized as a net liability in other long term liabilities on the balance sheet.

Components of Net Periodic Benefit Cost and Amounts Recognized in Other Comprehensive Income

Net periodic postretirement benefit cost for the last three fiscal years consisted of the following:

	Fiscal Year Ended		
	January 31, 2009	February 2, 2008	February 3, 2007
	(Dollars in Thousands)		
Company service cost	$ 702	$ 610	$ 610
Interest cost	405	328	292
	1,107	938	902
Amortization of unrecognized loss	23	19	68
Net periodic postretirement benefit cost	$ 1,130	$ 957	$ 970
Discount rate used to determine cost	5.92%	5.72%	5.50%
Health care cost trend rates	9.0%	10.0%	10.0%

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Amounts recognized in accumulated other comprehensive income (AOCI), gross of tax, consisted of the following:

	Fiscal Year Ended	
	January 31, 2009	February 2, 2008
	(Dollars in Thousands)	
AOCI at the beginning of year	$ 913	$ 1,221
Amortization of net actuarial losses	(23)	(19)
Net actuarial gain for the year	(432)	(289)
AOCI at the end of the year	$ 458	$ 913

The adjustment of $1,221,000 recorded to AOCI in 2006 represented the net actuarial loss of the postretirement benefit plan at February 3, 2007. We do not expect to amortize any remaining net actuarial loss from AOCI into net postretirement health care cost in 2009. We expect to contribute approximately $32,000 to the plan for the fiscal year ending January 30, 2010.

Assumptions

The following weighted-average assumptions were used to determine our postretirement benefit obligations at year end:

	January 31, 2009	February 2, 2008
	(Dollars in Thousands)	
Discount rate	6.54%	5.92%
Health care cost trend rate assumed for next year	9.00%	9.00%
Ultimate trend rate	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	2017	2012

Assumed health care cost trend rates have a significant effect on the amounts reported for the post-retirement health care plans. A one-percentage point change in assumed health care cost trend rates would have the following effects as of January 31, 2009:

Effect of 1% Increase in Medical Trend Rates (in Thousands)	
Postretirement benefit obligation increases by	$ 620
Total of service and interest cost increases by	$ 117
Effect of 1% Decrease in Medical Trend Rates (in Thousands)	
Postretirement benefit obligation decreases by	$ 562
Total of service and interest cost decreases by	$ 96

Cash Flows

The estimated future benefit payments for our postretirement health care plan at January 31, 2009 were:

	(Dollars in Thousands)
Expected benefit payments for the year ending	
January 30, 2010	$ 32
January 29, 2011	35
January 28, 2012	38
February 2, 2013	41
February 2, 2014	44

January 2015 to January 2019 (combined) 258

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M. Interest

The following details the components of interest income, net for the last three fiscal years:

	Fiscal Year Ended		
	January 31, 2009	February 2, 2008	February 3, 2007
	(Dollars in Thousands)		
Interest income	$ 1,117	$ 4,377	$ 3,292
Capitalized interest	250	75	262
Interest expense on debt	(603)	(710)	(916)
Interest income, net	$ 764	$ 3,742	$ 2,638

N. VISA/MasterCard Settlement

In April 2003, a settlement was reached in the VISA/MasterCard antitrust class action litigation. The terms of the settlement require VISA and MasterCard to pay $3.05 billion into a settlement fund that will be distributed to class members. We are a member of the class and are entitled to a portion of the fund. In 2005, we received a settlement offer related to the distribution of the fund. Based upon information contained in the settlement offer, we recorded a $3.1 million pretax estimated recovery as a reduction to SG&A expenses in 2005. On a post-tax basis, this recovery was $1.9 million. In 2006, we received cash recoveries totaling $3.3 million. As a result we recorded a pretax gain of $0.2 million as a reduction of SG&A in 2006. There were no cash recoveries in 2007. In 2008, we received an additional cash recovery totaling $0.9 million and recorded it as a reduction of SG&A in 2008. We expect to receive further recoveries from this settlement, but are unable to quantify the potential amount of such recoveries, or when they may occur.

O. Accounts Payable

Our banking arrangements provide for the daily replenishment of vendor payable bank accounts as checks are presented. The balances of checks outstanding in these bank accounts, which represent book overdrafts, totaled $86,599,000 at January 31, 2009, $89,979,000 at February 2, 2008, and $82,406,000 at February 3, 2007. These balances are included in accounts payable on the balance sheets and the changes in these balances are reflected in operating activities in the statements of cash flows.

P. Asset Retirement Obligations

The following is a summary of activity relating to our liability for asset retirement obligations, which we will incur primarily in connection with the future removal of gasoline tanks from our gasoline stations:

	Fiscal Year Ended		
	January 31, 2009	February 2, 2008	February 3, 2007
	(Dollars in Thousands)		
Balance, beginning of year	$ 19,154	$ 17,493	$ 12,082
Accretion expense	1,404	1,187	1,178
Liabilities incurred during the year	2,452	474	4,233
Reversal of liability for closed club	(194)		
Balance, end of year	$ 22,816	$ 19,154	$ 17,493

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Q. Accrued Expenses and Other Current Liabilities

The major components of accrued expenses and other current liabilities are as follows:

	Fiscal Year Ended	
	January 31, 2009	February 2, 2008
	(Dollars in Thousands)	
Employee compensation	$ 58,832	$ 50,775
Deferred membership fee income	81,813	80,950
Sales and use taxes, self-insurance reserves, rent, utilities, advertising and other	168,626	145,280
	$ 309,271	$ 277,005

The following table summarizes membership fee activity for each of the last three fiscal years:

	Fiscal Year Ended		
	January 31, 2009	February 2, 2008	February 3, 2007
		(Dollars in Thousands)	
Deferred membership fee income, beginning of year	$ 80,950	$ 80,356	$ 68,398
Cash received from members	178,663	176,853	174,204
Revenue recognized in earnings	(177,800)	(176,259)	(162,246)
Deferred membership fee income, end of year	$ 81,813	$ 80,950	$ 80,356

R. Selected Quarterly Financial Data (Unaudited)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(Dollars in Thousands except Per Share Amounts)			
Fiscal year ended January 31, 2009 (a):				
Net sales	$ 2,253,128	$ 2,644,380	$ 2,402,644	$ 2,502,085
Total revenues	2,307,756	2,702,680	2,458,941	2,557,989
Gross earnings (b)	217,583	259,462	256,501	289,842
Net income	17,189	36,491	28,244	52,659
Per common share, diluted	0.29	0.61	0.48	0.91
Fiscal year ended February 2, 2008 (c):				
Net sales	$ 2,005,681	$ 2,242,334	$ 2,119,066	$ 2,424,537
Total revenues	2,060,713	2,299,435	2,174,433	2,479,884
Gross earnings (b)	196,663	234,793	218,445	273,983
Net income	13,654	36,267	22,697	50,243
Per common share, diluted	0.21	0.55	0.35	0.80

a) In the second quarter of the fiscal year ended January 31, 2009, net income included a gain of $2.0 million, or $.03 per diluted share, from favorable state income tax audit settlements. In the third quarter, net income included a charge of $0.5 million, or $.01 per diluted share, related to a club closing and post-tax income of $0.4 million, or $.01 per diluted share, from a favorable state income tax audit settlement. In the fourth quarter, net income included a gain of $1.3 million, or $.02 per diluted share, from favorable state income tax audit settlements.

b) Gross earnings equals total revenues less cost of sales, including buying and occupancy costs.

c) In the first quarter of the fiscal year ended February 2, 2008, net income included a gain of $0.6 million, or $.01 per diluted share, from the sale of pharmacy related assets. In the second quarter, net income included a gain of $3.6 million, or $.05 per diluted share, from favorable state income tax audit settlements and a gain of $2.4 million, or $.04 per diluted share, primarily from the settlement of a lease for a closed Pro Foods club. In the fourth quarter, we recorded a charge of $0.4 million, or $.01 per diluted share, to increase our reserve for a closed BJ s club.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of BJ s Wholesale Club, Inc.:

In our opinion, the consolidated financial statements listed in the index appearing under Item 8 present fairly, in all material respects, the financial position of BJ s Wholesale Club, Inc. and its subsidiaries at January 31, 2009 and February 2, 2008, and the results of their operations and their cash flows for each of the three years in the period ended January 31, 2009 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 31, 2009, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note J to the consolidated financial statements, the Company changed the manner in which it accounts for uncertain tax positions in the period ended February 2, 2008.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

Boston, Massachusetts

March 26, 2009

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MANAGEMENT S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) promulgated under the Securities Exchange Act of 1934).

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

BJ s management assessed the effectiveness of the Company s internal control over financial reporting as of January 31, 2009. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework.* Based on its assessment, management concluded that, as of January 31, 2009, the Company s internal control over financial reporting was effective based on those criteria.

The effectiveness of the Company s internal control over financial reporting as of January 31, 2009 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

March 26, 2009

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

Item 9A. 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 January 31, 2009. 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 a company that are designed to ensure that information required to be disclosed by a company 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 a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company s management, including its principal executive and principal financial officers, 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 January 31, 2009, 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.

Management s report on the Company s internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) and the independent registered public accounting firm s audit report are included in Item 8 of this Form 10-K and are incorporated herein by reference.

No change in the Company s internal control over financial reporting occurred during the quarter ended January 31, 2009 that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

Item 9B. Other Information

Not applicable.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance

The Company will file with the SEC a definitive Proxy Statement no later than 120 days after the close of its fiscal year ended January 31, 2009 (the Proxy Statement). The information required by this Item and not given in Item 4A, Executive Officers of the Registrant, is incorporated by reference from the Proxy Statement under Election of Directors , Section 16(a) Beneficial Ownership Reporting Compliance, Policies on Business Ethics and Conduct, Audit Committee and Director Candidates.

Website Availability of Corporate and Other Documents

The following documents are available on the Corporate Governance section of the Company s website, www.bjs.com; corporate governance principles; charters of the Audit, Corporate Governance and Executive Compensation Committees; and the Statement on Commercial Bribery, Conflict of Interest and Business Ethics. Stockholders can also request a copy of any of these documents by writing to the Corporate Secretary, BJ s Wholesale Club, Inc., One Mercer Road, Natick, MA 01760. The Company intends to post on its website all disclosures that are required by law or NYSE listing standards concerning any amendments to, or waivers from, any provision of the Statement on Commercial Bribery, Conflict of Interest and Business Ethics.

Item 11. Executive Compensation

The information required by this Item is incorporated by reference from the Proxy Statement under Executive Compensation . However, information under Executive Compensation Committee Report in the Proxy Statement is not so incorporated.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item is incorporated by reference from the Proxy Statement under Beneficial Ownership of Common Stock and Equity Compensation Plan Information.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item is incorporated by reference from the Proxy Statement under Policies and Procedures for Related Person Transactions, Certain Transactions and Board Determination of Independence.

Item 14. Principal Accounting Fees and Services

The information required by this Item is incorporated by reference from the Proxy Statement under Independent Registered Public Accounting Firm Fees and Other Matters.

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PART IV

Item 15. Exhibits and Financial Statement Schedules

A. The Financial Statements filed as part of this report are listed and indexed on page 26. Schedules have been omitted because they are not applicable or the required information has been included elsewhere in this report.

B. Listed below are all Exhibits filed as part of this report.

Exhibit

No.	Exhibit
3.1	Amended and Restated Certificate of Incorporation (1)
3.2	By-Laws, as amended (13)
4.1	Specimen Certificate of Common Stock, $.01 par value per share (3)
10.1	2008 Amendment and Restatement of Management Incentive Plan* (6)
10.2	2008 Amendment and Restatement of Growth Incentive Plan* (7)
10.3	BJ s Wholesale Club, Inc. Executive Retirement Plan* (5)
10.4	BJ s Wholesale Club, Inc. 1997 Stock Incentive Plan* (9)
10.4a	Form of Nonstatutory Stock Option Agreement granted under 1997 Stock Incentive Plan* (10)
10.4b	Form of Restricted Stock Agreement under 1997 Stock Incentive Plan* (10)
10.5	BJ s Wholesale Club, Inc. 2007 Stock Incentive Plan* (12)
10.5a	Form of Nonstatutory Stock Option Agreement under BJ s Wholesale Club, Inc. 2007 Stock Incentive Plan* (12)
10.5b	Form of Restricted Stock Agreement under BJ s Wholesale Club, Inc. 2007 Stock Incentive Plan* (12)
10.6	BJ s Wholesale Club, Inc. General Deferred Compensation Plan* (2)
10.7	Employment Agreement, dated as of April 4, 2007 with Herbert J Zarkin* (11)
10.7a	Change of Control Severance Agreement dated as of April 4, 2007 between Herbert J Zarkin and the Company* (11)
10.7b	Nonstatutory Stock Option Agreement granted under 1997 Stock Incentive Plan to Herbert J Zarkin on August 9, 2004* (10)
10.8	Employment Agreement, dated as of August 1, 2008 with Frank D. Forward* (17)
10.8a	Change of Control Severance Agreement dated as of April 4, 2007 between Frank D. Forward and the Company* (11)
10.9	Employment Agreement, dated as of April 3, 2007 with Thomas F. Gallagher* (15)
10.9a	Change of Control Severance Agreement dated as of April 3, 2007 between Thomas F. Gallagher and the Company* (15)
10.10	Amended and Restated Form of Change of Control Severance Agreement between the Company and certain officers of the Company* (4)
10.11	Form of Indemnification Agreement between the Company and officers of the Company* (2)
10.12	BJ s Wholesale Club, Inc. Change of Control Severance Benefit Plan for Key

Employees* (5)

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Exhibit

No.	Exhibit
10.12a	Amendment dated as of February 4, 2004 to BJ s Wholesale Club, Inc. Change of Control Severance Benefit Plan for Key Employees* (8)
10.13	Credit Agreement, dated April 28, 2005, among the Company and certain banks (14)
10.14	Indemnification Agreement dated as of April 18, 1997, between the Company and The TJX Companies, Inc. (3)
10.15	Summary of Company s Non-Employee Director Compensation*
10.16	Employment Agreement, dated as of February 1, 2009 with Laura J. Sen*
10.16a	Change of Control Severance Agreement dated as of February 1, 2009 with Laura J. Sen*
10.17	Employment Agreement, dated as of June 3, 2007 with Lon F. Povich* (16)
10.17a	Change of Control Severance Agreement dated as of June 1, 2007 with Lon F. Povich* (16)
21.1	Subsidiaries of the Company
23.1	Consent of Independent Registered Public Accounting Firm
31.1	Principal 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	Principal 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	Principal 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	Principal 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

* Management contract or other compensatory plan or arrangement.

(1) Incorporated herein by reference to the Company s Registration Statement on Form S-8 (Commission File No. 333-31015)
(2) Incorporated herein by reference to the Company s Quarterly Report on Form 10-Q for the fiscal quarter ended July 26, 1997 (Commission File No. 001-13143)
(3) Incorporated herein by reference to the Company s Registration Statement on Form S-1 (Commission File No. 333-25511)
(4) Incorporated herein by reference to the Company s Quarterly Report on Form 10-Q for the fiscal quarter ended October 30, 1999 (Commission File No. 001-13143)
(5) Incorporated herein by reference to the Company s Annual Report on Form 10-K for the fiscal year ended January 29, 2000 (Commission File No. 001-13143)
(6) Incorporated herein by reference to Appendix A of the Company s Definitive Proxy Statement as filed on April 11, 2008 (Commission File No. 001-13143)
(7) Incorporated herein by reference to Appendix B of the Company s Definitive Proxy Statement as filed on April 11, 2008 (Commission File No. 001-13143)

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(8) Incorporated herein by reference to the Company s Annual Report on Form 10-K for the fiscal year ended January 31, 2004 (Commission File No. 001-13143)
(9) Incorporated herein by reference to the Company s Quarterly Report on Form 10-Q for the fiscal quarter ended May 1, 2004 (Commission File No. 001-13143)
(10) Incorporated herein by reference to the Company s Quarterly Report on Form 10-Q for the fiscal quarter ended July 31, 2004 (Commission File No. 001-13143)
(11) Incorporated herein by reference to the Company s Current Report on Form 8-K/A filed on April 20, 2007 (Commission File No. 001-13143)
(12) Incorporated herein by reference to the Company s Current Report on Form 8-K filed on May 31, 2007 (Commission File No. 001-13143)
(13) Incorporated herein by reference to the Company s Current Report on Form 8-K filed on December 18, 2007 (Commission File No. 001-13143)
(14) Incorporated herein by reference to the Company s Current Report on Form 8-K dated as of November 28, 2006 (Commission File No. 001-13143)
(15) Incorporated herein by reference to the Company s Quarterly Report on Form 10-Q for the fiscal quarter ended May 5, 2007 (Commission File No. 001-13143)
(16) Incorporated herein by reference to the Company s Annual Report on Form 10-K for the fiscal year ended February 2, 2008 (Commission File No. 001-13143)
(17) Incorporated herein by reference to the Company s Quarterly Report on Form 10-Q for the fiscal quarter ended August 2, 2008 (Commission File No. 001-13143)

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

BJ S WHOLESALE CLUB, INC.

Dated: March 26, 2009

/s/ LAURA J. SEN
Laura J. Sen
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

/s/ LAURA J. SEN

Laura J. Sen

President and Chief Executive Officer

(Principal Executive Officer)

/s/ FRANK D. FORWARD

Frank D. Forward, Executive Vice President

and Chief Financial Officer

(Principal Financial and Accounting Officer)

/s/ HERBERT J ZARKIN

Herbert J Zarkin

Chairman of the Board and Director

/s/ S. JAMES COPPERSMITH

S. James Coppersmith, Director

/s/ PAUL DANOS

Paul Danos, Director

/s/ EDMOND J. ENGLISH

Edmond J. English, Director

/s/ HELEN FRAME PETERS

Helen Frame Peters, Director

/s/ THOMAS J. SHIELDS

Thomas J. Shields, Director

/s/ MICHAEL J SHEEHAN

Michael J. Sheehan, Director

/s/ CHRISTINE COURNOYER

Christine Cournoyer, Director

Dated: March 26, 2009