BJS WHOLESALE CLUB INC
Form 10-Q
September 13, 2001

FORM 10-Q
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

Quarterly Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

For Quarter Ended August 4, 2001
Commission file number 001-13143

BJ'S WHOLESALE CLUB, INC.
(Exact name of Registrant as specified in its charter)

DELAWARE	04-3360747
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
One Mercer Road Natick, Massachusetts	01760
(Address of principal executive offices)	(Zip Code)

(508) 651-7400
(Registrant's telephone number, including area code)

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 [_].

The number of shares of the Registrant's common stock outstanding as of September 1, 2001: 72,772,792

PART I. FINANCIAL INFORMATION

BJ'S WHOLESALE CLUB, INC.
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Thirt
	August 2001
	(Dollars in Thousa

Net sales	$ 1,277
Membership fees and other	28
Total revenues	1,305
Cost of sales, including buying and occupancy costs	1,160
Selling, general and administrative expenses	84
Preopening expenses	2
Operating income	58
Interest income, net	1
Income before income taxes	59
Provision for income taxes	22
Net income	$ 36
Net income per common share:	
Basic	$
Diluted	$
Number of common shares for earnings per share computations:	
Basic	72,982
Diluted	74,499

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

BJ'S WHOLESALE CLUB, INC.
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Twent
	August 2001
	(Dollars in Thous
Net sales	$ 2,41
Membership fees and other	5
Total revenues	2,46

Cost of sales, including buying and occupancy costs	2,20
Selling, general and administrative expenses	16
Preopening expenses	
Operating income	9
Interest income, net	
Income before income taxes	9
Provision for income taxes	3
Net income	$ 5
Net income per common share:	
Basic	$
Diluted	$
Number of common shares for earnings per share computations:	
Basic	72,80
Diluted	74,39

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

BJ'S WHOLESALE CLUB, INC.
CONSOLIDATED BALANCE SHEETS

	August 4, 2001 (Unaudited)	February 3, 2001
	(Dollars in Thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 136,022	$ 120,392
Accounts receivable	49,445	55,250
Merchandise inventories	517,123	495,285
Current deferred income taxes	7,952	7,677
Prepaid expenses	14,261	15,967
Total current assets	724,803	694,571
Property at cost:		
Land and buildings	406,218	364,418
Leasehold costs and improvements	70,906	67,565
Furniture, fixtures and equipment	351,254	331,129

	828,378	763,112
Less accumulated depreciation and amortization	262,670	239,198
	565,708	523,914
Property under capital leases	3,319	3,319
Less accumulated amortization	2,364	2,281
	955	1,038
Other assets	19,668	14,211
Total assets	$ 1,311,134	$ 1,233,734
LIABILITIES		
Current liabilities:		
Accounts payable	$ 358,973	$ 335,060
Accrued expenses and other current liabilities	137,743	147,536
Accrued federal and state income taxes	22,508	31,807
Obligations under capital leases due within one year	258	240
Total current liabilities	519,482	514,643
Obligations under capital leases, less portion due within one year	1,701	1,828
Other noncurrent liabilities	45,805	44,453
Deferred income taxes	7,704	7,895
STOCKHOLDERS' EQUITY		
Common stock, par value $.01, authorized 180,000,000 shares, issued 74,410,190 shares	744	744
Additional paid-in capital	70,180	75,583
Retained earnings	707,988	648,528
Treasury stock, at cost, 1,264,673, 1,947,341 and 1,974,923 shares	(42,470)	(59,940)
Total stockholders' equity	736,442	664,915
Total liabilities and stockholders' equity	$ 1,311,134	$ 1,233,734

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

BJ'S WHOLESALE CLUB, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Twenty-Six Weeks Ended	
	August 4, 2001	July 200

	(Dollars in Thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 59,460	$ 4
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property	29,740	2
Loss on property disposals	122	
Other noncash items (net)	63	
Deferred income taxes	(466)	
Tax benefit from exercise of stock options	15,121	
Increase (decrease) in cash due to changes in:		
Accounts receivable	5,805	
Merchandise inventories	(21,838)	(2
Prepaid expenses	1,706	
Other assets	(5,503)	
Accounts payable	23,913	2
Accrued expenses	(1,662)	(1
Accrued income taxes	(9,299)	(
Other noncurrent liabilities	1,352	
Net cash provided by operating activities	98,514	7
CASH FLOWS FROM INVESTING ACTIVITIES		
Property additions	(79,706)	(4
Proceeds from property disposals	2	
Net cash used in investing activities	(79,704)	(4
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of capital lease obligations	(109)	
Proceeds from sale and issuance of common stock	12,598	
Purchase of treasury stock	(15,669)	(4
Net cash used in financing activities	(3,180)	(4
Net increase (decrease) in cash and cash equivalents	15,630	(1
Cash and cash equivalents at beginning of year	120,392	11
Cash and cash equivalents at end of period	$ 136,022	$ 10
Supplemental cash flow information:		
Interest paid, net	$ (48)	$
Income taxes paid	46,988	3
Noncash financing and investing activities:		
Treasury stock issued for compensation plans	33,139	1

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

BJ'S WHOLESALE CLUB, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Unaudited)

	Common Stock Par Value $.01	Additional Paid-in Capital	Retained Earnings	Treasury Stock	S
	(Dollars in Thousands except Per Share Amo				
Balance, January 29, 2000	$ 744	$ 85,958	$ 517,052	$ (26,356)	
Net income	-	-	49,314	-	
Sale and issuance of common stock	-	(5,216)	-	15,753	
Purchase of treasury stock	-	-	-	(49,772)	
Balance, July 29,2000	$ 744	$ 80,742	$ 566,366	$ (60,375)	
Balance, February 3, 2001	$ 744	$ 75,583	$ 648,528	$ (59,940)	
Net income	-	-	59,460	-	
Sale and issuance of common stock	-	(5,403)	-	33,139	
Purchase of treasury stock	-	-	-	(15,669)	
Balance, August 4, 2001	$ 744	$ 70,180	$ 707,988	$ (42,470)	

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. The results for the quarter and six months ended August 4, 2001 are not necessarily indicative of the results for the full fiscal year or any future period because, among other things, the Company's business, in common with the business of retailers generally, is subject to seasonal influences. The Company's sales and operating income have historically been strongest in the fourth quarter holiday season and lowest in the first quarter of each fiscal year.

2. The interim financial statements are unaudited and reflect all normal recurring adjustments considered necessary by the Company for a fair presentation of its financial statements in accordance with generally accepted accounting principles.

3. These interim financial statements should be read in conjunction with the consolidated financial statements and related notes in the Company's Annual Report on Form 10-K for the fiscal year ended February 3, 2001.

4. The components of interest income, net were as follows (amounts in thousands):

	Thirteen Weeks Ended	Twenty-S

	August 4, 2001	July 29, 2000	August 4, 2001
Interest income	$ 1,132	$ 1,403	$ 2,556
Capitalized interest	128	113	256
Interest expense on debt	(76)	(75)	(151)
Interest expense on capital leases	(52)	(57)	(105)
Interest income, net	$ 1,132	$ 1,384	$ 2,556

5. The following details the calculation of earnings per share for the periods presented below (amounts in thousands except per share amounts):

	Thirteen Weeks Ended		Twenty-S
	August 4, 2001	July 29, 2000	August 4, 2001
Net income	$ 36,497	$ 31,220	$ 59,460
Weighted-average number of common shares outstanding, used for basic computation	72,982	72,905	72,803
Plus: Incremental shares from assumed exercise of stock options	1,518	1,475	1,596
Weighted-average number of common and dilutive potential common shares outstanding	74,500	74,380	74,399
Basic earnings per share	$ 0.50	$ 0.43	$ 0.82
Diluted earnings per share	$ 0.49	$ 0.42	$ 0.80

6. The Financial Accounting Standards Board issued three new standards as of June 2001:

- Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations," addresses financial accounting and reporting for all business combinations initiated after June 30, 2001 and for combinations accounted for using the purchase method for which the date of acquisition is after June 30, 2001.

- SFAS No. 142, "Goodwill and Other Intangible Assets," addresses financial accounting and reporting for acquired goodwill and other intangible assets and how they should be accounted for after initial recognition in the financial statements. This statement becomes effective in 2002, except that goodwill and intangible assets acquired

after June 30, 2001 will be subject immediately to the nonamortization and amortization provisions of the statement.

. SFAS No. 143, "Accounting for Asset Retirement Obligations," addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This statement becomes effective in 2003.

The adoption of SFAS No. 141 and SFAS No. 142 is not expected to have a material impact on the Company's results of operations, financial position or cash flows, or to produce any major changes in current disclosures. The Company is in the process of evaluating the requirements of SFAS No. 143, which was just recently issued.

7. The Company operated 118 clubs on August 4, 2001 versus 111 clubs on July 29, 2000.

8. Certain amounts in the prior year's financial statements have been reclassified for comparative purposes.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Thirteen Weeks (Second Quarter) and Twenty-Six Weeks Ended August 4, 2001 versus Thirteen and Twenty-Six Weeks Ended July 29, 2000.

Results of Operations

Net sales for the second quarter ended August 4, 2001 rose 8.5% to $1.3 billion from $1.2 billion reported in last year's second quarter. Net sales for the first half of the current year totaled $2.4 billion, 9.7% higher than last year's comparable period. These increases were due to the opening of new stores and gasoline stations and comparable store sales increases of 3.9% for the second quarter and 4.2% year-to-date. Total revenues in the second quarter included membership fees of $25.9 million versus $22.3 million in last year's second quarter. Year-to-date membership fees were $51.1 million versus $44.2 million last year. This year's results benefited from an increase in the membership fee for Business and Inner Circle members from $35 to $40, effective January 1, 2001.

Cost of sales (including buying and occupancy costs) was 90.89% of net sales in this year's second quarter versus 90.97% in the comparable period last year. For the first six months, the cost of sales percentage was 91.32% versus 91.38% last year. These decreases in percentage were due primarily to a favorable merchandise mix, which reflected strong sales in a number of departments that have above-average margins and soft sales in certain lower-margin categories. This year's second quarter also produced improved gasoline margins over last year as the Company realized a temporary benefit that resulted from declining gasoline prices. These favorable factors were partially offset by the increased sales contribution of gasoline, higher expenses for utilities and other occupancy costs and, beginning in the second quarter, initial excess capacity costs at the Company's new cross-dock facility in Burlington, New Jersey.

Selling, general and administrative ("SG&A") expenses were 6.61% of net sales in the second quarter versus 6.79% in last year's comparable period. Year-to-date SG&A expenses were 7.01% of net sales this year versus 7.18% last year. These percentage decreases were attributable mainly to effective control of payroll expenses, reduced advertising costs for new clubs (four new clubs were opened in

last year's first half versus none this year), and an increase in gasoline sales, which have low related SG&A costs.

Preopening expenses were $2.2 million in the second quarter compared with $2.0 million in last year's second quarter. Year-to-date preopening expenses totaled $2.5 million this year versus $3.7 million last year, when the Company opened four new clubs. No new clubs were opened in the first half of this year, but preopening expenses were incurred for clubs that are scheduled to open in the second half of the year.

Second quarter operating income of $58.2 million was 17.9% higher than last year's $49.4 million in the comparable period. Year-to-date operating income was $94.1 million, 21.5% higher than last year's $77.5 million.

Interest income, net was $1.1 million in the second quarter versus $1.4 million in last year's second quarter. For the first six months, interest income, net was $2.6 million compared with last year's $2.7 million. These decreases were due primarily to lower interest rates, which reduced income earned on invested cash.

The Company's year-to-date tax provision was 38.5% of pre-tax income both this year and last year.

Second quarter net income was $36.5 million, or $.49 per diluted share, compared with $31.2 million, or $.42 per diluted share, in last year's second quarter. Net income in this year's first six months totaled $59.5 million, or $.80 per diluted share, versus $49.3 million, or $.66 per diluted share, in last year's first half.

Over the remainder of the year, the Company expects to continue to benefit from the membership fee increase noted above. Because members renew throughout the year and because membership fee income is recognized over the life of the membership, the benefit of the fee increase is being recognized over a two-year period. The income benefit in 2001 is projected to be offset by several factors. The Company will continue to absorb initial excess capacity costs for its new cross-dock facility in Burlington, New Jersey, which opened in April 2001, and which has approximately twice the capacity of the facility it replaced. Rate increases for utilities and employee medical benefits are expected to be higher than normal throughout 2001. Expenses are also planned in 2001 for preopening costs for clubs expected to open in early 2002 and for the relocation of one club (another previously planned relocation was canceled). Finally, the Company will not benefit from the impact of a 53-week fiscal year, as it did in 2000. Taken together, these expenses have the potential to offset the first year benefit from the membership fee increase.

The incurrence of preopening costs and advertising costs for new clubs is projected to be heavily weighted toward the second half of this year; six new clubs are forecasted to open in the third quarter of this year; six new club openings and the one relocation are anticipated in the fourth quarter. Because most of the fourth quarter openings are projected to occur in November, a significant portion of their preopening costs is expected to be incurred in the third quarter.

Seasonality

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

Recent Accounting Standards

The Financial Accounting Standards Board issued three new standards as of June 2001:

- Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations," addresses financial accounting and reporting for all business combinations initiated after June 30, 2001 and for combinations accounted for using the purchase method for which the date of acquisition is after June 30, 2001.

- SFAS No. 142, "Goodwill and Other Intangible Assets," addresses financial accounting and reporting for acquired goodwill and other intangible assets and how they should be accounted for after initial recognition in the financial statements. This statement becomes effective in 2002, except that goodwill and intangible assets acquired after June 30, 2001 will be subject immediately to the nonamortization and amortization provisions of the statement.

- SFAS No. 143, "Accounting for Asset Retirement Obligations," addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This statement becomes effective in 2003.

The adoption of SFAS No. 141 and SFAS No. 142 is not expected to have a material impact on the Company's results of operations, financial position or cash flows, or to produce any major changes in current disclosures. The Company is in the process of evaluating the requirements of SFAS No. 143, which was just recently issued.

Liquidity and Capital Resources

Net cash provided by operating activities was $98.5 million in the first half of 2001 versus $75.5 million in last year's comparable period. Cash provided by net income before depreciation and amortization was $89.2 million in the first half of 2001 versus $75.4 million in last year's comparable period. Cash provided by the tax benefit from the exercise of stock options was $9.4 million higher than last year through the first six months.

Cash expended for property additions was $79.7 million in the first half of 2001 versus $45.4 million in the first half of 2000. The Company opened four new clubs in last year's first half. No new clubs were opened in this year's first half; however, all twelve of this year's scheduled new clubs, which include five owned locations, and one relocation are currently under construction, and the relocation of the Company's cross-dock facility to Burlington, New Jersey, was completed in April 2001. Nine new gas stations were opened in the first six months of this year versus five in last year's comparable period.

The Company's capital expenditures are expected to total approximately $150 million in 2001, based on plans to open approximately twelve new clubs, relocate one club, and open approximately 25 gas stations. Total expected capital expenditures in 2001 include approximately $20 to $25 million for clubs projected to open in 2002. The timing of actual club openings and the amount of related expenditures could vary from these estimates due, among other things, to the complexity of the real estate development process.

During the first half of 2001, the Company repurchased 359,700 shares of common stock for $15.7 million, an average price of $43.56 per share. On May 24, 2001,

the Board of Directors authorized the repurchase of an additional $50 million of the Company's stock. From the inception of its repurchase activities in August 1998 through August 4, 2001, the Company has repurchased a total of $146.0 million of stock at an average price of $27.38 per share. Including the new authorization, the Company's remaining repurchase authorization was $54.0 million as of August 4, 2001.

The Company has a $200 million unsecured credit agreement with a group of banks which expires July 9, 2002. The agreement includes a $50 million sub-facility for letters of credit, of which $3.7 million was outstanding at August 4, 2001. The Company is required to pay an annual facility fee which is currently 0.10% of the total commitment. Interest on borrowings is payable at the Company's option either at (a) the Eurodollar rate plus a margin which is currently 0.25%, (b) the agent bank's prime rate or (c) a rate determined by competitive bidding. The facility fee and Eurodollar margin are both subject to change based upon the Company's fixed charge coverage ratio. The agreement contains covenants which, among other things, include minimum net worth and fixed charge coverage requirements and a maximum funded debt-to-capital limitation, prohibit the payment of cash dividends on the Company's common stock, and generally limit the cumulative repurchase of

the Company's common stock to $50 million plus 50% of net income (as defined by the agreement) earned after January 30, 1998.

The Company also maintains a separate $41 million facility for letters of credit, primarily to support the purchase of inventories, of which $24.1 million was outstanding at August 4, 2001, and an additional $20 million uncommitted credit line for short-term borrowings.

The increase in inventory from July 29, 2000 to August 4, 2001 was due mainly to new clubs. The increase in inventory since February 3, 2001 was due mainly to normal seasonal requirements.

Cash and cash equivalents totaled $136.0 million as of August 4, 2001 and there were no borrowings outstanding on that date. The Company expects that its current resources, together with anticipated cash flow from operations, will be sufficient to finance its operations through the next twelve months. However, the Company may from time to time seek to obtain additional financing.

Factors Which Could Affect Future Operating Results

This report contains a number of "forward-looking statements," including statements regarding membership fee income, utility costs, employee medical benefit costs, preopening and advertising expenses, planned capital expenditures, planned store and gas station openings and relocations and other information with respect to the Company's plans and strategies. Any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, the words "believes," "anticipates," "plans," "estimates," "expects" and similar expressions are intended to identify forward-looking statements. There are a number of important factors that could cause actual events or the Company's actual results to differ materially from those indicated by such forward-looking statements, including, without limitation, economic and weather conditions and state and local regulation in the Company's markets; competitive conditions; contingent liabilities under the Company's indemnification agreement with The TJX Companies, Inc.; and events which might cause the Company's 1997 spin-off from Waban Inc. not to qualify for tax-free treatment. Each of these factors is discussed in more detail in the Company's Annual Report on Form 10-K for the fiscal year ended February 3, 2001.

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

Quantitative and Qualitative Disclosures About Market Risk

The Company believes that its potential exposure to market risk as of August 4, 2001 is not material because of the short contractual maturities of its cash and cash equivalents. No bank debt was outstanding at August 4, 2001. The Company has not used derivative financial instruments.

PART II. OTHER INFORMATION

Item 6 - Exhibits and Reports on Form 8-K

(a) Exhibits

None

(b) Reports on Form 8-K

The Company did not file any reports on Form 8-K with the Securities and Exchange Commission during the quarter ended August 4, 2001.

SIGNATURES

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

BJ'S WHOLESALE CLUB, INC.

(Registrant)

Date: September 13, 2001

/S/ JOHN J. NUGENT

John J. Nugent
President and Chief Executive Officer
(Principal Executive Officer)

Date: September 13, 2001

/S/ FRANK D. FORWARD

Frank D. Forward
Executive Vice President and
Chief Financial Officer
(Principal Financial and
Accounting Officer)