BJS WHOLESALE CLUB INC
Form 10-Q
June 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 May 5, 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 June 2, 2001: 72,893,754

PART I. FINANCIAL INFORMATION

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

T
May 5, 2001

	(Dollars in Tho
Net sales	$ 1,134,
Membership fees and other	27,
Total revenues	1,162,
Cost of sales, including buying and occupancy costs	1,041,
Selling, general and administrative expenses	84,
Preopening expenses	
Operating income	35,
Interest income, net	1,
Income before income taxes	37,
Provision for income taxes	14,
Net income	$ 22,
Net income per common share:	
Basic	$ 0
Diluted	$ 0
Number of common shares for earnings per share computations:	
Basic	72,623,
Diluted	74,283,

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

BJ'S WHOLESALE CLUB, INC.
CONSOLIDATED BALANCE SHEETS

	May 5, 2001	February 2001
	(Unaudited)	
	(Dollars in T	
ASSETS		

Current assets:		
Cash and cash equivalents	$ 87,327	$ 120
Accounts receivable	47,443	55
Merchandise inventories	518,216	495
Current deferred income taxes	7,814	7
Prepaid expenses	15,542	15
Total current assets	676,342	694
Property at cost:		
Land and buildings	385,318	364
Leasehold costs and improvements	67,251	67
Furniture, fixtures and equipment	335,393	331
	787,962	763
Less accumulated depreciation and amortization	247,973	239
	539,989	523
Property under capital leases	3,319	3
Less accumulated amortization	2,323	2
	996	1
Other assets	19,765	14
Total assets	$ 1,237,092	$ 1,233
LIABILITIES		
Current liabilities:		
Accounts payable	$ 342,459	$ 335
Accrued expenses and other current liabilities	136,559	147
Accrued federal and state income taxes	16,802	31
Obligations under capital leases due within one year	245	
Total current liabilities	496,065	514
Obligations under capital leases, less portion due within one year	1,769	1
Other noncurrent liabilities	42,681	44
Deferred income taxes	7,799	7
STOCKHOLDERS' EQUITY		
Common stock, par value $.01, authorized 180,000,000 shares, issued 74,410,190 shares	744	
Additional paid-in capital	71,656	75
Retained earnings	671,491	648
Treasury stock, at cost, 1,641,142, 1,947,341 and 597,118 shares	(55,113)	(59
Total stockholders' equity	688,778	664
Total liabilities and stockholders' equity	$ 1,237,092	$ 1,233

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

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

	T
	May 5, 2001
	(D
CASH FLOWS FROM OPERATING ACTIVITIES	
Net income	$ 22
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization of property	14
Loss on property disposals	
Other noncash items (net)	
Deferred income taxes	
Tax benefit from exercise of stock options	9
Increase (decrease) in cash due to changes in:	
Accounts receivable	7
Merchandise inventories	(22
Prepaid expenses	
Other assets	(5
Accounts payable	7
Accrued expenses	
Accrued income taxes	(15
Other noncurrent liabilities	(1
Net cash provided by operating activities	16
CASH FLOWS FROM INVESTING ACTIVITIES	
Property additions	(41
Net cash used in investing activities	(41
CASH FLOWS FROM FINANCING ACTIVITIES	
Repayment of capital lease obligations	
Proceeds from sale and issuance of common stock	7
Purchase of treasury stock	(15
Net cash used in financing activities	(8
Net decrease in cash and cash equivalents	(33
Cash and cash equivalents at beginning of year	120
Cash and cash equivalents at end of period	$ 87
Supplemental cash flow information:	
Interest paid, net	$

Income taxes paid	29
Noncash financing and investing activities:	
Treasury stock issued for compensation plans	20

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
(Unaudited)

	Common Stock Par Value $.01	Additional Paid-in Capital	Retained Earnings
		(Dollars in Thousan	
Balance, January 29, 2000	$ 744	$ 85,958	$ 517,052
Net income	-	-	18,094
Sale and issuance of common stock	-	(4,658)	-
Purchase of treasury stock	-	-	-
Balance, April 29, 2000	$ 744	$ 81,300	$ 535,146
Balance, February 3, 2001	$ 744	$ 75,583	$ 648,528
Net income	-	-	22,963
Sale and issuance of common stock	-	(3,927)	-
Purchase of treasury stock	-	-	-
Balance, May 5, 2001	$ 744	$ 71,656	$ 671,491

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. The results for the quarter ended May 5, 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	
	May 5, 2001	April 29, 2000
Interest income	$ 1,424	$ 1,332
Capitalized interest	128	132
Interest expense on debt	(75)	(73)
Interest on capital leases	(53)	(59)
Interest income, net	$ 1,424	$ 1,332

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	
	May 5, 2001	April 29, 2000
Net income	$ 22,963	$ 18,094
Weighted-average number of common shares outstanding, used for basic computation	72,623	73,638
Plus: Incremental shares from assumed exercise of stock options	1,660	1,693
Weighted-average number of common and dilutive potential common shares outstanding	74,283	75,331
Basic earnings per share	$ 0.32	$ 0.25
Diluted earnings per share	$ 0.31	$ 0.24

6. The Company operated 118 clubs on May 5, 2001 versus 110 clubs on April 29, 2000.

7. 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 (First Quarter) Ended May 5, 2001 versus Thirteen Weeks Ended April 29, 2000.

Results of Operations

Net sales for the first quarter ended May 5, 2001 rose 11.1% to $1.134 billion from $1.021 billion reported in last year's first quarter. This increase was due to the opening of new stores, a comparable store sales increase of 4.4% and an expansion in the number of gas stations in operation from 20 at the end of last year's first quarter to 35 at May 5, 2001. Total revenues in the first quarter included membership fees of $25.2 million versus $21.9 million in last year's first quarter. 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 91.80% of net sales in this year's first quarter versus 91.86% in the comparable period last year. This decrease in percentage was due primarily to a favorable merchandise mix, which reflected strong sales in a number of departments that have above average margin. This factor more than offset the increased contribution of low margin gasoline sales and higher expenses for utilities, which were impacted by higher rates and colder than normal weather for much of this year's first quarter.

Selling, general and administrative ("SG&A") expenses were 7.47% of net sales in the first quarter versus 7.63% in last year's comparable period. This percentage decrease was attributable mainly to effective control of payroll expenses, reduced advertising costs for new clubs (three new clubs were opened in last year's first quarter versus none this year), and an increase in gasoline sales, which have low related SG&A costs. SG&A also continued to benefit from the increased use of debit cards by BJ's members, which resulted in lower credit costs as a percentage of sales in the first quarter. (The rollout of debit card acceptance was completed in last year's second quarter.) These favorable factors were partially offset by higher medical benefit costs for employees.

Preopening expenses were $.3 million in the first quarter this year compared with $1.7 million in last year's first quarter, when three new clubs opened. No new clubs were opened in this year's first quarter.

Operating income in the first quarter rose to $35.9 million, an increase of 27.9% over last year's first quarter operating income of $28.1 million.

Interest income, net was $1.4 million in this year's first quarter versus $1.3 million in the comparable period last year.

The Company's first quarter provision for income taxes was 38.5% of pre-tax income both this year and last year.

Net income in this year's first quarter was $23.0 million, or $.31 per diluted share, versus $18.1 million, or $.24 per diluted share, in last year's first quarter.

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 will be spread over a two-year period. The income benefit in 2001 is projected to be offset by several factors. The Company will 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 the relocation of two clubs and for preopening costs for clubs expected to open in early 2002. 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 the year; seven new clubs are forecasted to open in the third quarter of this year; five new club openings and the two relocations are expected to occur in the fourth 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

In June 1998, Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," was issued. The adoption of this statement, which became effective at the beginning of 2001, did not have a material impact on the Company's results of operations, financial position or cash flows.

Liquidity and Capital Resources

Net cash provided by operating activities was $16.8 million in the first quarter of 2001 versus $21.2 million in last year's comparable period. Cash provided by net income before depreciation and amortization was $37.7 million in the first quarter of 2001 versus $31.0 million in last year's comparable period.

Cash expended for property additions was $41.3 million in the first quarter of 2001 versus $21.7 million in the first quarter of 2000. The Company opened three new clubs in last year's first quarter. No new clubs were opened in this year's first quarter; however, all twelve of this year's scheduled new clubs are currently under construction and the relocation of the Company's cross-dock facility to Burlington, New Jersey, was completed during the first quarter. One new gas station was opened in the first quarter of both this year and last year.

The Company's capital expenditures are expected to total approximately $150 million in 2001, based on plans to open approximately fourteen new clubs, including the relocation of two clubs, and approximately 25 gas stations. The Company expects to own five or six of the new club

locations opening in 2001 and also plans to spend approximately $20 to $25 million in 2001 for clubs that will 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 quarter of 2001, the Company repurchased 359,700 shares of common stock for $15.7 million, or 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 May 24, 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 May 24, 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 May 5, 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 $11.8 million was outstanding at May 5, 2001, and an additional $20 million uncommitted credit line for short-term borrowings.

Cash and cash equivalents totaled $87.3 million as of May 5, 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 and 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 May 5, 2001 is not material because of the short contractual maturities of its cash and cash equivalents. No bank debt was outstanding at May 5, 2001. The Company has not used derivative financial instruments.

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PART II. OTHER INFORMATION

Item 4 - Submission of Matters to a Vote of Security Holders

At the 2001 Annual Meeting of Stockholders of the Company (the "Annual Meeting") held on May 24, 2001, the re-election of directors S. James Coppersmith, Thomas J. Shields and Herbert J. Zarkin was acted upon by the stockholders of the Company.

The number of shares of common stock outstanding and entitled to vote at the Annual Meeting was 72,791,034.

The results of the voting on the re-election of directors are set forth below:

	Votes For	Votes Withheld

S. James Coppersmith	65,326,464	250,321
Thomas J. Shields	65,335,892	240,893
Herbert J. Zarkin	65,335,630	241,155

The other directors of the Company, whose terms of office as directors continued after the Annual Meeting, are Ronald R. Dion, Kerry L. Hamilton, Bert N. Mitchell, John J. Nugent, Lorne R. Waxlax and Edward J. Weisberger.

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 May 5, 2001.

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SIGNATURES

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

BJ'S WHOLESALE CLUB, INC.
(Registrant)

Date: June 13, 2001

/S/ JOHN J. NUGENT
John J. Nugent
President and Chief Executive Officer
(Principal Executive Officer)

Date: June 13, 2001

/S/ FRANK D. FORWARD
Frank D. Forward
Executive Vice President and
Chief Financial Officer
(Principal Financial and
Accounting Officer)

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