

BJS WHOLESALE CLUB INC

Form 10-K

April 06, 2005

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**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-K**

**x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF**

**THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended January 29, 2005**

**OR**

**“ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE**

**SECURITIES EXCHANGE ACT OF 1934**

**Commission File Number 001-13143**

**BJ S WHOLESALE CLUB, INC.**

**(Exact name of registrant as specified in its charter)**

**Delaware**  
**(State or other jurisdiction**

**of incorporation or organization)**

**One Mercer Road**

**Natick, Massachusetts**

**04-3360747**  
**(I.R.S. Employer**

**Identification No.)**

**01760**

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(Address of principal executive offices)

(Zip Code)

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

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

| <u>Title of each class</u>      | <u>Name of each exchange<br/>on which registered</u> |
|---------------------------------|------------------------------------------------------|
| Common Stock, par value \$.01   | New York Stock Exchange                              |
| Preferred Share Purchase Rights | New York Stock Exchange                              |

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐.

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of the 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. ☒ ☐.

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒.

The aggregate market value of the voting stock held by non-affiliates of the Registrant on July 30, 2004 was approximately \$1,612,593,000 based on the closing price of \$23.31 on the New York Stock Exchange as of such date.

There were 69,086,417 shares of the Registrant's Common Stock, \$.01 par value, outstanding as of March 25, 2005.

## Documents Incorporated by Reference

Portions of the Proxy Statement for the Registrant's 2005 Annual Meeting of Stockholders (Part III).

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**Table of Contents****PART I****Item 1. Business***General*

BJ's Wholesale Club introduced the warehouse club concept to New England in 1984 and has since expanded to become a leading warehouse club operator in the eastern United States. As of January 29, 2005, BJ's operated 157 warehouse clubs, including two ProFoods Restaurant Supply clubs, in 16 states. The table below shows the number of Company locations by state.

| <b>State</b>   | <b>Number of<br/>Locations</b> |
|----------------|--------------------------------|
| New York       | 34                             |
| Florida        | 19                             |
| Massachusetts  | 17                             |
| New Jersey     | 17                             |
| Pennsylvania   | 12                             |
| Maryland       | 9                              |
| Connecticut    | 8                              |
| Georgia        | 8                              |
| North Carolina | 7                              |
| Virginia       | 7                              |
| New Hampshire  | 6                              |
| Ohio           | 6                              |
| Rhode Island   | 3                              |
| Maine          | 2                              |
| Delaware       | 1                              |
| South Carolina | 1                              |
| <b>TOTAL</b>   | <b>157</b>                     |

On July 28, 1997, BJ's Wholesale Club, Inc., a Delaware corporation, ( "BJ's" or the "Company" or "we" ) became an independent, publicly owned entity when Waban Inc. ( "Waban" ), BJ's parent company at the time, distributed to its stockholders on a pro rata basis all of the Company's outstanding common stock. Before that date, BJ's business had operated as a division of Waban.

The fiscal year ended January 29, 2005 is referred to as "2004" or "fiscal 2004" below. Other fiscal years are referred to in a similar manner.

*Industry Overview*

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Warehouse clubs offer a narrow assortment of brand name food and general merchandise items within a wide range of product categories. In order to achieve high sales volumes and rapid inventory turnover, merchandise selections are generally limited to items that are brand name leaders in their categories and a growing private brands assortment. Since warehouse clubs sell a diversified selection of product categories, they attract customers from a wide range of other wholesale and retail distribution channels, such as supermarkets, supercenters, department stores, drug stores, discount stores, office supply stores, consumer electronics stores and automotive stores. BJ s believes that it is difficult for these higher cost channels of distribution to match the low prices offered by warehouse clubs.

Warehouse clubs eliminate many of the merchandise handling costs associated with traditional multiple-step distribution channels by purchasing full truckloads of merchandise directly from manufacturers and by storing merchandise on the sales floor rather than in central warehouses. By operating no-frills, self-service warehouse

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facilities, warehouse clubs have fixturing and operating costs substantially below those of traditional retailers. Because of their higher sales volumes and rapid inventory turnover, warehouse clubs generate cash from the sale of a large portion of their inventory before they are required to pay merchandise vendors. As a result, a greater percentage of the inventory is financed through vendor payment terms than by working capital. Two broad groups of customers, individual households and small businesses, have been attracted to the savings made possible by the high sales volumes and operating efficiencies achieved by warehouse clubs. Customers at warehouse clubs are generally limited to members who pay an annual fee.

### *Business Model*

We have developed an operating model that we believe differentiates us from our warehouse club competition. First, we place added focus on the individual consumer, our Inner Circle® member, through merchandising strategies that emphasize a customer-friendly shopping experience. Second, by clustering our clubs, we achieve the benefit of name recognition and maximize the efficiencies of our management support, distribution and marketing activities. Finally, we seek to establish and maintain the first or second industry leading position in each major market where we operate. We create an exciting shopping experience for our members with a constantly changing mix of food and general merchandise items and carry a broader product assortment than our warehouse club competitors. By supplementing the warehouse format with aisle markers, express checkout lanes, self-checkout lanes and low-cost video-based sales aids, we make shopping more efficient for our members. For the convenience of our members, we maintain longer hours of operation than our warehouse club competitors. While all wholesale clubs sell merchandise in bulk, BJ's also offers smaller package sizes that are easier to carry home and store. This Life Size packaging is available in a number of our fresh food categories, including dairy, meat, bakery, fish and produce. We are also the only major warehouse club operator to accept manufacturers' coupons, which provide added value for our members, and we accept more credit card payment options than our warehouse club competitors.

### *Expansion*

Since the beginning of 1999, BJ's has grown from 96 clubs to 157 clubs in operation at January 29, 2005. Approximately 41% of our clubs have been in operation for fewer than six years, and most of these are considered to be in the early stages of maturation. We plan to open 8 to 9 new clubs in 2005, all of which are expected to be in existing markets.

| Year | Clubs                                   |                              |                              | Clubs                             |
|------|-----------------------------------------|------------------------------|------------------------------|-----------------------------------|
|      | in Operation<br>at Beginning<br>of Year | Opened<br>During<br>the Year | Closed<br>During<br>the Year | in Operation<br>at End<br>of Year |
| 1999 | 96                                      | 11                           |                              | 107                               |
| 2000 | 107                                     | 11                           |                              | 118                               |
| 2001 | 118                                     | 12                           |                              | 130                               |
| 2002 | 130                                     | 13                           | 3                            | 140                               |
| 2003 | 140                                     | 10                           |                              | 150                               |
| 2004 | 150                                     | 7                            |                              | 157                               |

In addition to the club openings shown above, we relocated one club in each of 2000 and 2001.

*Store Profile*

As of January 29, 2005, we operated 137 traditional size big box warehouse clubs that averaged approximately 112,000 square feet, 18 smaller format warehouse clubs that averaged approximately 71,000 square feet and two ProFoods clubs that averaged approximately 62,000 square feet. The smaller format clubs are designed to serve markets whose population is not sufficient to support a full-sized warehouse club. Including space for parking, a typical full-sized BJ's club requires 11 to 13 acres of land. The smaller version typically requires approximately eight acres. Our clubs are located in both free-standing locations and shopping centers.

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Construction and site development costs for a full-sized owned BJ's club generally range from \$5 million to \$7 million. Land acquisition costs for a club generally range from \$5 million to \$10 million but can be significantly higher in some locations. We also invest \$3 to \$3.5 million for fixtures and equipment and approximately \$2 million for inventory (net of accounts payable) and incur approximately \$.9 to \$1.0 million for preopening costs in a new full-sized club.

### *Merchandising*

We service our existing members and attract new members by providing a broad range of high quality, brand name merchandise at prices that are consistently lower than the prices of traditional retailers, including discount retailers, supermarkets, supercenters and specialty retail operations. We limit the items offered in each product line to fast selling styles, sizes and colors, carrying an average of approximately 7,500 active stockkeeping units (SKU's). By contrast, supermarkets normally stock from 30,000 to 52,000 SKU's, and supercenters typically stock up to 125,000 SKU's. We work closely with manufacturers to develop packaging and sizes which are best suited to selling through the warehouse club format in order to minimize handling costs and to provide increased value to members.

Food accounted for approximately 57% of BJ's total food and general merchandise sales in 2004. The remaining 43% consisted of a wide variety of general merchandise items. Food categories at BJ's include frozen foods, fresh meat and dairy products, beverages, dry grocery items, fresh produce and flowers, canned goods and household paper products. In response to growing demand from our members, we continue to increase the number of clubs that have rotisserie chicken and slicing delicatessen departments and premium prepared foods. General merchandise includes consumer electronics, prerecorded media, small appliances, tires, jewelry, health and beauty aids, household needs, computer software, books, greeting cards, apparel, toys and seasonal items. We believe that more than 70% of our products are items that can also be found in supermarkets.

To ensure that our merchandise selection is closely attuned to the tastes of our members, we employ regional buyers who are responsible for tailoring the product selection in individual warehouse clubs to the regional and ethnic tastes of the local market.

We continued to expand our private brands program during 2004. BJ's consumer-focused private brand products are premium quality only and generally are priced approximately 20% lower than the top branded competing product. At the end of 2004, our private brand products had achieved a sales penetration of approximately 9% of food and general merchandise sales on an annualized basis. We expect our private brand products to represent an increasing percentage of sales over time.

As of January 29, 2005, we had pharmacies in operation at 24 of our clubs. We plan to open pharmacies in approximately 20 additional clubs in 2005.

We also offer a number of specialty services that are designed to enable members to complete more of their shopping at BJ's and to encourage more frequent trips to the clubs. Most of these services are provided by outside operators in space leased from BJ's. Specialty services include full-service optical stores; food courts, some of which offer brand name fast food service; communications centers for Internet access, cellular phones and wireless needs; on-site photo service; BJ's Vacation®; a selection of garden sheds; patios and sunrooms; a propane tank filling service; and muffler and brake services operated in conjunction with Monro Muffler Brake, Inc. and Tuffy Associates Corp.

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As of January 29, 2005, we had 81 gas stations in operation at our clubs. The gas stations are generally self- service, relying on pay at the pump technology that accepts MasterCard®, VISA®, Discover®, American Express® and debit card transactions. Cash is also accepted at some locations. Both regular and premium gasoline are available. We have generally maintained our gas prices at well below the average prices in each market.

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Our BJ's Premier Benefit program is designed to enhance the value of BJ's membership, particularly to business members. Included in the program are discounted payroll processing; payment processing of all major credit cards; participation in an established preferred provider medical network that provides comprehensive health care services at discounted rates; discounted home heating oil; an automobile buying service; and printing of business forms and checks.

### *Membership*

Paid membership is an essential part of the warehouse club concept. In addition to providing a source of revenue which permits us to offer low prices, membership reinforces customer loyalty. We have two types of members: Inner Circle members and business members. Most of our Inner Circle members are likely to be home owners whose incomes are above the average for the Company's trading areas. We believe that a significant percentage of our business members also shops BJ's for their personal needs. We had approximately 8.3 million BJ's members (including supplemental cardholders) at January 29, 2005.

We generally charge \$40 per year for a primary Inner Circle membership that includes one free supplemental membership. Members in the same household may purchase additional supplemental memberships for \$20 each. A business membership also costs \$40 per year and includes one free supplemental membership. Additional supplemental business memberships cost \$20 each.

We launched our BJ's Rewards Membership program in 2003. Geared to high frequency, high volume members, the program offers a 2% rebate, capped at \$500 per year, on generally all in-club purchases for an annual fee of \$75. At the end of 2004, Rewards Members accounted for approximately 3% of our primary members and approximately 6% of our sales.

### *Advertising and Public Relations*

We increase customer awareness of our clubs primarily through direct mail, public relations efforts, new club marketing programs, and, during the holiday season, television and radio advertising (some of which is vendor funded) and the *BJ's Journal*, a publication sent to our members throughout the year. We also employ dedicated marketing personnel who solicit potential business members and who contact other selected organizations to increase the number of members. From time to time, we run free trial membership promotions to attract new members, with the objective of converting them to paid membership status, and also use one-day passes to introduce non-members to our clubs. These programs result in very low marketing expenses compared with typical retailers.

### *Club Operations*

Our ability to achieve profitable operations depends upon high sales volumes and the efficient operation of our warehouse clubs. We buy most of our merchandise from manufacturers for shipment either to a BJ's cross-dock facility or directly to our clubs. This eliminates many of the costs associated with traditional multiple-step distribution channels, including distributors' commissions and the costs of storing merchandise in central distribution facilities.

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We route the majority of our purchases through cross-dock facilities which break down truckload quantity shipments from manufacturers and reallocate these goods for shipment to individual clubs, generally within 24 hours. Our efficient distribution systems result in reduced freight expenses and lower receiving costs.

We work closely with manufacturers to minimize the amount of handling required once merchandise is received at a club. Most merchandise is pre-marked by the manufacturer so that it does not require ticketing at the club. Merchandise for sale is generally displayed on pallets containing large quantities of each item, thereby reducing labor required for handling, stocking and restocking. Back-up merchandise is generally stored in steel racks above the sales floor.

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We have been able to limit inventory shrinkage to levels well below those typical of other retailers by strictly controlling the exits of our clubs, by generally limiting customers to members and by using state-of-the-art electronic article surveillance technology. Our inventory shrinkage was no more than .20% of net sales in each of the last five fiscal years. Problems associated with payments by check have been insignificant, as members who issue dishonored checks are restricted to cash-only terms. Our policy is to accept returns of most merchandise within 30 days after purchase.

BJ's is the only warehouse club operator to accept MasterCard, VISA, Discover and American Express chainwide. Our members may also pay for their purchases by cash, check and debit cards.

BJ's has a co-branded MasterCard which is underwritten by a major financial institution on a non-recourse basis. Purchases made at BJ's with the co-branded MasterCard earn a 1.5% rebate. All other purchases with the BJ's MasterCard earn rebates ranging from 0.5% to 1.0%. Rebates up to \$500 per year per membership account are issued by the financial institution in the form of BJ's Buck® certificates redeemable for merchandise at any BJ's club.

### *Information Systems*

Over the course of our development, we have made a significant investment in information systems. We were the first warehouse club operator to introduce scanning devices which work in conjunction with our electronic point of sale (EPOS) terminals. In recent years, we have implemented 360 degree scanning, upgraded the cash register printers at the checkout stations in our clubs to enhance the efficiency of the checkout process and implemented an on-line refund system at the clubs to more effectively process sales returns. We are the only operator in the warehouse club industry to offer self-checkout. As of January 29, 2005, we have expanded this technology to approximately 75% of our BJ's clubs.

Sales data is generally analyzed daily for replenishment purposes. Detailed purchasing data permits the buying staff and store managers to track changes in members' buying behavior. Detailed shrinkage information by SKU by club allows management to quickly identify inventory shrinkage problems and formulate effective action plans.

### *Member Insight*

One of our most important accomplishments over the last two years was the development of an infrastructure to better utilize our member data base. The implementation of a program we call Member Insight is designed to gain a clearer understanding of our members' shopping behaviors, wants and needs. Member Insight has enabled us to achieve a more member-centric business model. We are using Member Insight's sophisticated analysis and segmentation capabilities in merchandise selection, adjacencies and pricing, and in marketing.

### *Competition*

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We compete with a wide range of national, regional and local retailers and wholesalers selling food and/or general merchandise in our markets, including supermarkets, supercenters, general merchandise chains, specialty chains, gasoline stations and other warehouse clubs, some of which have significantly greater financial and marketing resources than BJs. Major competitors that operate warehouse clubs include Costco Wholesale Corporation and Sam's Clubs (a division of Wal-Mart Stores, Inc.), each of which operates on a nationwide basis.

A large number of competitive membership warehouse clubs exists in our markets. Approximately 82% of our 137 full-sized warehouse clubs have at least one competitive membership warehouse club in their trading areas at a distance of about ten miles or less. One of the smaller format clubs has direct competition from other warehouse clubs within ten miles.

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We believe price is the major competitive factor in the markets in which we compete. Other competitive factors include store location, merchandise selection, member services and name recognition. We believe our efficient, low- cost form of distribution gives us a significant competitive advantage over more traditional channels of wholesale and retail distribution.

### *ProFoods*

In October 2004, we began testing a concept that is new to BJ's by opening the first of two new clubs in the Metro New York market exclusively for food service businesses under the name ProFoods Restaurant Supply. Our second ProFoods club was opened in January 2005. The target member is the professional food vendor or restaurant owner. The business model for ProFoods is built on somewhat higher merchandise margins than those generated by a wholesale club, free memberships and a broad merchandise assortment to support one-stop shopping, primarily on a cash and carry basis. We believe that we can leverage our success as a highly efficient operator of limited assortment formats that cater to defined customer groups. We have embarked on this test because we believe there is a substantial opportunity in this market, where the competition is fragmented and where we can apply our expertise with small businesses.

### *Seasonality*

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

### *Employees*

As of January 29, 2005, we had approximately 19,600 full-time and part-time employees ( team members ). None of our team members is represented by a union. We consider our relations with our team members to be excellent.

### *Available Information*

BJ's makes available free of charge on its Internet website its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after such material is electronically filed with the Securities and Exchange Commission ( SEC ). Internet users can access this information on BJ's website at <http://www.bjs.com>.

BJ's 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 BJ's Statement on Commercial Bribery, Conflicts of Interest and Business Ethics.

### *Certifications*

The Company's Chief Executive Officer and Chief Financial Officer have provided the certification required by Rule 13a-14(a) under the Exchange Act, copies of which are filed as exhibits to this Form 10-K. In addition, an annual Chief Executive Officer certification was submitted by the Company's Chief Executive Officer to the New York Stock Exchange on June 18, 2004, in accordance with the New York Stock Exchange's listing requirements.

## **Item 2. Properties**

We operated 157 warehouse club locations as of January 29, 2005, of which 98 are leased under long-term leases and 48 are owned. We own the buildings at the remaining 11 locations, which are subject to long-term ground leases. A listing of the number of Company locations in each state is shown on page 1.

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The unexpired terms of our leases range from approximately 1 to 36 years, and average approximately 12 years. We have options to renew all but one of our leases for periods that range from approximately 5 to 50 years and average approximately 21 years. These leases require fixed monthly rental payments which are subject to various adjustments. Certain leases require payment of a percentage of the warehouse club's gross sales in excess of certain amounts. Generally, all leases require that we pay all property taxes, insurance, utilities and other operating costs.

Our home offices in Natick, Massachusetts, occupy 166,000 square feet under leases expiring January 31, 2006, with options to extend these leases through January 31, 2011. We own a 480,000 square foot cross-dock facility and also lease two cross-dock facilities, which occupy a total of 776,000 square feet under leases which expire in 2010 and 2021, with options to extend these leases through 2025 and 2041, respectively.

See Note E of Notes to Consolidated Financial Statements included elsewhere in this report for additional information with respect to our leases.

### **Item 3. Legal Proceedings**

BJ's is 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.

As described in more detail in Note F to the Financial Statements (which is incorporated herein by reference), BJ's is subject to various claims relating to fraudulent credit and debit card charges, the cost of replacing cards and related monitoring expenses and other related claims. In addition, the U.S. Federal Trade Commission is contemplating a proceeding against the Company relating to this matter. The Company is unable to predict whether further claims will be asserted. The Company has contested and will continue to vigorously contest the claims made against it and continues to explore its defenses and possible claims against others. The Company has established a reserve on its balance sheet relating to this matter. The ultimate outcome of this matter could differ from the amounts recorded. While that difference could be material to the results of operations for any affected reporting period, it is not expected to have a material impact on consolidated financial position or liquidity.

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

No matter was submitted to a vote of BJ's security holders during the fourth quarter of the fiscal year ended January 29, 2005.

**Table of Contents****Item 4A. Executive Officers of the Registrant**

| <u>Name</u>          | <u>Age</u> | <u>Office and Employment During Last Five Years</u>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|----------------------|------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Herbert J. Zarkin    | 66         | Chairman of the Board of the Company since July 1997; President, Chief Executive Officer and Director of Waban (1993-1997); President of the BJ's Division of Waban (the BJ's Division ) (1990-1993). Mr. Zarkin was also Chairman of Waban (now known as House2Home) from July 1997 to June 2002 and was President and Chief Executive Officer of House2Home from March 2000 to September 2001. House2Home filed for bankruptcy under Chapter 11 of the United States Bankruptcy Code on November 7, 2001. (See Notes B and C of Notes to the Consolidated Financial Statements included elsewhere in this report for additional information.) |
| Michael T. Wedge     | 51         | President, Chief Executive Officer and Director of the Company since September 2002; Executive Vice President, Club Operations of the Company (July 1997-September 2002)                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| Frank D. Forward     | 50         | Executive Vice President and Chief Financial Officer of the Company since July 1997                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| Edward F. Giles, Jr. | 45         | Executive Vice President, Club Operations of the Company since September 2002; Senior Vice President, Field Operations of the Company (June 2001-September 2002); Senior Vice President, Sales Operations of the Company (June 1999-June 2001); Zone Vice President, Club Operations of the Company (July 1997-June 1999)                                                                                                                                                                                                                                                                                                                       |
| Karen Stout          | 46         | Executive Vice President, Merchandising of the Company since July 2004; President of the Atlantic and Pacific Tea Company's Super Fresh Division (July 2002-June 2004) and president of the A&P's Sav-A-Center Division (October 2000-July 2002); Senior Vice President, Operations of Harris Teeter Supermarkets, Inc. (February 1997-January 2000)                                                                                                                                                                                                                                                                                            |
| Kellye L. Walker     | 38         | Senior Vice President, General Counsel and Secretary of the Company since February 2003; Hill & Barlow, PC (Boston, Massachusetts law firm) Of Counsel/Member, July 2000-February 2003; Chaffe, McCall, Phillips, Toler & Sarpy, LLP (New Orleans, Louisiana law firm) Partner, September 1998-June 2000                                                                                                                                                                                                                                                                                                                                        |

All officers serve at the discretion of the Board of Directors and hold office until the next annual meeting of the Board of Directors and until their successors are elected and qualified.

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BJ's common stock is listed on the New York Stock Exchange (symbol BJ ). The quarterly high and low stock prices for the fiscal years ended January 29, 2005 and January 31, 2004 were as follows:

| <u>Quarter</u> | <u>Fiscal Year Ended<br/>January 29, 2005</u> |            | <u>Fiscal Year Ended<br/>January 31, 2004</u> |            |
|----------------|-----------------------------------------------|------------|-----------------------------------------------|------------|
|                | <u>High</u>                                   | <u>Low</u> | <u>High</u>                                   | <u>Low</u> |
| First          | \$ 26.45                                      | \$ 21.33   | \$ 15.85                                      | \$ 9.20    |
| Second         | 25.47                                         | 19.91      | 20.52                                         | 14.02      |
| Third          | 29.59                                         | 21.06      | 26.40                                         | 17.14      |
| Fourth         | 32.00                                         | 26.70      | 27.45                                         | 20.37      |

The approximate number of stockholders of record at March 25, 2005 was 2,100. BJ's has never declared or paid any cash dividends on its common stock. For restrictions on the payment of dividends, see Note D of Notes to the Consolidated Financial Statements included elsewhere in this report.

The following table summarizes our share repurchase activity in the quarter ended January 29, 2005:

| <u>Period</u>         | <u>Total Number<br/>of Shares<br/>Purchased</u> | <u>Average Price<br/>Paid per<br/>Share</u> | <u>Total Number of<br/>Shares Purchased<br/>as Part of Publicly<br/>Announced<br/>Program (1)</u> | <u>Maximum Dollar<br/>Amount that May<br/>Yet Be Purchased<br/>Under the<br/>Program</u> |
|-----------------------|-------------------------------------------------|---------------------------------------------|---------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------|
|                       |                                                 |                                             |                                                                                                   |                                                                                          |
| <b>2004</b>           |                                                 |                                             |                                                                                                   |                                                                                          |
|                       |                                                 |                                             |                                                                                                   | (Dollars in Thousands)                                                                   |
| Oct 31 - Nov 27       |                                                 | \$                                          |                                                                                                   | \$ 62,427                                                                                |
| Nov 28 - Jan 1        | 328,300                                         | 28.23                                       | 328,300                                                                                           | 53,160                                                                                   |
| Jan 2 - Jan 29        | 285,000                                         | 28.14                                       | 285,000                                                                                           | 45,139                                                                                   |
| Total for the quarter | 613,300                                         | \$ 28.19                                    | 613,300                                                                                           | \$ 45,139                                                                                |

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We publicly announced in a press release dated August 26, 1998 that the Board of Directors authorized a program to repurchase up to \$50 million of the Company's common stock. We subsequently announced that the Board authorized increases in the program of \$50 million each in press releases dated September 16, 1999, May 25, 2000, and May 25, 2001; and additional increases of \$100 million each in press releases dated September 26, 2001 and August 20, 2002. Under the program, repurchases may be made at management's discretion, in the open market or in privately negotiated transactions. No expiration dates were set under any of the Board's authorizations. From the inception of the program through January 29, 2005, we repurchased approximately 11.5 million shares for a total of \$354.9 million, leaving a remaining authorization of \$45.1 million.

On February 28, 2005, the Board of Directors authorized the repurchase of up to an additional \$100 million of the Company's common stock as announced in a press release dated March 1, 2005.

**Table of Contents****Item 6. Selected Financial Data**

|                                                                                                             | Fiscal Year Ended |                  |                 |                 |                 |
|-------------------------------------------------------------------------------------------------------------|-------------------|------------------|-----------------|-----------------|-----------------|
|                                                                                                             | Jan. 29,<br>2005  | Jan. 31,<br>2004 | Feb. 1,<br>2003 | Feb. 2,<br>2002 | Feb. 3,<br>2001 |
|                                                                                                             |                   |                  |                 |                 | (53 Weeks)      |
| (Dollars in Thousands except Per Share Data)                                                                |                   |                  |                 |                 |                 |
| <b>Income Statement Data</b>                                                                                |                   |                  |                 |                 |                 |
| Net sales                                                                                                   | \$ 7,220,239      | \$ 6,553,924     | \$ 5,728,955    | \$ 5,105,912    | \$ 4,766,612    |
| Membership fees and other                                                                                   | 155,062           | 139,411          | 130,747         | 117,394         | 102,514         |
| Total revenues                                                                                              | 7,375,301         | 6,693,335        | 5,859,702       | 5,223,306       | 4,869,126       |
| Cost of sales, including buying and occupancy costs (1)                                                     | 6,617,495         | 6,018,088        | 5,212,124       | 4,615,291       | 4,300,933       |
| Selling, general and administrative expenses                                                                | 556,234           | 502,673          | 416,063         | 362,611         | 350,295         |
| Provision for credit card claims (2)                                                                        | 7,000             |                  |                 |                 |                 |
| Preopening expenses (1)                                                                                     | 15,331            | 8,875            | 11,735          | 10,343          | 8,471           |
| Operating income                                                                                            | 179,241           | 163,699          | 219,780         | 235,061         | 209,427         |
| Interest income (expense), net                                                                              | 803               | (74)             | 293             | 4,137           | 6,180           |
| Gain (loss) on contingent lease obligations (3)                                                             | 9,424             | 4,488            | 15,607          | (106,359)       |                 |
| Income from continuing operations before income taxes and cumulative effect of accounting principle changes | 189,468           | 168,113          | 235,680         | 132,839         | 215,607         |
| Provision for income taxes                                                                                  | 72,884            | 63,318           | 89,871          | 49,068          | 83,009          |
| Income from continuing operations before cumulative effect of accounting principle changes                  | 116,584           | 104,795          | 145,809         | 83,771          | 132,598         |
| Loss from discontinued operations, net of income tax benefit (3)                                            | (2,183)           | (676)            | (14,943)        | (1,423)         | (1,097)         |
| Income before cumulative effect of accounting principle changes                                             | 114,401           | 104,119          | 130,866         | 82,348          | 131,501         |
| Cumulative effect of accounting principle changes (4)                                                       |                   | (1,253)          |                 |                 |                 |
| Net income                                                                                                  | \$ 114,401        | \$ 102,866       | \$ 130,866      | \$ 82,348       | \$ 131,501      |
| Income per common share:                                                                                    |                   |                  |                 |                 |                 |
| Basic earnings per share:                                                                                   |                   |                  |                 |                 |                 |
| Income from continuing operations before cumulative effect of accounting principle changes                  | \$ 1.68           | \$ 1.51          | \$ 2.07         | \$ 1.16         | \$ 1.82         |
| Loss from discontinued operations                                                                           | (0.04)            | (0.01)           | (0.21)          | (0.02)          | (0.02)          |
| Cumulative effect of accounting principle changes                                                           |                   | (0.02)           |                 |                 |                 |
| Net income                                                                                                  | \$ 1.64           | \$ 1.48          | \$ 1.86         | \$ 1.14         | \$ 1.80         |
| Diluted earnings per share:                                                                                 |                   |                  |                 |                 |                 |
| Income from continuing operations before cumulative effect of accounting principle changes                  | \$ 1.66           | \$ 1.50          | \$ 2.05         | \$ 1.13         | \$ 1.78         |
| Loss from discontinued operations                                                                           | (0.03)            | (0.01)           | (0.21)          | (0.02)          | (0.01)          |

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|                                                     |            |            |            |            |            |
|-----------------------------------------------------|------------|------------|------------|------------|------------|
| Cumulative effect of accounting principle changes   |            | (0.02)     |            |            |            |
| Net income                                          | \$ 1.63    | \$ 1.47    | \$ 1.84    | \$ 1.11    | \$ 1.77    |
| <b>Balance Sheet Data</b>                           |            |            |            |            |            |
| Working capital                                     | \$ 208,852 | \$ 147,287 | \$ 117,042 | \$ 127,818 | \$ 179,928 |
| Total assets                                        | 1,891,514  | 1,721,359  | 1,480,957  | 1,422,511  | 1,233,969  |
| Long-term debt and obligations under capital leases | 3,196      | 3,625      |            | 1,558      | 1,828      |
| Stockholders' equity                                | 939,167    | 852,221    | 740,803    | 686,567    | 664,915    |
| <b>Clubs open at end of year</b>                    | 157        | 150        | 140        | 130        | 118        |

- (1) See Note E of Notes to Consolidated Financial Statements
- (2) See Note F of Notes to Consolidated Financial Statements
- (3) See Note C of Notes to Consolidated Financial Statements
- (4) See Note A of Notes to Consolidated Financial Statements

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### **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*Unless noted otherwise, the fiscal year ended January 29, 2005 is referred to as 2004. Other fiscal years are referred to in a similar manner.*

#### ***General Overview***

BJS is a leading warehouse club operator in the eastern United States. As of January 29, 2005, we operated 155 BJS warehouse clubs, 81 of which operate gasoline stations, and two ProFoods Restaurant Supply clubs, in 16 states.

The success of our business is dependent on our ability to achieve high volumes of sales and rapid inventory turnover, to attract and retain members and to control costs. We believe that our pricing and cost structure is a major competitive advantage for us.

Our revenues are derived from the sale of a wide range of food and general merchandise items, the sale of gasoline and from membership fees.

Paid membership is an essential component in our business. It not only provides a source of revenue, but it promotes customer loyalty. Membership fees permit us to offer lower prices to our members, encouraging them to shop us more frequently. Member renewal rates are a key performance indicator for us.

Comparable store sales performance is an important measure throughout the retail industry. Our comparable club sales increase from 2001 to 2002 was 2.0%, including a contribution from gasoline of 0.9%. Our comparable club sales performance improved significantly over the last two years. From 2002 to 2003, our comparable club sales increased by 7.8%, including a contribution from gasoline sales of 3.2%. From 2003 to 2004 comparable club sales increased by 6.0%, including a contribution from gasoline sales of 1.1%.

Our low merchandise margin rates drive the high sales volumes that are so critical in our business. Our merchandise margin rate is a key metric in achieving both our top-line and bottom-line objectives. We believe that the cost structure built into our business model puts us among the most efficient in the retail industry. We closely monitor our costs as a percentage of sales, particularly our payroll costs, which comprise the largest portion of our selling, general and administrative expenses.

We place a great deal of emphasis on control of our inventories. Because of our high sales volumes and inventory turns, we are able to generate cash from a large portion of our inventory before we are required to pay our merchandise vendors. The majority of our inventory purchases are routed through our cross-dock facilities, including two new state-of-the-art facilities which were built in 2001 and 2003. We monitor several inventory-related measures, including inventory turns, accounts payable as a percentage of inventories, average inventories per club and shrinkage as a percentage of sales.

#### ***Overview of 2004 Operations***

Our strong operating results in 2004 reflect the progress we have made in the last two years in shifting our focus from a product-centric to a member-centric business model. The key enabler for this model shift was our framework for analyzing and leveraging our membership data that we call Member Insight.

Member Insight drove the major re-merchandising effort that we essentially completed in the first quarter of 2004, in which we eliminated selected slower moving general merchandise categories and strengthened certain food categories, particularly faster-selling fresh foods. At the same time, we also improved product adjacencies to drive incremental sales. The ultimate goal of re-merchandising clubs is to better serve our members' needs while driving margin expansion and shopping frequency.

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As noted above, we have had strong comparable club sales gains in the last two years. Total sales in 2004 were 10.2% higher than the previous year. Spurred by strong membership renewal rates and increased participation in BJ's Rewards Membership program, membership fee revenues in 2004 improved by 12.2% over the previous year. Aided by a significant increase in private brand sales, expansion of our fresh food departments and a shift from third party to direct purchase of produce that was completed in the third quarter, merchandise margins in 2004 improved over the previous year. Selling, general and administrative expenses as a percentage of sales increased slightly in 2004, due in part to the transition to self-run produce. Net income of \$114.4 million in 2004 exceeded our plan for the year.

As of January 29, 2005, we had cash, cash equivalents and short-term marketable securities of \$150.4 million versus \$78.7 million at the end of the previous year. Long-term debt, including current installments was less than \$4 million as of January 29, 2005. By the end of the year we settled the last of the 41 House2Home leases for which we were contingently liable. Net cash provided by operating activities was \$248.9 million in 2004, or \$49 million more than net cash provided by operating activities in 2003.

### ***Critical Accounting Policies and Estimates***

The preparation of our 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. We review our estimates on an ongoing basis and make judgments about the carrying value of assets and liabilities based on a number of factors. These factors include historical experience, guidance provided by outside experts and assumptions made by management that are believed to be reasonable under the circumstances. This section summarizes critical accounting policies and the related judgments involved in their application.

### ***Cash Consideration Received from Vendors***

We receive various types of cash consideration from vendors, principally in the form of rebates and allowances. We recognize such vendor rebates and allowances as a reduction of cost of sales 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 review the status of all rebates and allowances at least once per quarter and update our estimates, if necessary at that time. We believe that our review process has allowed us to avoid material adjustments in estimates of vendor rebates and allowances.

### ***Legal Contingencies***

As described in more detail in Note F to the consolidated financial statements, BJ's is subject to various claims relating to fraudulent credit and debit card charges, the cost of replacing cards and related monitoring expenses and other related claims. As required by Statement of Financial Accounting Standards No. 5, Accounting for Contingencies, (SFAS No. 5) we accrue a liability if the potential loss for a claim is considered probable and the amount of the loss can be reasonably estimated.

Significant judgment is required in both the determination of probability and the determination as to whether our exposure can be reasonably estimated. In reviewing the reserve relating to the credit card matter, we make significant estimates regarding the claims that have been made for fraudulent credit and debit card charges and the cost of replacing cards, monitoring expenses, and related fees and expenses. Because of

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uncertainties related to this matter, accruals are based on information available at the time our financial statements are issued. Periodically, and as additional information becomes available, we will reassess the potential liability and may revise our estimates and adjust our reserve.

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### *Inventories*

Merchandise 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. Records are maintained at the stockkeeping unit (SKU) level. A report that details the number of weeks of selling supply for each SKU allows our merchandising staff to make timely markdown decisions to help maintain rapid inventory turnover, which is essential in our business. The carrying value of any SKU whose selling price is marked down to below cost is immediately reduced to that selling price.

We take physical inventories of merchandise on a cycle basis at every location each year. A second physical inventory is taken at the end of the year at selected locations. We estimate a reserve for inventory shrinkage for the period between physical inventories. This estimate is based on historical results of previous physical inventories, shrinkage trends or other judgments management believes to be reasonable under the circumstances.

### *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. Significant judgments are made in projecting future cash flows and are based on a number of factors, including the maturity level of the club, historical experience of clubs with similar characteristics, recent trends and general economic assumptions. Impairment losses are measured as the difference between the carrying amount and the fair value of the impaired assets.

### *Deferred Taxes*

As of January 29, 2005, we had not established a valuation allowance for our deferred tax assets because those assets can be realized by offsetting deferred tax liabilities and future taxable income, which management believes will more likely than not be earned, based on our historical record and projected earnings. Significant changes in projections of future taxable income could result in our establishment of a valuation allowance, which would reduce the carrying value of deferred tax assets.

### *Reserves for Closed Store Lease Obligations*

During the fiscal year ended February 2, 2002, we established reserves for our liability related to House2Home, Inc. ( House2Home ) leases. Pursuant to an agreement with The TJX Companies, Inc. ( TJX ), we agreed to indemnify TJX for 100% of House2Home's lease liabilities guaranteed by TJX through January 31, 2003 and for 50% of any such liabilities thereafter. House2Home filed for bankruptcy in November 2001. (See Note C of Notes to Consolidated Financial Statements for additional information.) Our recorded liabilities were based on the present value of rent liabilities under the House2Home leases, including estimated real estate taxes and common area maintenance charges, reduced by estimated income from the subleasing of these properties. An annual discount rate of 6% was used to calculate the present value of these lease obligations. This rate was based on estimated incremental borrowing rates for the Company during the weighted-average period of time over which these obligations were expected to be paid.

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We continually evaluate the adequacy of our House2Home reserves based on progress made in settling our obligations and the status of ongoing negotiations and made appropriate adjustments to the reserves as a result of our evaluations. As of January 29, 2005, all 41 House2Home leases for which we were contingently liable have been settled, including lump sum settlements for 38 leases. The other three House2Home properties (for which we remain contingently liable) have been assigned to third parties.

During the fiscal year ended February 1, 2003, we established reserves for our lease liabilities for three BJ's clubs which were closed in November 2002. Two of these clubs were in the Columbus, Ohio, market and one was in North Dade, Florida. (See Note C of Notes to Consolidated Financial Statements for additional information.) Our recorded liabilities have been based on the present value of rent liabilities under these leases,

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including estimated real estate taxes and common area maintenance charges, reduced by estimated income from the subleasing of these properties. An annual discount rate of 6% was used to calculate the present value of these lease obligations. This rate was based on the estimated incremental borrowing rate for the Company during the weighted-average period of time over which these obligations are expected to be paid.

A considerable amount of judgment was involved in determining our net liability related to the closed club leases, particularly in estimating potential sublease income. Based on our knowledge of real estate conditions in the local markets and our experience in those markets, we assumed an average period of time it would take to sublease the properties and the amount of potential sublease income for each property. Net payments that we make to settle our lease obligations will reduce operating cash flows in varying amounts over the remaining terms of the leases, which expire at various times up to 2019.

During 2004, we made a lump sum payment to settle the lease for one of the three closed clubs. Based on this settlement and an evaluation of the status of the two remaining properties, we adjusted our reserve for closed clubs. The reserve at January 29, 2005 includes an estimated amount to settle the lease for one of the two remaining clubs through a lump sum payment based on negotiations in progress. The remainder of the reserve is based on the present value of our rent liability under the lease for the other remaining club, including real estate taxes and common area maintenance charges, reduced by estimated income from subleasing the property. We will continue to use an annual discount rate of 6% to calculate the present value of the obligation.

*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. Estimates are based on valuations provided by third-party actuaries, historical loss development factors, and other assumptions believed to be reasonable under the circumstances.

**Results of Operations**

The following table presents income statement data for continuing operations for the last three fiscal years:

|                                                | Fiscal Year Ended |                   |                  |                   |                  |                   |
|------------------------------------------------|-------------------|-------------------|------------------|-------------------|------------------|-------------------|
|                                                | January 29, 2005  |                   | January 31, 2004 |                   | February 1, 2003 |                   |
|                                                | \$                | % of<br>Net Sales | \$               | % of<br>Net Sales | \$               | % of<br>Net Sales |
| (Dollars in Millions except Per Share Amounts) |                   |                   |                  |                   |                  |                   |
| Net sales                                      | \$ 7,220.2        | 100.0%            | \$ 6,553.9       | 100.0%            | \$ 5,729.0       | 100.0%            |
| Membership fees and other                      | 155.1             | 2.1               | 139.4            | 2.1               | 130.7            | 2.3               |
| Total revenues                                 | 7,375.3           | 102.1             | 6,693.3          | 102.1             | 5,859.7          | 102.3             |

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|                                                       |          |      |          |      |          |      |
|-------------------------------------------------------|----------|------|----------|------|----------|------|
| Cost of sales, including buying and occupancy costs   | 6,617.5  | 91.6 | 6,018.1  | 91.8 | 5,212.1  | 91.0 |
| Selling, general and administrative expenses          | 556.2    | 7.7  | 502.6    | 7.7  | 416.1    | 7.3  |
| Provision for credit card claims                      | 7.0      | 0.1  |          | 0.0  |          | 0.0  |
| Preopening expenses                                   | 15.4     | 0.2  | 8.9      | 0.1  | 11.7     | 0.2  |
| Operating income                                      | 179.2    | 2.5  | 163.7    | 2.5  | 219.8    | 3.8  |
| Interest income (expense), net                        | 0.8      | 0.0  | (0.1)    | 0.0  | 0.3      | 0.0  |
| Income on contingent lease obligations                | 9.5      | 0.1  | 4.5      | 0.1  | 15.6     | 0.3  |
| Income from continuing operations before income taxes | 189.5    | 2.6  | 168.1    | 2.6  | 235.7    | 4.1  |
| Provision for income taxes                            | 72.9     | 1.0  | 63.3     | 1.0  | 89.9     | 1.6  |
| Income from continuing operations                     | \$ 116.6 | 1.6% | \$ 104.8 | 1.6% | \$ 145.8 | 2.5% |
| Diluted earnings per common share                     | \$ 1.66  |      | \$ 1.50  |      | \$ 2.05  |      |
| Number of clubs in operation at year end              | 157      |      | 150      |      | 140      |      |

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### *Comparison of 2004 to 2003*

Net sales increased by 10.2% from 2003 to 2004, due to comparable club sales increases and to the opening of new clubs and new gasoline stations. The increase in comparable club sales represented approximately 58% of the total increase in net sales from 2003 to 2004. New clubs and new gasoline stations accounted for the remainder of the increase. Adjusting each period for shifts of certain items between food and general merchandise categories, food accounted for 57% of total food and general merchandise sales in 2004 versus 55% in 2003.

Comparable club sales increased by 6.0% from 2003 to 2004, including a contribution from gasoline sales of 1.1%. On a comparable club basis food sales increased by 9.4% and general merchandise sales decreased by 0.1% in 2004. Food sales were strong throughout the year, paced by our fresh food business, beverages, dairy and paper products. General merchandise sales were adversely affected by the planned contraction of certain categories, including automotive and tools, furniture, office supplies and sporting goods.

Total revenues included membership fees of \$139.4 million in 2004 versus \$124.2 million in 2003. This increase was due primarily to new clubs, strong member renewal rates and increased participation in BJ's Rewards Membership program. Inner Circle members renewed at a rate of 83.6% in 2004 versus 83.5% in 2003. Business members renewed at a rate of 87.9% in 2004 compared with 86.5% in 2003.

Cost of sales (including buying and occupancy expenses) was 91.65% of net sales in 2004 versus 91.82% of net sales in 2003. Despite this year's increased contribution of gasoline sales, which carry a significantly lower gross margin than the remainder of our business, the cost of sales ratio in 2004 was favorable to last year primarily because of higher merchandise margins. Gasoline margin in 2004 was also favorable to last year. Buying and occupancy costs as a percentage of sales in 2004 approximated last year's rate. Buying and occupancy expenses were reduced by \$1.0 million as a result of a correction to our accounting for leases in 2004. See Note E of Notes to Consolidated Financial Statements for additional information.

The improvement in merchandise margins was due mainly to stronger sales of private brands and fresh foods and our shift to self-run produce. We were also able to reduce purchasing costs through e-sourcing and global sourcing.

Selling, general and administrative (SG&A) expenses were 7.70% of net sales in 2004 versus 7.67% in 2003. The increase in the SG&A ratio was due mainly to increases in payroll and fringe benefits (which included higher group medical expenses), credit expenses (resulting mainly from a higher penetration of credit transactions) and professional services, which primarily related to Sarbanes-Oxley 404 compliance requirements. These increases were partially offset by significantly lower advertising expenses.

Total SG&A expenses rose by \$53.6 million from 2003 to 2004, due mainly to the factors that increased SG&A expenses as a percentage of sales, as well as the addition of new clubs. Payroll and payroll benefits accounted for 77% of all SG&A expenses in 2004 versus 75% in 2003. Major changes in SG&A expenses from 2003 to 2004 included increases in payroll and benefits of \$48.1 million, credit expenses of \$11.0 million and professional services of \$3.5 million. These were partially offset by decreases in advertising expenses of \$6.8 million, reflecting our plan to reduce this category in 2004.

In 2004 we recorded pretax charges of \$7.0 million to establish a reserve for claims seeking reimbursement for fraudulent credit and debit card charges and the cost of replacing cards, monitoring expenses and related fees and expenses. See Note F of Notes to Consolidated Financial Statements for additional information.

Preopening expenses were \$15.3 million in 2004 versus \$8.9 million in 2003. Preopening expenses in 2004 included corrections to our accounting for leases of \$8.2 million. See Note E of Notes to Consolidated Financial Statements for additional information. We opened seven new clubs in 2004. We opened ten new clubs and a new cross-dock facility in Jacksonville, Florida, in 2003.

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Interest income, net was \$0.8 million in 2004 compared with net interest expense of \$0.1 million in 2003. This change was due primarily to higher levels of invested cash in 2004. See Note M of Notes to Consolidated Financial Statements for a summary of the components of interest income (expense), net.

Based on significant progress made in settling liabilities for House2Home leases, we recorded pretax gains of \$2.7 million in 2004 and \$5.5 million in 2003 to reduce our liability for contingent lease obligations. These were partially offset by pretax accretion charges in connection with these obligations of \$0.2 million in 2004 and \$1.0 million in 2003. See Note C of Notes to Consolidated Financial Statements for additional information. During 2004, we also received pretax recoveries on account of our House2Home bankruptcy claims of \$7.0 million, which are included in gain on contingent lease obligations. See Note E of Notes to Consolidated Financial Statements for additional information.

In October 2004, we began testing a concept that is new to BJ's by opening the first of two new clubs in the Metro New York market exclusively for food service businesses under the name ProFoods Restaurant Supply. Our second ProFoods club was opened in January 2005. The business model for ProFoods is built on somewhat higher merchandise margins than those generated by a wholesale club, free memberships and a broad merchandise assortment to support one-stop shopping, primarily on a cash and carry basis.

Our income tax provision was 38.5% of pretax income from continuing operations in 2004. The provision for credit card claims, the gains from contingent lease obligations and House2Home bankruptcy recoveries, and expenses recorded in connection with corrections to our accounting for leases were taxed at incremental tax rates. A tax rate of 38.7% was applied to all other pretax income from continuing operations. We expect our tax rate to increase to 39.3% in 2005, primarily due to higher anticipated effective state tax rates.

In 2003, our income tax provision was 37.7% of pretax income from continuing operations, which included a credit of \$1.7 million in connection with a settlement between BJ's and House2Home in the fourth quarter. (See Note E of Notes to Consolidated Financial Statements.) Excluding this credit, our income tax provision in 2003 was 38.7% of pretax income from continuing operations.

Income from continuing operations was \$116.6 million, or \$1.66 per diluted share, in 2004 versus \$104.8 million, or \$1.50 per diluted share, in 2003.

In 2004, income from continuing operations included the following income and expense items:

Income of \$6.1 million, or \$.09 per diluted share, to record House2Home bankruptcy recoveries and reductions to our reserve for contingent lease obligations.

Expense of \$4.2 million, or \$.06 per diluted share, to establish a reserve for credit card claims.

Expense of \$4.3 million, or \$.06 per diluted share, to record lease accounting corrections.

In 2003, income from continuing operations included the following income and expense items:

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Income of \$3.3 million, or \$.05 per diluted share, to record reductions to our reserve for contingent lease liabilities.

Income of \$1.7 million, or \$.02 per diluted share, to record a tax settlement between BJ's and House2Home.

Loss from discontinued operations, net of tax benefit, was \$2.2 million, or \$.03 per diluted share, in 2004. This included a post-tax loss of \$1.7 million, or \$.02 per diluted share, to increase our closed club reserves. Loss from discontinued operations, net of tax benefit, was \$.7 million, or \$.01 per diluted share, in 2003, which consisted primarily of interest accretion charges related to three clubs which closed in November 2002.

As of the beginning of 2003, we adopted the provisions of Statement of Financial Accounting Standards No. 143, *Accounting for Asset Retirement Obligations* (SFAS No. 143). We recorded a post-tax charge of

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\$1.3 million, or \$.02 per diluted share, in the first quarter to reflect the cumulative effect of adopting this accounting principle change in 2003. See Note A of Notes to Consolidated Financial Statements for additional information.

Net income was \$114.4 million, or \$1.63 per diluted share, in 2004 versus \$102.9 million, or \$1.47 per diluted share, in 2003.

### *Comparison of 2003 to 2002*

Net sales increased by 14.4% from 2002 to 2003, due to the opening of new clubs and new gasoline stations and to comparable club sales increases. Increases in comparable club sales represented 50% of the total increase in net sales from 2002 to 2003. New clubs and new gasoline stations accounted for the remainder of the increase.

Comparable club sales increased by 7.8% from 2002 to 2003, including a contribution from gasoline sales of 3.2%. On a comparable club basis food sales increased by 6.5% and general merchandise sales increased by 1.9% in 2003. Comparable club sales strengthened in the second half of the year, aided by merchandising and marketing initiatives that increased traffic in the clubs and the stimuli provided by tax rebates and an improving economy. The negative impact from new competition and self cannibalization also lessened in the second half of the year. Gasoline sales at comparable clubs were driven by higher prices as well as increased volume.

Total revenues included membership fees of \$124.2 million in 2003 versus \$117.9 million in 2002. This increase was due primarily to new clubs. Membership fees also benefited from members in four Atlanta clubs who renewed their membership for a fee in 2003 after we offered free one-year memberships in these clubs when they opened in 2002. Membership renewal rates in 2003 changed slightly from those of the previous year. Inner Circle members increased at a rate of 83.5% in 2003 versus 82.9% in 2002. Business members renewed at a rate of 86.5% in 2003 compared with 86.8% in 2002.

Cost of sales (including buying and occupancy expenses) was 91.82% of net sales in 2003 versus 90.98% of net sales in 2002. This increase was due primarily to planned lower merchandise margins resulting from our initiatives to increase sales and market share. Almost 90% of the increase in the cost of sales ratio was due to decreased merchandise margins and the increased sales contribution of gasoline, with the remainder due to increased buying and occupancy expenses. While the gross margin rate in gasoline is significantly lower than the overall gross margin rate for the remainder of BJ's business, market conditions allowed us to realize higher than normal gasoline margins in 2003 while maintaining our price advantage against our competitors.

Selling, general and administrative ( SG&A ) expenses were 7.67% of net sales in 2003 versus 7.26% in 2002. The increase in the SG&A ratio was due mainly to increases in incentive pay expenses, advertising, club payroll and credit expenses. The increase in incentive pay expenses reflected a more normal level of incentive pay in 2003 compared to 2002's unusually low incentive pay expenses. Increased advertising and club payroll expenses were planned in connection with our initiatives to increase sales and market share.

Total SG&A expenses rose by \$86.6 million from 2002 to 2003, due mainly to the factors that increased SG&A expenses as a percentage of sales, as well as the addition of new clubs. Payroll and payroll benefits accounted for 75% of all SG&A expenses in 2003 versus 77% in 2002. Payroll and payroll benefits accounted for 67% of the increase in total SG&A expenses from 2002 to 2003.

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Preopening expenses were \$8.9 million in 2003 versus \$11.7 million in 2002. We opened ten new clubs and our new cross-dock facility in Jacksonville, Florida, in 2003. We opened thirteen new clubs in 2002. A portion of the new cross-dock's preopening expenses was incurred in 2002.

Interest expense, net was \$0.1 million in 2003 compared with net interest income of \$0.3 million in 2002. See Note M of Notes to Consolidated Financial Statements for a summary of the components of interest income (expense), net.

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Based on significant progress made in settling liabilities for House2Home leases, we recorded pretax gains of \$5.5 million in 2003 and \$20.0 million in 2002 to reduce our liability for contingent lease obligations. These were partially offset by pretax accretion charges in connection with these obligations of \$1.0 million in 2003 and \$4.4 million in 2002. See Note C of Notes to Consolidated Financial Statements for additional information.

Our income tax provision was 37.7% of pretax income from continuing operations in 2003. The tax provision in 2003 included a credit of \$1.7 million in connection with a settlement between BJ's and House2Home in the fourth quarter. (See Note E of Notes to Consolidated Financial Statements.) Excluding this credit, our income tax provision in 2003 was 38.7% of pretax income from continuing operations versus 38.1% in 2002. This increase was due to higher effective state income tax rates in 2003.

Income from continuing operations was \$104.8 million, or \$1.50 per diluted share, in 2003 versus \$145.8 million, or \$2.05 per diluted share, in 2002. These amounts included post-tax gains from the reduction in our House2Home lease reserves of \$3.3 million, or \$.05 per diluted share, in 2003 and \$12.0 million, or \$.17 per diluted share, in 2002.

Loss from discontinued operations, net of tax benefit, was \$.7 million, or \$.01 per diluted share, in 2003, which consisted primarily of interest accretion charges related to three clubs which closed in November 2002. Loss from discontinued operations, net of tax benefit, in 2002 was \$14.9 million, or \$.21 per diluted share, which consisted of a post-tax loss of \$12.8 million, or \$.18 per diluted share, to close the three clubs and post-tax operating losses of \$2.1 million for these clubs.

As of the beginning of 2003, we adopted the provisions of Statement of Financial Accounting Standards No. 143, *Accounting for Asset Retirement Obligations* (SFAS No. 143). We recorded a post-tax charge of \$1.3 million, or \$.02 per diluted share, in the first quarter to reflect the cumulative effect of adopting this accounting principle change in 2003.

Net income was \$102.9 million, or \$1.47 per diluted share, in 2003 versus \$130.9 million, or \$1.84 per diluted share, in 2002.

## ***Seasonality***

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

## ***Recently Issued Accounting Standards***

The Financial Accounting Standards Board (FASB) issued the following standards which will become effective in 2005 or 2006:

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Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment, (SFAS 123 (R)) revises FASB Statement No. 123, Accounting for Stock-Based Compensation and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and its related implementation guidance.

This statement establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services, and focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions.

We currently account for stock-based employee compensation under the recognition and measurement principles of APB Opinion No. 25. In accordance with that standard, no stock-based employee compensation cost for stock options has been reflected in our statements of income. In accordance with the provisions of the original SFAS No. 123, we currently disclose, on a pro forma basis, the effect on net income had we applied the provisions of that statement to stock-based employee compensation.

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SFAS No. 123(R) will require us to recognize stock option expense in our statements of income beginning no later than the third fiscal quarter of 2005 and to estimate the effect of stock option forfeitures. (As permitted by the original SFAS No. 123, we currently account for forfeitures as they occur.) In addition, SFAS 123(R) amends FASB Statement No. 95, Statements of Cash Flows, to require that excess tax benefits be reported as a financing cash inflow rather than as a reduction of taxes paid.

As of the beginning of our third fiscal quarter in 2005 (the required effective date), we will apply the provisions of SFAS 123(R) to new stock awards and to awards modified, repurchased or canceled after the required effective date. Additionally, compensation cost for the portion of awards for which the requisite service has not been rendered that are outstanding as of the required effective date shall be recognized as the service is rendered on or after that date. The compensation cost for that portion of awards will be based on the fair value of those awards as calculated for pro forma disclosure purposes under the original SFAS No. 123.

Under SFAS 123(R), we may apply a modified version of retrospective application either (a) to all prior years for which the original SFAS No. 123 was effective, or (b) only to our first two fiscal quarters. We have not yet decided whether we will use modified retrospective application when we adopt SFAS 123(R). If we do so, we estimate that our post-tax stock option expense for the full 2005 year will be approximately \$7 to \$10 million. Actual amounts of stock option expense may vary materially from this estimate based on a number of factors, including the number and timing of new options granted, the fair market value of the Company's stock price on the date of grant and assumptions to be applied in determining the fair value of options on the grant date.

Statement of Financial Accounting Standards No. 151, Inventory Costs, amends the guidance in ARB No. 43, Chapter 4, Inventory Pricing, to clarify that abnormal amounts of idle facility expense, freight, handling costs, and spoilage should be recognized as current-period charges. The provisions of SFAS 151 become effective for BJs in 2006. We believe that the adoption of SFAS 151 will not have a material effect on our results of operations, financial position or cash flows.

## ***Liquidity and Capital Resources***

Net cash provided by operating activities was \$248.9 million in 2004 compared with \$199.9 million in 2003 and \$151.3 million in 2002. The increase in net cash provided by operating activities in 2004 versus 2003 was due principally to an increase in net income before the cumulative effect of accounting changes and before depreciation and amortization of \$22.1 million and a decrease in payments for closed store lease obligations of \$26.0 million. The increase in net cash provided by operating activities in 2003 versus 2002 was due mainly to an increase in cash provided by accounts payable of \$40.4 million. Cash provided by net income before depreciation and amortization and the cumulative effect of accounting principle changes was \$213.3 million in 2004 versus \$191.2 million in 2003 and \$204.0 million in 2002.

Cash expended for property additions was \$133.3 million in 2004, \$176.9 million in 2003 and \$134.8 million in 2002. In 2004, we opened seven new clubs and three gasoline stations, and remodeled six existing clubs. One of the new clubs is owned at a location that is subject to a ground lease. The other new clubs are leased. In 2003, we opened ten new clubs and purchased one existing club, which was previously leased. Four of the new clubs opened in 2003 were at owned locations. We also opened a new 480,000 square foot owned cross-dock facility in Jacksonville, Florida, in April 2003 and remodeled 30 existing clubs during the year.

We expect that capital expenditures will total approximately \$185 to \$190 million in 2005, based on plans to open 8 to 9 new clubs and approximately 8 gas stations. We also expect to remodel approximately four existing clubs in 2005. Planned capital expenditures in 2005 include approximately \$35 million associated with the relocation of our Franklin, Massachusetts, cross-dock facility to a new facility in Uxbridge, Massachusetts, which we plan to open in 2006. 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.



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In 2004, we repurchased 1,725,200 shares of our common stock for \$45.3 million, or an average price of \$26.27 per share. We did not repurchase any BJ's stock in 2003. In 2002, we repurchased 2,648,700 shares of common stock for \$83.5 million, or an average price of \$31.51 per share. From the inception of our share repurchase activities in August 1998, we have repurchased a total of \$354.9 million of common stock at an average cost of \$30.88 per share. As of January 29, 2005, our remaining repurchase authorization was \$45.1 million. On February 28, 2005, the Board of Directors authorized the repurchase of up to an additional \$100 million of BJ's common stock.

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 through November 1, 2011 and has a prepayment penalty. The principal balance at January 29, 2005 was \$3.6 million.

We have a \$200 million unsecured credit agreement with a group of banks which expires June 13, 2005. The agreement includes a \$50 million sub-facility for letters of credit, of which \$2.3 million was outstanding at January 29, 2005. We are required to pay an annual facility fee which is currently 0.175% 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 0.575% or (b) a rate equal to the higher of the sum of the Federal Funds Effective Rate plus 0.50% or the agent bank's prime rate. We are also required to pay a usage fee in any calendar quarter during which the average daily amount of loans and undrawn or unreimbursed letters of credit outstanding exceeds 33% of the total commitment. The usage fee, if applicable, would currently be at an annual rate of 0.125% of the average daily amount of credit used under the facility during the calendar quarter. The facility fee, Eurodollar margin and usage fee are subject to change based upon our 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. 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 other covenants. 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 29, 2005 and for all fiscal periods throughout the year. We expect to enter into a new credit agreement before the current agreement expires.

In addition to the credit agreement, we maintain a separate \$50 million facility for letters of credit, primarily to support the purchase of inventories, of which \$29.3 million was outstanding at January 29, 2005, and we also maintain a \$25 million uncommitted credit line for short-term borrowings which expires on September 30, 2005.

There were no borrowings outstanding under our bank credit agreement or our uncommitted credit line at January 29, 2005 and January 31, 2004.

Increases in inventories and accounts payable from January 31, 2004 to January 29, 2005 were due mainly to the addition of new clubs and an increase of 2.3% in the average inventory per club in the same time period.

Pursuant to an agreement with TJX and in connection with House2Home's filing for bankruptcy on November 7, 2001, we recorded a pretax charge of \$105.0 million for our estimated loss associated with House2Home leases in 2001. Based on our continuing evaluation of our remaining obligations and the significant progress made in settling liabilities for House2Home leases, we recorded pretax gains of \$20.0 million in 2002, \$5.5 million in 2003 and \$2.7 million in 2004 to reduce our estimated liability related to House2Home contingent lease obligations.

As of January 29, 2005, we have settled all 41 House2Home leases for which we were originally contingently liable, including lump sum settlements for 38 leases. The other three House2Home properties (for which we remain contingently liable) have been assigned to third parties.



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During the third quarter of 2002, we established reserves for our liability related to leases for three BJ's clubs which closed on November 9, 2002. (See Note C of Notes to Consolidated Financial Statements for additional information.) Our recorded liabilities have been based on the present value of rent liabilities under the three leases, including estimated real estate taxes and common area maintenance charges, reduced by estimated income from the subleasing of these properties. An annual discount rate of 6% was used to calculate the present value of these lease obligations. This rate was based on estimated borrowing rates for the Company that took into consideration the weighted-average period of time over which these obligations are expected to be paid.

During 2004, we made a lump sum payment to settle the lease for one of the three closed clubs. Based on this settlement and an evaluation of the status of the two remaining properties, we recorded a pretax charge of \$2.9 million to increase our reserve for closed clubs. The reserve at January 29, 2005 includes an estimated amount to settle the lease for one of the two remaining clubs through a lump sum payment based on negotiations in progress. The remainder of the reserve is based on the present value of our rent liability under the lease for the other remaining club, including real estate taxes and common area maintenance charges, reduced by estimated income from subleasing the property. We will continue to use an annual discount rate of 6% to calculate the present value of the obligation.

We believe that the liabilities recorded in the financial statements adequately provide for these lease obligations. However, there can be no assurance that our actual liability for closed store obligations will not differ materially from amounts recorded in the financial statements due to a number of factors, including future economic factors which may affect the ability to successfully sublease, assign or otherwise settle liabilities related to these properties. We consider our maximum reasonably possible undiscounted pretax exposure for our closed store lease obligations to be approximately \$41 million at January 29, 2005.

BJ's has filed proofs of claim against House2Home, Inc. for claims arising under certain agreements between BJ's and House2Home in connection with the Company's spin-off from Waban Inc. in July 1997. These claims arise primarily from BJ's indemnification of TJX with respect to TJX's guarantee of House2Home leases and from the Tax Sharing Agreement dated July 28, 1997 between BJ's and House2Home. House2Home and BJ's have settled BJ's claims against House2Home. The settlement provides that BJ's will have an unsecured claim of approximately \$37.9 million, on account of claims under the Tax Sharing Agreement and indemnification payments which have been made to TJX. The settlement agreement was approved by the United States Bankruptcy Court for the Central District of California on November 10, 2003. As part of the settlement, BJ's has been released of all claims that House2Home and its bankruptcy estate may have had against BJ's, including \$1.7 million owed by BJ's to House2Home under the Tax Sharing Agreement. We recognized this amount as a reduction in our tax provision in the fourth quarter of 2003.

During 2004, we received pretax recoveries on account of our House2Home bankruptcy claims totaling \$7.0 million, including a payment of \$2.5 million to settle our claim against the Indenture Trustee for House2Home's Convertible Subordinated Notes. We have no further claims against the Indenture Trustee. These recoveries are included in gain on contingent lease obligations in the statements of income. On a post-tax basis these gains totaled \$4.6 million. We are unable to determine the amount and timing of any future recoveries under our claims against House2Home and, therefore, have not recognized such claims against House2Home in our financial statements.

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.



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In 2004, we recorded pretax charges of \$7.0 million (\$4.2 million post-tax) 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 April 6, 2005, the amount of estimated outstanding claims was approximately \$10 million. In addition, the U.S. Federal Trade Commission is contemplating a proceeding against the Company relating to this matter. 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.

As of January 29, 2005, the balance in the credit card reserve was \$5.3 million, which represents our best estimate of the remaining costs and expenses related to this matter at that time. This reserve is included in accrued expenses and other current liabilities on our balance sheet. The ultimate outcome of this matter could differ from the amounts recorded. While that difference could be material to the results of operations for any affected reporting period, it is not expected to have a material impact on consolidated financial position or liquidity.

BJ's had no off-balance sheet arrangements at any time during the fiscal year ended January 29, 2005.

The following summarizes our contractual cash obligations as of January 29, 2005 and the effect these obligations are expected to have on our liquidity and cash flows in future periods:

| Contractual Obligations        | Payments Due by Period |                     |                   |                   |                      |
|--------------------------------|------------------------|---------------------|-------------------|-------------------|----------------------|
|                                | Total                  | Less Than<br>1 Year | 1-3 Years         | 3-5 Years         | More Than<br>5 Years |
| (Dollars in Thousands)         |                        |                     |                   |                   |                      |
| Long-term debt                 | \$ 4,572               | \$ 669              | \$ 1,338          | \$ 1,338          | \$ 1,227             |
| Operating leases               | 1,906,158              | 117,877             | 239,155           | 233,747           | 1,315,379            |
| Purchase obligations           | 417,261                | 377,457             | 24,630            | 13,781            | 1,393                |
| Closed store lease obligations | 15,991                 | 7,121               | 2,110             | 1,204             | 5,556                |
| Other long-term liabilities    | 47,464                 | 4                   | 19,254            | 5,493             | 22,713               |
|                                | <u>\$ 2,391,446</u>    | <u>\$ 503,128</u>   | <u>\$ 286,487</u> | <u>\$ 255,563</u> | <u>\$ 1,346,268</u>  |

In the table above, long-term debt consists of a real estate mortgage which matures through November 1, 2011. Amounts for long-term debt include interest as well as principal.

Amounts for operating leases reflect future minimum lease payments 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.

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Approximately 87% 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 comprise our liabilities on the balance sheet at January 29, 2005 for two BJ's closed clubs. Timing of payments was based on our estimates of when these liabilities would likely be satisfied through lump sum settlements or through lease payments, net of estimated sublease income.

Amounts for other long-term liabilities consist mainly of payments for self-insured worker's compensation and general liability claims and for asset retirement obligations, both of which are included on our balance sheet at January 29, 2005. 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 noncurrent liabilities in the table above were payments of \$22.7 million for our rent escalation liabilities because they are already included in the operating leases line, and deferred revenue of \$3.6 million, which is not a cash obligation.

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Cash, cash equivalents and short-term marketable securities totaled \$150.4 million as of January 29, 2005. Based on the expectation that a new five-year credit agreement will be in place before the current agreement expires, we believe that our current resources, together with anticipated cash flow from operations, will be sufficient to finance our operations through the term of the new credit agreement. However, we 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 planned capital expenditures, planned club gas station openings, expected provision for income taxes, BJ's reserve for credit and debit card claims, lease obligations in connection with two closed BJ's clubs, ProFoods, the effects of implementing SFAS 123(R), sales penetration of private label products, planned addition of pharmacies and other information with respect to our plans and strategies. Any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, the words believes, anticipates, plans, estimates, expect and similar expressions are intended to identify forward-looking statements. There are a number of important factors that could cause actual events or our actual results to differ materially from those indicated by such forward-looking statements, including, without limitation, the factors set forth below and other factors noted elsewhere in this Management's Discussion and Analysis of Financial Condition and Results of Operations, particularly those noted under Critical Accounting Policies and Estimates. In addition, any forward-looking statements represent our estimates only as of the day this annual report was first filed with the Securities and Exchange Commission and should not be relied upon as representing our estimates as of any subsequent date. While we may elect to update forward-looking statements at some point in the future, we specifically disclaim any obligation to do so, even if our estimates change.

Our clubs are located in the eastern United States, primarily in the Northeast. Our business may be adversely affected from time to time by economic downturns in our markets. In addition, we may be impacted by state and local regulation in our markets and temporarily impacted by weather conditions prevailing in our markets.

We compete with national, regional and local retailers and wholesalers, including national chains in the warehouse merchandising business, some of which have significantly greater financial and marketing resources than BJ's, which could adversely affect our business, operating results and financial condition.

In connection with the spin-off in 1997, Waban received a letter ruling from the Internal Revenue Service to the effect that, for federal income tax purposes, the distribution of the Company's stock to Waban's stockholders (the Distribution) and related asset transfers would be tax-free to Waban's stockholders. Certain future events not within the control of the Company or House2Home, including, for example, certain dispositions of the Company's common stock or House2Home's common stock, could cause the Distribution not to qualify for tax-free treatment. If this occurred, the related tax liability would be payable by House2Home, although the Company has agreed to indemnify House2Home under certain circumstances for all or a portion of such tax liability.

### **Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

We believe that our potential exposure to market risk as of January 29, 2005 is not material because of the short contractual maturities of our cash and cash equivalents on that date and because of the interest rate reset feature applicable to our marketable securities, which typically adjust to market rates every 35 days. There were no borrowings outstanding under our bank credit agreement or its uncommitted credit line at January 29, 2005. We have not used derivative financial instruments. See Summary of Accounting Policies Disclosures about Fair Value of Financial Instruments and Note D in Notes to Consolidated Financial Statements.



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**Item 8. Financial Statements and Supplementary Data**

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|                                                                                            | Fiscal Year Ended                               |                     |                     |
|--------------------------------------------------------------------------------------------|-------------------------------------------------|---------------------|---------------------|
|                                                                                            | January 29,<br>2005                             | January 31,<br>2004 | February 1,<br>2003 |
|                                                                                            | (Dollars in Thousands except Per Share Amounts) |                     |                     |
| Net sales                                                                                  | \$ 7,220,239                                    | \$ 6,553,924        | \$ 5,728,955        |
| Membership fees and other                                                                  | 155,062                                         | 139,411             | 130,747             |
| Total revenues                                                                             | 7,375,301                                       | 6,693,335           | 5,859,702           |
| Cost of sales, including buying and occupancy costs                                        | 6,617,495                                       | 6,018,088           | 5,212,124           |
| Selling, general and administrative expenses                                               | 556,234                                         | 502,673             | 416,063             |
| Provision for credit card claims                                                           | 7,000                                           |                     |                     |
| Preopening expenses                                                                        | 15,331                                          | 8,875               | 11,735              |
| Operating income                                                                           | 179,241                                         | 163,699             | 219,780             |
| Interest income (expense), net                                                             | 803                                             | (74)                | 293                 |
| Gain on contingent lease obligations                                                       | 9,424                                           | 4,488               | 15,607              |
| Income from continuing operations before income tax                                        | 189,468                                         | 168,113             | 235,680             |
| Provision for income taxes                                                                 | 72,884                                          | 63,318              | 89,871              |
| Income from continuing operations                                                          | 116,584                                         | 104,795             | 145,809             |
| Loss from discontinued operations, net of income tax benefit of \$1,455, \$451 and \$9,849 | (2,183)                                         | (676)               | (14,943)            |
| Income before cumulative effect of accounting principle changes                            | 114,401                                         | 104,119             | 130,866             |
| Cumulative effect of accounting principle changes                                          |                                                 | (1,253)             |                     |
| Net income                                                                                 | \$ 114,401                                      | \$ 102,866          | \$ 130,866          |
| Basic earnings per share:                                                                  |                                                 |                     |                     |
| Income from continuing operations                                                          | \$ 1.68                                         | \$ 1.51             | \$ 2.07             |
| Loss from discontinued operations                                                          | (0.04)                                          | (0.01)              | (0.21)              |
| Cumulative effect of accounting principle changes                                          |                                                 | (0.02)              |                     |
| Net income                                                                                 | \$ 1.64                                         | \$ 1.48             | \$ 1.86             |
| Diluted earnings per share:                                                                |                                                 |                     |                     |
| Income from continuing operations                                                          | \$ 1.66                                         | \$ 1.50             | \$ 2.05             |
| Loss from discontinued operations                                                          | (0.03)                                          | (0.01)              | (0.21)              |
| Cumulative effect of accounting principle changes                                          |                                                 | (0.02)              |                     |

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|                                                                                    |                   |                   |                   |
|------------------------------------------------------------------------------------|-------------------|-------------------|-------------------|
| Net income                                                                         | \$ 1.63           | \$ 1.47           | \$ 1.84           |
|                                                                                    | <u>          </u> | <u>          </u> | <u>          </u> |
| Number of common shares for earnings per share computations:                       |                   |                   |                   |
| Basic                                                                              | 69,580,978        | 69,521,408        | 70,321,078        |
| Diluted                                                                            | 70,131,653        | 69,815,020        | 71,120,706        |
| Pro forma amounts assuming accounting principle changes are applied retroactively: |                   |                   |                   |
| Net income                                                                         | \$ 114,401        | \$ 104,119        | \$ 130,296        |
|                                                                                    | <u>          </u> | <u>          </u> | <u>          </u> |
| Basic earnings per common share                                                    | \$ 1.64           | \$ 1.50           | \$ 1.85           |
|                                                                                    | <u>          </u> | <u>          </u> | <u>          </u> |
| Diluted earnings per common share                                                  | \$ 1.63           | \$ 1.49           | \$ 1.83           |
|                                                                                    | <u>          </u> | <u>          </u> | <u>          </u> |

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

**Table of Contents****BJS WHOLESALE CLUB, INC.****CONSOLIDATED BALANCE SHEETS**

|                                                                                        | January 29,<br>2005    | January 31,<br>2004 |
|----------------------------------------------------------------------------------------|------------------------|---------------------|
|                                                                                        | (Dollars in Thousands) |                     |
| <b>ASSETS</b>                                                                          |                        |                     |
| Current assets:                                                                        |                        |                     |
| Cash and cash equivalents                                                              | \$ 125,558             | \$ 78,720           |
| Marketable securities                                                                  | 24,800                 |                     |
| Accounts receivable                                                                    | 87,292                 | 78,922              |
| Merchandise inventories                                                                | 759,742                | 709,362             |
| Current deferred income taxes                                                          | 25,665                 | 19,326              |
| Prepaid expenses                                                                       | 19,922                 | 22,640              |
|                                                                                        | <u>1,042,979</u>       | <u>908,970</u>      |
| Total current assets                                                                   |                        |                     |
| Property at cost:                                                                      |                        |                     |
| Land and buildings                                                                     | 564,237                | 539,885             |
| Leasehold costs and improvements                                                       | 152,547                | 121,128             |
| Furniture, fixtures and equipment                                                      | 514,838                | 479,444             |
|                                                                                        | <u>1,231,622</u>       | <u>1,140,457</u>    |
| Less: accumulated depreciation and amortization                                        | 405,737                | 351,153             |
|                                                                                        | <u>825,885</u>         | <u>789,304</u>      |
| Other assets                                                                           | 22,650                 | 23,085              |
|                                                                                        | <u>22,650</u>          | <u>23,085</u>       |
| Total assets                                                                           | <u>\$ 1,891,514</u>    | <u>\$ 1,721,359</u> |
| <b>LIABILITIES</b>                                                                     |                        |                     |
| Current liabilities:                                                                   |                        |                     |
| Current installments of long-term debt                                                 | \$ 429                 | \$ 400              |
| Accounts payable                                                                       | 533,345                | 506,988             |
| Accrued expenses and other current liabilities                                         | 238,911                | 205,919             |
| Accrued federal and state income taxes                                                 | 54,321                 | 37,928              |
| Closed store lease obligations due within one year                                     | 7,121                  | 10,448              |
|                                                                                        | <u>834,127</u>         | <u>761,683</u>      |
| Total current liabilities                                                              |                        |                     |
| Long-term debt, less portion due within one year                                       | 3,196                  | 3,625               |
| Noncurrent closed store lease obligations                                              | 8,870                  | 11,463              |
| Other noncurrent liabilities                                                           | 73,756                 | 58,199              |
| Deferred income taxes                                                                  | 32,398                 | 34,168              |
| Commitments and contingencies                                                          |                        |                     |
| <b>STOCKHOLDERS' EQUITY</b>                                                            |                        |                     |
| Preferred stock, par value \$.01, authorized 20,000,000 shares, no shares issued       |                        |                     |
| Common stock, par value \$.01, authorized 180,000,000 shares, issued 74,410,190 shares | 744                    | 744                 |

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|                                                         |                   |                   |
|---------------------------------------------------------|-------------------|-------------------|
| Additional paid-in capital                              | 37,827            | 52,868            |
| Unearned compensation                                   | (2,629)           | (185)             |
| Retained earnings                                       | 1,078,909         | 964,533           |
| Treasury stock, at cost, 5,320,687 and 4,620,587 shares | (175,684)         | (165,739)         |
|                                                         | <u>          </u> | <u>          </u> |
| Total stockholders' equity                              | 939,167           | 852,221           |
|                                                         | <u>          </u> | <u>          </u> |
| Total liabilities and stockholders' equity              | \$ 1,891,514      | \$ 1,721,359      |
|                                                         | <u>          </u> | <u>          </u> |

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

Table of Contents**BJS WHOLESALE CLUB, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

|                                                                                   | Fiscal Year Ended      |             |             |
|-----------------------------------------------------------------------------------|------------------------|-------------|-------------|
|                                                                                   | January 29,            | January 31, | February 1, |
|                                                                                   | 2005                   | 2004        | 2003        |
|                                                                                   | (Dollars in Thousands) |             |             |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                       |                        |             |             |
| Net income                                                                        | \$ 114,401             | \$ 102,866  | \$ 130,866  |
| Adjustments to reconcile net income to net cash provided by operating activities: |                        |             |             |
| Provision for credit card claims                                                  | 7,000                  |             |             |
| Gain on contingent lease obligations                                              | (2,458)                | (4,488)     | (15,607)    |
| Provision for store closing costs and asset impairment losses                     | 6,025                  | 3,468       | 23,234      |
| Provision for lease accounting corrections                                        | 7,234                  |             |             |
| Cumulative effect of accounting principle changes                                 |                        | 1,253       |             |
| Depreciation and amortization of property                                         | 98,900                 | 87,050      | 73,113      |
| Loss on property disposals                                                        | 502                    | 1,154       | 854         |
| Other noncash items (net)                                                         | 1,568                  | 903         | 287         |
| Deferred income taxes                                                             | (8,109)                | 22,917      | 32,499      |
| Tax benefit from exercise of stock options                                        | 4,343                  | 999         | 2,817       |
| Increase (decrease) in cash due to changes in:                                    |                        |             |             |
| Accounts receivable                                                               | (8,370)                | (15,543)    | (1,304)     |
| Merchandise inventories                                                           | (50,380)               | (77,827)    | (71,534)    |
| Prepaid expenses                                                                  | 2,718                  | (3,614)     | (1,620)     |
| Other assets                                                                      | 194                    | (466)       | (1,844)     |
| Accounts payable                                                                  | 38,018                 | 71,059      | 30,613      |
| Accrued expenses                                                                  | 20,645                 | 26,146      | 11,114      |
| Accrued income taxes                                                              | 16,393                 | 12,960      | (8,384)     |
| Closed store lease obligations                                                    | (7,100)                | (33,061)    | (51,493)    |
| Other noncurrent liabilities                                                      | 7,366                  | 4,167       | (2,268)     |
| Net cash provided by operating activities                                         | 248,890                | 199,943     | 151,343     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                       |                        |             |             |
| Property additions                                                                | (133,263)              | (176,918)   | (134,826)   |
| Proceeds from property disposals                                                  | 544                    | 157         | 144         |
| Purchase of marketable securities                                                 | (941,250)              | (213,700)   |             |
| Sale of marketable securities                                                     | 916,450                | 213,700     |             |
| Net cash used in investing activities                                             | (157,519)              | (176,761)   | (134,682)   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                       |                        |             |             |
| Repayment of long-term debt                                                       | (400)                  |             |             |
| Repayment of capital lease obligations                                            |                        |             | (197)       |
| Cash dividends paid on preferred stock of subsidiary                              | (25)                   | (25)        | (25)        |
| Proceeds from issuance of common stock                                            | 12,871                 | 7,489       | 3,967       |
| Purchase of treasury stock                                                        | (45,318)               |             | (83,469)    |

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|                                                      |            |           |           |
|------------------------------------------------------|------------|-----------|-----------|
| Changes in book overdrafts                           | (11,661)   | 15,391    | 8,588     |
| Net cash (used in) provided by financing activities  | (44,533)   | 22,855    | (71,136)  |
| Net increase (decrease) in cash and cash equivalents | 46,838     | 46,037    | (54,475)  |
| Cash and cash equivalents at beginning of year       | 78,720     | 32,683    | 87,158    |
| Cash and cash equivalents at end of year             | \$ 125,558 | \$ 78,720 | \$ 32,683 |
| Supplemental cash flow information:                  |            |           |           |
| Interest paid, net of capitalized interest           | \$ 596     | \$ 166    | \$ 301    |
| Income taxes paid                                    | 63,145     | 26,990    | 55,907    |
| Noncash financing and investing activities:          |            |           |           |
| Treasury stock issued for compensation plans         | \$ 35,373  | \$ 18,112 | \$ 13,220 |
| Debt assumed in connection with real estate purchase |            | 4,025     |           |

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

**Table of Contents****BJ S WHOLESALE CLUB, INC.****CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**

|                                                 | <u>Common Stock</u> |               | <u>Additional</u> |                     |                 | <u>Treasury Stock</u> |               | <u>Total</u>        |
|-------------------------------------------------|---------------------|---------------|-------------------|---------------------|-----------------|-----------------------|---------------|---------------------|
|                                                 |                     |               | <u>Paid-in</u>    | <u>Unearned</u>     | <u>Retained</u> |                       |               | <u>Stockholders</u> |
|                                                 | <u>Shares</u>       | <u>Amount</u> | <u>Capital</u>    | <u>Compensation</u> | <u>Earnings</u> | <u>Shares</u>         | <u>Amount</u> | <u>Equity</u>       |
|                                                 |                     |               |                   |                     |                 |                       |               |                     |
|                                                 |                     |               |                   | (In Thousands)      |                 |                       |               |                     |
| Balance, February 2, 2002                       | 74,410              | \$ 744        | \$ 68,615         | \$ (41)             | \$ 730,851      | (2,817)               | \$ (113,602)  | \$ 686,567          |
| Net income                                      |                     |               |                   |                     | 130,866         |                       |               | 130,866             |
| Issuance of common stock                        |                     |               | (6,237)           | (199)               |                 | 340                   | 13,220        | 6,784               |
| Cash dividends on preferred stock of subsidiary |                     |               |                   |                     | (25)            |                       |               | (25)                |
| Purchase of treasury stock                      |                     |               |                   |                     |                 | (2,649)               | (83,469)      | (83,469)            |
| Compensation expense                            |                     |               |                   | 80                  |                 |                       |               | 80                  |
|                                                 |                     |               |                   |                     |                 |                       |               |                     |
| Balance, February 1, 2003                       | 74,410              | 744           | 62,378            | (160)               | 861,692         | (5,126)               | (183,851)     | 740,803             |
| Net income                                      |                     |               |                   |                     | 102,866         |                       |               | 102,866             |
| Issuance of common stock                        |                     |               | (9,510)           | (114)               |                 | 505                   | 18,112        | 8,488               |
| Cash dividends on preferred stock of subsidiary |                     |               |                   |                     | (25)            |                       |               | (25)                |
| Compensation expense                            |                     |               |                   | 89                  |                 |                       |               | 89                  |
|                                                 |                     |               |                   |                     |                 |                       |               |                     |
| Balance, January 31, 2004                       | 74,410              | 744           | 52,868            | (185)               | 964,533         | (4,621)               | (165,739)     | 852,221             |
| Net income                                      |                     |               |                   |                     | 114,401         |                       |               | 114,401             |
| Issuance of common stock                        |                     |               | (15,041)          | (3,116)             |                 | 1,025                 | 35,373        | 17,216              |
| Cash dividends on preferred stock of subsidiary |                     |               |                   |                     | (25)            |                       |               | (25)                |
| Purchase of treasury stock                      |                     |               |                   |                     |                 | (1,725)               | (45,318)      | (45,318)            |
| Compensation expense                            |                     |               |                   | 672                 |                 |                       |               | 672                 |
|                                                 |                     |               |                   |                     |                 |                       |               |                     |
| Balance, January 29, 2005                       | 74,410              | \$ 744        | \$ 37,827         | \$ (2,629)          | \$ 1,078,909    | (5,321)               | \$ (175,684)  | \$ 939,167          |

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**

**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 29, 2005, January 31, 2004 and February 1, 2003 each included 52 weeks.

*Cash Equivalents and Marketable Securities*

We consider highly liquid investments with a maturity of three months or less at time of purchase to be cash equivalents. Investments with maturities exceeding three months are classified as marketable securities.

Our marketable securities, which consist of high-grade debt securities issued by state governmental agencies or their political subdivisions, are classified as available for sale and are recorded at cost, which approximates fair value.

*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 \$616,000 at January 29, 2005 and \$355,000 at January 31, 2004. 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 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 fixed non-cancelable lease term or their estimated useful life, whichever is shorter. Leasehold costs and improvements incurred within one year of the end of the fixed non-cancelable lease term are amortized over the remainder of the year and the following renewal period (which is typically five years) when the renewal is reasonably assured. Furniture, fixtures and equipment are depreciated over three to ten years. Interest related to the development of owned facilities is capitalized to the extent that debt is incurred during the construction period.

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

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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 held for use.

We recorded pretax asset impairment charges of \$2,387,000 in 2004, \$2,342,000 in 2003 and \$1,847,000 in 2002 to write down leasehold improvements and certain fixtures and equipment to fair value at underperforming clubs that were projected to have future 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. Membership fee revenue is recognized on a straight-line basis over the life of the membership, which is typically twelve months.

In determining comparable club information, 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.

### *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 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 BJs 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 of.

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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 BJ's members 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 exceeds the costs being reimbursed, the excess is characterized as a reduction of cost of sales. Cash consideration for product demonstrations is

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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*

At the beginning of 2004, we adopted 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. As permitted by the transition provisions of EITF 03-10, we have reclassified 2003's sales and cost of sales for comparative purposes. Implementation of EITF 03-10 has no effect on gross margin dollars, net income or cash flows, but certain vendor coupons or rebates which had been recorded in sales in the past are being recognized as a reduction of cost of sales. The implementation of EITF 03-10 resulted in decreases in both sales and cost of sales of \$45.6 million in 2004 and \$30.9 million in 2003.

### *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 include during the holiday season television and radio advertising (some of which is vendor-funded). BJS expenses advertising costs as incurred.

**Table of Contents***Stock-Based Compensation*

At January 29, 2005, we had two stock-based employee compensation plans, which are described more fully in Note H. We account for those plans under the recognition and measurement principles of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations. No stock-based employee compensation cost for stock options is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of the grant. We do include stock-based employee compensation cost for restricted stock in net income. The following table illustrates the effect on net income and earnings per share if we had applied the fair value recognition provisions of Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation*, to stock-based employee compensation.

|                                                                                                                                             | Fiscal Year Ended            |                     |                     |
|---------------------------------------------------------------------------------------------------------------------------------------------|------------------------------|---------------------|---------------------|
|                                                                                                                                             | January 29,<br>2005          | January 31,<br>2004 | February 1,<br>2003 |
|                                                                                                                                             | (Dollars in Thousands except |                     |                     |
|                                                                                                                                             | Per Share Amounts)           |                     |                     |
| Net income, as reported                                                                                                                     | \$ 114,401                   | \$ 102,866          | \$ 130,866          |
| Add: Stock-based employee compensation expense included in reported net income, net of related tax effects                                  | 412                          | 55                  | 50                  |
| Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects | (7,725)                      | (4,439)             | (8,777)             |
| Pro forma net income                                                                                                                        | \$ 107,088                   | \$ 98,482           | \$ 122,139          |
| Earnings per share:                                                                                                                         |                              |                     |                     |
| Basic as reported                                                                                                                           | \$ 1.64                      | \$ 1.48             | \$ 1.86             |
| Basic pro forma                                                                                                                             | \$ 1.54                      | \$ 1.42             | \$ 1.74             |
| Diluted as reported                                                                                                                         | \$ 1.63                      | \$ 1.47             | \$ 1.84             |
| Diluted pro forma                                                                                                                           | \$ 1.54                      | \$ 1.42             | \$ 1.73             |

*Disclosures about Fair Value of Financial Instruments*

The carrying amount of cash and cash equivalents and marketable securities approximates fair value because of the short maturity of these instruments. The carrying amount of marketable securities approximates fair value because of their interest rate reset feature, which typically adjusts to market rates every 35 days.

The carrying amount of long-term debt, including current installments, was \$3,625,000 as of January 29, 2005. The fair value of this debt was \$3,920,000, based on our estimate of current rates on debt with similar remaining maturities for companies with credit ratings similar to BJs.

*Recently Issued Accounting Standards*

The Financial Accounting Standards Board ( FASB ) issued the following standards which will become effective in 2005 or 2006:

Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment, (SFAS 123 (R)) revises FASB Statement No. 123, Accounting for Stock-Based Compensation and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and its related implementation guidance.

This statement establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services, and focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions.

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We currently account for stock-based employee compensation under the recognition and measurement principles of APB Opinion No. 25. In accordance with that standard, no stock-based employee compensation cost for stock options has been reflected in our statements of income. In accordance with the provisions of the original SFAS No. 123, we currently disclose, on a pro forma basis, the effect on net income had we applied the provisions of that statement to stock-based employee compensation.

SFAS No. 123(R) will require us to recognize stock option expense in our statements of income beginning no later than the third fiscal quarter of 2005 and to estimate the effect of stock option forfeitures. (As permitted by the original SFAS No. 123, we currently account for forfeitures as they occur.) In addition, SFAS 123(R) amends FASB Statement No. 95, Statements of Cash Flows, to require that excess tax benefits be reported as a financing cash inflow rather than as a reduction of taxes paid.

As of the beginning of our third fiscal quarter in 2005 (the required effective date), we will apply the provisions of SFAS 123(R) to new stock awards and to awards modified, repurchased or canceled after the required effective date. Additionally, compensation cost for the portion of awards for which the requisite service has not been rendered that are outstanding as of the required effective date shall be recognized as the service is rendered on or after that date. The compensation cost for that portion of awards will be based on the fair value of those awards as calculated for pro forma disclosure purposes under the original SFAS No. 123.

Under SFAS 123(R), we may apply a modified version of retrospective application either (a) to all prior years for which the original SFAS No. 123 was effective, or (b) only to our first two fiscal quarters. We have not yet decided whether we will use modified retrospective application when we adopt SFAS 123(R). If we do so, we estimate that our post-tax stock option expense for the full 2005 year will be approximately \$7 to \$10 million. Actual amounts of stock option expense may vary materially from this estimate based on a number of factors, including the number and timing of new options granted, the fair market value of the Company's stock price on the date of grant and assumptions to be applied in determining the fair value of options on the grant date.

Statement of Financial Accounting Standards No. 151, Inventory Costs, amends the guidance in ARB No. 43, Chapter 4, Inventory Pricing, to clarify that abnormal amounts of idle facility expense, freight, handling costs, and spoilage should be recognized as current-period charges. The provisions of SFAS 151 become effective for BJs in 2006. We believe that the adoption of SFAS 151 will not have a material effect on our results of operations, financial position or cash flows.

### *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.

### *Other*

Certain amounts in the prior years' financial statements have been reclassified for comparative purposes.

**A. Accounting Principle Change**

During the first quarter of 2003, we adopted the provisions of Statement of Financial Accounting Standards No. 143, Accounting for Asset Retirement Obligations ( SFAS No. 143 ). SFAS No. 143 requires us to recognize future costs for asset retirements to be incurred. We recorded a post-tax charge of \$1,253,000 (after reduction for income taxes of \$776,000), or \$.02 per diluted share, to reflect the cumulative effect of adopting this accounting principle change as of the beginning of the fiscal year, primarily in connection with the future removal of gasoline tanks from our gasoline stations.

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Although results for 2002 were not restated, the pro forma amounts shown at the bottom of the statements of income reflect net income and earnings per share as if SFAS No. 143 had been in effect during each period presented.

The following is a summary of activity relating to our liability for asset retirement obligations:

|                                  | Fiscal Year Ended      |                     |
|----------------------------------|------------------------|---------------------|
|                                  | January 29,<br>2005    | January 31,<br>2004 |
|                                  | (Dollars in Thousands) |                     |
| Balance, beginning of year       | \$ 9,683               | \$                  |
| Liabilities incurred during year | 302                    | 9,110*              |
| Accretion expense                | 655                    | 573                 |
| Balance, end of year             | \$ 10,640              | \$ 9,683            |

\* Includes \$8,103,000 of liabilities recorded in connection with adopting SFAS No. 143.

**B. Spin-off of the Company from Waban Inc. and Related Party Transactions**

The Company, which previously had been a wholly owned subsidiary of Waban Inc. ( Waban ), became a separate and independent public entity on July 28, 1997, when Waban distributed to its stockholders on a pro rata basis all of the Company's outstanding common stock (the spin-off).

Pursuant to the spin-off, BJ's and Waban entered into a Tax Sharing Agreement to provide for the payment of taxes and the entitlement to tax refunds for periods prior to the spin-off date. Each party has agreed to indemnify the other in specified circumstances if certain events occurring after July 28, 1997 cause the spin-off or certain related transactions to become taxable.

**C. Gain or Loss on Contingent Lease Obligations and Discontinued Operations**

In connection with the spin-off of Waban by The TJX Companies, Inc. ( TJX ) in 1989, Waban and TJX entered into an agreement pursuant to which Waban agreed to indemnify TJX against any liabilities that TJX might incur with respect to 41 House2Home leases as to which TJX was either a lessee or guarantor. Pursuant to a subsequent agreement, BJ's agreed to indemnify TJX for 100% of House2Home's lease liabilities through January 31, 2003 and for 50% of any such liabilities thereafter.

House2Home filed for bankruptcy under Chapter 11 of the United States Bankruptcy Code on November 7, 2001. In the third quarter of 2001, we recorded a pretax charge of \$105.0 million for our estimated loss associated with House2Home leases. This loss was based on the present value of rent liabilities under these leases, including estimated real estate taxes and common area maintenance charges, reduced by estimated

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income from the subleasing of these properties. An annual discount rate of 6% was used to calculate the present value of these lease obligations.

Based on our continuing evaluation of our remaining obligations and the significant progress made in settling liabilities for House2Home leases, we recorded pretax gains of \$2.7 million in 2004, \$5.5 million in 2003 and \$20.0 million in 2002 to reduce our estimated liability related to House2Home contingent lease obligations.

On November 9, 2002, we closed both of our clubs in the Columbus, Ohio, market and an older non-prototypical 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. In 2004 we made a lump sum payment to settle the lease for one of the clubs that closed in 2002. Based on the settlement and an evaluation of the status of the two remaining clubs, we recorded a pretax charge of \$2,853,000 to increase our reserve for closed clubs.

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Including pretax accretion charges of \$785,000, the pretax loss from discontinued operations totaled \$3,638,000 in 2004. On a post-tax basis, this loss was \$2,183,000. Loss from discontinued operations in 2003 consisted of pretax accretion charges of \$946,000 and an increase in the reserves of \$180,000 for the write-off of additional long-lived assets. On a post-tax basis, these charges amounted to \$676,000. Loss from discontinued operations in 2002 consisted of pretax club closing costs of \$21,387,000 (\$12,832,000 post-tax) and pretax operating losses of \$3,405,000 (\$2,111,000 post-tax). Total revenues of the three closed clubs were \$42.1 million in 2002. There were no revenues after 2002.

The pretax loss of \$21.4 million in 2002 to close the three clubs consisted mainly of lease obligation costs of \$18.3 million. The remainder of the club closing costs consisted of the write-down of long-lived assets, employee termination benefits and other exit costs. The charges for lease obligations were based on the present value of rent liabilities under the three leases, including estimated real estate taxes and common area maintenance charges, reduced by estimated income from the subleasing of these properties. An annual discount rate of 6% was used to calculate the present value of the obligations.

The following is a summary of activity relating to our obligations for House2Home and BJ's closed store leases:

|                                                          | Fiscal Year Ended      |                     |                     |
|----------------------------------------------------------|------------------------|---------------------|---------------------|
|                                                          | January 29,<br>2005    | January 31,<br>2004 | February 1,<br>2003 |
|                                                          | (Dollars in Thousands) |                     |                     |
| Reserves for closed store liabilities, beginning of year | \$ 21,911              | \$ 58,334           | \$ 106,210          |
| Provision for increase (decrease) to reserves            | 203                    | (5,320)             | 1,210               |
| Interest accretion charges                               | 977                    | 1,958               | 4,570               |
| Cash payments                                            | (7,100)                | (33,061)            | (51,493)            |
| Write-down of long lived assets                          |                        |                     | (2,163)             |
| Reserves for closed store liabilities, end of year       | \$ 15,991              | \$ 21,911           | \$ 58,334           |

As of January 29, 2005, we have settled all 41 House2Home leases for which we were originally contingently liable, including lump sum settlements for 38 leases. The other three House2Home properties (for which we remain contingently liable) have been assigned to third parties. One of the leases for the three BJ's clubs closed in November 2002 has been settled. We have reserved a total of \$15,991,000 associated with our obligations for the two remaining leases for BJ's closed clubs as of January 29, 2005.

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 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 \$41 million at January 29, 2005.

**Table of Contents****D. Debt**

As of January 29, 2005, 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 29, 2005 were as follows:

| <b>Fiscal Years Ending</b> | <b>Dollars in<br/>Thousands</b> |
|----------------------------|---------------------------------|
| February 3, 2007           | \$ 460                          |
| February 2, 2008           | 493                             |
| January 31, 2009           | 529                             |
| January 30, 2010           | 567                             |
| Later years                | 1,147                           |
| <b>Total</b>               | <b>\$ 3,196</b>                 |

Real estate debt was collateralized by land and buildings with a net book value of \$9,993,000.

We have a \$200 million unsecured credit agreement with a group of banks which expires June 13, 2005. The agreement includes a \$50 million sub-facility for letters of credit, of which \$2.3 million was outstanding at January 29, 2005. We are required to pay an annual facility fee which is currently 0.175% 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 0.575% or (b) a rate equal to the higher of the sum of the Federal Funds Effective Rate plus 0.50% or the agent bank's prime rate. We are also required to pay a usage fee in any calendar quarter during which the average daily amount of loans and undrawn or unreimbursed letters of credit outstanding exceeds 33% of the total commitment. The usage fee, if applicable, would currently be at an annual rate of 0.125% of the average daily amount of credit used under the facility during the calendar quarter. The facility fee, Eurodollar margin and usage fee are subject to change based upon our 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. 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 other covenants. We were in compliance with the covenants and other requirements set forth in our credit agreement at January 29, 2005 and for all fiscal periods throughout the year. We expect to enter into a new five-year credit agreement before the current agreement expires.

In addition to the credit agreement, we maintain a separate \$50 million facility for letters of credit, primarily to support the purchase of inventories, of which \$29.3 million was outstanding at January 29, 2005, and we also maintain a \$25 million uncommitted credit line for short-term borrowings which expires on September 30, 2005.

There were no borrowings outstanding under our bank credit agreement or our uncommitted credit line at January 29, 2005 and January 31, 2004.

**E. Commitments and Contingencies**

We corrected our methods of accounting related to the timing of rent expense recognition at our leased locations, and for recognizing rent expenses for certain of our ground leases, in the fourth quarter of 2004. As a result of these changes, we recorded cumulative, non-cash charges of \$5.8 million to begin recognizing rent expenses when we take possession of our clubs, and \$1.4 million to adjust rent for our ground leases, in the fourth quarter of 2004. Of the \$7.2 million recorded for these charges, \$475,000 is related to 2004 and the remainder is related to prior years. The effect of this adjustment was to increase preopening expenses by \$8.2 million and to decrease cost of sales, including buying and occupancy costs, by \$1.0 million. See Summary of Accounting Policies Property and Equipment and Rent Expenses for additional information.

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Financial results for prior periods were not restated due to the immateriality of these issues to the results of operations and statements of financial position for the current year and each prior year. These charges will not affect historical or future cash flows, nor will they affect the timing or amounts of payments for the related leases.

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 10 to 25 years. Most of these leases have an initial term of 20 years. The initial primary term of our ground leases range from 15 to 45 years, and average approximately 25 years. As of January 29, 2005, we have options to renew all but one of our leases for periods that range from 5 to 50 years, and average approximately 21 years. Future minimum lease payments as of January 29, 2005 were:

| <b>Fiscal Years Ending</b> | <b>Dollars in<br/>Thousands</b> |
|----------------------------|---------------------------------|
| January 28, 2006           | \$ 117,877                      |
| February 3, 2007           | 120,726                         |
| February 2, 2008           | 118,429                         |
| January 31, 2009           | 117,104                         |
| January 30, 2010           | 116,643                         |
| Later years                | 1,315,379                       |
| <b>Total</b>               | <b>\$ 1,906,158</b>             |

Total minimum operating lease payments above have not been reduced by minimum sublease rentals of \$150,000 due in all future years under noncancelable subleases of BJ's properties. The payments above do not include future payments due under leases for two BJ's clubs which were closed in November 2002. Rent liabilities for the closed clubs are included in the balance sheet (see Note C for additional information).

Rental expense under operating leases (including contingent rentals, which were not material) amounted to \$114,984,000, \$102,735,000 and \$89,183,000 in 2004, 2003 and 2002, respectively. Rental expense in 2004 included corrections to our accounting for leases of \$7.2 million, \$6.7 million of which was related to prior years.

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.

BJ's has filed proofs of claim against House2Home, Inc. for claims arising under certain agreements between BJ's and House2Home in connection with the Company's spin-off from Waban Inc. in July 1997. These claims arise primarily from BJ's indemnification of TJX with respect to TJX's guarantee of House2Home leases and from the Tax Sharing Agreement dated July 28, 1997 between BJ's and House2Home. House2Home and BJ's have settled BJ's claims against House2Home. The settlement provides that BJ's will have an unsecured claim of approximately \$37.9 million, on account of claims under the Tax Sharing Agreement and indemnification payments which have been made to TJX. The settlement agreement was approved by the United States Bankruptcy Court for the Central District of California on November 10, 2003. As part of the settlement, BJ's has been released of all claims that House2Home and its bankruptcy estate may have had against BJ's, including \$1.7 million owed by BJ's to House2Home under the Tax Sharing Agreement. We recognized this amount as a reduction in our tax

provision in the fourth quarter of 2003.

During 2004, we received pretax recoveries on account of our House2Home bankruptcy claims totaling \$7.0 million, including a payment of \$2.5 million to settle our claim against the Indenture Trustee for House2Home s

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Convertible Subordinated Notes. We have no further claims against the Indenture Trustee. These recoveries are included in gain on contingent lease obligations in the statements of income. On a post-tax basis these gains totaled \$4.6 million. We are unable to determine the amount and timing of any future recoveries under our claims against House2Home and, therefore, have not recognized such claims against House2Home in our financial statements.

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 directors' and officers' insurance 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 29, 2005.

In 2002, we began to 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.

### **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.

In 2004, we recorded charges of \$7.0 million (\$4.2 million post-tax) 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 April 6, 2005, the amount of estimated outstanding claims was approximately \$10 million. In addition, the U.S. Federal Trade Commission is contemplating a proceeding against the Company relating to this matter. 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.

As of January 29, 2005, the balance in the reserve was \$5.3 million, which represents our best estimate of the remaining costs and expenses related to this matter at that time. This reserve is included in accrued expenses and other current liabilities on our balance sheet. The ultimate outcome of this matter could differ from the amounts recorded. While that difference could be material to the results of operations for any affected reporting period, it is not expected to have a material impact on consolidated financial position or liquidity.

### **G. Capital Stock**

During 2002, the Board of Directors authorized the repurchase of an additional \$100 million of the Company's common stock in addition to the \$300 million previously authorized. We repurchased 1,725,200 shares of our common stock for \$45,318,000 in 2004 and 2,648,700 shares for \$83,469,000 in 2002. We did not repurchase any stock in 2003. As of January 29, 2005, the Company's remaining repurchase authorization was

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\$45,139,000. On February 28, 2005, the Board of Directors authorized the repurchase of up to an additional \$100 million of the Company's common stock.

BJ's has a shareholder rights plan, originally adopted in 1997 and amended in 1999 (and in 2003 solely to appoint a new rights agent), pursuant to which shareholders are issued one-half of a Right for each share of common stock. Each Right entitles the holder to purchase from the Company 1/1000 share of Series A Junior Participating Preferred Stock (Series A Preferred Stock) at a price of \$120. BJ's has designated 100,000 shares of Series A Preferred Stock for issuance under the shareholder rights plan; none has been issued to date. Generally, the terms of the Series A Preferred Stock are designed so that 1/1000 share of Series A Preferred Stock is the economic equivalent of one share of BJ's common stock. The Rights are exercisable only if a person acquires 20% or more of the Company's common stock or commences a tender offer that would result in such person owning 30% or more of the Company's common stock. In addition, in general, if after a person has become a 20% owner, BJ's is involved in a business combination transaction in which it is not the surviving corporation or in connection with which the BJ's common stock is changed, or BJ's disposes of 50% or more of its assets or earning power, each Right that has not previously been exercised or voided will entitle its holder to purchase that number of shares of common stock of such other person which equals \$120 divided by one-half of the then current market price of such common stock. BJ's will generally be entitled to redeem the Rights at \$.01 per Right at any time until the tenth business day following public announcement that a person has become a 20% owner. The Rights expire on July 10, 2007, unless earlier redeemed or exchanged.

The Company has authorized 20,000,000 shares of preferred stock, \$.01 par value, of which no shares have been issued.

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 each 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 29, 2005 and January 31, 2004.

## **H. Stock Incentive Plans**

Under its 1997 Stock Incentive Plan, BJ's has 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. At the Company's Annual Meeting of Stockholders in May 2004, an amendment to increase the maximum number of shares issuable under the 1997 Stock Incentive Plan by 4,000,000 shares was approved. Certain sub-limits were also approved for awards from and after the date of the 2004 Annual Meeting of Stockholders, including a limit of 1,000,000 shares with respect to awards other than options and stock appreciation rights and a limit of 300,000 shares with respect to awards granted to non-employee directors. The maximum number of shares of common stock issuable under this plan is now 11,249,402 shares, plus shares subject to awards granted under the BJ's Wholesale Club, Inc. 1997 Replacement Stock Incentive Plan (the Replacement Plan) which are not actually issued because such awards expire or are canceled. Under the Replacement Plan, BJ's employees who held Waban stock options and restricted stock were granted replacement BJ's options and restricted stock, which preserved the same inherent value, vesting terms and expiration dates as the Waban awards they replaced in connection with the spin-off. No new options could be granted under the Replacement Plan after January 28, 1998.

At the 2003 Annual Meeting of Stockholders of the Company held on May 22, 2003, the Company's stockholders approved an amendment to BJ's 1997 Stock Incentive Plan to permit a stock option exchange program under which outstanding stock options having an exercise price greater than \$29.00 per share would be



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exchanged for new options. The new options would be exercisable for one-half the number of shares of exchanged options and would have an exercise price equal to the fair market value of BJ's common stock on the date of the grant, which would be at least six months and one day after cancellation of the exchanged options. BJ's directors, President/Chief Executive Officer and Executive Vice Presidents were not eligible to participate in the program.

On May 27, 2003, the expiration date of the Company's exchange offer, the Company accepted for exchange from eligible employees options to purchase an aggregate of 1,307,385 shares of BJ's common stock. These stock options were cancelled as of that date. On November 28, 2003, the Company issued new options to purchase 646,054 shares of BJ's common stock in exchange for the options surrendered in the offer. The exercise price of these new options is \$25.45, which was equal to the fair market value of BJ's common stock on November 28, 2003. None of the new options vested or became exercisable until May 28, 2004. Beginning on May 28, 2004, the new options immediately vested to the same extent that the options they replaced would have been vested on that date had they not been surrendered. After May 28, 2004, the new options have the same vesting schedule and the same remaining term as the options they replaced.

As of January 29, 2005 and January 31, 2004, respectively, 2,763,385 and 459,443 shares were reserved for all future stock awards under BJ's stock incentive plans. As of January 29, 2005, of the total shares reserved, a maximum of 862,500 shares were reserved for awards other than options and stock appreciation rights, and a maximum of 255,000 shares were reserved for awards for non-employee directors.

We apply APB 25 and related Interpretations in accounting for our stock-based compensation. Total pretax compensation cost recognized in the statements of income for stock-based employee compensation awards was \$672,000 in 2004, \$89,000 in 2003 and \$80,000 in 2002, and consisted entirely of restricted stock expense, which is charged to income ratably over the periods during which the restrictions lapse. 137,500 shares of restricted stock were issued in 2004 at a weighted-average grant date value of \$22.66; 5,000 shares of restricted stock were issued in 2003 at a weighted-average grant-date value of \$22.82; and 5,500 shares of restricted stock were issued during 2002 at a weighted-average grant-date fair value of \$36.19. No compensation cost has been recognized under APB 25 for BJ's stock options because the exercise price equaled the market price of the underlying stock on the date of grant.

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The table that follows illustrates the effect on net income and earnings per share if we had applied the fair value recognition provisions of Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation, including stock options. The fair value for stock options was estimated at the grant date using the Black-Scholes option pricing model with the following weighted-average assumptions: risk-free interest rates of 3.46%, 2.95%, and 3.03% in 2004, 2003, and 2002, respectively; volatility factor of the expected market price of BJS common stock of .46 in 2004 and 2003, and .43 in 2002; and expected life of the options of 4.9 years in 2004, 4.6 years in 2003 and 5 years in 2002. No dividends were expected. The weighted-average fair value of options granted was \$11.18 in 2004, \$9.37 in 2003, and \$9.69 in 2002. For purposes of pro forma disclosure, the estimated fair value of the options is amortized to expense over the options vesting period and forfeitures are recognized when they occur.

|                                                                                                                                             | Fiscal Year Ended                               |                     |                     |
|---------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------|---------------------|---------------------|
|                                                                                                                                             | January 29,<br>2005                             | January 31,<br>2004 | February 1,<br>2003 |
|                                                                                                                                             | (Dollars in Thousands except Per Share Amounts) |                     |                     |
| Net income, as reported                                                                                                                     | \$ 114,401                                      | \$ 102,866          | \$ 130,866          |
| Add: Stock-based employee compensation expense included in reported net income, net of related tax effects                                  | 412                                             | 55                  | 50                  |
| Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects | (7,725)                                         | (4,439)             | (8,777)             |
| Pro forma net income                                                                                                                        | \$ 107,088                                      | \$ 98,482           | \$ 122,139          |
| Earnings per share:                                                                                                                         |                                                 |                     |                     |
| Basic as reported                                                                                                                           | \$ 1.64                                         | \$ 1.48             | \$ 1.86             |
| Basic pro forma                                                                                                                             | \$ 1.54                                         | \$ 1.42             | \$ 1.74             |
| Diluted as reported                                                                                                                         | \$ 1.63                                         | \$ 1.47             | \$ 1.84             |
| Diluted pro forma                                                                                                                           | \$ 1.54                                         | \$ 1.42             | \$ 1.73             |

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility.

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 29, 2005  | January 31, 2004 | February 1, 2003 |

|                                | <u>Exercise</u> |              | <u>Exercise</u> |              | <u>Exercise</u> |              |
|--------------------------------|-----------------|--------------|-----------------|--------------|-----------------|--------------|
|                                | <u>Options</u>  | <u>Price</u> | <u>Options</u>  | <u>Price</u> | <u>Options</u>  | <u>Price</u> |
| Outstanding, beginning of year | 6,030           | \$ 22.75     | 5,791           | \$ 26.03     | 4,860           | \$ 26.08     |
| Granted                        | 1,718           | 25.40        | 2,354           | 22.30        | 1,378           | 23.24        |
| Exercised                      | (888)           | 14.50        | (500)           | 14.98        | (334)           | 11.86        |
| Forfeited                      | (159)           | 29.12        | (1,615)         | 36.28        | (113)           | 35.95        |
| Outstanding, end of year       | 6,701           | 24.37        | 6,030           | 22.75        | 5,791           | 26.03        |
| Exercisable, end of year       | 3,045           | 25.13        | 2,599           | 21.82        | 3,284           | 22.45        |

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Additional information related to stock options outstanding at January 29, 2005 is presented below (number of options in thousands):

| Range of Exercise Prices | Options Outstanding |                                 |                                                    | Options Exercisable |                                 |
|--------------------------|---------------------|---------------------------------|----------------------------------------------------|---------------------|---------------------------------|
|                          | Number Outstanding  | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Life (yrs.) | Number Exercisable  | Weighted-Average Exercise Price |
| \$ 6.45 \$ 9.45          | 26                  | \$ 9.19                         | 1.6                                                | 26                  | \$ 9.19                         |
| \$10.22 \$15.06          | 961                 | 14.48                           | 6.5                                                | 455                 | 13.91                           |
| \$17.08 \$27.94          | 4,807               | 24.18                           | 7.7                                                | 1,720               | 22.99                           |
| \$29.75 \$41.33          | 725                 | 34.02                           | 5.5                                                | 705                 | 34.18                           |
| \$44.12 \$47.60          | 182                 | 45.39                           | 6.7                                                | 139                 | 45.46                           |
|                          |                     |                                 |                                                    |                     |                                 |
| \$ 6.45 \$47.60          | 6,701               | 24.37                           | 7.3                                                | 3,045               | 25.13                           |

## I. Earnings Per Share

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

|                                                                                    | Fiscal Year Ended         |                  |                  |
|------------------------------------------------------------------------------------|---------------------------|------------------|------------------|
|                                                                                    | January 29, 2005          | January 31, 2004 | February 1, 2003 |
|                                                                                    | (Dollars in Thousands)    |                  |                  |
|                                                                                    | except Per Share Amounts) |                  |                  |
| Income from continuing operations                                                  | \$ 116,584                | \$ 104,795       | \$ 145,809       |
| Less: Preferred stock dividends                                                    | 25                        | 25               | 25               |
| Income available to common stockholders                                            | \$ 116,559                | \$ 104,770       | \$ 145,784       |
| Weighted-average number of common shares outstanding, used for basic computation   | 69,580,978                | 69,521,408       | 70,321,078       |
| Plus: Incremental shares from conversion of stock options                          | 550,675                   | 293,612          | 799,628          |
| Weighted-average number of common and dilutive potential common shares outstanding | 70,131,653                | 69,815,020       | 71,120,706       |
| Basic earnings per share                                                           | \$ 1.68                   | \$ 1.51          | \$ 2.07          |

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|                            |    |      |    |      |    |      |
|----------------------------|----|------|----|------|----|------|
| Diluted earnings per share | \$ | 1.66 | \$ | 1.50 | \$ | 2.05 |
|                            |    |      |    |      |    |      |

Options to purchase 1,860,650 shares at a weighted-average exercise price of \$31.70, 3,959,448 shares at a weighted-average exercise price of \$27.15, and 1,610,650 shares at a weighted-average exercise price of \$40.82 were outstanding at January 29, 2005, January 31, 2004 and February 1, 2003, 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.

**Table of Contents****J. Income Taxes**

The provision for income taxes includes the following:

|                                         | Fiscal Year Ended      |                     |                     |
|-----------------------------------------|------------------------|---------------------|---------------------|
|                                         | January 29,<br>2005    | January 31,<br>2004 | February 1,<br>2003 |
|                                         | (Dollars in Thousands) |                     |                     |
| Federal:                                |                        |                     |                     |
| Current                                 | \$ 63,228              | \$ 33,325           | \$ 40,340           |
| Deferred                                | (4,090)                | 21,224              | 27,965              |
| State:                                  |                        |                     |                     |
| Current                                 | 12,754                 | 6,627               | 7,183               |
| Deferred                                | (463)                  | 915                 | 4,534               |
| <b>Total income tax provision</b>       | <b>\$ 71,429</b>       | <b>\$ 62,091</b>    | <b>\$ 80,022</b>    |
| Components of income tax provision:     |                        |                     |                     |
| Continuing operations                   | \$ 72,884              | \$ 63,318           | \$ 89,871           |
| Discontinued operations                 | (1,455)                | (451)               | (9,849)             |
| Cumulative effect of accounting changes |                        | (776)               |                     |
|                                         | <b>\$ 71,429</b>       | <b>\$ 62,091</b>    | <b>\$ 80,022</b>    |

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

|                                                | Fiscal Year Ended   |                     |                     |
|------------------------------------------------|---------------------|---------------------|---------------------|
|                                                | January 29,<br>2005 | January 31,<br>2004 | February 1,<br>2003 |
| Statutory federal income tax rates             | 35%                 | 35%                 | 35%                 |
| State income taxes, net of federal tax benefit | 3                   | 3                   | 3                   |
| <b>Effective income tax rates</b>              | <b>38%</b>          | <b>38%</b>          | <b>38%</b>          |

Significant components of the Company's deferred tax assets and liabilities as of January 29, 2005 and January 31, 2004 were as follows:

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|                                   | January 31,<br>2005    | January 31,<br>2004 |
|-----------------------------------|------------------------|---------------------|
|                                   |                        |                     |
|                                   | (Dollars in Thousands) |                     |
| Deferred tax assets:              |                        |                     |
| Closed store lease obligations    | \$ 6,353               | \$ 8,764            |
| Self-insurance reserves           | 14,391                 | 14,000              |
| Rental step liabilities           | 9,177                  | 6,488               |
| Compensation and benefits         | 10,834                 | 7,495               |
| Other                             | 22,627                 | 13,744              |
|                                   |                        |                     |
| Total deferred tax assets         | 63,382                 | 50,491              |
|                                   |                        |                     |
| Deferred tax liabilities:         |                        |                     |
| Accelerated depreciation property | 62,634                 | 58,668              |
| Property taxes                    | 3,849                  | 3,301               |
| Other                             | 3,632                  | 3,364               |
|                                   |                        |                     |
| Total deferred tax liabilities    | 70,115                 | 65,333              |
|                                   |                        |                     |
| Net deferred tax liabilities      | \$ (6,733)             | \$ (14,842)         |

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We have not established a valuation allowance because our deferred tax assets can be realized 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.

**K. Retirement Plans**

Under BJ's 401(k) Savings plans, participating employees may make pretax contributions up to 50% of covered compensation. 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 \$4,177,000, \$3,555,000 and \$3,528,000 in 2004, 2003 and 2002, 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 \$1,441,000, \$1,179,000, and \$1,119,000 in 2004, 2003 and 2002, respectively.

**L. Postretirement Medical Benefits**

We have a defined benefit postretirement medical plan which covers employees and their spouses 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. Amounts contributed by retired employees under this plan are based on years of service prior to retirement. The plan is not funded.

Net periodic postretirement medical benefit cost included the following components:

|                                          | Fiscal Year Ended      |                     |                     |
|------------------------------------------|------------------------|---------------------|---------------------|
|                                          | January 29,<br>2005    | January 31,<br>2004 | February 1,<br>2003 |
|                                          |                        |                     |                     |
|                                          | (Dollars in Thousands) |                     |                     |
| Service cost                             | \$ 420                 | \$ 371              | \$ 307              |
| Interest cost                            | 213                    | 166                 | 134                 |
| Amortization of unrecognized loss        | 60                     | 35                  | 21                  |
| Net periodic postretirement benefit cost | \$ 693                 | \$ 572              | \$ 462              |
| Discount rate used to determine cost     | 6.00%                  | 6.25%               | 6.75%               |

The following table sets forth the funded status of BJ's postretirement medical plan and the amount recognized in the balance sheets at January 29, 2005 and January 31, 2004:

|                                                                                | January 29,<br>2005    | January 31,<br>2004 |
|--------------------------------------------------------------------------------|------------------------|---------------------|
|                                                                                |                        |                     |
|                                                                                | (Dollars in Thousands) |                     |
| Unfunded accumulated postretirement benefit obligation (APBO)                  | \$ 4,346               | \$ 3,548            |
| Unrecognized net loss                                                          | (1,037)                | (931)               |
|                                                                                |                        |                     |
| Accrued postretirement benefit cost included in balance sheets                 | \$ 3,309               | \$ 2,617            |
|                                                                                |                        |                     |
| Discount rate used to value APBO                                               | 5.50%                  | 6.00%               |
| Weighted-average health care cost trend rate for valuing year-end obligations: |                        |                     |
| Initial trend rate                                                             | 10.00%                 | 11.00%              |
| Ultimate trend rate                                                            | 5.00%                  | 5.00%               |
| Year ultimate trend rate to be attained                                        | 2010                   | 2010                |

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The following tables present reconciliations of the APBO and plan assets for the fiscal years ended January 29, 2005 and January 31, 2004:

|                                                | Fiscal Year Ended      |                     |
|------------------------------------------------|------------------------|---------------------|
|                                                | January 29,<br>2005    | January 31,<br>2004 |
|                                                | (Dollars in Thousands) |                     |
| Reconciliation of APBO:                        |                        |                     |
| APBO at beginning of year                      | \$ 3,548               | \$ 2,537            |
| Service cost                                   | 420                    | 371                 |
| Interest cost                                  | 213                    | 166                 |
| Contributions by plan participants             | 19                     | 15                  |
| Actuarial losses                               | 166                    | 476                 |
| Benefits paid                                  | (20)                   | (17)                |
| APBO at end of year                            | \$ 4,346               | \$ 3,548            |
| Reconciliation of plan assets:                 |                        |                     |
| Fair value of plan assets at beginning of year | \$                     | \$                  |
| Employer contributions                         | 2                      | 2                   |
| Contributions by plan participants             | 19                     | 15                  |
| Benefits paid                                  | (21)                   | (17)                |
| Fair value of plan assets at end of year       | \$                     | \$                  |

The following table sets forth the impact of changes in the assumed health care cost trend rates for the fiscal year ended January 29, 2005:

|                                                     | Dollars in<br>Thousands |
|-----------------------------------------------------|-------------------------|
| Impact of 1% increase in health care cost trend on: |                         |
| Aggregate of service and interest costs             | \$ 74                   |
| APBO at end of year                                 | 452                     |
| Impact of 1% decrease in health care cost trend on: |                         |
| Aggregate of service and interest costs             | \$ (66)                 |
| APBO at end of year                                 | (404)                   |

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

| Fiscal Year Ending | Dollars in<br>Thousands |
|--------------------|-------------------------|
| January 28, 2006   | \$ 3                    |
| February 3, 2007   | 4                       |

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|                                       |    |
|---------------------------------------|----|
| February 2, 2008                      | 6  |
| January 31, 2009                      | 7  |
| January 30, 2010                      | 8  |
| Fiscal years ending January 2011-2015 | 78 |

**Table of Contents****M. Interest**

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

|                                | Fiscal Year Ended      |                     |                     |
|--------------------------------|------------------------|---------------------|---------------------|
|                                | January 29,<br>2005    | January 31,<br>2004 | February 1,<br>2003 |
|                                | (Dollars in Thousands) |                     |                     |
| Interest income                | \$ 1,638               | \$ 341              | \$ 663              |
| Capitalized interest           | 40                     | 328                 | 581                 |
| Interest expense on debt       | (875)                  | (743)               | (951)               |
| Interest income (expense), net | \$ 803                 | \$ (74)             | \$ 293              |

The table above excludes interest expense in discontinued operations of \$137,000 in the fiscal year ended February 1, 2003.

**N. 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 totaling \$84,321,000 at January 29, 2005 and \$95,983,000 at January 31, 2004, which represent book overdrafts, are included in accounts payable on the balance sheets and the changes in these balances are reflected in financing activities in the statements of cash flows.

**O. Accrued Expenses and Other Current Liabilities**

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

|                                                                                      | January 29,<br>2005    | January 31,<br>2004 |
|--------------------------------------------------------------------------------------|------------------------|---------------------|
|                                                                                      | (Dollars in Thousands) |                     |
| Employee compensation                                                                | \$ 36,543              | \$ 34,719           |
| Deferred membership fee income                                                       | 66,112                 | 60,868              |
| Sales and use taxes, self-insurance reserves, rent, utilities, advertising and other | 136,256                | 110,332             |
|                                                                                      | \$ 238,911             | \$ 205,919          |

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

|                                                   | Fiscal Year Ended          |                            |                            |
|---------------------------------------------------|----------------------------|----------------------------|----------------------------|
|                                                   | January<br>29,<br><br>2005 | January<br>31,<br><br>2004 | February<br>1,<br><br>2003 |
|                                                   | (Dollars in Thousands)     |                            |                            |
| Deferred membership fee income, beginning of year | \$ 60,868                  | \$ 56,251                  | \$ 54,973                  |
| Cash received from members                        | 144,686                    | 128,842                    | 119,594                    |
| Revenue recognized in earnings                    | (139,442)                  | (124,225)                  | (118,316)                  |
| Deferred membership fee income, end of year       | \$ 66,112                  | \$ 60,868                  | \$ 56,251                  |

**Table of Contents****P. Selected Quarterly Financial Data (Unaudited)**

|                                                        | <b>First<br/>Quarter</b> | <b>Second<br/>Quarter</b> | <b>Third<br/>Quarter</b> | <b>Fourth<br/>Quarter</b> |
|--------------------------------------------------------|--------------------------|---------------------------|--------------------------|---------------------------|
| <b>(Dollars in Thousands except Per Share Amounts)</b> |                          |                           |                          |                           |
| <b>Fiscal year ended January 29, 2005 (b):</b>         |                          |                           |                          |                           |
| Net sales                                              | \$ 1,610,958             | \$ 1,839,988              | \$ 1,758,215             | \$ 2,011,078              |
| Total revenues                                         | 1,647,624                | 1,878,269                 | 1,797,687                | 2,051,721                 |
| Gross earnings (a)                                     | 150,024                  | 185,510                   | 178,607                  | 243,665                   |
| Net income                                             | 16,118                   | 27,999                    | 23,239                   | 47,045                    |
| Per common share, diluted                              | 0.23                     | 0.40                      | 0.33                     | 0.67                      |
| <b>Fiscal year ended January 31, 2004 (c) :</b>        |                          |                           |                          |                           |
| Net sales                                              | \$ 1,437,549             | \$ 1,635,017              | \$ 1,600,676             | \$ 1,880,682              |
| Total revenues                                         | 1,471,121                | 1,669,472                 | 1,636,007                | 1,916,735                 |
| Gross earnings (a)                                     | 137,698                  | 163,558                   | 158,836                  | 215,155                   |
| Income before cumulative effect of accounting changes  | 12,520                   | 21,966                    | 20,404                   | 49,229                    |
| Per common share, diluted                              | 0.18                     | 0.32                      | 0.29                     | 0.70                      |
| Net income                                             | 11,267                   | 21,966                    | 20,404                   | 49,229                    |
| Per common share, diluted                              | 0.16                     | 0.32                      | 0.29                     | 0.70                      |

- (a) Gross earnings equals total revenues less cost of sales, including buying and occupancy costs.
- (b) In the fiscal year ended January 29, 2005, net income included gains from the reduction of contingent lease obligations (including House2Home bankruptcy recoveries) of \$3.1 million, or \$.04 per diluted share, in each of the second quarter and third quarter.

Also in the fiscal year ended January 29, 2005, net income included a second quarter loss of \$3.6 million, or \$.05 per diluted share, and a third quarter loss of \$0.6 million, or \$.01 per diluted share to establish a reserve for claims by various credit card issuing banks. In the third quarter, net income also included a loss of \$1.7 million, or \$.02 per diluted share, in discontinued operations to increase the reserve for closed clubs. In the fourth quarter, net income included a loss of \$4.3 million, or \$.06 per diluted share, as a result of a correction of errors in accounting for certain of the Company's leases. On a pretax basis, this charge was \$7.2 million. See Note E for additional information.

- (c) In the fiscal year ended January 31, 2004, net income included gains from the reduction of contingent lease obligations of \$0.7 million, or \$.01 per diluted share, in the first quarter; \$0.4 million, or \$.01 per diluted share, in the second quarter; \$0.6 million, or \$.01 per diluted share, in the third quarter; and \$1.6 million, or \$.02 per diluted share, in the fourth quarter. In the fourth quarter, net income included a gain of \$1.7 million, or \$.02 per diluted share, to record a tax settlement between BJ's and House2Home.

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

We have completed an integrated audit of BJ's Wholesale Club, Inc.'s 2004 consolidated financial statements and of its internal control over financial reporting as of January 29, 2005 and audits of its 2003 and 2002 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

*Consolidated financial statements*

In our opinion, the consolidated financial statements listed in the accompanying index, present fairly, in all material respects, the financial position of BJ's Wholesale Club, Inc. and its subsidiaries at January 29, 2005 and January 31, 2004, and the results of their operations and their cash flows for each of the three years in the period ended January 29, 2005 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes 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. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note A to the financial statements, the Company adopted the provisions of Statement of Financial Accounting Standards No. 143, Accounting for Asset Retirement Obligations, on February 2, 2003.

*Internal control over financial reporting*

Also, in our opinion, management's assessment, included in Management's Report on Internal Control over Financial Reporting appearing under Item 8, that the Company maintained effective internal control over financial reporting as of January 29, 2005 based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 29, 2005, based on criteria established in *Internal Control - Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

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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

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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

PricewaterhouseCoopers LLP

Boston, Massachusetts

April 1, 2005

## **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 29, 2005. 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 29, 2005, the Company's internal control over financial reporting was effective based on those criteria.

PricewaterhouseCoopers LLP, an independent registered public accounting firm, has audited the Company's assessment of the effectiveness of its internal controls over financial reporting as of January 29, 2005 as stated in their report, which appears herein.

/s/ MICHAEL T. WEDGE

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/s/ FRANK D. FORWARD

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Michael T. Wedge  
*President and*

*Chief Executive Officer*

Frank D. Forward  
*Executive Vice President and*

*Chief Financial Officer*

April 1, 2005

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### **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 29, 2005. 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 29, 2005, 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 related 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 fiscal quarter ended January 29, 2005 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.

## **PART III**

### **Item 10. Directors and Executive Officers of the Registrant**

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The Company will file with the Securities and Exchange Commission ( SEC ) a definitive Proxy Statement no later than 120 days after the close of its fiscal year ended January 29, 2005 (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 and Audit Committee.

### **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 on Executive Compensation 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.

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### **Item 13. Certain Relationships and Related Transactions**

The information required by this Item is incorporated by reference from the Proxy Statement under Certain Transactions and Relationship with House2Home; Conflicts of Interest.

### **Item 14. Principal Accounting Fees and Services**

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

## **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 24. 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**

| <b>No.</b> | <b>Exhibit</b>                                                                                                          |
|------------|-------------------------------------------------------------------------------------------------------------------------|
| 3.1        | Amended and Restated Certificate of Incorporation (1)                                                                   |
| 3.2        | Amended and Restated By-Laws (5)                                                                                        |
| 4.1        | Amended and Restated Rights Agreement, dated as of November 17, 2003, between the Company and The Bank of New York (15) |
| 4.2        | Specimen Certificate of Common Stock, \$.01 par value per share (4)                                                     |
| 10.1       | Separation and Distribution Agreement, dated as of July 10, 1997 between the Company and Waban Inc. (2)                 |
| 10.2       | Services Agreement, dated as of July 28, 1997, between the Company and Waban Inc. (2)                                   |
| 10.3       | Tax Sharing Agreement, dated as of July 28, 1997, between the Company and Waban Inc. (2)                                |
| 10.4       | Employee Benefits Agreement, dated as of July 28, 1997, between the Company and Waban Inc. (2)                          |
| 10.5       | 2003 Amendment and Restatement of Management Incentive Plan* (13)                                                       |

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|        |                                                                                                                          |
|--------|--------------------------------------------------------------------------------------------------------------------------|
| 10.5a  | Criteria for 2005 Awards under Management Incentive Plan* (19)                                                           |
| 10.6   | 2003 Amendment and Restatement of Growth Incentive Plan* (14)                                                            |
| 10.6a  | Criteria for 2005-2007 Awards under Growth Incentive Plan* (19)                                                          |
| 10.7   | BJ s Wholesale Club, Inc. Executive Retirement Plan, as amended* (7)                                                     |
| 10.8   | BJ s Wholesale Club, Inc. 1997 Replacement Stock Incentive Plan* (3)                                                     |
| 10.9   | BJ s Wholesale Club, Inc. 1997 Stock Incentive Plan, as amended through May 20, 2004* (17)                               |
| 10.10  | BJ s Wholesale Club, Inc. General Deferred Compensation Plan* (3)                                                        |
| 10.11  | Employment Agreement, dated as of July 28, 1997 with Herbert J. Zarkin* (3)                                              |
| 10.11a | Amendment effective September 14, 2000 to July 28, 1997 Employment Agreement with Herbert J. Zarkin*(8)                  |
| 10.11b | Second Amendment effective as of August 9, 2004 to July 28, 1997 Employment Agreement with Herbert J. Zarkin* (18)       |
| 10.11c | Nonstatutory Stock Option Agreement Granted under 1997 Stock Incentive Plan to Herbert J. Zarkin on August 9, 2004* (18) |

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| <b><u>No.</u></b> | <b><u>Exhibit</u></b>                                                                                                                                                                                                      |
|-------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.11d            | Restricted Stock Award under 1997 Stock Incentive Plan to Herbert J. Zarkin, effective August 9, 2004* (18)                                                                                                                |
| 10.12             | Employment Agreement, dated as of July 28, 1997 with Frank D. Forward* (3)                                                                                                                                                 |
| 10.13             | Amendment dated as of February 4, 2004 to February 4, 1999 Change of Control Agreement between the Company and Frank D. Forward* (16)                                                                                      |
| 10.14             | Employment Agreement, dated as of July 28, 1997 with Michael T. Wedge* (3)                                                                                                                                                 |
| 10.14a            | Amendment dated as of September 9, 2002 to February 4, 1999 Change of Control Agreement between the Company and Michael T. Wedge* (11)                                                                                     |
| 10.15             | Employment Agreement, dated as of December 1, 2000 with Edward F. Giles* (12)                                                                                                                                              |
| 10.16             | Amendment dated as of February 4, 2004 to September 9, 2002 Change of Control Agreement between the Company and Edward F. Giles* (16)                                                                                      |
| 10.17             | Employment Agreement, dated as of February 6, 2003 with Kellye L. Walker* (16)                                                                                                                                             |
| 10.18             | Employment Agreement dated as of July 6, 2004 with Karen Stout*                                                                                                                                                            |
| 10.19             | Change of Control Agreement, dated as of July 6, 2004 between the Company and Karen Stout*                                                                                                                                 |
| 10.20             | Amended and Restated Form of Change of Control Severance Agreement between the Company and officers of the Company* (6)                                                                                                    |
| 10.21             | Form of Indemnification Agreement between the Company and officers of the Company* (3)                                                                                                                                     |
| 10.22             | BJ's Wholesale Club, Inc. Change of Control Severance Benefit Plan for Key Employees, as amended* (7)                                                                                                                      |
| 10.22a            | Amendment dated as of February 4, 2004 to BJ's Wholesale Club, Inc. Change of Control Severance Benefit Plan for Key Employees, as amended* (16)                                                                           |
| 10.23             | Form of Nonstatutory Stock Option Agreement Granted under 1997 Stock Incentive Plan* (18)                                                                                                                                  |
| 10.24             | Form of Restricted Stock Agreement under 1997 Stock Incentive Plan* (18)                                                                                                                                                   |
| 10.25             | Credit Agreement, dated June 12, 2002, among the Company and certain banks (9)                                                                                                                                             |
| 10.25a            | Amendment No. 1, dated as of August 13, 2002 to Credit Agreement dated June 12, 2002 among the Company and certain banks (10)                                                                                              |
| 10.26             | Indemnification Agreement, dated as of April 18, 1997, between the Company and The TJX Companies, Inc. (4)                                                                                                                 |
| 10.27             | Summary of Company's Non-Employee Director Compensation*                                                                                                                                                                   |
| 10.28             | Base Salaries of Executive Officers of the Company*                                                                                                                                                                        |
| 21.0              | Subsidiaries of the Company                                                                                                                                                                                                |
| 23.0              | Consent of Independent Accountants                                                                                                                                                                                         |
| 31.1              | Chief Executive Officer-Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002                            |
| 31.2              | Chief Financial Officer-Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002                            |
| 32.1              | Chief Executive Officer-Certification pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2              | Chief Financial Officer-Certification pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

\* 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)

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- (2) Incorporated herein by reference to the Current Report on Form 8-K, dated July 28, 1997, of HomeBase, Inc. (Commission File No. 001-10259)
- (3) 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)
- (4) Incorporated herein by reference to the Company's Registration Statement on Form S-1 (Commission File No. 333-25511)
- (5) Incorporated herein by reference to the Company's Current Report on Form 8-K, dated as of April 7, 1999 (Commission File No. 001-13143)
- (6) 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)
- (7) 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)
- (8) Incorporated herein by reference to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended October 28, 2000 (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 4, 2002 (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 August 3, 2002 (Commission File No. 001-13143)
- (11) Incorporated herein by reference to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended November 2, 2002 (Commission File No. 001-13143)
- (12) Incorporated herein by reference to the Company's Annual Report on Form 10-K for the fiscal year ended February 1, 2003 (Commission File No. 001-13143)
- (13) Incorporated herein by reference to Appendix D of the Company's Definitive Proxy Statement as filed on April 22, 2003 (Commission File No. 001-13143)
- (14) Incorporated herein by reference to Appendix E of the Company's Definitive Proxy Statement as filed on April 22, 2003 (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 November 1, 2003 (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 January 31, 2004 (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 May 1, 2004 (Commission File No. 001-13143)
- (18) 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)
- (19) Incorporated herein by reference to the Company's Current Report on Form 8-K dated as of February 2, 2005 (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.

Dated: April 6, 2005

BJ S WHOLESALE CLUB, INC.

/s/ MICHAEL T. WEDGE

\_\_\_\_\_  
Michael T. Wedge

**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/ MICHAEL T. WEDGE

\_\_\_\_\_  
Michael T. Wedge

**Chief Executive Officer and Director**

**(Principal Executive Officer)**

/s/ FRANK D. FORWARD

\_\_\_\_\_  
Frank D. Forward,

**Executive Vice President and Chief Financial Officer**

**(Principal Financial and Accounting Officer)**

/s/ PAUL DANOS

\_\_\_\_\_  
Paul Danos, Director

/s/ BERT N. MITCHELL

\_\_\_\_\_  
Bert N. Mitchell, Director

/s/ THOMAS J. SHIELDS

\_\_\_\_\_  
Thomas J. Shields, Director

Dated: April 6, 2005

/s/ HERBERT J. ZARKIN

\_\_\_\_\_  
Herbert J. Zarkin,

**Chairman of the Board and Director**

/s/ S. JAMES COPPERSMITH

\_\_\_\_\_  
S. James Coppersmith, Director

/s/ RONALD R. DION

\_\_\_\_\_  
Ronald R. Dion, Director

/s/ HELEN FRAME PETERS

\_\_\_\_\_  
Helen Frame Peters, Director

/s/ LORNE R. WAXLAX

\_\_\_\_\_  
Lorne R. Waxlax, Director