

ROSS STORES INC  
Form 10-Q  
September 09, 2009

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

**FORM 10-Q**

(Mark one)

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

**For the quarterly period ended August 1, 2009**

or

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

For the transition period from \_\_\_\_ to \_\_\_\_

Commission file number: 0-14678

**Ross Stores, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or  
organization)

**94-1390387**

(I.R.S. Employer Identification No.)

**4440 Rosewood Drive, Pleasanton, California**

(Address of principal executive offices)

**94588-3050**

(Zip Code)

Registrant's telephone number, including area code

**(925) 965-4400**

Former name, former address and former fiscal year, if  
changed since last report.

N/A

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No \_\_\_\_

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

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

Large accelerated filer X Accelerated filer \_\_\_\_ Non-accelerated filer \_\_\_\_ Smaller reporting company \_\_\_\_

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes \_\_\_\_ No X

The number of shares of Common Stock, with \$.01 par value, outstanding on August 20, 2009 was 125,096,413.

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**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**Condensed Consolidated Statements of Earnings**

|                                                      | <b>Three Months Ended</b> |                     | <b>Six Months Ended</b> |                     |
|------------------------------------------------------|---------------------------|---------------------|-------------------------|---------------------|
|                                                      | <b>August 1,</b>          | <b>August 2,</b>    | <b>August 1,</b>        | <b>August 2,</b>    |
| (\$000, except stores and per share data, unaudited) | <b>2009</b>               | <b>2008</b>         | <b>2009</b>             | <b>2008</b>         |
| <b>Sales</b>                                         | <b>\$ 1,768,636</b>       | <b>\$ 1,640,412</b> | <b>\$ 3,460,235</b>     | <b>\$ 3,196,712</b> |
| <b>Costs and expenses</b>                            |                           |                     |                         |                     |
| Costs of goods sold                                  | <b>1,311,136</b>          | 1,255,222           | <b>2,579,845</b>        | 2,436,712           |
| Selling, general and administrative                  | <b>286,158</b>            | 268,839             | <b>558,188</b>          | 516,512             |
| Interest expense (income), net                       | <b>1,390</b>              | (1,052)             | <b>3,046</b>            | (2,671)             |
| Total costs and expenses                             | <b>1,598,684</b>          | 1,523,009           | <b>3,141,079</b>        | 2,950,653           |
| Earnings before taxes                                | <b>169,952</b>            | 117,403             | <b>319,156</b>          | 246,109             |
| Provision for taxes on earnings                      | <b>66,545</b>             | 46,104              | <b>124,362</b>          | 95,312              |
| Net earnings                                         | <b>\$ 103,407</b>         | <b>\$ 71,299</b>    | <b>\$ 194,794</b>       | <b>\$ 150,797</b>   |
| <b>Earnings per share</b>                            |                           |                     |                         |                     |
| Basic                                                | <b>\$ 0.84</b>            | \$ 0.55             | <b>\$ 1.57</b>          | \$ 1.00             |
| Diluted                                              | <b>\$ 0.82</b>            | \$ 0.54             | <b>\$ 1.55</b>          | \$ 0.98             |
| <b>Weighted average shares outstanding (000)</b>     |                           |                     |                         |                     |
| Basic                                                | <b>123,467</b>            | 130,110             | <b>124,080</b>          | 130,712             |
| Diluted                                              | <b>125,658</b>            | 132,433             | <b>126,063</b>          | 132,912             |
| <b>Dividends per share</b>                           |                           |                     |                         |                     |
| Cash dividends declared per share                    | <b>\$ 0.110</b>           | \$ 0.095            | <b>\$ 0.110</b>         | \$ 0.090            |

|                              |            |     |            |     |
|------------------------------|------------|-----|------------|-----|
| Stores open at end of period | <b>990</b> | 943 | <b>990</b> | 912 |
|------------------------------|------------|-----|------------|-----|

See notes to condensed consolidated financial statements.

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**Condensed Consolidated Balance Sheets**

|                               | <b>August 1,</b>  | January 31, | August 2,   |
|-------------------------------|-------------------|-------------|-------------|
| (\$000, unaudited)            | <b>2009</b>       | <b>2009</b> | <b>2008</b> |
| <b>Assets</b>                 |                   |             |             |
| <b>Current Assets</b>         |                   |             |             |
| Cash and cash equivalents     | <b>\$ 520,424</b> | \$ 321,355  | \$ 309,554  |
| Short-term investments        | <b>1,135</b>      | 798         | 2,821       |
| Accounts receivable           | <b>49,375</b>     | 41,170      | 49,423      |
| Merchandise inventory         | <b>926,244</b>    | 881,058     | 1,018,726   |
| Prepaid expenses and other    | <b>63,926</b>     | 55,241      | 63,223      |
| Deferred income taxes         | <b>13,669</b>     | 14,093      | 20,883      |
| Total current assets          | <b>1,574,773</b>  | 1,313,715   | 1,464,630   |
| <b>Property and Equipment</b> |                   |             |             |
| Land and buildings            | <b>238,141</b>    | 201,385     | 162,972     |
| Fixtures and equipment        | <b>1,140,501</b>  | 1,073,990   | 985,394     |
| Leasehold improvements        | <b>518,978</b>    | 509,971     | 493,769     |
| Construction-in-progress      | <b>20,598</b>     | 72,839      | 105,488     |
|                               | <b>1,918,218</b>  | 1,858,185   | 1,747,623   |

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|                                                |              |              |              |
|------------------------------------------------|--------------|--------------|--------------|
| Less accumulated depreciation and amortization | 975,473      | 906,529      | 841,090      |
| Property and equipment, net                    | 942,745      | 951,656      | 906,533      |
| Long-term investments                          | 21,752       | 38,014       | 44,176       |
| Other long-term assets                         | 61,379       | 52,126       | 63,078       |
| Total assets                                   | \$ 2,600,649 | \$ 2,355,511 | \$ 2,478,417 |
| <b>Liabilities and Stockholders' Equity</b>    |              |              |              |
| <b>Current Liabilities</b>                     |              |              |              |
| Accounts payable                               | \$ 702,977   | \$ 536,745   | \$ 682,565   |
| Accrued expenses and other                     | 219,479      | 238,516      | 234,423      |
| Accrued payroll and benefits                   | 172,913      | 170,878      | 153,077      |
| Income taxes payable                           | 11,268       | 9,120        | -            |
| Total current liabilities                      | 1,106,637    | 955,259      | 1,070,065    |
| Long-term debt                                 | 150,000      | 150,000      | 150,000      |
| Other long-term liabilities                    | 168,558      | 156,726      | 168,814      |
| Deferred income taxes                          | 106,032      | 97,157       | 83,418       |
| Commitments and contingencies                  |              |              |              |
| <b>Stockholders' Equity</b>                    |              |              |              |
| Common stock                                   | 1,251        | 1,273        | 1,316        |
| Additional paid-in capital                     | 660,896      | 626,117      | 617,740      |
| Treasury stock                                 | (35,366)     | (30,819)     | (28,817)     |
| Accumulated other comprehensive (loss) income  | (188)        | (1,174)      | (477)        |
| Retained earnings                              | 442,829      | 400,972      | 416,358      |
| Total stockholders' equity                     | 1,069,422    | 996,369      | 1,006,120    |
| Total liabilities and stockholders' equity     | \$ 2,600,649 | \$ 2,355,511 | \$ 2,478,417 |

See notes to condensed consolidated financial statements.

## Condensed Consolidated Statements of Cash Flows

|                                                                                     | Six Months Ended  |                   |
|-------------------------------------------------------------------------------------|-------------------|-------------------|
|                                                                                     | August 1,<br>2009 | August 2,<br>2008 |
| (\$000, unaudited)                                                                  |                   |                   |
| <b>Cash Flows From Operating Activities</b>                                         |                   |                   |
| Net earnings                                                                        | \$ 194,794        | \$ 150,784        |
| Adjustments to reconcile net earnings to net cash provided by operating activities: |                   |                   |
| Depreciation and amortization                                                       | 75,502            | 65,866            |
| Stock-based compensation                                                            | 13,017            | 11,330            |
| Deferred income taxes                                                               | 9,400             | 3,275             |
| Tax benefit from equity issuance                                                    | 5,256             | 6,608             |
| Excess tax benefit from stock-based compensation                                    | (4,008)           | (4,714)           |
| Change in assets and liabilities:                                                   |                   |                   |
| Merchandise inventory                                                               | (45,186)          | 6,569             |
| Other current assets                                                                | (16,890)          | (23,257)          |
| Accounts payable                                                                    | 180,240           | 58,145            |
| Other current liabilities                                                           | (678)             | 23,200            |
| Other long-term, net                                                                | 2,521             | 8,750             |
| Net cash provided by operating activities                                           | 413,968           | 306,556           |

**Cash Flows From Investing Activities**

|                                               |          |           |
|-----------------------------------------------|----------|-----------|
| Additions to property and equipment           | (80,731) | (113,472) |
| Proceeds from sales of property and equipment | 10       | 117       |
| Net proceeds from (purchases of) investments  | 16,811   | (1,950)   |
| Net cash used in investing activities         | (63,910) | (115,305) |

**Cash Flows From Financing Activities**

|                                                  |           |           |
|--------------------------------------------------|-----------|-----------|
| Excess tax benefit from stock-based compensation | 4,008     | 4,714     |
| Issuance of common stock related to stock plans  | 31,745    | 36,470    |
| Treasury stock purchased                         | (4,546)   | (2,907)   |
| Repurchase of common stock                       | (154,371) | (152,631) |
| Dividends paid                                   | (27,825)  | (24,923)  |
| Net cash used in financing activities            | (150,989) | (139,277) |

|                                           |         |        |
|-------------------------------------------|---------|--------|
| Net increase in cash and cash equivalents | 199,069 | 51,974 |
|-------------------------------------------|---------|--------|

**Cash and cash equivalents:**

|                     |            |            |
|---------------------|------------|------------|
| Beginning of period | 321,355    | 257,580    |
| End of period       | \$ 520,424 | \$ 309,554 |

**Supplemental Cash Flow Disclosures**

|                   |            |            |
|-------------------|------------|------------|
| Interest paid     | \$ 4,834   | \$ 4,834   |
| Income taxes paid | \$ 105,012 | \$ 109,099 |

**Non-Cash Investing Activities**

|                                                            |        |            |
|------------------------------------------------------------|--------|------------|
| Increase (decrease) in fair value of investment securities | \$ 886 | \$ (1,817) |
|------------------------------------------------------------|--------|------------|

See notes to condensed consolidated financial statements.

**Notes to Condensed Consolidated Financial Statements**

Three and Six Months Ended August 1, 2009 and August 2, 2008  
(Unaudited)

**Note A: Summary of Significant Accounting Policies**

**Basis of Presentation.** The accompanying unaudited interim condensed consolidated financial statements have been prepared from the records of Ross Stores, Inc. and subsidiaries (the "Company") without audit and, in the opinion of management, include all adjustments (consisting of only normal, recurring adjustments) necessary to present fairly the Company's financial position as of August 1, 2009 and August 2, 2008, the results of operations for the three and six month periods ended August 1, 2009 and August 2, 2008, and cash flows for the six month periods ended August 1, 2009 and August 2, 2008. The Condensed Consolidated Balance Sheet as of January 31, 2009, presented herein, has been derived from the Company's audited consolidated financial statements for the fiscal year then ended.

Accounting policies followed by the Company are described in Note A to the audited consolidated financial statements for the fiscal year ended January 31, 2009. Certain information and disclosures normally included in the notes to annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted for purposes of these interim condensed consolidated financial statements. The interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements, including notes thereto, contained in the Company's Annual Report on Form 10-K for the year ended January 31, 2009.

The results of operations for the three and six month periods ended August 1, 2009 and August 2, 2008 presented herein are not necessarily indicative of the results to be expected for the full fiscal year.

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In preparing these interim condensed consolidated financial statements, the Company evaluated, for potential recognition and disclosure, events and transactions that occurred up through the date these financial statements were available to be issued, which was on September 8, 2009.

**Total comprehensive income.** The components of total comprehensive income for the three and six month periods ended August 1, 2009 and August 2, 2008 are as follows (in \$000):

|                                                     | <b>Three Months Ended</b> |                       | <b>Six Months Ended</b> |                       |
|-----------------------------------------------------|---------------------------|-----------------------|-------------------------|-----------------------|
|                                                     | <b>August 1, 2009</b>     | <b>August 2, 2008</b> | <b>August 1, 2009</b>   | <b>August 2, 2008</b> |
| Net income                                          | \$ 103,407                | \$ 71,299             | \$ 194,794              | \$ 150,784            |
| Unrealized gain (loss) on investments, net of taxes | 440                       | (278)                 | 576                     | (1,113)               |
| Total comprehensive income                          | \$ 103,847                | \$ 71,021             | \$ 195,370              | \$ 149,671            |

**Estimated fair value of financial instruments.** The carrying value of cash and cash equivalents, short-term and long-term investments, accounts receivable, and accounts payable approximates their estimated fair value.

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**Sales Mix.** The Company's sales mix is shown below for the three and six month periods ended August 1, 2009 and August 2, 2008:

|                                                     | <b>Three Months Ended</b> |                       | <b>Six Months Ended</b> |                       |
|-----------------------------------------------------|---------------------------|-----------------------|-------------------------|-----------------------|
|                                                     | <b>August 1, 2009</b>     | <b>August 2, 2008</b> | <b>August 1, 2009</b>   | <b>August 2, 2008</b> |
| Ladies                                              | 33%                       | 34%                   | 33%                     | 34%                   |
| Home accents and bed and bath                       | 22%                       | 22%                   | 22%                     | 22%                   |
| Men's                                               | 13%                       | 14%                   | 13%                     | 14%                   |
| Shoes                                               | 12%                       | 11%                   | 12%                     | 11%                   |
| Accessories, lingerie, fine jewelry, and fragrances | 12%                       | 11%                   | 12%                     | 11%                   |
| Children's                                          | 8%                        | 8%                    | 8%                      | 8%                    |
| Total                                               | 100%                      | 100%                  | 100%                    | 100%                  |

**Dividends.** Dividends included in the Condensed Consolidated Statements of Cash Flows reflect dividends paid during the periods shown. Dividends per share reported in the Condensed Consolidated Statements of Earnings reflect dividends declared during the periods shown. In January and May 2009, the Company's Board of Directors declared a quarterly cash dividend of \$.11 per common share that was paid in March and June 2009, respectively. In January, May, August, and November 2008 the Company's Board of Directors declared quarterly cash dividends of \$.095 per common share that was paid in March, July, and October 2008, and January 2009, respectively. In August 2009, the Company's Board of Directors declared a cash dividend of \$.11 per common share, payable on September 30, 2009.

**Provision for litigation costs and other legal proceedings.** Like many California retailers, the Company has been named in class action lawsuits regarding wage and hour claims. Class action litigation involving allegations that hourly associates have missed meal and/or rest break periods, as well as allegations of unpaid overtime wages to assistant store managers at Company stores under federal and state law remains pending as of August 1, 2009. The Company is also party to various other legal proceedings arising in the normal course of business. Actions filed against the Company include commercial, product, customer, intellectual property, and labor and employment-related claims, including lawsuits in which plaintiffs allege that the Company violated state or federal laws. Actions against the Company are in various procedural stages. Many of these proceedings raise factual and legal issues and are subject to uncertainties.

In the opinion of management, resolution of pending class action litigation and other currently pending legal proceedings is not expected to have a material adverse effect on the Company's financial condition, results of operations or cash flows.

## Note B: Investments

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The amortized cost and fair value of the Company's available-for-sale securities as of August 1, 2009 were:

| (\$000)                                  | Amortized<br>cost | Unrealized<br>gains | Unrealized<br>losses | Fair<br>value    | Short-<br>term  | Long-<br>term    |
|------------------------------------------|-------------------|---------------------|----------------------|------------------|-----------------|------------------|
| Auction-rate securities                  | \$ 1,050          | \$ -                | \$ -                 | \$ 1,050         | \$ -            | \$ 1,050         |
| Asset-backed securities                  | 791               | 3                   | (215)                | 579              | 195             | 384              |
| Corporate securities                     | 10,556            | 459                 | (224)                | 10,791           | 355             | 10,436           |
| U.S. Government and agency<br>securities | 6,087             | 46                  | (199)                | 5,934            | -               | 5,934            |
| Mortgage-backed securities               | 4,691             | 217                 | (375)                | 4,533            | 585             | 3,948            |
| <b>Total</b>                             | <b>\$ 23,175</b>  | <b>\$ 725</b>       | <b>\$ (1,013)</b>    | <b>\$ 22,887</b> | <b>\$ 1,135</b> | <b>\$ 21,752</b> |

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The amortized cost and fair value of the Company's available-for-sale securities as of August 2, 2008 were:

| (\$000)                                  | Amortized<br>cost | Unrealized<br>gains | Unrealized<br>losses | Fair<br>value    | Short-<br>term  | Long-<br>term    |
|------------------------------------------|-------------------|---------------------|----------------------|------------------|-----------------|------------------|
| Auction-rate securities                  | \$ 1,900          | \$ -                | \$ -                 | \$ 1,900         | \$ -            | \$ 1,900         |
| Asset-backed securities                  | 1,272             | 8                   | (41)                 | 1,239            | 681             | 558              |
| Corporate securities                     | 15,309            | 18                  | (666)                | 14,661           | 1,138           | 13,523           |
| U.S. Government and agency<br>securities | 20,036            | 589                 | (91)                 | 20,534           | 1,002           | 19,532           |
| Mortgage-backed securities               | 8,956             | 92                  | (385)                | 8,663            | -               | 8,663            |
| <b>Total</b>                             | <b>\$ 47,473</b>  | <b>\$ 707</b>       | <b>\$ (1,183)</b>    | <b>\$ 46,997</b> | <b>\$ 2,821</b> | <b>\$ 44,176</b> |

At August 1, 2009, the Company had investments of approximately \$23.2 million, of which \$5.8 million had gross unrealized losses of \$0.8 million which had been in a continuous unrealized loss position for more than twelve months. Of the remaining \$17.4 million, \$5.0 million of investments had gross unrealized losses of \$0.2 million which had been in a continuous unrealized loss position for less than twelve months. These unrealized losses on investments were caused primarily by the downturn in the market values of mortgage-backed, asset-backed, and financial sector corporate securities. The Company does not consider these investments to be other than temporarily impaired at August 1, 2009.

In applying the valuation principles to financial assets and liabilities, a three-tier fair value hierarchy was used to prioritize the inputs used in the valuation methodologies as follows:

Level 1—Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2—Include other inputs that are directly or indirectly observable in the marketplace.

Level 3—Unobservable inputs which are supported by little or no market activity.

This fair value hierarchy also requires the Company to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Asset-backed, corporate, U.S. Government and agency, and mortgage-backed securities are classified within Level 1 or Level 2 because these securities are valued using quoted market prices or alternative pricing sources and models utilizing market observable inputs. The Company's investment in auction rate securities is classified within Level 3 because these are valued using valuation techniques for which some of the inputs to these models are unobservable in the market.

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Assets measured at fair value are summarized below:

| (\$000)                               | August 1,<br>2009 | Fair Value Measurements at<br>Reporting Date                                        |                                                           |                                                    |
|---------------------------------------|-------------------|-------------------------------------------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------|
|                                       |                   | Quoted<br>Prices in<br>Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| Auction-rate securities               | \$ 1,050          | \$ -                                                                                | \$ -                                                      | \$ 1,050                                           |
| Asset-backed securities               | 579               | -                                                                                   | 579                                                       | -                                                  |
| Corporate securities                  | 10,791            | -                                                                                   | 10,791                                                    | -                                                  |
| U.S. Government and agency securities | 5,934             | 5,934                                                                               | -                                                         | -                                                  |
| Mortgage-backed securities            | 4,533             | -                                                                                   | 4,533                                                     | -                                                  |
| Total assets measured at fair value   | \$ 22,887         | \$ 5,934                                                                            | \$ 15,903                                                 | \$ 1,050                                           |

The underlying assets in the Company's non-qualified deferred compensation program totaling \$48.4 million as of August 1, 2009 (included in Other long term assets) primarily consist of money market, stable value, stock, and bond funds. The fair value measurement for funds that are quoted market prices in active markets (Level 1) totaled \$38.7 million as of August 1, 2009. The fair value measurement for funds without quoted market prices in active markets (Level 2) totaled \$9.7 million as of August 1, 2009. Fair market value for these Level 2 funds is considered to be the sum of participant funds invested under the contract plus accrued interest.

## Note C: Stock-Based Compensation

**2008 Equity Incentive Plan.** In May 2008, the Company's stockholders approved the adoption of the Ross Stores, Inc. 2008 Equity Incentive Plan (the "2008 Plan") with an initial share reserve of 8.3 million shares of the Company's common stock, of which 6.0 million shares can be issued as full value awards. The 2008 Plan replaced the 2004 Equity Incentive Plan. The 2008 Plan provides for various types of incentive awards, which may potentially include the grant of stock options, stock appreciation rights, restricted stock purchase rights, restricted stock bonuses, restricted stock units, performance shares, performance units, and deferred compensation awards.

**Restricted stock.** The Company grants restricted shares to directors, officers and key employees. The fair value of these shares at the date of grant is expensed on a straight-line basis over the vesting period of generally three to five years. During the six month period ended August 1, 2009, restricted stock awards totaling 825,000 shares were issued and restricted stock awards totaling 20,000 shares were forfeited. The aggregate unamortized compensation expense at August 1, 2009 was \$47.3 million. During the period ended August 1, 2009, shares purchased by the Company for tax withholding totaled approximately 129,000 shares and are considered treasury shares which are available for reissuance. As of August 1, 2009, shares subject to repurchase related to unvested restricted stock totaled 2.3 million shares.

**Performance shares.** The Company has a performance share award program for senior executives. A performance share award represents a right to receive shares of common stock on a specified settlement date based on the Company's attainment of a profitability-based performance goal during the performance period. If attained, the common stock then granted vests over a specified remaining service period, generally two years. For the six month periods ended August 1, 2009 and August 2, 2008, the Company recognized \$2.4 million and \$0.8 million, respectively, of expense related to performance share awards.

**Employee stock purchase plan.** Under the Employee Stock Purchase Plan ("ESPP"), eligible full-time employees participating in the annual offering period can choose to have up to the lesser of 10% or \$21,250 of their annual base earnings withheld to purchase the Company's common stock. The purchase price of the stock is 85% of the closing market price on the date of purchase. In addition, purchases occur on a quarterly basis (on the last trading day of each calendar quarter). The Company recognizes expense for ESPP purchase rights equal to the value of the 15% discount given on the purchase date. Prior to 2008, the purchase price of the stock was the lower of 85% of the market price at the beginning of the offering period, or end of the offering period.

**Stock-based compensation.** For the three and six month periods ended August 1, 2009 and August 2, 2008, the Company recognized stock-based compensation expense as follows:

|                                         | <b>Three Months Ended</b> |                | <b>Six Months Ended</b> |                |
|-----------------------------------------|---------------------------|----------------|-------------------------|----------------|
|                                         | <b>August 1, 2009</b>     | August 2, 2008 | <b>August 1, 2009</b>   | August 2, 2008 |
| (\$000)                                 |                           |                |                         |                |
| Stock Options and ESPP                  | <b>\$ 600</b>             | \$ 1,380       | <b>\$ 1,715</b>         | \$ 2,622       |
| Restricted stock and performance shares | <b>5,920</b>              | 4,754          | <b>11,302</b>           | 8,708          |
| Total                                   | <b>\$ 6,520</b>           | \$ 6,134       | <b>\$ 13,017</b>        | \$ 11,330      |

No stock options were granted during the three and six month periods ended August 1, 2009 and August 2, 2008.

Total stock-based compensation recognized in the Company's Condensed Consolidated Statements of Earnings for the three and six month periods ended August 1, 2009 and August 2, 2008 is classified as follows:

|                                                     | <b>Three Months Ended</b> |                | <b>Six Months Ended</b> |                |
|-----------------------------------------------------|---------------------------|----------------|-------------------------|----------------|
|                                                     | <b>August 1, 2009</b>     | August 2, 2008 | <b>August 1, 2009</b>   | August 2, 2008 |
| <b>Statement of Earnings Classification (\$000)</b> |                           |                |                         |                |
| Cost of goods sold                                  | <b>\$ 2,853</b>           | \$ 2,721       | <b>\$ 5,849</b>         | \$ 4,782       |
| Selling, general and administrative                 | <b>3,667</b>              | 3,413          | <b>7,168</b>            | 6,548          |
| Total                                               | <b>\$ 6,520</b>           | \$ 6,134       | <b>\$ 13,017</b>        | \$ 11,330      |

**Stock option activity.** The following table summarizes stock option activity for the six month period ended August 1, 2009:

|                                                      | Number of shares | Weighted average exercise price | Weighted average remaining contractual term | Aggregate intrinsic value |
|------------------------------------------------------|------------------|---------------------------------|---------------------------------------------|---------------------------|
| (000, except per share data)                         |                  |                                 |                                             |                           |
| Outstanding at January 31, 2009                      | 4,534            | \$ 25.39                        |                                             |                           |
| Granted                                              | -                | \$ -                            |                                             |                           |
| Exercised                                            | (1,191)          | \$ 24.29                        |                                             |                           |
| Forfeited                                            | (11)             | \$ 26.28                        |                                             |                           |
| <b>Outstanding at August 1, 2009</b>                 | <b>3,332</b>     | <b>\$ 25.78</b>                 | <b>5.13</b>                                 | <b>\$ 60,943</b>          |
| <b>Vested and Expected to Vest at August 1, 2009</b> | <b>3,293</b>     | <b>\$ 25.68</b>                 | <b>5.10</b>                                 | <b>\$ 60,559</b>          |
| <b>Exercisable at August 1, 2009</b>                 | <b>2,872</b>     | <b>\$ 24.48</b>                 | <b>4.74</b>                                 | <b>\$ 56,267</b>          |

The following table summarizes information about the weighted average remaining contractual life (in years) and the weighted average exercise prices for stock options both outstanding and exercisable as of August 1, 2009 (number of shares in thousands):

|                      | Options outstanding |                |                | Options exercisable |                |
|----------------------|---------------------|----------------|----------------|---------------------|----------------|
| Exercise price range | Number of shares    | Remaining life | Exercise price | Number of shares    | Exercise price |
| \$ 7.19 to \$ 19.80  | 713                 | 2.26           | \$ 14.84       | 713                 | \$ 14.84       |

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|                     |       |      |          |       |          |
|---------------------|-------|------|----------|-------|----------|
| 19.98 to 27.54      | 720   | 4.94 | 24.87    | 709   | 24.87    |
| 27.55 to 28.61      | 824   | 5.88 | 28.06    | 813   | 28.06    |
| 28.62 to 32.85      | 551   | 5.58 | 29.53    | 532   | 29.45    |
| 34.37 to 34.37      | 524   | 7.64 | 34.37    | 105   | 34.37    |
| \$ 7.19 to \$ 34.37 | 3,332 | 5.13 | \$ 25.78 | 2,872 | \$ 24.48 |

**Note D: Earnings Per Share**

Basic Earnings Per Share ("EPS") is computed by dividing net earnings by the weighted average number of common shares outstanding for the period. Diluted EPS is computed by dividing net earnings by the sum of the weighted average number of common shares and dilutive common stock equivalents outstanding during the period. Dilutive EPS reflects the total potential dilution that could occur from outstanding equity plan awards, including unexercised stock options and unvested shares of both performance and non-performance based awards of restricted stock.

For the three and six month periods ended August 1, 2009, there were approximately 35,800 and 19,100 weighted average shares, respectively, that could potentially dilute basic EPS in the future that were excluded from the calculation of diluted EPS because their effect would have been anti-dilutive in the periods presented. For the three and six month periods ended August 2, 2008, there were approximately 572,500 and 587,300 weighted average shares, respectively, that could potentially dilute basic EPS in the future that were excluded from the calculation of diluted EPS because their effect would have been anti-dilutive in the periods presented.

The following is a reconciliation of the number of shares (denominator) used in the basic and diluted EPS computations:

|                       | Three Months Ended |                                             |             | Six Months Ended |                                             |             |
|-----------------------|--------------------|---------------------------------------------|-------------|------------------|---------------------------------------------|-------------|
|                       | Basic EPS          | Effect of Dilutive Common Stock Equivalents | Diluted EPS | Basic EPS        | Effect of Dilutive Common Stock Equivalents | Diluted EPS |
| <b>August 1, 2009</b> |                    |                                             |             |                  |                                             |             |
| Shares                | 123,467            | 2,191                                       | 125,658     | 124,080          | 1,983                                       | 126,063     |
| Amount                | \$ 0.84            | \$ (0.02)                                   | \$ 0.82     | \$ 1.57          | \$ (0.02)                                   | \$ 1.55     |
| <b>August 2, 2008</b> |                    |                                             |             |                  |                                             |             |
| Shares                | 130,110            | 2,323                                       | 132,433     | 130,714          | 2,200                                       | 132,914     |
| Amount                | \$ 0.55            | \$ (0.01)                                   | \$ 0.54     | \$ 1.15          | \$ (0.02)                                   | \$ 1.13     |

**Note E: Debt**

The Company has a \$600 million revolving credit facility with an expiration date of July 2011 and interest pricing at LIBOR plus 45 basis points. The Company had no borrowings outstanding under this facility as of August 1, 2009, January 31, 2009, and August 2, 2008 and was in compliance with the covenants.

The Company has a Note Purchase Agreement with various institutional investors for \$150 million of unsecured, senior notes. The notes were issued in two series. The series A notes totaling \$85 million are due in December 2018 and bear interest at a rate of 6.38%. The series B notes totaling \$65 million are due in December 2021 and bear interest at a rate of 6.53%. The fair value of these notes as of August 1, 2009 of approximately \$160 million is estimated by obtaining comparable market quotes. Borrowings under these notes are subject to certain covenants, including interest coverage and other financial ratios. As of August 1, 2009, the Company was in compliance with

these covenants.

#### **Note F: Taxes on Earnings**

As of August 1, 2009 and August 2, 2008, the reserves for unrecognized tax benefits (net of federal tax benefits) were \$28.2 million and \$24.6 million inclusive of \$7.2 million and \$6.7 million of related interest, respectively. The Company accounts for interest and penalties related to unrecognized tax benefits as a part of its provision for taxes on earnings. If recognized, \$21.5 million would impact the Company's effective tax rate. The difference between the total amount of unrecognized tax benefits and the amounts that would impact the effective tax rate relates to amounts attributable to deferred income tax assets and liabilities. These amounts are net of federal and state income taxes.

During the next twelve months, it is reasonably possible that the statute of limitations may lapse pertaining to positions taken by the Company in prior year tax returns. If this occurs, the total amount of unrecognized tax benefits may decrease, reducing the provision for taxes on earnings by up to \$1.4 million.

The Company is generally open to audit by the Internal Revenue Service under the statute of limitations for fiscal years 2005 through 2008. The Company's state income tax returns are generally open to audit under the various statutes of limitations for fiscal years 2004 through 2008. Certain state tax returns are currently under audit by state tax authorities. The Company does not expect the results of these audits to have a material impact on the consolidated financial statements.

#### **Note G: Recently Issued Accounting Standards**

In June 2009, the FASB issued SFAS No. 167, "Amendments to FASB Interpretation No. 46(R)" (SFAS 167). SFAS 167 requires a qualitative approach to identifying a controlling financial interest in a variable interest entity (VIE), and requires ongoing assessment of whether an entity is a VIE and whether an interest in a VIE makes the holder the primary beneficiary of the VIE. SFAS No. 167 is effective for fiscal years beginning after November 15, 2009. The Company does not believe the adoption of SFAS 167 will have a material impact on its consolidated financial statements.

In June 2009, the FASB issued SFAS No. 168, "The FASB Accounting Standards Codification" and the Hierarchy of Generally Accepted Accounting Principles a Replacement of FASB Statement No. 162 (SFAS 168) to become the source of authoritative U.S. generally accepted accounting principles recognized by the FASB to be applied by nongovernmental entities. SFAS 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Company does not believe the adoption of SFAS 168 will have a material impact on its interim condensed consolidated financial statements.

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#### **Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholders of  
Ross Stores, Inc.  
Pleasanton, California

We have reviewed the accompanying condensed consolidated balance sheets of Ross Stores, Inc. and subsidiaries (the "Company") as of August 1, 2009 and August 2, 2008, and the related condensed consolidated statements of earnings for the three-month and six-month periods ended August 1, 2009 and August 2, 2008, and cash flows for the six-month periods ended August 1, 2009 and August 2, 2008. These condensed consolidated financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

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Based on our reviews, we are not aware of any material modifications that should be made to such condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Ross Stores, Inc. and subsidiaries as of January 31, 2009, and the related consolidated statements of earnings, stockholders' equity, and cash flows for the year then ended (not presented herein), and in our report (which includes an explanatory paragraph regarding the adoption of a new accounting standard) dated March 26, 2009, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of January 31, 2009, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/Deloitte & Touche LLP

San Francisco, California  
September 8, 2009

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### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This section and other parts of this Form 10-Q contain forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from the results discussed in the forward-looking statements. Factors that might cause such differences include, but are not limited to, those discussed in Part II, Item 1A (Risk Factors) below. The following discussion should be read in conjunction with the condensed consolidated financial statements and notes thereto included elsewhere in this Quarterly Report on Form 10-Q and the consolidated financial statements and notes thereto in our Annual Report on Form 10-K for 2008. All information is based on our fiscal calendar.

#### Overview

We are the second largest off-price apparel and home goods retailer in the United States. As of August 1, 2009, we operated 939 Ross Dress for Less ("Ross") store locations in 27 states and Guam, and 51 dd's DISCOUNTS stores in four states. Ross offers first-quality, in-season, name brand and designer apparel, accessories, footwear and home fashions at everyday savings of 20% to 60% off department and specialty store regular prices. dd's DISCOUNTS features a more moderately-priced assortment of first-quality, in-season, name brand apparel, accessories, footwear and home fashions at everyday savings of 20% to 70% off moderate department and discount store regular prices.

#### Results of Operations

The following table summarizes the financial results for the three and six month periods ended August 1, 2009 and August 2, 2008:

|                                                   | Three Months Ended |                | Six Months Ended |                |
|---------------------------------------------------|--------------------|----------------|------------------|----------------|
|                                                   | August 1, 2009     | August 2, 2008 | August 1, 2009   | August 2, 2008 |
| <b>Sales</b>                                      |                    |                |                  |                |
| Sales (millions)                                  | \$ 1,769           | \$ 1,640       | \$ 3,460         | \$ 3,197       |
| Sales growth                                      | 7.8%               | 13.6%          | 8.2%             | 12.0%          |
| Comparable store sales growth                     | 3%                 | 6%             | 3%               | 5%             |
| <b>Costs and expenses (as a percent of sales)</b> |                    |                |                  |                |
| Cost of goods sold                                | 74.1%              | 76.5%          | 74.6%            | 76.2%          |

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|                                     |             |             |             |             |
|-------------------------------------|-------------|-------------|-------------|-------------|
| Selling, general and administrative | 16.2%       | 16.4%       | 16.1%       | 16.2%       |
| Interest expense (income), net      | 0.1%        | (0.1)%      | 0.1%        | (0.1)%      |
| <b>Earnings before taxes</b>        | <b>9.6%</b> | <b>7.2%</b> | <b>9.2%</b> | <b>7.7%</b> |
| <b>Net earnings</b>                 | <b>5.8%</b> | <b>4.3%</b> | <b>5.6%</b> | <b>4.7%</b> |

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**Stores.** Our expansion strategy is to open additional stores based on market penetration, local demographic characteristics, competition, expected store profitability, and the ability to leverage overhead expenses. We continually evaluate opportunistic real estate acquisitions and opportunities for potential new store locations. We also evaluate our current store locations and determine store closures based on similar criteria.

|                                       | <b>Three Months Ended</b> |           | <b>Six Months Ended</b> |           |
|---------------------------------------|---------------------------|-----------|-------------------------|-----------|
|                                       | <b>August 1,</b>          | August 2, | <b>August 1,</b>        | August 2, |
|                                       | <b>2009</b>               | 2008      | <b>2009</b>             | 2008      |
| Stores at the beginning of the period | 974                       | 918       | 956                     | 890       |
| Stores opened in the period           | 19                        | 26        | 38                      | 54        |
| Stores closed in the period           | (3)                       | (1)       | (4)                     | (1)       |
| Stores at the end of the period       | 990                       | 943       | 990                     | 943       |

**Sales.** Sales for the three month period ended August 1, 2009 increased \$128.2 million, or 7.8%, compared to the three month period ended August 2, 2008, due to the addition of 47 net new stores opened between August 2, 2008 and August 1, 2009 and a 3% increase in [comparable] store sales (defined as stores that have been open for more than 14 complete months). Sales for the six month period ended August 1, 2009 increased \$263.5 million, or 8.2%, compared to the six month period ended August 2, 2008, with comparable store sales up 3% on top of a 5% gain in the prior year.

Our sales mix is shown below for the three and six month periods ended August 1, 2009 and August 2, 2008:

|                                                     | <b>Three Months Ended</b> |             | <b>Six Months Ended</b> |             |
|-----------------------------------------------------|---------------------------|-------------|-------------------------|-------------|
|                                                     | <b>August 1,</b>          | August 2,   | <b>August 1,</b>        | August 2,   |
|                                                     | <b>2009</b>               | 2008        | <b>2009</b>             | 2008        |
| Ladies                                              | 33%                       | 34%         | 33%                     | 34%         |
| Home accents and bed and bath                       | 22%                       | 22%         | 22%                     | 22%         |
| Men's                                               | 13%                       | 14%         | 13%                     | 14%         |
| Shoes                                               | 12%                       | 11%         | 12%                     | 11%         |
| Accessories, lingerie, fine jewelry, and fragrances | 12%                       | 11%         | 12%                     | 11%         |
| Children's                                          | 8%                        | 8%          | 8%                      | 8%          |
| <b>Total</b>                                        | <b>100%</b>               | <b>100%</b> | <b>100%</b>             | <b>100%</b> |

We expect to address the competitive climate for off-price apparel and home goods by pursuing and refining our existing strategies and by continuing to strengthen our organization, to diversify our merchandise mix, and to more fully develop our organization and systems to improve regional and local merchandise offerings. Although our strategies and store expansion program contributed to sales gains for the three and six month periods ended August 1, 2009, we cannot be sure that they will result in a continuation of sales growth or in an increase in net earnings.

**Cost of goods sold.** Cost of goods sold for the three month period ended August 1, 2009 increased \$55.9 million compared to the same period in the prior year mainly due to increased sales from the opening of 47 net new stores

between August 2, 2008 and August 1, 2009 and a 3% increase in comparable store sales.

Cost of goods sold as a percentage of sales for the three month period ended August 1, 2009 decreased approximately 240 basis points from the same period in the prior year. This improvement was driven primarily by a 145 basis point increase in merchandise gross margin, a 75 basis point reduction in freight costs, a reduction of about 25 basis points in occupancy expense, and an approximate 5 basis point improvement in distribution costs. These favorable trends were partially offset by a 10 basis point increase in buying and incentive costs.

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Cost of goods sold for the six month period ended August 1, 2009 increased \$143.1 million compared to the same period in the prior year mainly due to increased sales from the opening of 47 net new stores between August 2, 2008 and August 1, 2009 and a 3% increase in comparable store sales.

Cost of goods sold as a percentage of sales for the six month period ended August 1, 2009 decreased approximately 165 basis points from the same period in the prior year. This improvement was driven primarily by a 110 basis point increase in merchandise gross margin, a 70 basis point reduction in freight costs, and a reduction of about 20 basis points in occupancy expense. These improvements were partially offset by a 35 basis point increase in buying and incentive costs.

We cannot be sure that the gross profit margins realized for the three and six month periods ended August 1, 2009 will continue in the future.

**Selling, general and administrative expenses.** For the three month period ended August 1, 2009, selling, general and administrative expenses increased \$17.3 million compared to the same period in the prior year, mainly due to increased store operating costs reflecting the opening of 47 net new stores between August 2, 2008 and August 1, 2009.

Selling, general and administrative expenses as a percentage of sales for the three month period ended August 1, 2009 decreased by approximately 20 basis points over the same period in the prior year, mainly driven by leverage on store operating expenses.

For the six month period ended August 1, 2009, selling, general and administrative expenses increased \$41.7 million compared to the same period in the prior year, mainly due to increased store operating costs reflecting the opening of 47 net new stores between August 2, 2008 and August 1, 2009.

Selling, general and administrative expenses as a percentage of sales for the six month period ended August 1, 2009 remained approximately flat compared to the same period in the prior year.

**Interest expense (income), net.** Net interest expense increased for the three and six month periods ended August 1, 2009 by approximately \$2.4 million and \$5.7 million, respectively, as compared to the same periods in the prior year primarily due to lower interest rates on cash and investments.

**Taxes on earnings.** Our effective tax rate for the three and six month periods ended August 1, 2009 and August 2, 2008 was approximately 39%, which represents the applicable combined federal and state statutory rates reduced by the federal benefit of state taxes deductible on federal returns. The effective rate is affected by changes in law, location of new stores, level of earnings, and the result of tax positions with various taxing authorities. We anticipate that our effective tax rate for fiscal 2009 will be in the range of 38% to 40%.

**Earnings per share.** Diluted earnings per share for the three month period ended August 1, 2009 was \$0.82 compared to \$0.54 in the prior year period. The 52% increase in diluted earnings per share is attributable to a 45% increase in net earnings and a 5% reduction in weighted average diluted shares outstanding primarily due to the repurchase of common stock under our stock repurchase program. Diluted earnings per share for the six month period ended August 1, 2009 was \$1.55 compared to \$1.13 in the prior year period. The 37% increase in diluted earnings per share is attributable to a 29% increase in net earnings and a 5% reduction in weighted average diluted shares outstanding primarily due to the repurchase of common stock under our stock repurchase program.

## Financial Condition

### Liquidity and Capital Resources

Our primary sources of funds for our business activities are cash flows from operations and short-term trade credit. Our primary ongoing cash requirements are for merchandise inventory purchases, capital expenditures in connection with opening new stores, and investments in distribution centers and information systems. We also use cash to repurchase stock under our stock repurchase program and to pay dividends.

| (\$000)                                     | Six Months Ended  |                   |
|---------------------------------------------|-------------------|-------------------|
|                                             | August 1,<br>2009 | August 2,<br>2008 |
| Cash flows provided by operating activities | \$ 413,968        | \$ 306,556        |
| Cash flows used in investing activities     | (63,910)          | (115,305)         |
| Cash flows used in financing activities     | (150,989)         | (139,277)         |
| Net increase in cash and cash equivalents   | \$ 199,069        | \$ 51,974         |

### Operating Activities

Net cash provided by operating activities was \$414.0 million for the six month period ended August 1, 2009 compared to \$306.6 million for the six month period ended August 2, 2008. The primary source of cash provided by operating activities for the six month periods ended August 1, 2009 and August 2, 2008 was accounts payable and net earnings plus non-cash expenses for depreciation and amortization. The increase in cash flow from operating activities for the six month period ended August 1, 2009 primarily resulted from an increase in accounts payable leverage as a result of faster inventory turns. Accounts payable leverage (defined as accounts payable divided by merchandise inventory) was 61% as of January 31, 2009 and increased to 76% as of August 1, 2009. Accounts payable leverage was 67% as of August 2, 2008.

Working capital (defined as current assets less current liabilities) was \$468.1 million as of August 1, 2009, compared to \$394.6 million as of August 2, 2008. Our primary source of liquidity is the sale of our merchandise inventory. We regularly review the age and condition of our merchandise and are able to maintain current merchandise inventory in our stores through replenishment processes and liquidation of slower-moving merchandise through clearance markdowns.

### Investing Activities

During the six month periods ended August 1, 2009 and August 2, 2008, our capital expenditures were approximately \$80.7 million and \$113.5 million, respectively. Our capital expenditures included fixtures and leasehold improvements to open new stores, implement information technology systems, build or expand distribution centers, and install material handling equipment and related distribution center systems, and various other expenditures related to our stores, buying, and corporate offices. We opened 38 and 54 new stores on a gross basis during the six month periods ended August 1, 2009 and August 2, 2008, respectively.

We are forecasting approximately \$180 million in capital requirements in fiscal year 2009 to fund expenditures for fixtures and leasehold improvements to open new Ross and dd's DISCOUNTS stores, for the relocation or upgrade of existing stores, for investments in store and merchandising systems, buildings, equipment and systems, and for various buying and corporate office expenditures. We expect to fund these expenditures with cash flows from operations.

### Financing Activities

During the six month periods ended August 1, 2009 and August 2, 2008, our liquidity and capital requirements were provided by available cash, cash flows from operations, and trade credit. Our buying offices, our corporate

headquarters, one distribution center, one trailer parking lot, three warehouse facilities, and all but two of our store locations are leased and, except for certain leasehold improvements and equipment, do not represent capital investments. We own one distribution center in each of the following cities: Carlisle, Pennsylvania, Moreno Valley, California, and Fort Mill, South Carolina, and one warehouse facility in Fort Mill, South Carolina.

In January 2008, our Board of Directors approved a two-year \$600 million stock repurchase program for fiscal 2008 and 2009. We repurchased 4.2 million shares of common stock for an aggregate purchase price of approximately \$154.4 million during the six month period ended August 1, 2009. We repurchased 4.6 million shares of common stock for approximately \$152.6 million during the six month period ended August 2, 2008.

For the six month periods ended August 1, 2009 and August 2, 2008, dividends paid were \$27.8 million and \$24.9 million, respectively.

Short-term trade credit represents a significant source of financing for merchandise inventory. Trade credit arises from customary payment terms and trade practices with our vendors. We regularly review the adequacy of credit available to us from all sources and expect to be able to maintain adequate trade, bank, and other credit lines to meet our capital and liquidity requirements, including lease payment obligations in 2009.

Our \$600 million credit facility remains in place and available as of August 1, 2009 and expires in July 2011.

We estimate that cash flows from operations, bank credit lines, and trade credit are adequate to meet operating cash needs, fund our planned capital investments, repurchase common stock, and make quarterly dividend payments for at least the next twelve months.

## Contractual Obligations

The table below presents our significant contractual obligations as of August 1, 2009:

| (\$000)                              | Less<br>than 1<br>Year | 1 – 3<br>Years    | 3 – 5<br>Years    | After 5<br>Years  | Total <sup>1</sup>  |
|--------------------------------------|------------------------|-------------------|-------------------|-------------------|---------------------|
| <b>Contractual Obligations</b>       |                        |                   |                   |                   |                     |
| Senior notes                         | \$ --                  | \$ --             | \$ --             | \$ 150,000        | \$ 150,000          |
| Interest payment obligations         | 9,667                  | 19,335            | 19,335            | 55,029            | 103,366             |
| Capital leases                       | 385                    | 157               | --                | --                | 542                 |
| Operating leases:                    |                        |                   |                   |                   |                     |
| Rent obligations                     | 325,653                | 640,675           | 492,819           | 517,461           | 1,976,608           |
| Synthetic leases                     | 5,824                  | 8,909             | 3,750             | --                | 18,483              |
| Other synthetic lease obligations    | 838                    | 1,535             | 56,000            | --                | 58,373              |
| Purchase obligations                 | 993,737                | 10,136            | 1,452             | --                | 1,005,325           |
| <b>Total contractual obligations</b> | <b>\$ 1,336,104</b>    | <b>\$ 680,747</b> | <b>\$ 573,356</b> | <b>\$ 722,490</b> | <b>\$ 3,312,697</b> |

<sup>1</sup>Pursuant to the guidelines of FIN 48, a \$28.2 million reserve for unrecognized tax benefits is included in other long-term liabilities on our interim condensed consolidated balance sheet. These obligations are excluded from the schedule above as the timing of payments cannot be reasonably estimated.

**Senior notes.** We have a Note Purchase Agreement with various institutional investors for \$150 million of unsecured, senior notes. The notes were issued in two series. The Series A notes totaling \$85 million are due in December 2018 and bear interest at a rate of 6.38%. The Series B notes totaling \$65 million are due in December 2021 and bear interest at a rate of 6.53%. Interest on these notes is included in Interest payment obligations in the table above.

Borrowings under these notes are subject to certain operating and financial covenants, including maintaining certain interest coverage and other financial ratios. As of August 1, 2009, we were in compliance with these covenants.

**Capital leases.** The obligations under capital leases relate to distribution center equipment and have terms of two to three years.

### Off-Balance Sheet Arrangements

**Operating leases.** We lease our two buying offices, our corporate headquarters, one distribution center, one trailer parking lot, three warehouse facilities, and all but two of our store locations. Except for certain leasehold improvements and equipment, these leased locations do not represent long-term capital investments.

We have lease arrangements for certain equipment in our stores for our point-of-sale (POS) hardware and software systems. These leases are accounted for as operating leases for financial reporting purposes. The initial terms of these leases are either two or three years, and we typically have options to renew the leases for two to three one-year periods. Alternatively, we may purchase or return the equipment at the end of the initial or each renewal term. We have guaranteed the value of the equipment of \$2.4 million at the end of the respective initial lease terms, which is included in Other synthetic lease obligations in the table above.

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We lease approximately 181,000 square feet of office space for our corporate headquarters in Pleasanton, California, under several facility leases. The terms for these leases expire between 2010 and 2014 and contain renewal provisions.

We lease approximately 161,000 and 23,000 square feet of office space for our New York City and Los Angeles buying offices, respectively. The lease terms for these facilities expire in 2015 and 2014, respectively. The lease term for the New York office contains a renewal provision.

We lease a 1.3 million square foot distribution center in Perris, California. The land and building for this distribution center are financed under a \$70 million ten-year synthetic lease that expires in July 2013. Rent expense on this center is payable monthly at a fixed annual rate of 5.8% on the lease balance of \$70 million. At the end of the lease term, we have the option to either refinance the \$70 million synthetic lease facility, purchase the distribution center at the amount of the then-outstanding lease obligation, or arrange a sale of the distribution center to a third party. If the distribution center is sold to a third party for less than \$70 million, we have agreed under a residual value guarantee to pay the lessor any shortfall amount up to \$56 million. Our contractual obligation of \$56 million is included in Other synthetic lease obligations in the above table.

In accordance with Financial Accounting Standards Board (FASB) Interpretation (FIN) No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," we have recognized a liability and corresponding asset for the fair value of the residual value guarantee in the amount of \$8.3 million for the Perris, California distribution center and \$1.2 million for the POS leases. These residual value guarantees are being amortized on a straight-line basis over the original terms of the leases. The current portion of the related asset and liability is recorded in prepaid expenses and accrued expenses, respectively, and the long-term portion of the related assets and liabilities is recorded in other long-term assets and other long-term liabilities, respectively, in the accompanying condensed consolidated balance sheets.

In November 2001, we entered into a nine year lease for a 239,000 square foot warehouse and a ten-year lease for a 246,000 square foot warehouse, both in Carlisle, Pennsylvania. In January 2009, we exercised a three-year lease option for a 253,000 square foot warehouse in Fort Mill, South Carolina, extending the lease term to February 2013. In June 2008, we purchased a 423,000 square foot warehouse also in Fort Mill, South Carolina. All four of these properties are used to store our packaway inventory. We also lease a 10-acre parcel of land that has been developed for trailer parking adjacent to our Perris distribution center.

The synthetic lease facilities described above, as well as our revolving credit facility and senior notes, have covenant restrictions requiring us to maintain certain interest coverage and other financial ratios. In addition, the interest rates under these agreements may vary depending on actual interest coverage ratios achieved. As of August 1, 2009 we were in compliance with these covenants.

**Purchase obligations.** As of August 1, 2009 we had purchase obligations of \$1,005.3 million. These purchase obligations primarily consist of merchandise inventory purchase orders, commitments related to store fixtures and supplies, and information technology service and maintenance contracts. Merchandise inventory purchase orders

of \$958.0 million are purchase obligations of less than one year as of August 1, 2009.

## Commercial Credit Facilities

The table below presents our significant available commercial credit facilities at August 1, 2009:

| (\$000)                              | Amount of Commitment Expiration<br>Per Period |                |                |                     | Total<br>amount<br>committed |
|--------------------------------------|-----------------------------------------------|----------------|----------------|---------------------|------------------------------|
|                                      | Less<br>than<br>1<br>year                     | 1 - 3<br>years | 3 - 5<br>years | After<br>5<br>years |                              |
| <b>Commercial Credit Commitments</b> |                                               |                |                |                     |                              |
| Revolving credit facility            | \$ --                                         | \$ 600,000     | \$ --          | \$ --               | \$ 600,000                   |
| Total commercial commitments         | \$ --                                         | \$ 600,000     | \$ --          | \$ --               | \$ 600,000                   |

**Revolving credit facility.** We have available a \$600 million revolving credit facility with our banks, which contains a \$300 million sublimit for issuance of standby letters of credit, of which \$227.6 million was available at August 1, 2009. This credit facility which expires in July 2011 has a LIBOR-based interest rate plus an applicable margin (currently 45 basis points) and is payable upon maturity but not less than quarterly. Our borrowing ability under this credit facility is subject to our maintaining certain financial ratios. As of August 1, 2009 we had no borrowings outstanding under this facility and were in compliance with the covenants.

**Standby letters of credit.** We use standby letters of credit to collateralize certain obligations related to our self-insured workers' compensation and general liability claims. We had \$72.4 million and \$60.5 million in standby letters of credit outstanding at August 1, 2009 and August 2, 2008, respectively.

**Trade letters of credit.** We had \$28.9 million and \$28.2 million in trade letters of credit outstanding at August 1, 2009 and August 2, 2008, respectively.

**Dividends.** In August 2009, our Board of Directors declared a cash dividend of \$.11 per common share, payable on September 30, 2009. Our Board of Directors declared quarterly cash dividends of \$.11 per common share in January and May 2009, and \$.095 per common share in January, May, August, and November 2008.

## Critical Accounting Policies

Management's Discussion and Analysis of Financial Condition and Results of Operations is based on our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of our condensed consolidated financial statements requires our management to make estimates and assumptions that affect the reported amounts. These estimates and assumptions are evaluated on an ongoing basis and are based on historical experience and on various other factors that management believes to be reasonable. Actual results may differ significantly from these estimates. During the second quarter of fiscal 2009, there have been no significant changes to the policies discussed in our Annual Report on Form 10-K for the year ended January 31, 2009.

**Effects of inflation or deflation.** We do not consider the effects of inflation or deflation to be material to our financial position and results of operations.

## New Accounting Pronouncements

In June 2009, the FASB issued SFAS No. 167, "Amendments to FASB Interpretation No. 46(R)" (SFAS 167). SFAS 167 requires a qualitative approach to identifying a controlling financial interest in a variable interest entity (VIE), and requires ongoing assessment of whether an entity is a VIE and whether an interest in a VIE makes the holder the primary beneficiary of the VIE. SFAS No. 167 is effective for fiscal years beginning after November 15, 2009. We do not believe the adoption of SFAS 167 will have a material impact on its consolidated financial statements.

In June 2009, the FASB issued SFAS No. 168, "The FASB Accounting Standards Codification" and the Hierarchy of Generally Accepted Accounting Principles a Replacement of FASB Statement No. 162 ("SFAS 168") to become the source of authoritative U.S. generally accepted accounting principles recognized by the FASB to be applied by nongovernmental entities. SFAS 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. We do not believe the adoption of SFAS 168 will have a material impact on our interim condensed consolidated financial statements.

### Forward-Looking Statements

This report may contain a number of forward-looking statements regarding, without limitation, planned store growth, new markets, expected sales, projected earnings levels, capital expenditures, and other matters. These forward-looking statements reflect our then current beliefs, projections and estimates with respect to future events and our projected financial performance, operations, and competitive position. The words "plan," "expect," "target," "anticipate," "estimate," "believe," "forecast," "projected," "guidance," "looking ahead" and similar expressions forward-looking statements.

Future economic and industry trends that could potentially impact revenue, profitability, and growth remain difficult to predict. As a result, our forward-looking statements are subject to risks and uncertainties which could cause our actual results to differ materially from these forward-looking statements and our expectations and projections. Refer to Part II, Item 1A in this Quarterly Report on Form 10-Q for a more complete discussion of risk factors. The factors underlying our forecasts are dynamic and subject to change. As a result, any forecasts or forward-looking statements speak only as of the date they are given and do not necessarily reflect our outlook at any other point in time. We disclaim any obligation to update or revise these forward-looking statements.

Other risk factors are detailed in our filings with the Securities and Exchange Commission including, without limitation, our Annual Report on Form 10-K for 2008.

### Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risks, which primarily include changes in interest rates. We do not engage in financial transactions for trading or speculative purposes.

We occasionally use forward contracts to hedge against fluctuations in foreign currency prices. We had no material outstanding forward contracts as of August 1, 2009.

Interest that is payable on our revolving credit facility is based on variable interest rates and is, therefore, affected by changes in market interest rates. As of August 1, 2009, we had no borrowings outstanding under our revolving credit facility. In addition, lease payments under certain of our synthetic lease agreements are determined based on variable interest rates and are, therefore affected by changes in market interest rates.

In addition, we issued notes to institutional investors in two series: Series A for \$85 million accrues interest at 6.38% and Series B for \$65 million accrues interest at 6.53%. The amount outstanding under these notes as of August 1, 2009 is \$150 million.

Interest is receivable on our short- and long-term investments. Changes in interest rates may impact interest income recognized in the future, or the fair value of our investment portfolio.

A hypothetical 100 basis point increase or decrease in prevailing market interest rates would not have materially impacted our consolidated financial position, results of operations, cash flows, or the fair values of our short- and long-term investments as of and for the three and six month periods ended August 1, 2009. We do not consider the potential losses in future earnings and cash flows from reasonably possible, near term changes in interest rates to be material.

### Item 4. Controls and Procedures

## Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of our "disclosure controls and procedures" (as defined in Exchange Act Rule 13a-15(e)) as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

It should be noted that any system of controls, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system will be met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events.

## Quarterly Evaluation of Changes in Internal Control Over Financial Reporting

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, also conducted an evaluation of our internal control over financial reporting to determine whether any change occurred during the second fiscal quarter of 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. Based on that evaluation, our management concluded that there was no such change during the second fiscal quarter.

## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings

The matters under the caption "Provision for litigation costs and other legal proceedings" in Note A of Notes to Condensed Consolidated Financial Statements are incorporated herein by reference.

### Item 1A. Risk Factors

Our Quarterly Report on Form 10-Q for our second fiscal quarter of 2009, and information we provide in our press releases, telephonic reports and other investor communications, including those on our corporate website, may contain forward-looking statements with respect to anticipated future events and our projected financial performance, operations and competitive position that are subject to risks and uncertainties that could cause our actual results to differ materially from those forward-looking statements and our prior expectations and projections. Refer to Management's Discussion and Analysis for a more complete identification and discussion of "Forward-Looking Statements."

Our financial condition, results of operations, cash flows and the performance of our common stock may be adversely affected by a number of risk factors. Risks and uncertainties that apply to both Ross and dd's DISCOUNTS include, without limitation, the following:

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### We are subject to the economic and industry risks that affect large retailers operating in the United States.

Our business is exposed to the risks of a large, multi-store retailer, which must continually and efficiently obtain and distribute a supply of fresh merchandise throughout a large and growing network of stores. These risk factors include:

- An increase in the level of competitive pressures in the retail apparel or home-related merchandise industry.
- Potential changes in the level of consumer spending on or preferences for apparel or home-related merchandise, including the potential impact from uncertainty in financial and credit markets and the severity and duration of the current recession.
- Potential changes in geopolitical and/or general economic conditions that could affect the availability of product and/or the level of consumer spending.

- Unseasonable weather trends that could affect consumer demand for seasonal apparel and apparel-related products.
- A change in the availability, quantity, or quality of attractive brand-name merchandise at desirable discounts that could impact our ability to purchase product and continue to offer customers a wide assortment of merchandise at competitive prices.
- Potential disruptions in the supply chain that could impact our ability to deliver product to our stores in a timely and cost-effective manner.
- A change in the availability, quality, or cost of new store real estate locations.
- A downturn in the economy or a natural disaster in California or in another region where we have a concentration of stores or a distribution center. Our corporate headquarters, two distribution centers, and 25% of our stores are located in California.

**We are subject to operating risks as we attempt to execute on our merchandising and growth strategies.**

The continued success of our business depends, in part, upon our ability to increase sales at our existing store locations, to open new stores, and to operate stores on a profitable basis. Our existing strategies and store expansion programs may not result in a continuation of our anticipated revenue or profit growth. In executing our off-price retail strategies and working to improve efficiencies, expand our store network, and reduce our costs, we face a number of operational risks, including:

- Our ability to attract and retain personnel with the retail talent necessary to execute our strategies.
- Our ability to effectively operate our various supply chain, core merchandising, and other information systems.
- Our ability to improve our merchandising capabilities through the development and implementation of new processes and systems enhancements.
- Our ability to improve new store sales and profitability, especially in newer regions and markets.
- Our ability to achieve and maintain targeted levels of productivity and efficiency in our distribution centers.
- Our ability to lease or acquire acceptable new store sites with favorable demographics and long term financial returns.
- Our ability to identify and to successfully enter new geographic markets.
- Our ability to achieve planned gross margins, by effectively managing inventories, markdowns, and shrink.
- Our ability to effectively manage all operating costs of the business, the largest of which are payroll and benefit costs for store and distribution center employees.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

Information regarding shares of common stock we repurchased during the second quarter of 2009 is as follows:

| Period                       | Total<br>number of<br>shares (or<br>units)<br>purchased <sup>1</sup> | Average<br>price<br>paid<br>per<br>share<br>(or<br>unit) | Total number of<br>shares (or units)<br>purchased as part<br>of publicly<br>announced plans or<br>programs | Maximum<br>number (or<br>approximate<br>dollar<br>value) of<br>shares (or<br>units) that<br>may yet be<br>purchased<br>under the<br>plans or<br>programs<br>(\$000) <sup>2</sup> |
|------------------------------|----------------------------------------------------------------------|----------------------------------------------------------|------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| May<br>(5/3/2009-5/30/2009)  | 424,312                                                              | \$ 37.22                                                 | 424,312                                                                                                    | \$ 207,000                                                                                                                                                                       |
| June<br>(5/31/2009-7/4/2009) | 913,262                                                              | \$ 38.83                                                 | 903,483                                                                                                    | \$ 172,000                                                                                                                                                                       |
| July                         |                                                                      |                                                          |                                                                                                            |                                                                                                                                                                                  |

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|                     |                  |                 |                  |                   |
|---------------------|------------------|-----------------|------------------|-------------------|
| (7/5/2009-8/1/2009) | 607,577          | \$ 43.48        | 605,044          | \$ 146,000        |
| <b>Total</b>        | <b>1,945,151</b> | <b>\$ 39.93</b> | <b>1,932,839</b> | <b>\$ 146,000</b> |

<sup>1</sup>We acquired 12,312 shares during the quarter ended August 1, 2009 related to income tax withholdings for restricted stock. All remaining shares were repurchased under our publicly announced stock repurchase program.

2 In January 2008 our Board of Directors approved a two-year \$600 million stock repurchase program for fiscal 2008 and 2009.

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

At the Annual Meeting of Stockholders, held on May 20, 2009 (the "2009 Annual Meeting"), the stockholders of the Company voted on and approved the following proposals:

Proposal 1: To elect three nominees to serve as Class II directors (Michael Balmuth, K. Gunnar Bjorklund, and Sharon D. Garrett) for a three-year term.

Proposal 2: To ratify the appointment of Deloitte & Touche LLP as the Company's independent certified public accountants for the fiscal year ending January 30, 2010.

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## **2009 Annual Meeting Election Results**

Proposal 1: Election of Directors

| Director            | In Favor    | Withheld   | Term Expires |
|---------------------|-------------|------------|--------------|
| Michael Balmuth     | 100,957,125 | 16,176,794 | 2012         |
| K. Gunnar Bjorklund | 100,940,175 | 16,193,744 | 2012         |
| Sharon D. Garrett   | 101,621,904 | 15,512,015 | 2012         |

Proposal 2: Ratification of the Appointment of Deloitte & Touche LLP as Independent Certified Public Accountants for the Fiscal Year Ending January 30, 2010

| For         | Against   | Abstain |
|-------------|-----------|---------|
| 115,389,483 | 1,709,534 | 34,901  |

## **Item 6. Exhibits**

Incorporated herein by reference to the list of Exhibits contained in the Exhibit Index within this Report.

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## **SIGNATURES**

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

**ROSS STORES, INC.**

(Registrant)

Date: September 9, 2009

By:

/s/ J. Call  
John G. Call  
Senior Vice President, Chief Financial Officer and  
Principal Accounting Officer

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**INDEX TO EXHIBITS**

| Exhibit<br>Number | Exhibit                                                                                                                                                                                                                                                                                                      |
|-------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3.1               | Amendment of Certificate of Incorporation dated May 21, 2004 and Amendment of Certificate of Incorporation dated June 5, 2002 and Corrected First Restated Certificate of Incorporation, incorporated by reference to Exhibit 3.1 to the Form 10-Q filed by Ross Stores for its quarter ended July 31, 2004. |
| 3.2               | Amended By-laws, dated August 25, 1994, incorporated by reference to Exhibit 3.2 to the Form 10-Q filed by Ross Stores for its quarter ended July 30, 1994.                                                                                                                                                  |
| 10.10             | Fourth Amendment to the Employment Agreement effective June 9, 2009 between Michael Balmuth and Ross Stores, Inc.                                                                                                                                                                                            |
| 15                | Letter re: Unaudited Interim Financial Information from Deloitte & Touche LLP dated September 8, 2009                                                                                                                                                                                                        |
| 31.1              | Certification of Chief Executive Officer Pursuant to Sarbanes-Oxley Act Section 302(a).                                                                                                                                                                                                                      |
| 31.2              | Certification of Chief Financial Officer Pursuant to Sarbanes-Oxley Act Section 302(a).                                                                                                                                                                                                                      |
| 32.1              | Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350.                                                                                                                                                                                                                                 |
| 32.2              | Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350.                                                                                                                                                                                                                                 |