

ROSS STORES INC
Form 10-Q
December 07, 2011

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

FORM 10-Q

(Mark one)

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

For the quarterly period ended October 29, 2011

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 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 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

The number of shares of Common Stock, with \$.01 par value, outstanding on November 17, 2011 was 114,320,487.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Condensed Consolidated Statements of Earnings

| (\$000, except stores and per share data, unaudited) | Three Months Ended | | Nine Months Ended | |
|--|---------------------|---------------------|---------------------|---------------------|
| | October 29, 2011 | October 30, 2010 | October 29, 2011 | October 30, 2010 |
| Sales | \$ 2,046,427 | \$ 1,874,320 | \$ 6,210,413 | \$ 5,720,858 |
| Costs and Expenses | | | | |
| Costs of goods sold | 1,490,213 | 1,365,513 | 4,495,726 | 4,167,380 |
| Selling, general and administrative | 332,226 | 312,277 | 962,271 | 910,151 |
| Interest expense, net | 2,565 | 2,232 | 7,629 | 7,056 |
| Total costs and expenses | 1,825,004 | 1,680,022 | 5,465,626 | 5,084,587 |
| Earnings before taxes | 221,423 | 194,298 | 744,787 | 636,271 |
| Provision for taxes on earnings | 77,454 | 72,920 | 279,569 | 243,270 |
| Net earnings | \$ 143,969 | \$ 121,378 | \$ 465,218 | \$ 393,001 |
| Earnings per share | | | | |
| Basic | \$ 1.28 | \$ 1.04 | \$ 4.10 | \$ 3.32 |
| Diluted | \$ 1.26 | \$ 1.02 | \$ 4.03 | \$ 3.26 |
| Weighted average shares outstanding (000) | | | | |
| Basic | 112,270 | 117,039 | 113,562 | 118,494 |
| Diluted | 114,230 | 119,018 | 115,552 | 120,522 |
| Dividends | | | | |
| Cash dividends declared per share | \$ 0.22 | \$ 0.16 | \$ 0.44 | \$ 0.32 |
| Stores open at end of period | 1,126 | 1,057 | 1,126 | 1,057 |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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Condensed Consolidated Balance Sheets

| (\$000, unaudited) | October 29, 2011 | January 29, 2011 | October 30, 2010 |
|---|---------------------|---------------------|---------------------|
| Assets | | | |
| Current Assets | | | |
| Cash and cash equivalents | \$ 552,924 | \$ 833,924 | \$ 732,798 |
| Short-term investments | 298 | 3,204 | 1,798 |
| Accounts receivable | 62,384 | 45,384 | 53,930 |
| Merchandise inventory | 1,233,616 | 1,086,917 | 1,048,130 |
| Prepaid expenses and other | 88,964 | 63,807 | 66,762 |
| Current deferred income taxes, net | 19,914 | 10,003 | 1,426 |
| Total current assets | 1,958,100 | 2,043,239 | 1,904,844 |
| Property and Equipment | | | |
| Land and buildings | 265,829 | 241,138 | 241,107 |
| Fixtures and equipment | 1,375,623 | 1,258,707 | 1,245,272 |
| Leasehold improvements | 628,202 | 584,306 | 574,200 |
| Construction-in-progress | 79,191 | 69,237 | 43,836 |
| Property at cost | 2,348,845 | 2,153,388 | 2,104,415 |
| Less accumulated depreciation and amortization | 1,260,601 | 1,169,612 | 1,138,224 |
| Property and equipment, net | 1,088,244 | 983,776 | 966,191 |
| Long-term investments | 5,984 | 14,082 | 16,998 |
| Other long-term assets | 129,616 | 75,107 | 74,556 |
| Total assets | \$ 3,181,944 | \$ 3,116,204 | \$ 2,962,589 |
| Liabilities and Stockholders' Equity | | | |
| Current Liabilities | | | |
| Accounts payable | \$ 759,708 | \$ 767,455 | \$ 767,741 |
| Accrued expenses and other | 290,498 | 292,174 | 262,017 |
| Accrued payroll and benefits | 217,238 | 235,030 | 213,103 |
| Income taxes payable | 1,628 | 57,661 | 4,769 |
| Total current liabilities | 1,269,072 | 1,352,320 | 1,247,630 |
| Long-term debt | 150,000 | 150,000 | 150,000 |
| Other long-term liabilities | 204,105 | 189,989 | 187,772 |
| Long-term deferred income taxes, net | 111,516 | 91,203 | 92,176 |
| Commitments and contingencies | | | |
| Stockholders' Equity | | | |
| Common stock | 1,145 | 1,181 | 1,192 |
| Additional paid-in capital | 777,425 | 740,726 | 727,840 |
| Treasury stock | (61,910) | (46,408) | (45,995) |
| Accumulated other comprehensive income | 535 | 488 | 699 |
| Retained earnings | 730,056 | 636,705 | 601,275 |
| Total stockholders' equity | 1,447,251 | 1,332,692 | 1,285,011 |
| Total liabilities and stockholders' equity | \$ 3,181,944 | \$ 3,116,204 | \$ 2,962,589 |

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The accompanying notes are an integral part of these condensed consolidated financial statements.

Condensed Consolidated Statements of Cash Flows

| (\$000, unaudited) | Nine Months Ended | |
|--|---------------------|---------------------|
| | October 29, 2011 | October 30, 2010 |
| Cash Flows From Operating Activities | | |
| Net earnings | \$ 465,218 | \$ 393,001 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Depreciation and amortization | 117,337 | 120,123 |
| Stock-based compensation | 30,411 | 27,523 |
| Deferred income taxes | 10,402 | (8,427) |
| Tax benefit from equity issuance | 14,073 | 11,747 |
| Excess tax benefit from stock-based compensation | (13,362) | (11,466) |
| Change in assets and liabilities: | | |
| Merchandise inventory | (146,699) | (175,632) |
| Other current assets | (24,145) | (17,840) |
| Accounts payable | 18,227 | 129,111 |
| Other current liabilities | (65,961) | (43,368) |
| Other long-term, net | 8,190 | 1,989 |
| Net cash provided by operating activities | 413,691 | 426,761 |
| Cash Flows From Investing Activities | | |
| Additions to property and equipment | (231,349) | (149,659) |
| Increase in restricted cash and investments | (66,505) | - |
| Purchases of investments | - | (6,842) |
| Proceeds from investments | 10,965 | 7,461 |
| Net cash used in investing activities | (286,889) | (149,040) |
| Cash Flows From Financing Activities | | |
| Excess tax benefit from stock-based compensation | 13,362 | 11,466 |
| Proceeds from issuance of common stock related to stock plans | 14,060 | 29,989 |
| Treasury stock purchased | (15,502) | (9,131) |
| Repurchase of common stock | (342,733) | (287,275) |
| Dividends paid | (76,989) | (58,315) |
| Net cash used in financing activities | (407,802) | (313,266) |
| Net decrease in cash and cash equivalents | | |
| | (281,000) | (35,545) |
| Cash and cash equivalents: | | |
| Beginning of period | 833,924 | 768,343 |
| End of period | \$ 552,924 | \$ 732,798 |
| Supplemental Cash Flow Disclosures | | |
| Interest paid | \$ 4,834 | \$ 4,834 |
| Income taxes paid | \$ 300,824 | \$ 282,417 |
| Non-Cash Investing Activities | | |
| Increase in fair value of investment securities | \$ 72 | \$ 814 |

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The accompanying notes are an integral part of these condensed consolidated financial statements.

Notes to Condensed Consolidated Financial Statements

Three and Nine Months Ended October 29, 2011 and October 30, 2010
(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 October 29, 2011 and October 30, 2010, the results of operations for the three and nine month periods ended October 29, 2011 and October 30, 2010, and cash flows for the nine month periods ended October 29, 2011 and October 30, 2010. The Condensed Consolidated Balance Sheet as of January 29, 2011, 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 29, 2011. 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 29, 2011.

The results of operations for the three and nine month periods ended October 29, 2011 and October 30, 2010 presented herein are not necessarily indicative of the results to be expected for the full fiscal year.

Restricted cash, cash equivalents, and investments. In July 2011, the Company transferred \$73.5 million of cash, cash equivalents, and investments into restricted accounts to serve as collateral for the Company's insurance obligations, which were previously secured by unsecured letters of credit. These restricted funds are invested in bank deposits, money market mutual funds, U.S. Government and agency securities, and corporate securities and cannot be withdrawn from the Company's account without the prior written consent of the secured parties. As of October 29, 2011, the Company had cash and cash equivalents of \$61.0 million and investments of \$5.6 million in restricted accounts. As of October 29, 2011 restricted cash, cash equivalents, and investments of \$18.0 million and \$48.6 million were included in prepaid expenses and other and other long-term assets, respectively, in the Condensed Consolidated Balance Sheet. The classification between current and long-term is based on the timing of expected payments of the secured insurance obligations.

Total comprehensive income. The components of total comprehensive income for the three and nine month periods ended October 29, 2011 and October 30, 2010 are as follows (in \$000):

| | Three Months Ended | | Nine Months Ended | |
|--|---------------------|---------------------|---------------------|---------------------|
| | October 29, 2011 | October 30, 2010 | October 29, 2011 | October 30, 2010 |
| Net earnings | \$ 143,969 | \$ 121,378 | \$ 465,218 | \$ 393,001 |
| Increase in unrealized (loss) gain on investments, net of taxes | (36) | 137 | 47 | 529 |
| Total comprehensive income | \$ 143,933 | \$ 121,515 | \$ 465,265 | \$ 393,530 |

Estimated fair value of financial instruments. The carrying value of cash and cash equivalents, short- and long-term investments, restricted cash and cash equivalents, restricted investments, accounts receivable, other long-term assets, accounts payable, and other long-term liabilities approximates their estimated fair value. Cash and cash equivalents were \$552.9 million, \$833.9 million, and \$732.8 million at October 29, 2011, January 29, 2011, and October 30, 2010, respectively, and include bank deposits, money market funds for which the fair value was determined using quoted prices for identical assets in active markets, which are considered to be Level 1 inputs under the fair value measurements and disclosures guidance.

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Sales Mix. The Company's sales mix is shown below for the three and nine month periods ended October 29, 2011 and October 30, 2010:

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|---------|-------------------|---------|
| | October | October | October | October |
| | 29, | 30, | 29, | 30, |
| | 2011 | 2010 | 2011 | 2010 |
| Ladies | 29% | 30% | 31% | 31% |
| Home accents and bed and bath | 24% | 25% | 24% | 24% |
| Shoes | 13% | 12% | 13% | 12% |
| Accessories, lingerie, fine jewelry, and fragrances | 13% | 12% | 12% | 12% |
| Men's | 12% | 12% | 12% | 12% |
| Children's | 9% | 9% | 8% | 9% |
| 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 on the Condensed Consolidated Statements of Earnings reflect dividends declared during the periods shown. In January, May, and August 2011 the Company's Board of Directors declared a quarterly cash dividend of \$.22 per common share that was paid in March, June, and September 2011, respectively. In January, May, August, and November 2010, the Company's Board of Directors declared a quarterly cash dividend of \$.16 per common share.

In November 2011, the Company's Board of Directors approved a two-for-one stock split in the form of a 100 percent stock dividend, to be paid on December 15, 2011 to stockholders of record as of November 29, 2011. The stock split will not have an impact on the Company's consolidated financial position or results of operations. Share and per share amounts have not been restated to reflect the pending stock split but will be adjusted in future financial statements.

In November 2011, the Company's Board of Directors declared a cash dividend of \$.22 per share, or \$.11 per share post-split, payable on December 30, 2011.

Revenue recognition. The Company recognizes revenue at the point of sale and maintains an allowance for estimated future returns. Sales of gift cards are deferred until they are redeemed for the purchase of Company merchandise. The Company's gift cards do not have expiration dates. Based upon historical redemption rates, a small percentage of gift cards will never be redeemed, which represents breakage. The Company recognizes income from gift card breakage as a reduction of operating expenses when redemption by a customer is considered to be remote. Income recognized from breakage was not significant for the three and nine month periods ended October 29, 2011 and October 30, 2010. Sales tax collected is not recognized as revenue and is included in accrued expenses and other until remitted to taxing authorities.

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 store managers and assistant store managers at Company stores under state law, remains pending as of October 29, 2011.

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, the 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 and Restricted Investments

The amortized cost and fair value of the Company's available-for-sale securities as of October 29, 2011 were:

| (\$000) | Amortized Unrealized Unrealized | | | Fair value | Short-term | Long-term |
|---------------------------------------|---------------------------------|---------------|----------------|------------------|---------------|-----------------|
| | cost | gains | losses | | | |
| Investments | | | | | | |
| Corporate securities | \$ 5,079 | \$ 443 | \$ (72) | \$ 5,450 | \$ - | \$ 4,450 |
| Mortgage-backed securities | 800 | 32 | - | 832 | 298 | 534 |
| Total investments | 5,879 | 475 | (72) | 6,282 | 298 | 5,984 |
| Restricted Investments | | | | | | |
| Corporate securities | 1,357 | 95 | - | 1,452 | - | 1,452 |
| U.S. government and agency securities | 3,774 | 325 | - | 4,099 | - | 4,099 |
| Total restricted investments | 5,131 | 420 | - | 5,551 | - | 5,551 |
| Total | \$ 11,010 | \$ 895 | \$ (72) | \$ 11,833 | \$ 298 | \$ 5,535 |

The amortized cost and fair value of the Company's available-for-sale securities as of January 29, 2011 were:

| (\$000) | Amortized Unrealized Unrealized | | | Fair value | Short-term | Long-term |
|---------------------------------------|---------------------------------|--------|---------|------------|------------|-----------|
| | cost | gains | losses | | | |
| Corporate securities | \$ 7,465 | \$ 634 | \$ (37) | \$ 8,062 | \$ 300 | \$ 7,762 |
| U.S. government and agency securities | 7,959 | 77 | (5) | 8,031 | 2,366 | 5,665 |
| Mortgage-backed securities | 1,111 | 82 | - | 1,193 | 538 | 655 |
| Total | \$ 16,535 | \$ 793 | \$ (42) | \$ 17,286 | \$ 3,204 | \$ 14,082 |

The amortized cost and fair value of the Company's available-for-sale securities as of October 30, 2010 were:

| (\$000) | Amortized Unrealized Unrealized | | | Fair value | Short-term | Long-term |
|---------------------------------------|---------------------------------|----------|---------|------------|------------|-----------|
| | cost | gains | losses | | | |
| Corporate securities | \$ 7,961 | \$ 796 | \$ (47) | \$ 8,710 | \$ 801 | \$ 7,909 |
| U.S. Government and agency securities | 8,473 | 249 | (4) | 8,718 | 352 | 8,366 |
| Mortgage-backed securities | 1,287 | 81 | - | 1,368 | 645 | 723 |
| Total | \$ 17,721 | \$ 1,126 | \$ (51) | \$ 18,796 | \$ 1,798 | \$ 16,998 |

Accounting standards pertaining to fair value measurements establish a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. 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. 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.

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Investments and restricted investments measured at fair value at October 29, 2011 are summarized below:

| (\$000) | October 29, 2011 | Fair Value Measurements at Reporting Date | | |
|---------------------------------------|---------------------|--|---|--|
| | | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
| Investments | | | | |
| Corporate securities | \$ 5,450 | \$ - | \$ 5,450 | \$ - |
| Mortgage-backed securities | 832 | - | 832 | - |
| Total investments | 6,282 | - | 6,282 | - |
| Restricted Investments | | | | |
| Corporate securities | 1,452 | - | 1,452 | - |
| U.S. government and agency securities | 4,099 | 4,099 | - | - |
| Total restricted investments | 5,551 | 4,099 | 1,452 | - |
| Total | \$ 11,833 | \$ 4,099 | \$ 7,734 | \$ - |

Investments measured at fair value at January 29, 2011 are summarized below:

| (\$000) | January 29, 2011 | Fair Value Measurements at Reporting Date | | |
|---------------------------------------|---------------------|--|---|--|
| | | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
| Corporate securities | \$ 8,062 | \$ - | \$ 8,062 | \$ - |
| U.S. government and agency securities | 8,031 | 8,031 | - | - |
| Mortgage-backed securities | 1,193 | - | 1,193 | - |
| Total assets measured at fair value | \$ 17,286 | \$ 8,031 | \$ 9,255 | \$ - |

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Investments measured at fair value at October 30, 2010 are summarized below:

| (\$000) | October 30, 2010 | Fair Value Measurements at Reporting Date | | |
|---------------------------------------|---------------------|--|---|--|
| | | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
| Corporate securities | \$ 8,710 | \$- | \$8,710 | \$ - |
| U.S. Government and agency securities | 8,718 | 8,718 | - | - |
| Mortgage-backed securities | 1,368 | - | 1,368 | - |
| Total assets measured at fair value | \$ 18,796 | \$ 8,718 | \$ 10,078 | \$ - |

The maturities of investment securities at October 29, 2011 were:

| (\$000) | Investments | | Restricted Investments | |
|---|---------------|----------------------------|------------------------|----------------------------|
| | Cost basis | Estimated fair value | Cost basis | Estimated fair value |
| Maturing in one year or less | \$ 290 | \$ 298 | \$ - | \$ - |
| Maturing after one year through five years | 3,691 | 3,756 | 1,500 | 1,601 |
| Maturing after five years through ten years | 1,898 | 2,228 | 3,631 | 3,950 |
| | \$ 5,879 | \$ 6,282 | \$ 5,131 | \$ 5,551 |

The underlying assets in the Company's non-qualified deferred compensation program totaling \$67.6 million as of October 29, 2011 (included in other long-term assets and in other long-term liabilities) primarily consist of participant directed money market, stable value, stock, and bond funds. The fair value measurement for funds with quoted market prices in active markets (Level 1) totaled \$57.7 million as of October 29, 2011. The fair value measurement for funds without quoted market prices in active markets (Level 2) totaled \$9.9 million as of October 29, 2011. Fair market value for these Level 2 funds is considered to be the sum of participant funds invested under a group annuity contract plus accrued interest.

Note C: Stock-Based Compensation

Stock-based compensation. For the three and nine month periods ended October 29, 2011 and October 30, 2010, the Company recognized stock-based compensation expense as follows:

| (\$000) | Three Months Ended | | Nine Months Ended | |
|------------------------|------------------------|------------------------|------------------------|------------------------|
| | October 29, 2011 | October 30, 2010 | October 29, 2011 | October 30, 2010 |
| Restricted stock | \$ 6,362 | \$ 5,486 | \$ 16,797 | \$ 16,209 |
| Performance awards | 4,377 | 3,147 | 12,519 | 9,399 |
| ESPP and stock options | 392 | 637 | 1,095 | 1,915 |
| Total | \$ 11,131 | \$ 9,270 | \$ 30,411 | \$ 27,523 |

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Total stock-based compensation recognized in the Company's Condensed Consolidated Statements of Earnings for the three and nine month periods ended October 29, 2011 and October 30, 2010 is as follows:

| Statements of Earnings Classification (\$000) | Three Months Ended | | Nine Months Ended | |
|---|--------------------|------------------|-------------------|------------------|
| | October 29, 2011 | October 30, 2010 | October 29, 2011 | October 30, 2010 |
| Cost of goods sold | \$ 4,954 | \$ 3,882 | \$ 13,110 | \$ 12,100 |
| Selling, general and administrative | 6,177 | 5,388 | 17,301 | 15,423 |
| Total | \$ 11,131 | \$ 9,270 | \$ 30,411 | \$ 27,523 |

Restricted stock. The Company grants restricted shares to directors, officers and key employees. The market value of restricted shares at the date of grant is amortized to expense ratably over the vesting period of generally three to five years.

During the quarter ended October 29, 2011, shares purchased by the Company for tax withholding totaled approximately 217,000 shares and are considered treasury shares which are available for reissuance. As of October 29, 2011, shares subject to repurchase related to unvested restricted stock totaled 2.8 million shares.

| (000, except per share data) | Number of shares | Weighted average grant date fair value |
|------------------------------|------------------|--|
| Unvested at January 29, 2011 | 2,835 | \$ 36.99 |
| Awarded | 779 | 65.00 |
| Released | (692) | 34.03 |
| Forfeited | (92) | 40.45 |
| Unvested at October 29, 2011 | 2,830 | \$ 45.31 |

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 a performance period. If attained, the common stock then issued vests over the service period, generally three years from the date the performance award was granted.

The unamortized compensation expense for all plans at October 29, 2011, January 29, 2011, and October 30, 2010 was \$74.3 million, \$56.8 million and \$63.6 million, respectively, which is expected to be recognized over a weighted-average remaining period of 2.1 years.

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. 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.

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Stock option activity. The following table summarizes stock option activity for the nine month period ended October 29, 2011:

| (000, except per share data) | Number of shares | Weighted average exercise price | Weighted average remaining contractual term | Aggregate intrinsic value |
|---|------------------|---------------------------------|---|---------------------------|
| Outstanding at January 29, 2011 | 1,609 | \$ 25.53 | | |
| Granted | - | - | | |
| Exercised | (347) | 22.64 | | |
| Forfeited | (3) | 21.95 | | |
| Outstanding at October 29, 2011, all vested | 1,259 | \$ 26.33 | 2.98 | \$ 77,108 |

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 October 29, 2011 (number of shares in thousands):

| Exercise price range | Options outstanding and exercisable | | |
|----------------------|-------------------------------------|----------------|----------------|
| | Number of shares | Remaining life | Exercise price |
| \$ 16.38 to \$ 24.47 | 373 | 1.69 | \$ 21.59 |
| 24.54 to 27.81 | 370 | 3.67 | 27.06 |
| 27.84 to 29.14 | 315 | 3.43 | 28.63 |
| 29.18 to 32.85 | 201 | 3.39 | 30.17 |
| \$ 16.38 to \$ 32.85 | 1,259 | 2.98 | \$ 26.33 |

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. Diluted 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 nine month periods ended October 29, 2011, approximately 400 and 1,300 weighted average shares were excluded from the calculation of diluted EPS because their effect would have been anti-dilutive in the period presented. For the three and nine month periods ended October 30, 2010, approximately 2,900 and 1,500 weighted average shares were excluded from the calculation of diluted EPS because their effect would have been anti-dilutive in the period presented.

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

| Shares in (000s) | Three Months Ended | | | Nine Months Ended | | |
|-------------------------|--------------------|---|-------------|-------------------|---|-------------|
| | Basic EPS | Effect of Dilutive Common Stock Equivalents | Diluted EPS | Basic EPS | Effect of Dilutive Common Stock Equivalents | Diluted EPS |
| October 29, 2011 | | | | | | |
| Shares | 112,270 | 1,960 | 114,230 | 113,562 | 1,990 | 115,552 |
| Amount | \$ 1.28 | \$ (0.02) | \$ 1.26 | \$ 4.10 | \$ (0.07) | \$ 4.03 |
| October 30, 2010 | | | | | | |
| Shares | 117,039 | 1,979 | 119,018 | 118,494 | 2,028 | 120,522 |
| Amount | \$ 1.04 | \$ (0.02) | \$ 1.02 | \$ 3.32 | \$ (0.06) | \$ 3.26 |

Note E: Debt

The Company has two series of unsecured senior notes with various institutional investors for \$150 million. 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 October 29, 2011 of approximately \$180 million is estimated by obtaining comparable market quotes. The senior notes are subject to prepayment penalties for early payment of principal.

In March 2011, the Company entered into a new \$600 million unsecured, revolving credit facility. This credit facility, which replaced the Company's previous \$600 million revolving credit facility, expires in March 2016, and contains a \$300 million sublimit for issuance of standby letters of credit. Interest on this facility is based on LIBOR plus an applicable margin (currently 150 basis points) and is payable upon maturity but not less than quarterly. The Company had no borrowings outstanding or letters of credit issued under this facility as of October 29, 2011.

The credit facility and senior notes are subject to certain covenants, including interest coverage and other financial ratios. In addition, the interest rates under the revolving credit facility may vary depending on actual interest coverage ratios achieved. As of October 29, 2011, the Company was in compliance with these covenants.

Note F: Taxes on Earnings

As of October 29, 2011 and October 30, 2010, the reserves for unrecognized tax benefits (net of federal tax benefits) were \$52.1 million and \$38.1 million inclusive of \$12.8 million and \$11.3 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, \$34.9 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 \$1.5 million.

The Company is generally open to audit by the Internal Revenue Service under the statute of limitations for fiscal years 2008 through 2010. The Company's state income tax returns are generally open to audit under the various statutes of limitations for fiscal years 2006 through 2010. 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: Warehouse Purchase

In April 2011, the Company purchased a 449,000 square foot warehouse for packaway storage in Riverside, California for \$20.5 million.

Note H: Recently Issued Accounting Standards

In May 2011, the FASB issued Accounting Standards Update No. 2011-04, Fair Value Measurements (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, (ASU 2011-04). ASU 2011-04 changes the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements to ensure consistency between U.S. GAAP and IFRS. ASU 2011-04 also expands the disclosures required for fair value measurements. ASU 2011-04 is to be applied prospectively and is effective for the Company in fiscal 2012. The Company believes the adoption of this guidance will not have a material impact on its consolidated financial statements.

In June 2011, the FASB issued Accounting Standards Update No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income, (ASU 2011-05). ASU 2011-05 eliminates the option to report other comprehensive income and its components in the statement of changes in equity. ASU 2011-05 requires that all nonowner changes in stockholders' equity be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements. This new guidance is to be applied retrospectively and is effective for the Company in fiscal 2012. The Company believes the adoption of this guidance will not have a material impact on its consolidated financial position or results of operations.

Note I: Subsequent Events

In November 2011, the Company's Board of Directors approved a two-for-one stock split in the form of a 100 percent stock dividend, to be paid on December 15, 2011 to stockholders of record as of November 29, 2011. The stock split will not have an impact on the Company's consolidated financial position or results of operations. Share and per share amounts have not been restated to reflect the pending stock split but will be adjusted in future financial statements.

In November 2011, the Company's Board of Directors declared a cash dividend of \$.22 per share, or \$.11 per share post-split, payable on December 30, 2011.

In November 2011, the Company entered into agreements to acquire buildings with expected closing dates in the fourth quarter of fiscal 2011.

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 October 29, 2011 and October 30, 2010, and the related condensed consolidated statements of earnings for the three-month and nine-month periods ended October 29, 2011 and October 30, 2010, and of cash flows for the nine-month periods ended October 29, 2011 and October 30, 2010. These condensed consolidated interim 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.

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 29, 2011, and the related consolidated statements of earnings, stockholders equity, and cash flows for the year then ended (not presented herein); and in our report dated March 29, 2011, 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 29, 2011, 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
December 7, 2011

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 2010. All information is based on our fiscal calendar.

Overview

Ross Stores, Inc. operates two chains -- Ross Dress for Less® (Ross) and dd's DISCOUNTS®. Ross is the largest off-price apparel and home fashion chain in the United States with 1,038 locations in 29 states, the District of Columbia, and Guam. Ross offers first-quality, in-season, name brand and designer apparel, accessories, footwear and home fashions for the entire family at everyday savings of 20% to 60% off department and specialty store regular prices. We also operate 88 dd's DISCOUNTS locations in seven states that feature a more moderately-priced assortment of first-quality, in-season, name brand apparel, accessories, footwear and home fashions for the entire family 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 nine month periods ended October 29, 2011 and October 30, 2010:

| | Three Months Ended | | Nine Months Ended | |
|--|------------------------|------------------------|------------------------|------------------------|
| | October 29, 2011 | October 30, 2010 | October 29, 2011 | October 30, 2010 |
| Sales | | | | |
| Sales (millions) | \$ 2,046 | \$ 1,874 | \$ 6,210 | \$ 5,721 |
| Sales growth | 9.2% | 7.5% | 8.6% | 9.9% |
| Comparable store sales growth | 5% | 3% | 5% | 6% |
| Costs and expenses (as a percent of sales) | | | | |
| Cost of goods sold | 72.8% | 72.9% | 72.4% | 72.9% |
| Selling, general and administrative | 16.2% | 16.6% | 15.5% | 15.9% |
| Interest expense, net | 0.1% | 0.1% | 0.1% | 0.1% |
| Earnings before taxes (as a percent of sales) | | | | |
| | 10.8% | 10.4% | 12.0% | 11.1% |
| Net earnings (as a percent of sales) | | | | |
| | 7.0% | 6.5% | 7.5% | 6.9% |

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.

| | Three Months Ended | | Nine Months Ended | |
|---------------------------------------|---------------------|---------------------|---------------------|---------------------|
| | October 29, 2011 | October 30, 2010 | October 29, 2011 | October 30, 2010 |
| Stores at the beginning of the period | 1,091 | 1,036 | 1,055 | 1,005 |
| Stores opened in the period | 39 | 22 | 80 | 56 |
| Stores closed in the period | (4) | (1) | (9) | (4) |
| Stores at the end of the period | 1,126 | 1,057 | 1,126 | 1,057 |

Sales. Sales for the three month period ended October 29, 2011 increased \$172.1 million, or 9%, compared to the three month period ended October 30, 2010, due to the opening of 69 net new stores between October 30, 2010 and October 29, 2011 and a 5% increase in comparable store sales (defined as stores that have been open for more than 14 complete months) on top of a 3% gain in the prior year.

Sales for the nine month period ended October 29, 2011 increased \$489.6 million, or 9%, compared to the nine month period ended October 30, 2010, due to the opening of 69 net new stores between October 30, 2010 and October 29, 2011, and an increase in comparable store sales of 5% on top of a 6% gain in the prior year.

Our sales mix is shown below for the three and nine month periods ended October 29, 2011 and October 30, 2010:

| | Three Months Ended | | Nine Months Ended | |
|---|---------------------|---------------------|---------------------|---------------------|
| | October 29, 2011 | October 30, 2010 | October 29, 2011 | October 30, 2010 |
| Ladies | 29% | 30% | 31% | 31% |
| Home accents and bed and bath | 24% | 25% | 24% | 24% |
| Shoes | 13% | 12% | 13% | 12% |
| Accessories, lingerie, fine jewelry, and fragrances | 13% | 12% | 12% | 12% |
| Men's | 12% | 12% | 12% | 12% |
| Children's | 9% | 9% | 8% | 9% |
| Total | 100% | 100% | 100% | 100% |

We seek 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, diversify our merchandise mix, and improve regional and local merchandise offerings. Although our strategies and store expansion program contributed to sales gains for the three and nine month periods ended October 29, 2011, 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 and nine month periods ended October 29, 2011 increased \$124.7 million and \$328.3 million compared to the same period in the prior year mainly due to increased sales from the opening of 69 net new stores between October 30, 2010 and October 29, 2011 and 5% increases in comparable store sales for both the three and nine month periods.

Cost of goods sold as a percentage of sales for the three month period ended October 29, 2011 decreased approximately 5 basis points from the same period in the prior year. This improvement was driven primarily by a 45 basis point increase in merchandise gross margin mainly due to fewer markdowns resulting from above plan sales and faster inventory turns. The merchandise gross margin improvement includes a 10 basis point benefit from favorable shortage results. The quarter also benefited from a 20 basis point decrease in buying and incentive costs and 10 basis points of leverage on occupancy expenses. These favorable trends were

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partially offset by an increase in distribution expenses of about 60 basis points reflecting year-over-year timing differences in the recognition of packaway-related processing costs, and a 10 basis point increase in freight costs.

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Cost of goods sold as a percentage of sales for the nine month period ended October 29, 2011 decreased approximately 45 basis points from the same period in the prior year. This improvement was driven primarily by a 60 basis point increase in merchandise gross margin mainly due to fewer markdowns resulting from above plan sales and faster inventory turns. The merchandise gross margin improvement includes a 15 basis point benefit from favorable shortage results. In addition, buying and incentive costs and occupancy expenses each levered by about 15 basis points. These favorable trends were partially offset by higher distribution and freight costs equal to approximately 30 basis points and 15 basis points, respectively.

We cannot be sure that the gross profit margins realized for the three and nine month periods ended October 29, 2011 will continue in the future.

Selling, general and administrative expenses. For the three and nine month periods ended October 29, 2011, selling, general and administrative expenses increased \$19.9 million and \$52.1 million, respectively, compared to the same period in the prior year, mainly due to increased store operating costs reflecting the opening of 69 net new stores between October 30, 2010 and October 29, 2011.

Selling, general and administrative expenses as a percentage of sales for the three month period ended October 29, 2011 decreased by approximately 40 basis points over the same period in the prior year mainly due to 20 basis point declines in both incentive costs as well as general and administrative costs.

Selling, general and administrative expenses as a percentage of sales for the nine month period ended October 29, 2011 decreased by approximately 40 basis points over the same period in the prior year, primarily due to 15 basis point decreases in both store operating costs and general and administrative expenses as well as a 10 basis point decline in incentive costs versus the prior year.

Interest expense, net. Net interest expense remained flat for the three and nine month periods ended October 29, 2011 compared to the same period in the prior year.

Taxes on earnings. Our effective tax rate for the three month periods ended October 29, 2011 and October 30, 2010 was approximately 35% and 38%, respectively, which represents the applicable combined federal and state statutory rates reduced by the federal benefit of state taxes deductible on federal returns. The effective tax rate for the three months ended October 29, 2011 was impacted by favorable resolution of certain tax positions. Our effective tax rate for the nine month periods ended October 29, 2011 and October 30, 2010 was approximately 38%. The effective rate is affected by changes in law, location of new stores, level of earnings, and the resolution of tax positions with various taxing authorities. We anticipate that our effective tax rate for fiscal 2011 will be approximately 38%.

Earnings per share. Diluted earnings per share for the three month period ended October 29, 2011 was \$1.26 compared to \$1.02 in the prior year period. The 24% increase in diluted earnings per share is attributable to a 19% increase in net earnings and a 4% reduction in weighted average diluted shares outstanding largely due to the repurchase of common stock under our stock repurchase program. Diluted earnings per share for the nine month period ended October 29, 2011 was \$4.03 compared to \$3.26 in the prior year period. The 24% increase in diluted earnings per share is attributable to an 18% increase in net earnings and a 4% reduction in weighted average diluted shares outstanding largely due to our stock buyback program.

Financial Condition

Liquidity and Capital Resources

Our primary sources of funds for our business activities are existing cash balances, cash flows from operations, and short-term trade credit. Our primary ongoing cash requirements are for merchandise inventory purchases, payroll, rent, taxes, 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 buyback program and to pay dividends.

| (\$000) | Nine Months Ended | |
|---|---------------------|---------------------|
| | October 29, 2011 | October 30, 2010 |
| Cash flows provided by operating activities | \$ 413,691 | \$ 426,761 |
| Cash flows used in investing activities | (286,889) | (149,040) |
| Cash flows used in financing activities | (407,802) | (313,266) |
| Net decrease in cash and cash equivalents | \$ (281,000) | \$ (35,545) |

Operating Activities

Net cash provided by operating activities was \$413.7 million for the nine month period ended October 29, 2011 compared to \$426.8 million for the nine month period ended October 30, 2010. The primary sources of cash provided by operating activities for the nine month periods ended October 29, 2011 and October 30, 2010 were net earnings plus non-cash expenses for depreciation and amortization. Our primary source of operating cash flow 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.

The decrease in cash flow from operating activities for the nine month period ended October 29, 2011, compared to the prior year, was primarily due to working capital used to purchase additional packaway inventory. We expect to continue to take advantage of packaway inventory opportunities to deliver bargains to our customers. As a regular part of our business, packaway inventory levels will vary over time based on availability of compelling opportunities in the marketplace.

Packaway merchandise is purchased with the intent that it will be stored in our warehouses until a later date. The timing of the release of packaway inventory to our stores is principally driven by the product mix and seasonality of the merchandise, and its relation to the Company's store merchandise assortment plans. As such, the aging of packaway varies by merchandise category and seasonality of purchase, but typically packaway remains in storage less than six months.

Changes in packaway inventory levels impact our operating cash flow. At the end of the 2011 third quarter, packaway inventory was 43% of total inventory compared to 47% at the end of fiscal 2010. At the end of the 2010 third quarter, packaway inventory was 37% of inventory compared to 38% at the end of fiscal 2009. Packaway inventory as a percentage of our total inventory has increased since 2010 as we took advantage of the increased availability of compelling opportunities in the marketplace.

The change in total merchandise inventory, net of the related change in accounts payable, resulted in a use of cash of approximately \$128 million and \$47 million for the nine months ended October 29, 2011 and October 30, 2010, respectively.

Accounts payable leverage (defined as accounts payable divided by merchandise inventory) decreased to 62% as of October 29, 2011 from 71% as of January 29, 2011 as a result of higher packaway inventory.

We believe that our existing cash balances, cash flows from operations, available bank credit lines and trade credit are adequate to meet our liquidity needs for at least the next twelve months.

Investing Activities

The increase in cash used for investing activities for the nine month period ended October 29, 2011, compared to the prior year, was primarily due to capital expenditures and a transfer of cash, cash equivalents, and investments into restricted accounts to serve as collateral for the Company's insurance obligations.

Our capital expenditures were approximately \$231.3 million and \$149.7 million, for the nine month periods ended October 29, 2011 and October 30, 2010, respectively. Our capital expenditures included costs for fixtures and leasehold improvements to open new stores and costs to implement information technology systems, build or expand distribution centers, and various other expenditures related to our stores, buying, and corporate offices. We opened 80 and 56 new stores on a gross basis during the nine month periods ended October 29, 2011 and October 30, 2010, respectively.

In April 2011, we purchased a 449,000 square foot warehouse for packaway storage in Riverside, California for \$20.5 million.

We are forecasting approximately \$375 million to \$425 million in capital expenditures in fiscal year 2011 to fund expenditures for fixtures and leasehold improvements to open both new Ross and dd's DISCOUNTS stores, for the relocation or upgrade of existing stores, for investments in store and merchandising systems, buildings and equipment, for building distribution centers and implementing material handling equipment and related systems, and for various buying and corporate office expenditures. Our planned capital expenditures, as compared to our prior forecast, increased for the year due to the timing shift of certain corporate- and store- related capital projects from 2012 to 2011 and our decision to acquire certain buildings in 2011. We expect to fund these expenditures in 2011 with available cash and cash flows from operations.

Financing Activities

For the nine month periods ended October 29, 2011 and October 30, 2010, our liquidity and capital requirements were provided by available cash and cash flows from operations. 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 distribution centers in each of the following cities: Carlisle, Pennsylvania; Moreno Valley, California; and Fort Mill, South Carolina, and two warehouse facilities, one in Fort Mill, South Carolina and the other in Riverside, California.

In January 2011, our Board of Directors approved a two-year \$900 million stock repurchase program for fiscal 2011 and 2012, replacing the \$375 million remaining under the prior two-year \$750 million stock repurchase program approved in January 2010. We repurchased 4.5 million shares of common stock for an aggregate purchase price of approximately \$342.7 million during the nine month period ended October 29, 2011. We repurchased 5.4 million shares of common stock for approximately \$287.3 million during the nine month period ended October 30, 2010.

For the nine month periods ended October 29, 2011 and October 30, 2010, we paid dividends of \$77.0 million and \$58.3 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 2011.

In March 2011 we entered into a new \$600 million unsecured, revolving credit facility. This credit facility, which replaced our previous \$600 million revolving credit facility, expires in March 2016. Interest on this facility is based on LIBOR plus an applicable margin (currently 150 basis points) and is payable upon maturity but not less than quarterly. As of October 29, 2011, our \$600 million credit facility remains in place and available.

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

Contractual Obligations

The table below presents our significant contractual obligations as of October 29, 2011:

| (\$000) | Less than one year | 1 - 3 years | 3 - 5 years | After 5 years | Total ¹ |
|-----------------------------------|-----------------------|----------------|----------------|------------------|--------------------|
| Senior notes | \$ - | \$ - | \$ - | \$ 150,000 | \$ 150,000 |
| Interest payment obligations | 9,667 | 19,335 | 19,335 | 35,694 | 84,031 |
| Operating leases: | | | | | |
| Rent obligations | 364,011 | 691,349 | 477,747 | 462,091 | 1,995,198 |
| Synthetic leases | 5,526 | 2,847 | - | - | 8,373 |
| Other synthetic lease obligations | 613 | 56,592 | - | - | 57,205 |
| Purchase obligations | 1,241,456 | 8,745 | 212 | - | 1,250,413 |
| Total contractual obligations | \$ 1,621,273 | \$ 778,868 | \$ 497,294 | \$ 647,785 | \$ 3,545,220 |

¹We have a \$52.1 million liability for unrecognized tax benefits that is included in other long-term liabilities on our interim condensed consolidated balance sheet. This liability is excluded from the schedule above as the timing of payments cannot be reasonably estimated.

Senior notes. We have two series of unsecured senior notes with various institutional investors for \$150 million. 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. These notes are subject to prepayment penalties for early payment of principal.

Borrowings under these notes are subject to certain operating and financial covenants, including interest coverage and other financial ratios. As of October 29, 2011, we were in compliance with these covenants.

Off-Balance Sheet Arrangements

Operating leases. We lease our buying offices, 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 \$1.2 million at the end of the respective initial lease terms, which is included in Other synthetic lease obligations in the table above.

We lease a 1.3 million square foot distribution center in Perris, California. The land and building for this distribution center are financed by the lessor 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. As of October 29, 2011, we have accrued approximately \$4.6 million related to an estimated shortfall in the residual value guarantee recorded in accrued expenses and other in the accompanying consolidated balance sheets. The synthetic lease agreement includes a prepayment penalty for early payoff of the lease. Our contractual obligation of \$56 million is included in Other synthetic lease obligations in the above table.

We have also recognized a liability and corresponding asset for the inception date estimated fair values of the distribution center and POS synthetic lease residual value guarantees. As of October 29, 2011, we have approximately \$1.7 million of residual value guarantee asset and liability. These residual value guarantees are 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.

We lease three warehouses. Two of the warehouses are in Carlisle, Pennsylvania with leases expiring in 2013 and 2014. The third warehouse is in Fort Mill, South Carolina, with a lease expiring in 2013. We also own a 423,000 square foot warehouse in Fort Mill, South Carolina and a 449,000 square foot warehouse in Riverside, California. All five of these warehouses are used to store our packaway inventory. We also lease a 10-acre parcel that has been developed for trailer parking adjacent to our Perris, California distribution center.

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 2014 and 2015 and contain renewal provisions.

We lease approximately 201,000 and 26,000 square feet of office space for our New York City and Los Angeles buying offices, respectively. The lease terms for these facilities expire in 2021 and 2014, respectively, and contain renewal provisions.

Purchase obligations. As of October 29, 2011 we had purchase obligations of approximately \$1,250 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 \$1,177 million represent purchase obligations of less than one year as of October 29, 2011.

Commercial Credit Facilities

The table below presents our significant available commercial credit facilities at October 29, 2011:

| | Amount of Commitment Expiration Per Period | | | | Total amount committed |
|------------------------------|--|----------------|----------------|------------------|------------------------------|
| | Less than one year | 1 - 3 years | 3 - 5 years | After 5 years | |
| (\$000) | | | | | |
| Revolving credit facility | \$ - | \$ - | \$ 600,000 | \$ - | \$ 600,000 |
| Total commercial commitments | \$ - | \$ - | \$ 600,000 | \$ - | \$ 600,000 |

For additional information relating to this credit facility, refer to note E of Notes to Condensed Consolidated Financial Statements.

Revolving credit facility. In March 2011 we entered into a new \$600 million unsecured, revolving credit facility replacing our previous \$600 million revolving credit facility. This new facility, with our banks, expires in March 2016 and contains a \$300 million sublimit for issuance of standby letters of credit. Interest on this facility is based on LIBOR plus an applicable margin (currently 150 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 October 29, 2011 we had no borrowings outstanding or letters of credits issued under this facility and were in compliance with the covenants.

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 the revolving credit facility may vary depending on actual interest coverage ratios achieved. As of October 29, 2011 we were in compliance with these covenants.

Standby letters of credit and collateral trust. In July 2011, we entered into new standby letters of credit outside of our revolving credit facility and set up a trust to collateralize our insurance obligations. As of October 29, 2011, we had \$45.5 million in standby letters of credit outstanding which are collateralized by restricted cash and cash equivalents and \$21.1 million in a collateral trust consisting of restricted cash, cash equivalents, and investments.

At October 30, 2010, we had \$69.6 million in standby letters of credit outstanding issued under our revolving credit facility.

Trade letters of credit. We had \$38.7 million and \$48.7 million in trade letters of credit outstanding at October 29, 2011 and October 30, 2010, respectively.

Dividends. In November 2011, our Board of Directors approved a two-for-one stock split in the form of a 100 percent stock dividend, to be paid on December 15, 2011 to stockholders of record as of November 29, 2011. The stock split will not have an impact on our consolidated financial position or results of operations. Share and per share amounts have not been restated to reflect the pending stock split but will be adjusted in future financial statements.

In November 2011, our Board of Directors declared a cash dividend of \$.22 per share, or \$.11 per share post-split, payable on December 30, 2011.

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 third quarter of fiscal 2011, there have been no significant changes to the policies discussed in our Annual Report on Form 10-K for the year ended January 29, 2011.

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 May 2011, the FASB issued Accounting Standards Update No. 2011-04, Fair Value Measurements (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, (ASU 2011-04). ASU 2011-04 changes the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements to ensure consistency between U.S. GAAP and IFRS. ASU 2011-04 also expands the disclosures required for fair value measurements. ASU 2011-04 is to be applied prospectively and is effective for the Company in fiscal 2012. We believe adoption of this guidance will not have a material impact on our consolidated financial statements.

In June 2011, the FASB issued Accounting Standards Update No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income, (ASU 2011-05). ASU 2011-05 eliminates the option to report other comprehensive income and its components in the statement of changes in equity. ASU 2011-05 requires that all nonowner changes in stockholders' equity be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements. This new guidance is to be applied retrospectively and is effective for the Company in fiscal 2012. We believe the adoption of this guidance will not have a material impact on our consolidated financial position or results of operations.

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 identify 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 those forward-looking statements and our previous 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 for Ross and dd's DISCOUNTS. 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 fiscal 2010.

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 outstanding forward contracts as of October 29, 2011.

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 October 29, 2011, 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 October 29, 2011 was \$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 materially impact 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 month period ended October 29, 2011. 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. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at that reasonable assurance level 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 third fiscal quarter of 2011 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 2011 third 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 third fiscal quarter of 2011, 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:

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 apparel or home-related merchandise industry.
- Changes in the level of consumer spending on or preferences for apparel or home-related merchandise.

- The impact from the macro-economic environment and financial and credit markets including but not limited to interest rates, recession, inflation, deflation, energy costs, tax rates and policy, unemployment trends, and fluctuating commodity costs.
- Changes in geopolitical and geoeconomic conditions.
- 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, Los Angeles buying office, two distribution centers, and 26% 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 recent 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 third quarter of fiscal 2011 is as follows:

| Period | Total number of shares (or units) purchased¹ | Average price paid per share (or unit) | Total number of shares (or units) purchased as part of publicly announced plans or programs | Maximum number (or approximate dollar value) of shares (or units) that may yet be purchased under the plans or programs (\$000)² |
|------------------------------------|--|---|--|--|
| August (7/31/2011-8/27/2011) | 368,083 | \$ 71.51 | 365,968 | \$ 643,600 |
| September (8/28/2011-10/1/2011) | 643,841 | \$ 78.02 | 636,799 | \$ 593,900 |
| October (10/2/2011-10/29/2011) | 435,149 | \$ 85.71 | 427,149 | \$ 557,300 |
| Total | 1,447,073 | \$ 78.68 | 1,429,916 | \$ 557,300 |

¹We purchased 17,157 of these shares during the quarter ended October 29, 2011 from employees for tax withholding purposes related to vesting of restricted stock grants. All remaining shares were repurchased under our publicly announced stock repurchase program.

²In January 2011 our Board of Directors approved a two-year \$900 million stock repurchase program for fiscal 2011 and 2012.

ITEM 6. EXHIBITS

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

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: December 7, 2011

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

INDEX TO EXHIBITS

| Exhibit Number | Exhibit |
|----------------|---|
| 3.1 | Amendment of Certificate of Incorporation dated May 21, 2004, 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 and Restated Bylaws, as last amended November 16, 2011. |
| 3.3 | Certificate of Amendment of the Certificate of Incorporation dated July 18, 2011, incorporated by reference to Exhibit 3.3 to the Form 10-Q filed by Ross Stores, Inc. for its quarter ended July 30, 2011. |
| 15 | Letter re: Unaudited Interim Financial Information from Deloitte & Touche LLP dated December 7, 2011. |
| 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. |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase |