

ROSS STORES INC  
Form 10-Q  
June 12, 2013

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 May 4, 2013  
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 94-1390387  
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

4440 Rosewood Drive, Pleasanton, California 94588-3050  
(Address of principal executive offices) (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

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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 May 23, 2013 was 218,677,597.

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## Condensed Consolidated Statements of Earnings

(\$000, except stores and per share data, unaudited)	Three Months Ended	
	May 4, 2013	April 28, 2012
Sales	\$2,539,914	\$2,356,841
Costs and Expenses		
Costs of goods sold	1,798,811	1,679,127
Selling, general and administrative	361,968	337,811
Interest expense, net	209	2,232
Total costs and expenses	2,160,988	2,019,170
Earnings before taxes	378,926	337,671
Provision for taxes on earnings	144,314	129,058
Net earnings	\$234,612	\$208,613
Earnings per share		
Basic	\$1.09	\$0.94
Diluted	\$1.07	\$0.93
Weighted average shares outstanding (000)		
Basic	215,408	221,104
Diluted	218,496	224,929
Dividends		
Cash dividends declared per share	\$—	\$—
Stores open at end of period	1,227	1,146

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

Condensed Consolidated Statements of Comprehensive Income

(\$000, unaudited)	Three Months Ended	
	May 4, 2013	April 28, 2012
Net earnings	\$234,612	\$208,613
Other comprehensive income:		
Change in unrealized gain (loss) on investments, net of tax	1	(9 )
Comprehensive income	\$234,613	\$208,604

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

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Condensed Consolidated Balance Sheets

(\$000, unaudited)	May 4, 2013	February 2, 2013	April 28, 2012
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents	\$714,174	\$646,761	\$741,117
Short-term investments	1,038	1,087	463
Accounts receivable	77,284	59,617	66,632
Merchandise inventory	1,226,449	1,209,237	1,134,703
Prepaid expenses and other	111,405	94,318	104,216
Deferred income taxes	22,846	20,407	11,854
<b>Total current assets</b>	<b>2,153,196</b>	<b>2,031,427</b>	<b>2,058,985</b>
<b>Property and Equipment</b>			
Land and buildings	373,073	372,659	342,356
Fixtures and equipment	1,575,927	1,551,590	1,471,471
Leasehold improvements	759,232	732,671	675,796
Construction-in-progress	280,062	258,691	83,291
	2,988,294	2,915,611	2,572,914
Less accumulated depreciation and amortization	1,461,730	1,422,327	1,326,313
<b>Property and equipment, net</b>	<b>1,526,564</b>	<b>1,493,284</b>	<b>1,246,601</b>
Long-term investments	4,302	4,374	5,614
Other long-term assets	158,699	141,476	146,286
<b>Total assets</b>	<b>\$3,842,761</b>	<b>\$3,670,561</b>	<b>\$3,457,486</b>
<b>Liabilities and Stockholders' Equity</b>			
<b>Current Liabilities</b>			
Accounts payable	\$859,595	\$807,534	\$830,044
Accrued expenses and other	328,690	320,415	284,108
Accrued payroll and benefits	168,088	241,129	148,770
Income taxes payable	110,829	53,504	107,715
<b>Total current liabilities</b>	<b>1,467,202</b>	<b>1,422,582</b>	<b>1,370,637</b>
Long-term debt	150,000	150,000	150,000
Other long-term liabilities	261,301	246,815	211,777
Deferred income taxes	88,997	84,301	114,437
<b>Commitments and contingencies</b>			
<b>Stockholders' Equity</b>			
Common stock	2,189	2,207	2,258
Additional paid-in capital	897,789	866,519	826,388
Treasury stock	(117,556)	) (91,708	) (85,385
Accumulated other comprehensive income	586	585	626
Retained earnings	1,092,253	989,260	866,748
<b>Total stockholders' equity</b>	<b>1,875,261</b>	<b>1,766,863</b>	<b>1,610,635</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$3,842,761</b>	<b>\$3,670,561</b>	<b>\$3,457,486</b>

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



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Condensed Consolidated Statements of Cash Flows

(\$000, unaudited)	Three Months Ended	
	May 4, 2013	April 28, 2012
<b>Cash Flows From Operating Activities</b>		
Net earnings	\$234,612	\$208,613
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation and amortization	48,726	43,136
Stock-based compensation	11,788	11,587
Deferred income taxes	2,257	(339)
Tax benefit from equity issuance	20,341	23,123
Excess tax benefit from stock-based compensation	(20,114)	(22,662)
Change in assets and liabilities:		
Merchandise inventory	(17,212)	(4,633)
Other current assets	(31,197)	(28,890)
Accounts payable	89,620	100,177
Other current liabilities	8,077	(33,792)
Other long-term, net	5,961	1,010
Net cash provided by operating activities	352,859	297,330
<b>Cash Flows From Investing Activities</b>		
Additions to property and equipment	(97,552)	(57,993)
Increase in restricted cash and investments	(12,254)	(13,410)
Purchases of investments	—	(424)
Proceeds from investments	107	618
Net cash used in investing activities	(109,699)	(71,209)
<b>Cash Flows From Financing Activities</b>		
Excess tax benefit from stock-based compensation	20,114	22,662
Issuance of common stock related to stock plans	5,766	7,955
Treasury stock purchased	(25,848)	(23,123)
Repurchase of common stock	(138,304)	(110,614)
Dividends paid	(37,475)	(31,719)
Net cash used in financing activities	(175,747)	(134,839)
Net increase in cash and cash equivalents	67,413	91,282
<b>Cash and cash equivalents:</b>		
Beginning of period	646,761	649,835
End of period	\$714,174	\$741,117
<b>Supplemental Cash Flow Disclosures</b>		
Interest paid	\$—	\$—
Income taxes paid	\$59,232	\$30,258
<b>Non-Cash Investing Activities</b>		
Increase (decrease) in fair value of investment securities	\$2	\$(13)
The accompanying notes are an integral part of these condensed consolidated financial statements.		





## Notes to Condensed Consolidated Financial Statements

Three Months Ended May 4, 2013 and April 28, 2012  
(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 May 4, 2013 and April 28, 2012, the results of operations, comprehensive income, and cash flows for the three month periods then ended. The Condensed Consolidated Balance Sheet as of February 2, 2013, 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 February 2, 2013. 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 February 2, 2013.

The results of operations and comprehensive income for the three month periods ended May 4, 2013 and April 28, 2012 presented herein are not necessarily indicative of the results to be expected for the full fiscal year.

Restricted cash, cash equivalents, and investments. The Company has restricted cash, cash equivalents, and investments that serve as collateral for certain insurance obligations of the Company. 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. The following table summarizes total restricted cash, cash equivalents, and investments which were included in prepaid expenses and other and other long-term assets in the Condensed Consolidated Balance Sheet as of May 4, 2013, February 2, 2013, and April 28, 2012:

Restricted Assets (\$000)	May 4, 2013	February 2, 2013	April 28, 2012
Prepaid expenses and other	\$ 23,499	\$ 19,941	\$ 22,438
Other long-term assets	57,533	48,821	57,698
Total	\$ 81,032	\$ 68,762	\$ 80,136

The classification between current and long-term is based on the timing of expected payments of the secured insurance obligations.

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, and other long-term liabilities approximates their estimated fair value.

Cash and cash equivalents were \$714.2 million, \$646.8 million, and \$741.1 million at May 4, 2013, February 2, 2013, and April 28, 2012, respectively, and include bank deposits and 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 month periods ended May 4, 2013 and April 28, 2012:

	Three Months Ended		
	May 4, 2013	April 28, 2012	
Ladies	31	% 31	%
Home accents and bed and bath	22	% 23	%
Shoes	14	% 14	%
Accessories, lingerie, fine jewelry, and fragrances	13	% 12	%
Men's	12	% 12	%
Children's	8	% 8	%
Total	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 2013, the Company's Board of Directors declared a quarterly cash dividend of \$0.17 per common share, that was paid in March 2013. The Company's Board of Directors declared cash dividends of \$0.14 per common share in January, May, August, and November 2012, respectively.

In May 2013, the Company's Board of Directors declared a cash dividend of \$0.17 per common share, payable on June 28, 2013.

Revenue recognition. The Company recognizes revenue at the point of sale and maintains an allowance for estimated future returns. Sales of stored value cards are deferred until they are redeemed for the purchase of Company merchandise. The Company's stored value cards do not have expiration dates. Based upon historical redemption rates, a small percentage of stored value cards will never be redeemed, which represents breakage. The Company recognizes income from stored value 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 month periods ended May 4, 2013 and April 28, 2012.

Sales tax collected is not recognized as revenue and is included in accrued expenses and other.

Provision for litigation costs and other legal proceedings. Like many California retailers, the Company has been named in class action lawsuits alleging violation of wage and hour and other employment laws. Class action litigation remains pending as of May 4, 2013.

The Company is also party to various other legal and regulatory proceedings arising in the normal course of business. Actions filed against the Company include commercial, product and product safety, customer, intellectual property, and labor and employment-related claims, including lawsuits in which private plaintiffs or governmental agencies 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 and regulatory 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 May 4, 2013 were:

(\$000)	Amortized cost	Unrealized gains	Unrealized losses	Fair value	Short-term	Long-term
<b>Investments</b>						
Corporate securities	\$4,713	\$455	\$(10 )	\$5,158	\$1,002	\$4,156
Mortgage-backed securities	171	11	—	182	36	146
Total investments	4,884	466	(10 )	5,340	1,038	4,302
<b>Restricted Investments</b>						
Corporate securities	1,110	20	—	1,130	1,012	118
U.S. government and agency securities	3,743	427	—	4,170	146	4,024
Total restricted investments	4,853	447	—	5,300	1,158	4,142
Total	\$9,737	\$913	\$(10 )	\$10,640	\$2,196	\$8,444

The amortized cost and fair value of the Company's available-for-sale securities as of February 2, 2013 were:

(\$000)	Amortized cost	Unrealized gains	Unrealized losses	Fair value	Short-term	Long-term
<b>Investments</b>						
Corporate securities	\$4,715	\$468	\$(14 )	\$5,169	\$1,013	\$4,156
Mortgage-backed securities	276	16	—	292	74	218
Total investments	4,991	484	(14 )	5,461	1,087	4,374
<b>Restricted Investments</b>						
Corporate securities	1,360	34	—	1,394	1,275	119
U.S. government and agency securities	3,748	397	—	4,145	—	4,145
Total restricted investments	5,108	431	—	5,539	1,275	4,264
Total	\$10,099	\$915	\$(14 )	\$11,000	\$2,362	\$8,638

The amortized cost and fair value of the Company's available-for-sale securities as of April 28, 2012 were:

(\$000)	Amortized cost	Unrealized gains	Unrealized losses	Fair value	Short-term	Long-term
<b>Investments</b>						
Corporate securities	\$5,105	\$484	\$(51 )	\$5,538	\$397	\$5,141
Mortgage-backed securities	510	29	—	539	66	473
Total investments	5,615	513	(51 )	6,077	463	5,614
<b>Restricted Investments</b>						
Corporate securities	1,358	81	—	1,439	258	1,181
U.S. government and agency securities	3,763	421	—	4,184	—	4,184
Total restricted investments	5,121	502	—	5,623	258	5,365
Total	\$10,736	\$1,015	\$(51 )	\$11,700	\$721	\$10,979

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.

Investments and restricted investments measured at fair value at May 4, 2013 are summarized below:

(\$000)	Fair Value Measurements at Reporting Date			
	May 4, 2013	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<b>Investments</b>				
Corporate securities	\$5,158	\$—	\$5,158	\$—
Mortgage-backed securities	182	—	182	—
Total investments	5,340	—	5,340	—
<b>Restricted Investments</b>				
Corporate securities	1,130	—	1,130	—
U.S. government and agency securities	4,170	4,170	—	—
Total restricted investments	5,300	4,170	1,130	—
Total	\$10,640	\$4,170	\$6,470	\$—

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Investments and restricted investments measured at fair value at February 2, 2013 are summarized below:

(\$000)	Fair Value Measurements at Reporting Date			
	February 2, 2013	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<b>Investments</b>				
Corporate securities	\$5,169	\$—	\$5,169	\$—
Mortgage-backed securities	292	—	292	—
Total investments	5,461	—	5,461	—
<b>Restricted Investments</b>				
Corporate securities	1,394	—	1,394	—
U.S. government and agency securities	4,145	4,145	—	—
Total restricted investments	5,539	4,145	1,394	—
Total	\$11,000	\$4,145	\$6,855	\$—

Investments and restricted investments measured at fair value at April 28, 2012 are summarized below:

(\$000)	Fair Value Measurements at Reporting Date			
	April 28, 2012	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<b>Investments</b>				
Corporate securities	\$5,538	\$—	\$5,538	\$—
Mortgage-backed securities	539	—	539	—
Total investments	6,077	—	6,077	—
<b>Restricted Investments</b>				
Corporate securities	1,439	—	1,439	—
U.S. government and agency securities	4,184	4,184	—	—
Total restricted investments	5,623	4,184	1,439	—
Total	\$11,700	\$4,184	\$7,516	\$—

The future maturities of investment and restricted investment securities at May 4, 2013 were:

(\$000)	Investments		Restricted Investments	
	Cost basis	Estimated fair value	Cost basis	Estimated fair value
Maturing in one year or less	\$1,036	\$1,038	\$1,144	\$1,158
Maturing after one year through five years	2,749	2,965	809	917
Maturing after five years through ten years	1,099	1,337	2,900	3,225
Total	\$4,884	\$5,340	\$4,853	\$5,300





The underlying assets in the Company's non-qualified deferred compensation program totaling \$85.1 million, \$76.9 million and \$75.3 million as of May 4, 2013, February 2, 2013, and April 28, 2012, respectively (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 \$73.1 million, \$65.9 million, and \$63.8 million as of May 4, 2013, February 2, 2013, and April 28, 2012, respectively. The fair value measurement for funds without quoted market prices in active markets (Level 2) totaled \$12.0 million, \$11.0 million, and \$11.5 million as of May 4, 2013, February 2, 2013, and April 28, 2012, respectively. 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 month periods ended May 4, 2013 and April 28, 2012, the Company recognized stock-based compensation expense as follows:

(\$000)	Three Months Ended	
	May 4, 2013	April 28, 2012
Restricted stock	\$7,728	\$6,748
Performance awards	3,529	4,396
ESPP	531	443
Total	\$11,788	\$11,587

Total stock-based compensation recognized in the Company's Condensed Consolidated Statements of Earnings for the three month periods ended May 4, 2013 and April 28, 2012 is as follows:

Statements of Earnings Classification (\$000)	Three Months Ended	
	May 4, 2013	April 28, 2012
Cost of goods sold	\$6,298	\$4,991
Selling, general and administrative	5,490	6,596
Total	\$11,788	\$11,587

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

During the three month period ended May 4, 2013, shares acquired by the Company for tax withholding totaled 438,098 shares and are considered treasury shares which are available for reissuance. As of May 4, 2013, shares subject to repurchase related to unvested restricted stock totaled 4.1 million shares.

(000, except per share data)	Number of shares	Weighted average grant date fair value
Unvested at February 2, 2013	4,560	\$29.96
Awarded	661	56.69
Released	(1,110)	) 23.36
Forfeited	(20)	) 30.39
Unvested at May 4, 2013	4,091	\$36.10



The unamortized compensation expense at May 4, 2013 was \$101.9 million, which is expected to be recognized over a weighted-average remaining period of 2.3 years. The unamortized compensation expense at April 28, 2012 was \$93.4 million, which was expected to be recognized over a weighted-average remaining period of 2.3 years.

Performance shares. The Company has a performance share award program for senior executives. A performance share award represents a right to receive shares of restricted stock or restricted stock units on a specified settlement date based on the Company's attainment of a profitability-based performance goal during the performance period, which is the Company's fiscal year. If attained, the restricted stock or units then vest over a service period, generally two to three years from the date the performance award was granted. The release of shares related to restricted stock units earned are deferred generally for one year from the date earned.

Employee stock purchase plan. Under the Employee Stock Purchase Plan ("ESPP"), eligible employees participating in the quarterly 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.

Stock option activity. The following table summarizes stock option activity for the three month period ended May 4, 2013:

(000, except per share data)	Number of shares	Weighted average exercise price	Weighted average remaining contractual term	Aggregate intrinsic value
Outstanding at February 2, 2013	1,715	\$13.79		
Granted	—	—		
Exercised	(225	) 12.36		
Forfeited	—	—		
Outstanding at May 4, 2013, all vested	1,490	\$14.00	1.99	\$77,060

No stock options were granted during the three month periods ended May 4, 2013 and April 28, 2012.

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 May 4, 2013 (number of shares in thousands):

Exercise price range	Options outstanding and exercisable		
	Number of shares	Remaining life	Exercise price
\$10.42 to \$13.85	408	1.71	\$12.88
13.89 to 14.31	471	2.36	14.07
14.32 to 14.71	483	1.61	14.49
14.80 to 16.39	128	2.97	15.46
\$10.42 to \$16.39	1,490	1.99	\$14.00

## Note D: Earnings Per Share

The Company computes and reports both basic earnings per share ("EPS") and diluted EPS. Basic 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 and restricted stock units.

For the three month periods ended May 4, 2013 and April 28, 2012 approximately 1,800 and 4,000 weighted average shares, respectively, were excluded from the calculation of diluted EPS because their effect would have been anti-dilutive in the period presented.

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		
	Basic EPS	Effect of dilutive common stock equivalents	Diluted EPS
May 4, 2013			
Shares	215,408	3,088	218,496
Amount	\$1.09	\$(0.02)	) \$1.07
April 28, 2012			
Shares	221,104	3,825	224,929
Amount	\$0.94	\$(0.01)	) \$0.93

## Note E: Debt

Senior notes. The Company has two series of unsecured senior notes held by 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 May 4, 2013 of approximately \$190 million is estimated by obtaining comparable market quotes which are considered to be Level 1 inputs under the fair value measurements and disclosures guidance. The senior notes are subject to prepayment penalties for early payment of principal.

Revolving credit facility. The Company's \$600 million unsecured revolving credit facility, as amended in June 2012, expires in June 2017 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 112.5 basis points) and is payable quarterly and upon maturity. The Company had no borrowings outstanding or letters of credit issued under this facility as of May 4, 2013. As of May 4, 2013, the Company's \$600 million credit facility remains in place and available.

Borrowings under the credit facility and the 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 May 4, 2013, the Company was in compliance with these covenants.



Note F: Taxes on Earnings

As of May 4, 2013 and April 28, 2012, the reserves for unrecognized tax benefits were \$87.6 million and \$68.0 million inclusive of \$18.4 million and \$16.7 million of related interest and penalties, 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, \$44.2 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 \$2.1 million.

The Company is generally open to audit by the Internal Revenue Service under the statute of limitations for fiscal years 2009 through 2012. The Company's state income tax returns are generally open to audit under the various statutes of limitations for fiscal years 2008 through 2012. 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 condensed consolidated financial statements.

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 May 4, 2013 and April 28, 2012, and the related condensed consolidated statements of earnings, comprehensive income and cash flows for the three-month periods ended May 4, 2013 and April 28, 2012. These interim 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.

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 February 2, 2013, 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 April 2, 2013, 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 February 2, 2013, 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  
June 12, 2013

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 2012. All information is based on our fiscal calendar.

Overview

Ross Stores, Inc. operates two brands of off-price retail apparel and home fashion stores -- 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 1,112 locations in 33 states, the District of Columbia and Guam as of May 4, 2013. 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 115 dd's DISCOUNTS stores in nine 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 as of May 4, 2013.

Results of Operations

The following table summarizes the financial results for the three month periods ended May 4, 2013 and April 28, 2012:

	Three Months Ended	
	May 4, 2013	April 28, 2012
Sales		
Sales (millions)	\$2,540	\$2,357