ROSS STORES INC
Form 10-Q
December 10, 2008

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

FORM 10-Q

(Mark one)

X	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the quarterly period ended November 1, 2008
	or
	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the transition period from _______ to _______
	Commission file number: 0-14678

Ross Stores, Inc.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**94-1390387** (I.R.S. Employer Identification No.)
4440 Rosewood Drive, Pleasanton, California (Address of principal executive offices)	**94588-3050** (Zip Code)
Registrant's telephone number, including area code	**(925) 965-4400**
Former name, former address and former fiscal year, if changed since last report.	N/A

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a nonaccelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. Large accelerated filer ___X___ Accelerated filer ______ Non-accelerated filer ______ Smaller reporting company ______

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ______ No __X__

The number of shares of Common Stock, with $.01 par value, outstanding on November 20, 2008 was 129,380,561.

1

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Condensed Consolidated Statements of Earnings

	Three Months Ended		Nine Months Ended	
	November 1,	November 3,	**November 1,**	November 3,
($000, except per share data, unaudited)	**2008**	2007	**2008**	2007
Sales	**$ 1,555,287**	$ 1,468,337	**$ 4,752,027**	$ 4,323,510
Costs and expenses				
Cost of goods sold	**1,198,451**	1,150,754	**3,635,230**	3,353,318
Selling, general and administrative	**262,534**	238,847	**779,045**	698,376
Interest income, net	**(15)**	(12)	**(2,688)**	(1,338)
Total costs and expenses	**1,460,970**	1,389,589	**4,411,587**	4,050,356
Earnings before taxes	**94,317**	78,748	**340,440**	273,154
Provision for taxes on earnings	**37,047**	30,066	**132,386**	106,565
Net earnings	**$ 57,270**	$ 48,682	**$ 208,054**	$ 166,589
Earnings per share				
Basic	**$ 0.44**	$ 0.36	**$ 1.60**	$ 1.23
Diluted	**$ 0.44**	$ 0.36	**$ 1.57**	$ 1.21
Weighted average shares outstanding (000)				
Basic	**128,930**	134,429	**130,119**	135,856
Diluted	**131,099**	136,215	**132,324**	138,172
Dividends per share				
Cash dividends declared per share	**$ 0.10**	$ 0.08	**$ 0.19**	$ 0.15
Stores open at end of period	**963**	893	**963**	893

See notes to condensed consolidated financial statements.

2

Condensed Consolidated Balance Sheets

($000, unaudited)	**November 1, 2008**	February 2, 2008	November 3, 2007
Assets			
Current Assets			
Cash and cash equivalents	**$ 231,241**	$ 257,580	$ 151,548
Short-term investments	**2,833**	6,098	6,177
Accounts receivable	**47,104**	37,468	47,515

Merchandise inventory	**1,093,082**	1,025,295	1,119,070
Prepaid expenses and other	**62,591**	51,921	57,392
Deferred income taxes	**19,805**	19,639	32,647
Total current assets	**1,456,656**	1,398,001	1,414,349
Property and Equipment			
Land and buildings	**169,938**	140,725	155,763
Fixtures and equipment	**1,043,370**	941,795	921,026
Leasehold improvements	**503,213**	482,904	459,964
Construction-in-progress	**87,176**	88,900	45,224
	1,803,697	1,654,324	1,581,977
Less accumulated depreciation and amortization	**871,806**	786,009	753,490
Property and equipment, net	**931,891**	868,315	828,487
Long-term investments	**39,072**	40,766	32,827
Other long-term assets	**55,020**	64,240	67,979
Total assets	**$ 2,482,639**	$ 2,371,322	$ 2,343,642
Liabilities and Stockholders Equity			
Current Liabilities			
Accounts payable	**$ 686,401**	$ 637,158	$ 654,341
Accrued expenses and other	**243,509**	217,923	223,892
Accrued payroll and benefits	**168,845**	133,706	134,671
Income taxes payable	**-**	21,818	-
Total current liabilities	**1,098,755**	1,010,605	1,012,904
Long-term debt	**150,000**	150,000	150,000
Other long-term liabilities	**162,134**	161,169	170,214
Deferred income taxes	**85,860**	78,899	79,621
Commitments and contingencies			
Stockholders Equity			
Common stock	**1,296**	1,341	1,354
Additional paid-in capital	**626,076**	577,787	568,766
Treasury stock	**(29,470)**	(25,910)	(25,660)
Accumulated other comprehensive (loss) income	**(2,729)**	1,340	408
Retained earnings	**390,717**	416,091	386,035
Total stockholders equity	**985,890**	970,649	930,903
Total liabilities and stockholders equity	**$ 2,482,639**	$ 2,371,322	$ 2,343,642

See notes to condensed consolidated financial statements.

3

Condensed Consolidated Statements of Cash Flows

	Nine Months Ended	
	November 1,	November 3,
($000, unaudited)	**2008**	2007
Cash Flows From Operating Activities		
Net earnings	**$ 208,054**	$ 166,589
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	**100,919**	89,746
Stock-based compensation	**17,156**	19,535

Deferred income taxes	**6,795**	(22,987)
Tax benefit from equity issuance	**8,105**	5,601
Excess tax benefits from stock-based compensation	**(5,850)**	(4,697)
Change in assets and liabilities:		
Merchandise inventory	**(67,787)**	(67,341)
Other current assets	**(19,272)**	(30,557)
Accounts payable	**61,982**	(33,277)
Other current liabilities	**48,646**	(19,933)
Other long-term, net	**10,085**	29,726
Net cash provided by operating activities	**368,833**	132,405
Cash Flows From Investing Activities		
Additions to property and equipment	**(175,468)**	(176,790)
Proceeds from sales of property and equipment	**117**	-
Purchases of investments	**(32,942)**	(63,213)
Proceeds from investments	**33,833**	61,162
Net cash used in investing activities	**(174,460)**	(178,841)
Cash Flows From Financing Activities		
Issuance of common stock related to stock plans	**45,599**	12,789
Excess tax benefits from stock-based compensation	**5,850**	4,697
Treasury stock purchased	**(3,560)**	(3,638)
Repurchase of common stock	**(231,404)**	(152,598)
Dividends paid	**(37,197)**	(30,654)
Net cash used in financing activities	**(220,712)**	(169,404)
Net decrease in cash and cash equivalents	**(26,339)**	(215,840)
Cash and cash equivalents:		
Beginning of period	**257,580**	367,388
End of period	**$ 231,241**	$ 151,548
Supplemental Cash Flow Disclosures		
Interest paid	**$ 4,834**	$ 4,834
Income taxes paid	**$ 139,215**	$ 142,767
Non-Cash Investing Activities		
Change in fair value of investment securities unrealized (loss) gain	**$ (4,069)**	$ 570

See notes to condensed consolidated financial statements.

4

Notes to Condensed Consolidated Financial Statements

Three and Nine Months Ended November 1, 2008 and November 3, 2007
(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 Companys financial position as of November 1, 2008 and November 3, 2007, the results of operations for the three and nine month periods ended November 1, 2008 and November 3, 2007, and cash flows for the nine month periods ended November 1, 2008 and November 3, 2007. The Condensed Consolidated Balance Sheet as of February 2, 2008, 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, 2008. 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, 2008.

The results of operations for the three and nine month periods ended November 1, 2008 and November 3, 2007 presented herein are not necessarily indicative of the results to be expected for the full fiscal year.

Total comprehensive income. The components of total comprehensive income for the three and nine month periods ended November 1, 2008 and November 3, 2007 are as follows (in $000):

	Three Months Ended		**Nine Months Ended**	
	November 1, 2008	November 3, 2007	**November 1, 2008**	November 3, 2007
Net income	**$ 57,270**	$ 48,682	**$ 208,054**	$ 166,589
Unrealized (loss) gain on investments, net of taxes	**(1,367)**	318	**(2,487)**	348
Total comprehensive income	**$ 55,903**	$ 49,000	**$ 205,567**	$ 166,937

Taxes on earnings. Statement of Financial Accounting Standards (“SFAS”) 109, “Accounting for Income Taxes” (SFAS 109) requires income taxes to be accounted for under an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's consolidated financial statements or tax returns. In estimating future tax consequences, the Company generally considers all expected future events other than changes in tax laws or tax rates.

The Company adopted FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes” (FIN 48), which supplements SFAS 109 effective February 4, 2007. FIN 48 clarifies the criteria that an individual tax position must satisfy for some or all of the benefits of that position to be recognized in a company’s consolidated financial statements. FIN 48 prescribes a recognition threshold of more-likely-than-not, and a measurement standard for all tax positions taken or expected to be taken on a tax return, in order for those tax positions to be recognized in the consolidated financial statements.

Stock-based compensation. The Company accounts for stock-based compensation in accordance with SFAS 123(R), “Share-Based Payment,” which requires recognition of compensation expense based upon the grant date fair value of all stock-based awards, typically over the vesting period. See Note B for more information on the Company’s stock-based compensation plans.

Dividends. Dividends included in the Condensed Consolidated Statements of Cash Flows reflect actual dividends paid during the periods shown. Dividends per share reported in the Condensed Consolidated Statements of Earnings reflect dividends declared during the periods shown. In January, May, and August of 2008, the Company’s Board of Directors declared a quarterly cash dividend of $.095 per common share that was paid in March, July, and October 2008, respectively. In January, May, August, and November 2007, the Company’s Board of Directors declared quarterly cash dividends of $.075 per common share, paid in March, July, and October 2007, and in January 2008, respectively.

In November 2008, the Company’s Board of Directors declared a cash dividend of $.095 per common share, payable on January 2, 2009.

Provision for litigation costs and other legal proceedings. Like many California retailers, the Company has been named in class action lawsuits regarding wage and hour claims. Class action litigation involving allegations that hourly associates have missed meal and/or rest break periods, as well as allegations of unpaid overtime wages to assistant store managers at Company stores under federal and state law, remain pending as of November 1, 2008.

The Company is also party to various other legal proceedings arising in the normal course of business. Actions filed against the Company include commercial, customer, and labor and employment-related claims, including lawsuits in which plaintiffs allege that the Company violated state and/or federal wage and hour and related laws. Actions against the Company are in various procedural stages. Many of these proceedings raise factual and legal issues and are subject to uncertainties.

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

Note B: Stock-Based Compensation

Stock options and restricted stock. On May 22, 2008, the Company's stockholders approved the adoption of the Ross Stores, Inc. 2008 Equity Incentive Plan (the "2008 Plan") with an initial share reserve of 8.3 million shares of the Company's common stock, of which 6.0 million shares can be issued as full value awards. The 2008 Plan replaced the 2004 Equity Incentive Plan. The 2008 Plan provides for various types of incentive awards, which may potentially include the grant of stock options, stock appreciation rights, restricted stock purchase rights, restricted stock bonuses, restricted stock units, performance shares, performance units, and deferred compensation awards.

Restricted stock. The Company grants restricted shares to directors, officers and key employees. The fair value of these shares at the date of grant is expensed on a straight-line basis over the vesting period of generally three to five years. During the nine month period ended November 1, 2008, restricted stock awards totaling 564,000 shares were issued and restricted stock awards totaling 32,000 shares were forfeited. The aggregate unamortized compensation expense at November 1, 2008 was $32.9 million. During the period, shares purchased by the Company for tax withholding totaled approximately 118,000 shares and are considered treasury shares which are available for reissuance. As of November 1, 2008, shares subject to repurchase related to unvested restricted stock totaled 2.0 million shares.

Performance shares. Beginning in fiscal 2007, the Company initiated a performance share award program for senior executives. A performance share award represents a right to receive shares of common stock on a specified settlement date based on the Company's attainment of a profitability-based performance goal during the performance period. If attained, the common stock then granted vests over a specified remaining service period, generally two years. For the nine month periods ended November 1, 2008 and November 3, 2007, the Company recognized $1.0 million and $0.5 million, respectively, of expense related to performance share awards.

Employee stock purchase plan. Under the Employee Stock Purchase Plan ("ESPP"), eligible full-time employees participating in the offering period can choose to have up to the lesser of 10% or $25,000 of their annual base earnings withheld to purchase the Company's common stock. Prior to 2008, the purchase price of the stock was the lower of 85% of the market price at the beginning of the offering period, or end of the offering period. Starting in 2008, the purchase price of the stock is 85% of the market price on the date of purchase. In addition, purchases occur on a calendar quarterly basis (on the last trading day of each quarter).

6

Stock-based compensation. For the three and nine month periods ended November 1, 2008 and November 3, 2007, the Company recognized stock-based compensation expense as follows (in $000):

	Three Months Ended		**Nine Months Ended**	
	November 1, 2008	November 3, 2007	**November 1, 2008**	November 3, 2007

Stock Options and ESPP	**$ 1,393**	$ 2,369	**$ 4,015**	$ 7,279
Restricted stock and performance shares	**4,433**	4,117	**13,141**	12,256
Total	**$ 5,826**	$ 6,486	**$ 17,156**	$ 19,535

The determination of the fair value of stock options using the Black-Scholes model is affected by the Company's stock price as well as assumptions as to the Company's expected stock price volatility over the term of the awards, actual and projected employee stock option exercise behavior, the risk-free interest rate, and expected dividends.

No stock options were granted during the three and nine month periods ended November 1, 2008. Beginning in 2008, the Company no longer offers a lookback option in determining the purchase price for shares purchased under the ESPP. The Company recognizes expense for ESPP purchase rights equal to the value of the 15% discount given on the purchase date.

The fair value of stock option grants and ESPP purchase rights granted in the periods ended November 3, 2007 were estimated using the following assumptions:

	Three Months Ended		**Nine Months Ended**	
Stock Options	**November 1, 2008**	November 3, 2007	**November 1, 2008**	November 3, 2007
Expected life from grant date (years)	**--**	**--**	**--**	3.9
Expected volatility	**--**	**--**	**--**	28.4%
Risk-free interest rate	**--**	**--**	**--**	4.7%
Dividend yield	**--**	**--**	**--**	0.9