

ROSS STORES INC
Form 10-Q
December 09, 2009

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

FORM 10-Q

(Mark one)

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

For the quarterly period ended October 31, 2009

or

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

For the transition period from ____ to ____

Commission file number: 0-14678

Ross Stores, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or
organization)

94-1390387

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

4440 Rosewood Drive, Pleasanton, California

(Address of principal executive offices)

94588-3050

(Zip Code)

Registrant's telephone number, including area code

(925) 965-4400

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

N/A

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

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

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

Large accelerated filer X Accelerated filer ____ Non-accelerated filer ____ Smaller reporting company ____

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

The number of shares of Common Stock, with \$.01 par value, outstanding on November 19, 2009 was 123,873,076.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Condensed Consolidated Statements of Earnings

	Three Months Ended		Nine Months Ended	
	October 31, 2009	November 1, 2008	October 31, 2009	November 1, 2008
(\$000, except stores and per share data, unaudited)				
Sales	\$ 1,744,139	\$ 1,555,287	\$ 5,204,374	\$ 4,752,027
Costs and expenses				
Costs of goods sold	1,284,852	1,198,451	3,864,697	3,635,230
Selling, general and administrative	286,511	262,534	844,699	779,045
Interest expense (income), net	1,943	(15)	4,989	(2,688)
Total costs and expenses	1,573,306	1,460,970	4,714,385	4,411,587
Earnings before taxes	170,833	94,317	489,989	340,440
Provision for taxes on earnings	65,753	37,047	190,115	132,386
Net earnings	\$ 105,080	\$ 57,270	\$ 299,874	\$ 208,054
Earnings per share				
Basic	\$ 0.86	\$ 0.44	\$ 2.43	\$ 1.60
Diluted	\$ 0.84	\$ 0.44	\$ 2.39	\$ 1.57

Weighted average shares outstanding (000)

Basic	122,377	128,930	123,512	130,119
Diluted	124,648	131,099	125,592	132,324

Dividends per share

Cash dividends declared per share	\$ 0.110	\$ 0.095	\$ 0.220	\$ 0.190
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Stores open at end of period	1,008	963	1,008	963
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See notes to condensed consolidated financial statements.

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Condensed Consolidated Balance Sheets

	October 31, 2009	January 31, 2009	November 1, 2008
(\$000, unaudited)			
Assets			
Current Assets			
Cash and cash equivalents	\$ 576,162	\$ 321,355	\$ 231,241
Short-term investments	979	798	2,833
Accounts receivable	47,496	41,170	47,104
Merchandise inventory	1,014,638	881,058	1,093,082
Prepaid expenses and other	63,048	55,241	62,591
Deferred income taxes	11,737	14,093	19,805
Total current assets	1,714,060	1,313,715	1,456,656
Property and Equipment			
Land and buildings	238,902	201,385	169,938
Fixtures and equipment	1,168,437	1,073,990	1,043,370
Leasehold improvements	528,067	509,971	503,213
Construction-in-progress	19,141	72,839	87,176

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	1,954,547	1,858,185	1,803,697
Less accumulated depreciation and amortization	1,008,813	906,529	871,806
Property and equipment, net	945,734	951,656	931,891
Long-term investments	18,974	38,014	39,072
Other long-term assets	62,702	52,126	55,020
Total assets	\$ 2,741,470	\$ 2,355,511	\$ 2,482,639
Liabilities and Stockholders' Equity			
Current Liabilities			
Accounts payable	\$ 767,771	\$ 536,745	\$ 686,401
Accrued expenses and other	235,605	238,516	243,509
Accrued payroll and benefits	193,221	170,878	168,845
Income taxes payable	11,275	9,120	-
Total current liabilities	1,207,872	955,259	1,098,755
Long-term debt	150,000	150,000	150,000
Other long-term liabilities	171,666	156,726	162,134
Deferred income taxes	104,739	97,157	85,860
Commitments and contingencies			
Stockholders' Equity			
Common stock	1,240	1,273	1,296
Additional paid-in capital	676,935	626,117	626,076
Treasury stock	(36,248)	(30,819)	(29,470)
Accumulated other comprehensive income (loss)	187	(1,174)	(2,729)
Retained earnings	465,079	400,972	390,717
Total stockholders' equity	1,107,193	996,369	985,890
Total liabilities and stockholders' equity	\$ 2,741,470	\$ 2,355,511	\$ 2,482,639

See notes to condensed consolidated financial statements.

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Condensed Consolidated Statements of Cash Flows

(\$000, unaudited)	Nine Months Ended	
	October 31, 2009	November 1, 2008
Cash Flows From Operating Activities		
Net earnings	\$ 299,874	\$ 208,054
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	115,188	100,919
Stock-based compensation	19,232	17,156
Deferred income taxes	9,838	6,795
Tax benefit from equity issuance	7,773	8,105
Excess tax benefit from stock-based compensation	(6,184)	(5,850)
Change in assets and liabilities:		
Merchandise inventory	(133,580)	(67,787)
Other current assets	(14,133)	(19,272)
Accounts payable	245,034	61,982
Other current liabilities	36,564	48,646
Other long-term, net	4,276	10,085
Net cash provided by operating activities	583,882	368,833
Cash Flows From Investing Activities		
Additions to property and equipment	(124,175)	(175,468)
Proceeds from sales of property and equipment	10	117
Purchases of investments	(2,904)	(32,942)
Proceeds from investments	23,223	33,833

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Net cash used in investing activities	(103,846)	(174,460)
Cash Flows From Financing Activities		
Excess tax benefit from stock-based compensation	6,184	5,850
Issuance of common stock related to stock plans	45,392	45,599
Treasury stock purchased	(5,428)	(3,560)
Repurchase of common stock	(229,817)	(231,404)
Dividends paid	(41,560)	(37,197)
Net cash used in financing activities	(225,229)	(220,712)
Net increase (decrease) in cash and cash equivalents	254,807	(26,339)
Cash and cash equivalents:		
Beginning of period	321,355	257,580
End of period	\$ 576,162	\$ 231,241
Supplemental Cash Flow Disclosures		
Interest paid	\$ 4,834	\$ 4,834
Income taxes paid	\$ 166,382	\$ 139,215
Non-Cash Investing Activities		
Increase (decrease) in fair value of investment securities	\$ 1,462	\$ (4,069)

See notes to condensed consolidated financial statements.

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Notes to Condensed Consolidated Financial Statements

Three and Nine Months Ended October 31, 2009 and November 1, 2008
(Unaudited)

Note A: Summary of Significant Accounting Policies

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

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

The results of operations for the three and nine month periods ended October 31, 2009 and November 1, 2008 presented herein are not necessarily indicative of the results to be expected for the full fiscal year.

In preparing these interim condensed consolidated financial statements, the Company evaluated, for potential recognition and disclosure, events and transactions that occurred up through December 8, 2009.

Total comprehensive income. The components of total comprehensive income for the three and nine month periods ended October 31, 2009 and November 1, 2008 are as follows (in \$000):

	Three Months Ended		Nine Months Ended	
	October 31, 2009	November 1, 2008	October 31, 2009	November 1, 2008
Net income	\$ 105,080	\$ 57,270	\$ 299,874	\$ 208,054
Change in unrealized gain (loss) on investments, net of taxes	375	(1,367)	950	(2,487)
Total comprehensive income	\$ 105,455	\$ 55,903	\$ 300,824	\$ 205,567

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

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Sales Mix. The Company's sales mix is shown below for the three and nine month periods ended October 31, 2009 and November 1, 2008:

	Three Months Ended		Nine Months Ended	
	October 31, 2009	November 1, 2008	October 31, 2009	November 1, 2008
Ladies	30%	32%	32%	33%
Home accents and bed and bath	23%	23%	23%	22%
Accessories, lingerie, fine jewelry, and fragrances	13%	12%	12%	11%
Men's	12%	13%	12%	14%
Shoes	12%	10%	12%	11%
Children's	10%	10%	9%	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 in the Condensed Consolidated Statements of Earnings reflect dividends declared during the periods shown. In January, May, and August 2009, the Company's Board of Directors declared a quarterly cash dividend of \$.11 per common share that was paid in March, June, and September 2009, respectively. In January, May, August, and November 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, and January 2009, respectively.

In November 2009, the Company's Board of Directors declared a cash dividend of \$.11 per common share, payable on December 31, 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 state law remains pending as of October 31, 2009.

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

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

Note B: Investments

The amortized cost and fair value of the Company's available-for-sale securities as of October 31, 2009 were:

(\$000)	AmortizedUnrealizedUnrealized			Fair value	Short-term	Long-term
	cost	gains	losses			
Auction-rate securities	\$ 1,050	\$ -	\$ -	\$ 1,050	\$ -	\$ 1,050
Asset-backed securities	192	1	-	193	193	-
Corporate securities	9,700	490	(82)	10,108	353	9,755
U.S. Government and agency securities	5,252	33	(151)	5,134	-	-