

ROSS STORES INC
Form 10-Q
June 06, 2012

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 April 28, 2012

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

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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 17, 2012 was 225,578,030.

PART I. FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS****Condensed Consolidated Statements of Earnings**

(\$000, except stores and per share data, unaudited)	Three Months Ended April 28, 2012	April 30, 2011
Sales	\$ 2,356,841	\$ 2,074,576
Costs and Expenses		
Costs of goods sold	1,679,127	1,481,206
Selling, general and administrative	337,811	309,160
Interest expense, net	2,232	2,495
Total costs and expenses	2,019,170	1,792,861
Earnings before taxes	337,671	281,715
Provision for taxes on earnings	129,058	108,742
Net earnings	\$ 208,613	\$ 172,973
Earnings per share		
Basic	\$ 0.94	\$ 0.75
Diluted	\$ 0.93	\$ 0.74
Weighted average shares outstanding (000)		
Basic	221,104	229,528
Diluted	224,929	233,547
Dividends		
Cash dividends declared per share	\$ -	\$ -
Stores open at end of period	1,146	1,068

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

Condensed Consolidated Statements of Comprehensive Income

(\$000, unaudited)	Three Months Ended April 28, 2012	April 30, 2011
Net earnings	\$ 208,613	\$ 172,973
Other comprehensive income:		
Change in unrealized loss on investments, net of tax	(9)	(3)
Comprehensive income	\$ 208,604	\$ 172,970

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

Condensed Consolidated Balance Sheets

(\$000, unaudited)	April 28, 2012	January 28, 2012	April 30, 2011
Assets			
Current Assets			
Cash and cash equivalents	\$ 741,117	\$ 649,835	\$ 671,005
Short-term investments	463	658	3,275
Accounts receivable	66,632	50,848	61,683
Merchandise inventory	1,134,703	1,130,070	1,172,716
Prepaid expenses and other	104,216	87,362	72,900
Deferred income taxes	11,854	5,598	15,662
Total current assets	2,058,985	1,924,371	1,997,241
Property and Equipment			
Land and buildings	342,356	338,027	241,184
Fixtures and equipment	1,471,471	1,408,647	1,281,902
Leasehold improvements	675,796	657,312	595,050
Construction-in-progress	83,291	131,881	85,609
	2,572,914	2,535,867	2,203,745
Less accumulated depreciation and amortization	1,326,313	1,294,145	1,198,071
Property and equipment, net	1,246,601	1,241,722	1,005,674
Long-term investments	5,614	5,602	12,191
Other long-term assets	146,286	129,514	86,888
Total assets	\$ 3,457,486	\$ 3,301,209	\$ 3,101,994
Liabilities and Stockholders Equity			
Current Liabilities			
Accounts payable	\$ 830,044	\$ 761,717	\$ 742,600
Accrued expenses and other	284,108	304,654	265,586
Accrued payroll and benefits	148,770	248,552	141,268
Income taxes payable	107,715	31,129	89,340
Total current liabilities	1,370,637	1,346,052	1,238,794
Long-term debt	150,000	150,000	150,000
Other long-term liabilities	211,777	203,625	200,575
Deferred income taxes	114,437	108,520	106,519
Commitments and contingencies			
Stockholders Equity			
Common stock	2,258	2,269	1,171
Additional paid-in capital	826,388	788,895	759,048
Treasury stock	(85,385)	(62,262)	(59,245)
Accumulated other comprehensive income	626	635	485
Retained earnings	866,748	763,475	704,647
Total stockholders equity	1,610,635	1,493,012	1,406,106
Total liabilities and stockholders equity	\$ 3,457,486	\$ 3,301,209	\$ 3,101,994

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

Condensed Consolidated Statements of Cash Flows

(\$000, unaudited)	Three Months Ended	
	April 28,	
	2012	
		April 30,
		2011
Cash Flows From Operating Activities		
Net earnings	\$ 208,613	\$ 172,973
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	43,136	39,934
Stock-based compensation	11,587	9,894
Deferred income taxes	(339)	9,657
Tax benefit from equity issuance	23,123	10,021
Excess tax benefit from stock-based compensation	(22,662)	(9,727)
Change in assets and liabilities:		
Merchandise inventory	(4,633)	(85,799)
Other current assets	(28,890)	(25,392)
Accounts payable	100,177	1,120
Other current liabilities	(33,792)	(80,429)
Other long-term, net	1,010	(1,201)
Net cash provided by operating activities	297,330	41,051
Cash Flows From Investing Activities		
Additions to property and equipment	(57,993)	(70,096)
Increase in restricted cash and investments	(13,410)	-
Purchases of investments	(424)	-
Proceeds from investments	618	1,814
Net cash used in investing activities	(71,209)	(68,282)
Cash Flows From Financing Activities		
Excess tax benefit from stock-based compensation	22,662	9,727
Issuance of common stock related to stock plans	7,955	5,827
Treasury stock purchased	(23,123)	(12,837)
Repurchase of common stock	(110,614)	(112,500)
Dividends paid	(31,719)	(25,905)
Net cash used in financing activities	(134,839)	(135,688)
Net increase (decrease) in cash and cash equivalents	91,282	(162,919)
Cash and cash equivalents:		
Beginning of period	649,835	833,924
End of period	\$ 741,117	\$ 671,005
Supplemental Cash Flow Disclosures		
Interest paid	\$ -	\$ -
Income taxes paid	\$ 30,258	\$ 54,705
Non-Cash Investing Activities		
Decrease in fair value of investment securities	\$ (13)	\$ (4)

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

Notes to Condensed Consolidated Financial Statements

Three months ended April 28, 2012 and April 30, 2011
(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 April 28, 2012 and April 30, 2011, and the results of operations, comprehensive income, and cash flows for the three month periods then ended. The Condensed Consolidated Balance Sheet as of January 28, 2012, 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 28, 2012. 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 28, 2012.

The results of operations for the three month periods ended April 28, 2012 and April 30, 2011 presented herein are not necessarily indicative of the results to be expected for the full fiscal year.

Stock dividend. On December 15, 2011 the Company issued a two-for-one stock split in the form of a 100 percent stock dividend. All share and per share amounts have been adjusted for the two-for-one stock split effective December 15, 2011.

Restricted cash, cash equivalents, and investments. The Company has restricted cash, cash equivalents, and investments to serve as collateral for certain of the Company's insurance obligations. 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 April 28, 2012, the Company had total restricted cash, cash equivalents, and investments of \$80.1 million of which \$22.4 million and \$57.7 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.

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 \$741.1 million, \$649.8 million, and \$671.0 million at April 28, 2012, January 28, 2012, and April 30, 2011, 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.

Sales Mix. The Company's sales mix is shown below for the three month periods ended April 28, 2012 and April 30, 2011:

	Three Months Ended	
	April 28, 2012	April 30, 2011
Ladies	31%	31%
Home accents and bed and bath	23%	24%
Shoes	14%	14%
Accessories, lingerie, fine jewelry, and fragrances	12%	12%
Men's	12%	11%
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 2012, the Company's Board of Directors declared a quarterly cash dividend of \$.14 per common share that was paid in March 2012. In January 2011, the Company's Board of Directors declared a quarterly cash dividend of \$.11 per common share that was paid in March 2011.

In May 2012, the Company's Board of Directors declared a cash dividend of \$.14 per common share, payable on June 29, 2012.

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 month periods ended April 28, 2012 and April 30, 2011. 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 matters and other employment laws. Class action litigation remains pending as of April 28, 2012.

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 April 28, 2012 were:

(\$000)	Amortized cost	Unrealized gains	Unrealized losses	Fair value	Short-term	Long-term
Investments						
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
Restricted Investments						
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

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

(\$000)	Amortized cost	Unrealized gains	Unrealized losses	Fair value	Short-term	Long-term
Investments						
Corporate securities	\$ 5,080	\$ 501	\$ (78)	\$ 5,503	\$ 401	\$ 5,102
Mortgage-backed securities	728	29	-	757	257	500
Total investments	5,808	530	(78)	6,260	658	5,602
Restricted Investments						
Corporate securities	1,357	94	-	1,451	-	1,451
U.S. government and agency securities	3,769	431	-	4,200	-	4,200
Total restricted investments	5,126	525	-	5,651	-	5,651
Total	\$ 10,934	\$ 1,055	\$ (78)	\$ 11,911	\$ 658	\$ 11,253

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The amortized cost and fair value of the Company's available-for-sale securities as of April 30, 2011 were:

(\$000)	Amortized Unrealized Unrealized			Fair value	Short-term	Long-term
	cost	gains	losses			
Corporate securities	\$ 7,170	\$ 608	\$ (33)	\$ 7,745	\$ -	\$ 7,745
U.S. Government and agency securities	6,589	80	-	6,669	2,809	3,860
Mortgage-backed securities	961	91	-	1,052	466	586
Total	\$ 14,720	\$ 779	\$ (33)	\$ 15,466	\$ 3,275	\$ 12,191

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 April 28, 2012 are summarized below:

(\$000)	April 28, 2012	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	\$ 5,538	\$ -	\$ 5,538	\$ -
Mortgage-backed securities	539	-	539	-
Total investments	6,077	-	6,077	-
Restricted Investments				
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 assets measured at fair value	\$ 11,700	\$ 4,184	\$ 7,516	\$ -

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

(\$000)	January 28, 2012	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	\$ 5,503	\$ -	\$ 5,503	\$ -
Mortgage-backed securities	757	-	757	-
Total investments	6,260	-	6,260	-
Restricted Investments				
Corporate securities	1,451	-	1,451	-
U.S. government and agency securities	4,200	4,200	-	-
Total restricted investments	5,651	4,200	1,451	-
Total assets measured at fair value	\$ 11,911	\$ 4,200	\$ 7,711	\$ -

Investments measured at fair value at April 30, 2011 are summarized below:

(\$000)	April 30, 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	\$ 7,745	\$ -	\$ 7,745	\$ -
U.S. Government and agency securities	6,669	6,669	-	-
Mortgage-backed securities	1,052	-	1,052	-
Total assets measured at fair value	\$ 15,466	\$ 6,669	\$ 8,797	\$ -

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The future maturities of investment securities at April 28, 2012 were:

(\$000)	Investments		Restricted Investments	
	Cost basis	Estimated fair value	Cost basis	Estimated fair value
Maturing in one year or less	\$ 450	\$ 463	\$ 248	\$ 258
Maturing after one year through five years	4,066	4,274	1,954	2,138
Maturing after five years through ten years	1,099	1,340	2,919	3,227
	\$ 5,615	\$ 6,077	\$ 5,121	\$ 5,623

The underlying assets in the Company's non-qualified deferred compensation program totaling \$75.3 million and \$72.7 million as of April 28, 2012 and April 30, 2011, 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 \$63.8 million and \$62.9 million as of April 28, 2012 and April 30, 2011, respectively. The fair value measurement for funds without quoted market prices in active markets (Level 2) totaled \$11.5 million and \$9.8 million as of April 28, 2012 and April 30, 2011, 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 April 28, 2012 and April 30, 2011, the Company recognized stock-based compensation expense as follows: