

ROSS STORES INC
Form 10-K
April 02, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark one)

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

For the fiscal year ended February 2, 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

(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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Common stock, par value \$.01

Name of each exchange on which registered

Nasdaq Global Select Market

Securities registered pursuant to Section 12(g) of the Act:

Title of each class

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes X No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No X

Act. Yes No X

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

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 X No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

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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 Act). Yes

No

The aggregate market value of the voting common stock held by non-affiliates of the Registrant as of July 28, 2012 was \$14,631,276,037, based on the closing price on that date as reported by the NASDAQ Global Select Market®. Shares of voting stock held by each director and executive officer have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares of Common Stock, with \$.01 par value, outstanding on March 14, 2013 was 220,018,890.

Documents incorporated by reference:

Portions of the Proxy Statement for the Registrant's 2013 Annual Meeting of Stockholders, which will be filed on or before June 3, 2013, are incorporated herein by reference into Part III.

PART I

ITEM 1. BUSINESS

Ross Stores, Inc. and its subsidiaries (“we” or the “Company”) operate 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 1,091 locations in 33 states, the District of Columbia and Guam, as of February 2, 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. Ross target customers are primarily from middle income households.

We also operate 108 dd’s DISCOUNTS® stores in eight states as of February 2, 2013. dd’s DISCOUNTS features more moderately-priced 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. The typical dd’s DISCOUNTS store is located in an established shopping center in a densely populated urban or suburban neighborhood and its target customers typically come from households with more moderate incomes than Ross customers.

The merchant, store, and distribution organizations for Ross and dd’s DISCOUNTS are separate and distinct. The two chains share certain other corporate and support services.

Both our Ross and dd’s DISCOUNTS brands target value-conscious women and men between the ages of 18 and 54. The decisions we make, from merchandising, purchasing, and pricing, to the locations of our stores, are based on these customer profiles. We believe that both brands derive a competitive advantage by offering a wide assortment of product within each of our merchandise categories in organized and easy-to-shop store environments.

Our mission is to offer competitive values to our target customers by focusing on the following key strategic objectives:

- Maintain an appropriate level of recognizable brands, labels, and fashions at strong discounts throughout the store.
- Meet customer needs on a local basis.
- Deliver an in-store shopping experience that reflects the expectations of the off-price customer.
- Manage real estate growth to compete effectively across all our markets.

We refer to our fiscal years ended February 2, 2013, January 28, 2012, and January 29, 2011 as fiscal 2012, fiscal 2011, and fiscal 2010, respectively. Fiscal 2012 was a 53-week year. Fiscal 2011 and 2010 were each 52-week years.

Merchandising, Purchasing, and Pricing

We seek to provide our customers with a wide assortment of first-quality, in-season, brand name and designer apparel, accessories, footwear, and home merchandise for the entire family at everyday savings of 20% to 60% below department and specialty store regular prices at Ross, and 20% to 70% below moderate department and discount store regular prices at dd’s DISCOUNTS. We sell recognizable brand name merchandise that is current and fashionable in each category. New merchandise typically is received from three to six times per week at both Ross and dd’s DISCOUNTS stores. Our buyers review their merchandise assortments on a weekly basis, enabling them to respond to selling trends and purchasing opportunities in the market. Our merchandising strategy is reflected in our advertising, which emphasizes a strong value message. Our stores offer a treasure-hunt shopping experience where customers can find great savings every day on a broad assortment of brand name bargains for the family and the home.

Merchandising. Our merchandising strategy incorporates a combination of off-price buying techniques to purchase advance-of-season, in-season, and past-season merchandise for both Ross and dd’s DISCOUNTS. We believe nationally recognized name brands sold at compelling discounts will continue to be an important determinant of our success. We generally leave the brand name label on the merchandise we sell.

We have established merchandise assortments that we believe are attractive to our target customers. Although we offer fewer classifications of merchandise than most department stores, we generally offer a large selection within each classification with a wide assortment of vendors, labels, prices, colors, styles, and fabrics within each size or item. The mix of comparable store sales by department in fiscal 2012 was approximately as follows: Ladies 29%,

Home Accents and Bed and Bath 24%, Accessories, Lingerie, Fine Jewelry, and Fragrances 13%, Shoes 13%, Men's 13%, and Children's 8%. Our merchandise offerings also include, but are not limited to, small furniture and furniture accents, educational toys and games, luggage, gourmet food and cookware, watches, and sporting goods.

Purchasing. We have a combined network of approximately 7,900 merchandise vendors and manufacturers for both Ross and dd's DISCOUNTS and believe we have adequate sources of first-quality merchandise to meet our requirements. We purchase the vast majority of our merchandise directly from manufacturers, and we have not experienced any difficulty in obtaining sufficient merchandise inventory.

We believe that our ability to effectively execute certain off-price buying strategies is a key factor in our success. Our buyers use a number of methods that enable us to offer our customers brand name and designer merchandise at strong everyday discounts relative to department and specialty stores for Ross and moderate department and discount stores for dd's DISCOUNTS. By purchasing later in the merchandise buying cycle than department, specialty, and discount stores, we are able to take advantage of imbalances between retailers' demand for products and manufacturers' supply of those products.

Unlike most department and specialty stores, we typically do not require that manufacturers provide promotional allowances, co-op advertising allowances, return privileges, split shipments, drop shipments to stores, or delayed deliveries of merchandise. For most orders, only one delivery is made to one of our four distribution centers. These flexible requirements further enable our buyers to obtain significant discounts on in-season purchases.

The majority of the apparel and apparel-related merchandise that we offer in all of our stores is acquired through opportunistic purchases created by manufacturer overruns and canceled orders both during and at the end of a season. These buys are referred to as "close-out" and "packaway" purchases. Close-outs can be shipped to stores in-season, allowing us to get in-season goods into our stores at lower prices. Packaway merchandise is purchased with the intent that it will be stored in our warehouses until a later date, which may even be the beginning of the same selling season in the following year. Packaway purchases are an effective method of increasing the percentage of prestige and national brands at competitive savings within our merchandise assortments. Packaway merchandise is mainly fashion basics and, therefore, not usually affected by shifts in fashion trends.

In fiscal 2012, we continued our emphasis on this important sourcing strategy in response to compelling opportunities available in the marketplace. Packaway accounted for approximately 47% and 49% of total inventories as of February 2, 2013 and January 28, 2012 and reflects our merchants' continued ability to take advantage of a large amount of close-out opportunities in the marketplace. We believe the strong discounts we are able to offer on packaway merchandise are one of the key drivers of our business results.

Our primary buying offices are located in New York City and Los Angeles, the nation's two largest apparel markets. These strategic locations allow our buyers to be in the market on a daily basis, sourcing opportunities and negotiating purchases with vendors and manufacturers. These locations also enable our buyers to strengthen vendor relationships—a key element to the success of our off-price buying strategies.

Over the past year, we continued to make strategic investments in our merchandising organization to further enhance our ability to deliver name brand bargains to our customers. At the end of fiscal 2012, we had approximately 600 merchants for Ross and dd's DISCOUNTS combined. The Ross and dd's DISCOUNTS buying organizations are separate and distinct, and each includes merchandise management, buyers, and assistant buyers. Ross and dd's DISCOUNTS buyers have on average 9 years of experience, including merchandising positions with other retailers such as Bloomingdale's, Burlington Coat Factory, Foot Locker, Kohl's, Loehmann's, Lord & Taylor, Macy's, Marshalls, Nordstrom, Saks, and T.J. Maxx. We expect to continue to make additional targeted investments in new merchants to further develop our relationships with an expanding number of manufacturers and vendors. Our ongoing objective is to strengthen our ability to procure the most desirable brands and fashions at competitive discounts. The off-price buying strategies utilized by our experienced team of merchants enable us to purchase Ross merchandise at net prices that are lower than prices paid by department and specialty stores, and to purchase dd's DISCOUNTS merchandise at net prices that are lower than prices paid by moderate department and discount stores.

Pricing. Our policy is to sell brand name merchandise at Ross that is priced 20% to 60% below most department and specialty store regular prices. At dd's DISCOUNTS, we sell more moderate brand name product and fashions that are

priced 20% to 70% below most moderate department and discount store regular prices. Our pricing policy is reflected on the price tag displaying our selling price as well as the comparable selling price for that item in department

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and specialty stores for Ross merchandise, or in more moderate department and discount stores for dd's DISCOUNTS merchandise.

Our pricing strategy at Ross differs from that of a department or specialty store. We purchase our merchandise at lower prices and mark it up less than a department or specialty store. This strategy enables us to offer customers consistently low prices and compelling value. On a weekly basis our buyers review specified departments in our stores for possible markdowns based on the rate of sale as well as at the end of fashion seasons to promote faster turnover of merchandise inventory and to accelerate the flow of fresh product. A similar pricing strategy is in place at dd's DISCOUNTS where prices are compared to those in moderate department and discount stores.

Stores

As of February 2, 2013, we operated a total of 1,199 stores comprised of 1,091 Ross stores and 108 dd's DISCOUNTS stores. Our stores are located predominantly in community and neighborhood shopping centers in heavily populated urban and suburban areas. Where the size of the market and real estate opportunities permit, we cluster Ross stores to benefit from economies of scale in advertising, distribution, and field management. We do the same for dd's DISCOUNTS stores.

We believe a key element of our success is our organized, attractive, easy-to-shop, in-store environments at both Ross and dd's DISCOUNTS, which allow customers to shop at their own pace. While our stores promote a self-service, treasure hunt shopping experience, the layouts are designed to enhance customer convenience in their merchandise presentation, dressing rooms, checkout, and merchandise return areas. Our store's sales area is based on a prototype single floor design with a racetrack aisle layout. A customer can locate desired departments by signs displayed just below the ceiling of each department. We enable our customers to select among sizes and prices through prominent category and sizing markers. At most stores, shopping carts and / or baskets are available at the entrance for customer convenience. Cash registers are primarily located at store exits for customer ease and efficient staffing.

We use point-of-sale ("POS") hardware and software systems in all stores, which minimizes transaction time for the customer at the checkout counter by electronically scanning each ticket at the point of sale and authorizing personal checks, debit, credit, and stored-value cards in a matter of seconds. For Ross and dd's DISCOUNTS combined, approximately 61% and 60% of payments in fiscal 2012 and fiscal 2011, respectively, were made with credit cards and debit cards. We provide cash, credit card, and debit card refunds on all merchandise (not used, worn, or altered) returned with a receipt within 30 days. Merchandise returns having a receipt older than 30 days are exchanged or refunded with store credit.

Operating Costs

Consistent with the other aspects of our business strategy, we strive to keep operating costs as low as possible. Among the factors which have enabled us to do this are: labor costs that are generally lower than full-price department and specialty stores due to a store design that creates a self-service retail format and due to the utilization of labor saving technologies; economies of scale with respect to general and administrative costs resulting from centralized merchandising, marketing, and purchasing decisions; and flexible store layout criteria which facilitate conversion of existing buildings to our formats.

Information Systems

We continue to invest in new information systems and technology to provide a platform for growth over the next several years. Recent initiatives include enhancements to our Merchandise Planning, Core Merchandising, and Allocation Management systems. These initiatives support our expansion in new markets and our assortment execution and plan achievement, while also supporting future growth. In addition, we made improvements to our networks and our point-of-sale systems to increase reliability and speed, upgraded our store wireless network, and commenced development of our new data center.

Distribution

We have four distribution processing facilities—two in California, one in Pennsylvania, and one in South Carolina. We ship all of our merchandise to our stores through these distribution centers, which are large, highly automated, and built to suit our specific off-price business model. Over the next two years, we plan to invest in two new distribution centers and purchase one of our existing distribution facilities at the expiration of its lease in 2013.

In addition, we own two and lease three other warehouse facilities for packaway storage. We use other third-party facilities as needed for storage of packaway inventory.

We also utilize third-party cross docks to distribute merchandise to stores on a regional basis. Shipments are made by contract carriers to the stores from three to six times per week depending on location.

We believe that our distribution centers with their current expansion capabilities will provide adequate processing capacity to support our current store growth. Information on the size and locations of our distribution centers and warehouse facilities is found under “Properties” in Item 2.

Advertising

Advertising for Ross Dress for Less relies primarily on television to communicate the Ross value proposition—everyday savings off the same brands carried at leading department stores. This strategy reflects our belief that television is the most efficient and cost effective medium for communicating our brand position. We continue to utilize additional channels to build awareness. Advertising for dd’s DISCOUNTS is primarily focused on new store grand openings and local grass roots initiatives.

Trademarks

The trademarks for Ross Dress For Less® and dd’s DISCOUNTS® have been registered with the United States Patent and Trademark Office.

Employees

As of February 2, 2013, we had approximately 57,500 total employees, including an estimated 41,500 part-time employees. Additionally, we hire temporary employees especially during the peak seasons. Our employees are non-union. Management considers the relationship between the Company and our employees to be good.

Competition

We believe the principal competitive factors in the off-price retail apparel and home fashion industry are offering significant discounts on brand name merchandise, offering a well-balanced assortment that appeals to our target customers, and consistently providing store environments that are convenient and easy to shop. To execute this concept, we continue to make strategic investments in our buying organization. We also continue to make improvements to our core merchandising system to strengthen our ability to plan, buy, and allocate product based on more local versus regional trends. We believe that we are well positioned to compete on the basis of each of these factors.

Nevertheless, the retail apparel market is highly fragmented and competitive. We face a challenging macro-economic and retail environment that creates intense competition for business from department stores, specialty stores, discount stores, warehouse stores, other off-price retailers, and manufacturer-owned outlet stores, many of which are units of large national or regional chains that have substantially greater resources. We also compete to some degree with retailers that sell apparel and home fashions through catalogs or over the internet. The retail apparel and home-related businesses may become even more competitive in the future.

Available Information

The internet address for our corporate website is www.rossstores.com. Our Annual Reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, Proxy Statements, and amendments to those reports are made available free of charge on or through the Investors section of our corporate website promptly after being electronically filed with the Securities and Exchange Commission. The information found on our corporate website is not part of this, or any other report or regulatory filing we file with or furnish to the Securities and Exchange Commission.

ITEM 1A. RISK FACTORS

Our Annual Report on Form 10-K for fiscal 2012, and information we provide in our Annual Report to Stockholders, 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 and distribution centers.

These risk factors include:

- ▲ An increase in the level of competitive pressures in the apparel or home-related merchandise retailing industry.

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

The impacts from the macro-economic environment and financial and credit markets that affect consumer disposable income and consumer confidence, 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.

Changes 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 or in information systems 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, one warehouse, and 25% 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 and distribution center 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.

- Effectively operate and continually upgrade our various supply chain, store, core merchandising, and other information systems.

Improve our merchandising and transaction processing capabilities through implementation of new processes and systems enhancements.

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- Manage our planned data center and headquarters moves without disruption or unanticipated cost.
- Improve new store sales and profitability, especially in newer regions and markets.
- Add capacity to our existing distribution centers, find new distribution center sites, and build out planned additional distribution centers timely and cost effectively.
- Achieve and maintain targeted levels of productivity and efficiency in our existing and future new distribution centers.
- Lease or acquire acceptable new store sites with favorable demographics and long-term financial returns.
- Identify and successfully enter new geographic markets.
- Achieve planned gross margins by effectively managing inventories, markdowns, and inventory shortage.
- Effectively manage all operating costs of the business, the largest of which are payroll and benefit costs for store and distribution center employees.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

At February 2, 2013, we operated a total of 1,199 stores, of which 1,091 were Ross locations in 33 states, the District of Columbia and Guam, and 108 were dd's DISCOUNTS stores in eight states. All stores are leased, with the exception of three locations which we own.

During fiscal 2012, we opened 62 new Ross stores and closed eight existing stores. The average approximate Ross store size is 29,300 square feet.

During fiscal 2012, we opened 20 new dd's DISCOUNTS stores. The average approximate dd's DISCOUNTS store size is 23,800 square feet.

During fiscal 2012, no one store accounted for more than 1% of our sales.

We carry earthquake insurance to help mitigate the risk of financial loss due to an earthquake.

Our real estate strategy in 2013 is to open stores in states where we currently operate to increase our market penetration and to reduce overhead and advertising expenses as a percentage of sales in each market. We also expect to continue our new store expansion in new markets in 2013. Important considerations in evaluating a new store location in both new and existing markets are the availability and quality of potential sites, demographic characteristics, competition, and population density of the local trade area. In addition, we continue to consider opportunistic real estate acquisitions.

The following table summarizes the locations of our stores by state/territory as of February 2, 2013 and January 28, 2012.

State/Territory	February 2, 2013	January 28, 2012
Alabama	20	18
Arizona	64	59
Arkansas	4	2
California	304	290
Colorado	29	29
Delaware	1	1
District of Columbia	1	1
Florida	145	138
Georgia	48	46
Guam	1	1
Hawaii	13	13
Idaho	10	9
Illinois	23	12
Indiana	1	—
Kansas	2	—
Kentucky	2	—
Louisiana	12	12
Maryland	20	19
Mississippi	5	5
Missouri	8	—
Montana	6	6
Nevada	28	26
New Jersey	11	10
New Mexico	8	8
North Carolina	34	33
Oklahoma	19	19
Oregon	26	26
Pennsylvania	40	37
South Carolina	20	20
Tennessee	26	25
Texas	180	173
Utah	15	15
Virginia	33	33
Washington	38	37
Wyoming	2	2
Total	1,199	1,125

Where possible, we obtain sites in buildings requiring minimal alterations, allowing us to establish stores in new locations in a relatively short period of time at reasonable costs in a given market. At February 2, 2013, the majority of our stores had unexpired original lease terms ranging from three to ten years with three to four renewal options of five years each. The average unexpired original lease term of our leased stores is five years or 21 years if renewal options are included. See Note E of Notes to Consolidated Financial Statements.

See additional discussion under “Stores” in Item 1.

The following table summarizes the location and approximate sizes of our occupied distribution centers, warehouses, and office locations as of February 2, 2013. Square footage information for the distribution centers and warehouses represents total ground floor area of the facility. Square footage information for office space represents total space occupied. See additional discussion in Management's Discussion and Analysis.

Location	Approximate Square Footage	Own / Lease
Distribution centers		
Carlisle, Pennsylvania	425,000	Own
Fort Mill, South Carolina	1,300,000	Own
Moreno Valley, California	1,300,000	Own
Perris, California	1,300,000	Lease
Warehouses		
Carlisle, Pennsylvania	239,000	Lease
Carlisle, Pennsylvania	246,000	Lease
Fort Mill, South Carolina	423,000	Own
Fort Mill, South Carolina	255,000	Lease
Riverside, California	449,000	Own
Office space		
Los Angeles, California	52,000	Lease
New York City, New York	265,000	Lease
Pleasanton, California	192,000	Lease

In 2011, we purchased land and buildings in Dublin, California. We are currently in the process of preparing this property for our new corporate headquarters with an estimated occupancy of late 2013 and early 2014.

In 2008, we purchased land in Rock Hill, South Carolina. We are currently in the process of preparing this property for a data center and distribution center site with an estimated occupancy of 2013 and 2014, respectively.

See additional discussion under "Distribution" in Item 1.

ITEM 3. LEGAL PROCEEDINGS

Like many California retailers, we have been named in class action lawsuits alleging violation of wage and hour and other employment laws. Class action litigation remains pending as of February 2, 2013.

We are also party to various other legal and regulatory proceedings arising in the normal course of business. Actions filed against us 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 we violated state or federal laws. Actions against us are in various procedural stages. Many of these proceedings raise factual and legal issues and are subject to uncertainties.

We believe that the resolution of our pending class action litigation and other currently pending legal proceedings will not have a material adverse effect on our financial condition, results of operations, or cash flows.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

Executive Officers of the Registrant

The following sets forth the names and ages of our executive officers, indicating each person's principal occupation or employment during at least the past five years. The term of office is at the discretion of our Board of Directors.

Name	Age	Position
Michael Balmuth	62	Vice Chairman and Chief Executive Officer
Douglas Baker	54	President and Chief Merchandising Officer, dd's DISCOUNTS
James S. Fassio	58	President and Chief Development Officer
Michael O'Sullivan	49	President and Chief Operating Officer
Barbara Rentler	55	President and Chief Merchandising Officer, Ross Dress for Less
Lisa Panattoni	50	Group Executive Vice President, Merchandising
John G. Call	54	Group Senior Vice President, Chief Financial Officer and Corporate Secretary

Mr. Balmuth joined the Board of Directors as Vice Chairman and became Chief Executive Officer in September 1996. From February 2005 to December 2009, he also served as President. He was Executive Vice President, Merchandising from July 1993 to September 1996 and Senior Vice President and General Merchandise Manager from November 1989 to July 1993. Before joining Ross, he was Senior Vice President and General Merchandising Manager at Bon Marché in Seattle from September 1988 to November 1989. From April 1986 to September 1988, he served as Executive Vice President and General Merchandising Manager for Karen Austin Petites.

Mr. Baker has served as President and Chief Merchandising Officer, dd's DISCOUNTS, since March 2011. He was Executive Vice President, Merchandising dd's DISCOUNTS from June 2009 to March 2011 and Senior Vice President and General Merchandise Manager of dd's DISCOUNTS from December 2006 to June 2009. Mr. Baker joined Ross in November 1995 as Vice President and Divisional Merchandise Manager. Prior to joining Ross, he worked for Value City Department Stores from 1984 to 1995. His previous retail experience also includes Marshall's and Hills Department Stores.

Mr. Fassio became President and Chief Development Officer in December 2009. Prior to this, he was Executive Vice President, Property Development, Construction and Store Design from February 2005 to December 2009. From March 1991 to February 2005, he served as Senior Vice President, Property Development, Construction and Store Design. He joined the Company in June 1988 as Vice President of Real Estate. Prior to joining Ross, Mr. Fassio held various retail and real estate positions with Safeway Stores, Inc.

Mr. O'Sullivan became President and Chief Operating Officer in December 2009. From February 2005 to December 2009, he served as Executive Vice President and Chief Administrative Officer, after joining Ross in September 2003 as Senior Vice President, Strategic Planning and Marketing. From 1991 to 2003, Mr. O'Sullivan was with Bain & Company, most recently as a partner, providing consulting advice to retail, consumer goods, financial services and private equity clients.

Ms. Rentler has served as President and Chief Merchandising Officer, Ross Dress for Less, since December 2009, with responsibility for all merchandising categories at Ross. From December 2006 to December 2009, she was Executive Vice President, Merchandising, with responsibility for all Ross Apparel and Apparel-related products. She also served as Executive Vice President and Chief Merchandising Officer of dd's DISCOUNTS from February 2005 to December 2006, Senior Vice President and Chief Merchandising Officer of dd's DISCOUNTS from January 2004 to February 2005 and Senior Vice President and General Merchandise Manager at Ross Dress for Less from February 2001 to January 2004. Prior to that, she held various merchandising positions since joining the Company in February 1986.

Ms. Panattoni was named Group Executive Vice President, Merchandising for Ross Home and Men's in December 2009. She joined the Company in January 2005 as Senior Vice President and General Merchandise Manager of Ross Home and was promoted to Executive Vice President in October 2005. Prior to joining Ross, Ms. Panattoni was with The TJX Companies, where she served as Senior Vice President of Merchandising and Marketing for HomeGoods from 1998 to 2004 and as Divisional Merchandise Manager of the Marmaxx Home Store from 1994 to 1998.

Mr. Call became Group Senior Vice President and Chief Financial Officer in February 2012 and Corporate Secretary in November 2012. From June 1997 to January 2012, he was Senior Vice President and Chief Financial Officer. He

also served as Corporate Secretary from June 1997 to February 2009. Mr. Call was Senior Vice President, Chief

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Financial Officer, Secretary and Treasurer of Friedman's from June 1993 until February 1997. For five years prior to joining Friedman's, Mr. Call held various positions with Ernst & Young LLP.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

General information. See the information set forth under the caption "Quarterly Financial Data (Unaudited)" under Note K of Notes to Consolidated Financial Statements in Item 8 of this Annual Report, which is incorporated herein by reference. Our stock is traded on The NASDAQ Global Select Market® under the symbol ROST. There were 832 stockholders of record as of March 14, 2013 and the closing stock price on that date was \$55.87 per share.

Cash dividends. In January 2013, our Board of Directors declared a quarterly cash dividend of \$0.17 per common share, payable on March 29, 2013. Our Board of Directors declared cash dividends of \$0.14 per common share in January, May, August, and November 2012, cash dividends of \$0.11 per common share in January, May, August, and November 2011, and cash dividends of \$0.08 per common share in January, May, August, and November 2010.

Issuer purchases of equity securities. Information regarding shares of common stock we repurchased during the fourth quarter of fiscal 2012 is as follows:

Period	Total number of shares (or units) purchased ¹	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)
November (10/28/2012 - 11/24/2012)	358,186	\$56.15	358,186	\$95,500
December (11/25/2012 - 12/29/2012)	879,292	\$54.39	878,289	\$47,800
January (12/30/2012 - 02/02/2013)	827,671	\$58.51	816,163	—
Total	2,065,149	\$56.35	2,052,638	\$1,100,000 ²

¹ We acquired 12,511 shares of treasury stock during the quarter ended February 2, 2013. Treasury stock includes shares purchased 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.

² In January 2013, our Board of Directors approved a two-year \$1.1 billion stock repurchase program for fiscal 2013 and 2014.

See Note H of Notes to Consolidated Financial Statements for equity compensation plan information. The information under Item 12 of this Annual Report on Form 10-K under the caption "Equity compensation plan information" is incorporated herein by reference.

Stockholder Return Performance Graph

The following information in this Item 5 shall not be deemed filed for purposes of Section 18 of the Securities Act of 1934, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933.

Total stockholder returns for our common stock outperformed the Standard & Poor's ("S&P") 500 Index and the S&P Retailing Group over the last five years as set forth in the graph below. The cumulative total return listed below assumed an initial investment of \$100 and reinvestment of dividends at each fiscal year end and measures the performance of this investment as of the last trading day in the month of January for each of the following five years. These measurement dates are based on the historical month-end data available and may vary slightly from our actual

fiscal year-end date

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for each period. Data with respect to returns for the S&P indexes is not readily available for periods shorter than one month. The graph is a historical representation of past performance only and is not necessarily indicative of future performance.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN

Among Ross Stores, Inc., the S&P 500 Index, and S&P Retailing Group

Company / Index	Base Period	Indexed Returns for Years Ended				
		2009	2010	2011	2012	2013
Ross Stores, Inc.	2008	100	157	227	358	420
S&P 500 Index	2008	61	82	100	104	122
S&P Retailing Group	2008	65	103	134	155	197

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data is derived from our consolidated financial statements. The data set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," the section "Forward-Looking Statements" in this Annual Report on Form 10-K and our consolidated financial statements and notes thereto.

(\$000, except per share data)	2012 ¹	2011	2010	2009	2008	
Operations						
Sales	\$9,721,065	\$8,608,291	\$7,866,100	\$7,184,213	\$6,486,139	
Cost of goods sold	7,011,428	6,240,760	5,729,735	5,327,278	4,956,576	
Percent of sales	72.1	% 72.5	% 72.8	% 74.2	% 76.4	%
Selling, general and administrative	1,437,886	1,304,065	1,229,775	1,130,813	1,034,357	
Percent of sales	14.8	% 15.2	% 15.6	% 15.7	% 16.0	%
Interest expense (income), net	6,907	10,322	9,569	7,593	(157))
Earnings before taxes	1,264,844	1,053,144	897,021	718,529	495,363	
Percent of sales	13.0	% 12.2	% 11.4	% 10.0	% 7.6	%
Provision for taxes on earnings	478,081	395,974	342,224	275,772	189,922	
Net earnings	786,763	657,170	554,797	442,757	305,441	
Percent of sales	8.1	% 7.6	% 7.1	% 6.2	% 4.7	%
Basic earnings per share ²	\$3.59	\$2.91	\$2.35	\$1.80	\$1.18	
Diluted earnings per share ²	\$3.53	\$2.86	\$2.31	\$1.77	\$1.16	
Cash dividends declared per common share ²	\$0.590	\$0.470	\$0.350	\$0.245	\$0.198	

¹ Fiscal 2012 was a 53-week year; all other fiscal years presented were 52 weeks.

² All per share amounts have been adjusted for the two-for-one stock split effective December 15, 2011.

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Selected Financial Data (\$000, except per share data)	2012 ¹	2011	2010	2009	2008	
Financial Position						
Cash and cash equivalents	\$ 646,761	\$ 649,835	\$ 833,924	\$ 768,343	\$ 321,355	
Merchandise inventory	1,209,237	1,130,070	1,086,917	872,498	881,058	
Property and equipment, net	1,493,284	1,241,722	983,776	942,999	951,656	
Total assets	3,670,561	3,301,209	3,116,204	2,768,633	2,355,511	
Return on average assets	23	% 20	% 19	% 17	% 13	%
Working capital	608,845	578,319	690,919	554,933	358,456	
Current ratio	1.4:1	1.4:1	1.5:1	1.5:1	1.4:1	
Long-term debt	150,000	150,000	150,000	150,000	150,000	
Long-term debt as a percent of total capitalization	8	% 9	% 10	% 11	% 13	%
Stockholders' equity	1,766,863	1,493,012	1,332,692	1,157,293	996,369	
Return on average stockholders' equity	48	% 47	% 45	% 41	% 31	%
Book value per common share outstanding at year-end ²	\$ 8.00	\$ 6.58	\$ 5.64	\$ 4.71	\$ 3.91	
Operating Statistics						
Number of stores opened	82	80	56	56	77	
Number of stores closed	8	10	6	7	11	
Number of stores at year-end	1,199	1,125	1,055	1,005	956	
Comparable store sales increase ³ (52-week basis)	6	% 5	% 5	% 6	% 2	%
Sales per average square foot of selling space (52-week basis)	\$ 355	\$ 338	\$ 324	\$ 311	\$ 298	
Square feet of selling space at year-end (000)	27,800	26,100	24,800	23,700	22,500	
Number of employees at year-end	57,500	53,900	49,500	45,600	40,000	
Number of common stockholders of record at year-end	831	817	804	767	754	

¹ Fiscal 2012 was a 53-week year; all other fiscal years presented were 52 weeks.

² All per share amounts have been adjusted for the two-for-one stock split effective December 15, 2011.

³ Comparable stores are stores open for more than 14 complete months.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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 1,091 locations in 33 states, the District of Columbia and Guam as of February 2, 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. As of February 2, 2013, we also operate 108 dd’s DISCOUNTS stores in eight 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.

Our primary objective is to pursue and refine our existing off-price strategies to maintain or improve both profitability and financial returns over the long term. In establishing appropriate growth targets for our business, we closely monitor market share trends for the off-price industry. Total aggregate sales for the five largest off-price retailers in the United States increased 11% during 2012 on top of a 6% increase in 2011. This compares to total national apparel sales which increased 4% during 2012 compared to a 3% increase in 2011, according to data published by the NPD Group, Inc., a leading provider of global information and advisory services company.

We believe that the stronger relative sales gains of the off-price retailers during 2012 and 2011 were driven mainly by continued focus on value by consumers over the past few years. Our sales and earnings gains in 2012 continued to benefit from efficient execution of our off-price model throughout all areas of our business. Our merchandise and operational strategies are designed to take advantage of the expanding market share of the off-price industry as well as the ongoing customer demand for name brand fashions for the family and home at compelling everyday discounts. Looking ahead to 2013, we are planning further reductions in average store inventory levels while continuing to maintain strict controls on operating expenses as part of our strategy to maximize our profitability.

We refer to our fiscal years ended February 2, 2013, January 28, 2012, and January 29, 2011 as fiscal 2012, fiscal 2011, and fiscal 2010, respectively. Fiscal 2012 was a 53-week year. Fiscal 2011 and 2010 were each 52 weeks.

Results of Operations

The following table summarizes the financial results for fiscal 2012, 2011, and 2010:

	2012	2011	2010	
Sales				
Sales (millions)	\$9,721	\$8,608	\$7,866	
Sales growth	12.9	% 9.4	% 9.5	%
Comparable store sales growth (52-week basis)	6	% 5	% 5	%
Costs and expenses (as a percent of sales)				
Cost of goods sold	72.1	% 72.5	% 72.8	%
Selling, general and administrative	14.8	% 15.2	% 15.6	%
Interest expense, net	0.1	% 0.1	% 0.1	%
Earnings before taxes (as a percent of sales)	13.0	% 12.2	% 11.4	%
Net earnings (as a percent of sales)	8.1	% 7.6	% 7.1	%

Stores. Total stores open at the end of fiscal 2012, 2011, and 2010 were 1,199, 1,125, and 1,055, respectively. The number of stores at the end of fiscal 2012, 2011, and 2010 increased by 7%, 7%, and 5% from the respective prior years. 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.

Store Count	2012	2011	2010
Beginning of the period	1,125	1,055	1,005
Opened in the period	82	80	56
Closed in the period	(8) (10) (6
End of the period	1,199	1,125	1,055
Selling square footage at the end of the period (000)	27,800	26,100	24,800

Sales. Sales for fiscal 2012 increased \$1.1 billion, or 12.9%, compared to the prior year due to the opening of 74 net new stores during 2012 and a 6% increase in comparable store sales (defined as stores that have been open for more than 14 complete months). Sales for fiscal 2011 increased \$742.2 million, or 9.4%, compared to the prior year due to the opening of 70 net new stores during 2011 and a 5% increase in sales from comparable stores.

Our sales mix is shown below for fiscal 2012, 2011, and 2010:

	2012	2011	2010	
Ladies	29	% 29	% 29	%
Home Accents and Bed and Bath	24	% 25	% 25	%
Accessories, Lingerie, Fine Jewelry, and Fragrances	13	% 13	% 12	%
Shoes	13	% 12	% 12	%
Men's	13	% 13	% 13	%
Children's	8	% 8	% 9	%
Total	100	% 100	% 100	%

We intend 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 more fully develop our organization and systems to improve regional and local merchandise offerings. Although our strategies and store expansion program contributed to sales gains in fiscal 2012, 2011, and 2010, 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 in fiscal 2012 increased \$770.7 million compared to the prior year mainly due to increased sales from the opening of 74 net new stores during the year and a 6% increase in sales from comparable stores.

Cost of goods sold as a percentage of sales for fiscal 2012 decreased approximately 40 basis points from the prior year. This improvement was due primarily to a 40 basis point increase in merchandise gross margin. In addition, occupancy leveraged 25 basis points and distribution expenses as a percent of sales also declined approximately 15 basis points. These favorable items were partially offset by increases in buying and freight costs of 25 and 10 basis points, respectively, and 5 basis points related to the year over year true-up in our shortage reserve.

Cost of goods sold in fiscal 2011 increased \$511.0 million compared to the prior year mainly due to increased sales from the opening of 70 net new stores during the year and a 5% increase in sales from comparable stores.

Cost of goods sold as a percentage of sales for fiscal 2011 decreased approximately 35 basis points from the prior year. This improvement was mainly the result of a 50 basis point increase in merchandise gross margin, which

included a 15 basis point benefit from lower shortage. In addition, occupancy leveraged 20 basis points. These improvements

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were partially offset by increases in freight costs of about 20 basis points, distribution expenses of about 10 basis points, and buying costs of about five basis points.

We cannot be sure that the gross profit margins realized in fiscal 2012, 2011, and 2010 will continue in future years. Selling, general and administrative expenses. For fiscal 2012, selling, general and administrative expenses (“SG&A”) increased \$133.8 million compared to the prior year, mainly due to increased store operating costs reflecting the opening of 74 net new stores during the year. SG&A as a percentage of sales for fiscal 2012 decreased by approximately 35 basis points compared to the prior year primarily due to leverage on store operating expenses. For fiscal 2011, SG&A increased \$74.3 million compared to the prior year, mainly due to increased store operating costs reflecting the opening of 70 net new stores during the year. SG&A as a percentage of sales for fiscal 2011 decreased by approximately 50 basis points compared to the prior year due equally to a combination of leverage on both general and administrative and store operating expenses.

The largest component of SG&A is payroll. The total number of employees, including both full and part-time, as of fiscal year end 2012, 2011, and 2010 was approximately 57,500, 53,900, and 49,500, respectively.

Interest expense (income), net. In fiscal 2012, interest expense decreased by \$3.5 million primarily due to higher capitalization of construction interest. Interest income decreased by \$0.1 million primarily due to lower investment yields as compared to the prior year. As a percentage of sales, net interest expense in fiscal 2012 decreased by approximately five basis points compared to the same period in the prior year. The table below shows interest expense and income for fiscal 2012, 2011, and 2010:

(\$ millions)	2012	2011	2010
Interest expense	\$7.5	\$11.0	\$10.7
Interest income	(0.6)	(0.7)	(1.1)
Total interest expense, net	\$6.9	\$10.3	\$9.6

Taxes on earnings. Our effective tax rate for fiscal 2012, 2011 and 2010 was approximately 38% in each year, which represents the applicable combined federal and state statutory rates reduced by the federal benefit of state taxes deductible on federal returns. The effective rate is impacted by changes in laws, 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 2013 will be about 38%.

Net earnings. Net earnings as a percentage of sales for fiscal 2012 were higher compared to fiscal 2011 primarily due to both lower cost of goods sold and lower SG&A expenses as a percentage of sales. Net earnings as a percentage of sales for fiscal 2011 were higher compared to fiscal 2010 primarily due to both lower cost of goods sold and lower SG&A expenses as a percentage of sales.

Earnings per share. Diluted earnings per share in fiscal 2012 was \$3.53 compared to \$2.86 in the prior year period. The 23% increase in diluted earnings per share is attributable to an approximate 20% increase in net earnings and a 3% reduction in weighted average diluted shares outstanding, largely due to the repurchase of common stock under our stock repurchase program. Diluted earnings per share in fiscal 2011 was \$2.86 compared to \$2.31 in fiscal 2010. 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 the stock repurchase program.

Financial Condition

Liquidity and Capital Resources

Our primary sources of funds for our business activities are cash flows from operations and short-term trade credit. Our primary ongoing cash requirements are for merchandise inventory purchases, payroll, rent, taxes, and capital expenditures in connection with new and existing stores, and investments in distribution centers, information systems,

and buying and corporate offices. We also use cash to repurchase stock under our stock repurchase program and to pay dividends.

(\$ millions)	2012	2011	2010
Cash provided by operating activities	\$979.6	\$820.1	\$673.0
Cash used in investing activities	(425.7)	(471.8)	(196.8)
Cash used in financing activities	(557.0)	(532.4)	(410.6)
Net (decrease) increase in cash and cash equivalents	\$(3.1)	\$(184.1)	\$65.6

Operating Activities

Net cash provided by operating activities was \$979.6 million, \$820.1 million, and \$673.0 million in fiscal 2012, 2011, and 2010 respectively. Cash provided by operating activities in fiscal 2012, 2011, and 2010 was primarily driven by net earnings excluding 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.

Net cash from operations increased in 2012 compared to 2011 primarily due to higher net earnings. Net cash from operations increased in 2011 compared to 2010 primarily due to higher net earnings and lower working capital used to purchase additional packaway inventory.

The change in total merchandise inventory, net of the change in accounts payable, resulted in a use of cash of approximately \$39 million, \$55 million, and \$112 million for fiscal 2012, 2011, and 2010 respectively. Accounts payable leverage (defined as accounts payable divided by merchandise inventory) was 67%, 67%, and 71% as of February 2, 2013, January 28, 2012, and January 29, 2011, respectively. Changes in accounts payable leverage are primarily driven by timing of packaway receipts.

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 our 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. We expect to continue to take advantage of packaway inventory opportunities to deliver bargains to our customers.

Changes in packaway inventory levels impact our operating cash flow. At the end of fiscal 2012, packaway inventory was 47% of total inventory compared to 49% and 47% at the end of fiscal 2011 and 2010, respectively.

Investing Activities

Net cash used in investing activities was \$425.7 million, \$471.8 million, and \$196.8 million in fiscal 2012, 2011, and 2010, respectively. The decrease in cash used for investing activities in fiscal 2012 compared to fiscal 2011 was primarily due to a transfer of funds in fiscal 2011 into restricted accounts to serve as collateral for our insurance obligations. The increase in cash used for investing activities for fiscal 2011 compared to fiscal 2010 was primarily due to an increase in capital expenditures and a transfer of funds into restricted accounts to serve as collateral for our insurance obligations. In fiscal 2012, 2011, and 2010, our capital expenditures were \$424.4 million, \$416.3 million, and \$198.7 million, respectively. Our capital expenditures include costs to build or expand distribution centers and our new data center, open new stores and improve existing stores, and for various other expenditures related to our information technology systems, buying, and corporate offices. We opened 82, 80, and 56 new stores in fiscal 2012, 2011, and 2010, respectively. Our buying offices, our corporate headquarters, one distribution center, one trailer parking lot, three warehouse facilities, and all but three of our store locations are leased and, except for certain

leasehold improvements and equipment, do not represent capital investments.

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Our capital expenditures over the last three years are set forth in the table below:

(\$ millions)	2012	2011	2010
Distribution	\$ 157.9	\$ 86.1	\$ 32.0
New stores	118.7	114.2	75.5
Existing stores	86.9	126.8	60.3
Information systems, corporate, and other	60.9	89.2	30.9
Total capital expenditures	\$424.4	\$416.3	\$ 198.7

We are forecasting approximately \$670 million in capital expenditures for fiscal year 2013. In addition to funding costs for fixtures and leasehold improvements to open both new Ross and dd's DISCOUNTS stores, the upgrade or relocation of existing stores, investments in information technology systems, and for various other expenditures related to our stores, distribution centers, buying and corporate offices, the expected growth in capital expenditures in 2013 is mainly due to our investment over the next two years in two new distribution centers, the purchase of one of our existing, leased distribution centers, the relocation of our corporate headquarters and the development of our new data center. We expect to fund these expenditures with available cash and cash flows from operations.

We purchased \$5.4 million of investments in fiscal 2012, no investments in fiscal 2011, and \$6.8 million in fiscal 2010. We had proceeds from investments of \$6.2 million, \$4.6 million, and \$8.6 million in fiscal 2012, 2011, and 2010, respectively.

Financing Activities

Net cash used in financing activities was \$557.0 million, \$532.4 million, and \$410.6 million in fiscal 2012, 2011, and 2010, respectively. During fiscal 2012, 2011, and 2010, our liquidity and capital requirements were provided by available cash and cash flows from operations.

We repurchased 7.5 million, 11.3 million, and 13.5 million shares of common stock for aggregate purchase prices of approximately \$450 million, \$450 million, and \$375 million in fiscal 2012, 2011, and 2010, respectively. In January 2013, our Board of Directors approved a two-year \$1.1 billion stock repurchase program for fiscal 2013 and 2014. In January 2013, our Board of Directors declared a quarterly cash dividend of \$0.17 per common share, payable on March 29, 2013. Our Board of Directors declared cash dividends of \$0.14 per common share in January, May, August, and November 2012, cash dividends of \$0.11 per common share in January, May, August, and November 2011, and cash dividends of \$0.08 per common share in January, May, August, and November 2010. During fiscal 2012, 2011, and 2010, we paid dividends of \$125.7 million, \$102.0 million, and \$77.3 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 2013.

In June 2012, we amended our existing \$600 million unsecured revolving credit facility. The amended credit facility 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 upon maturity but not less than quarterly. As of February 2, 2013, we had no borrowings or standby letters of credit outstanding on this facility and our \$600 million credit facility remains in place and available.

We estimate 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 February 2, 2013:

(\$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	9,668	19,335	19,335	21,192	69,530
Operating leases:					
Rent obligations	387,536	753,800	526,601	470,520	2,138,457
Synthetic leases	2,661	10	—	—	2,671
Other synthetic lease obligations	70,451	183	—	—	70,634
Purchase obligations	1,598,599	6,459	55	—	1,605,113
Total contractual obligations	\$2,068,915	\$779,787	\$545,991	\$641,712	\$4,036,405

¹We have an \$82.5 million liability for unrecognized tax benefits that is included in other long-term liabilities on our 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 February 2, 2013, 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 three 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 \$0.6 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. The synthetic lease agreement includes a prepayment penalty for early payoff of the lease. We intend to purchase this distribution center at the expiration of the lease in 2013. Our \$70 million obligation 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 February 2, 2013, we have approximately \$0.5 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 consolidated balance sheets.

We lease three warehouses. Two of the warehouses are in Carlisle, Pennsylvania with leases expiring in 2014 and 2016. The third warehouse is in Fort Mill, South Carolina, with a lease expiring in 2016. The leases for all three of these warehouses contain renewal provisions. 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 expiring in 2017.

We lease approximately 192,000 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 265,000 and 52,000 square feet of office space for our New York City and Los Angeles buying offices, respectively. The lease terms for these facilities expire in 2022 and 2017, respectively, and contain renewal provisions.

Purchase obligations. As of February 2, 2013 we had purchase obligations of approximately \$1,605 million. These purchase obligations primarily consist of merchandise inventory purchase orders, commitments related to construction projects, store fixtures and supplies, and information technology service and maintenance contracts. Merchandise inventory purchase orders of \$1,460 million represent purchase obligations of less than one year as of February 2, 2013.

Commercial Credit Facilities

The table below presents our significant available commercial credit facilities at February 2, 2013:

(\$000)	Amount of Commitment Expiration Per Period				Total amount committed
	Less than 1 year	1 - 3 years	3 - 5 years	After 5 years	
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 D of Notes to Consolidated Financial Statements.

Revolving credit facility. In June 2012, we amended our existing \$600 million unsecured revolving credit facility. The amended credit facility 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 upon maturity but not less than quarterly. Our borrowing ability under this credit facility is subject to our maintaining certain financial ratios. As of February 2, 2013 we had no borrowings outstanding or standby letters of credit 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 February 2, 2013 we were in compliance with these covenants.

Standby letters of credit and collateral trust. We use standby letters of credit outside of our revolving credit facility in addition to a funded trust to collateralize our insurance obligations. As of February 2, 2013 and January 28, 2012, we had \$33.8 million and \$45.5 million, respectively, in standby letters of credit outstanding and \$34.9 million and \$21.3 million, respectively, in a collateral trust. The standby letters of credit are collateralized by restricted cash and cash

equivalents, and the collateral trust consists of restricted cash, cash equivalents, and investments.

Trade letters of credit. We had \$38.0 million and \$39.9 million in trade letters of credit outstanding at February 2, 2013 and January 28, 2012, respectively.

Other

Critical Accounting Policies

The preparation of our 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. We believe the following critical accounting policies describe the more significant judgments and estimates used in the preparation of our consolidated financial statements.

Merchandise inventory. Our merchandise inventory is stated at the lower of cost (determined using a weighted average basis) or net realizable value. We purchase manufacturer overruns and canceled orders both during and at the end of a season which are referred to as "packaway" inventory. Packaway inventory 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. Packaway inventory accounted for approximately 47%, 49%, and 47% of total inventories as of February 2, 2013, January 28, 2012, and January 29, 2011. Merchandise inventory includes acquisition, processing, and storage costs related to packaway inventory. Included in the carrying value of our merchandise inventory is a provision for shortage. The shortage reserve is based on historical shortage rates as evaluated through our annual physical merchandise inventory counts and cycle counts. If actual market conditions, markdowns, or shortage are less favorable than those projected by us, or if sales of the merchandise inventory are more difficult than anticipated, additional merchandise inventory write-downs may be required.

Long-lived assets. We record a long-lived asset impairment charge when events or changes in circumstances indicate that the carrying amount of a long-lived asset may not be recoverable based on estimated future cash flows. An impairment loss would be recognized if analysis of the undiscounted cash flow of an asset group was less than the carrying value of the asset group. If our actual results differ materially from projected results, an impairment charge may be required in the future. In the course of performing our annual analysis, we determined that no long-lived asset impairment charge was required for fiscal 2012, 2011, or 2010.

Depreciation and amortization expense. Property and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation is calculated using the straight-line method over the estimated useful life of the asset, typically ranging from three to 12 years for equipment and 20 to 40 years for land improvements and buildings. The cost of leasehold improvements is amortized over the lesser of the useful life of the asset or the applicable lease term.

Lease accounting. When a lease contains "rent holidays" or requires fixed escalations of the minimum lease payments, we record rental expense on a straight-line basis over the term of the lease and the difference between the average rental amount charged to expense and the amount payable under the lease is recorded as deferred rent. We begin recording rent expense on the lease possession date. Tenant improvement allowances are included in other long-term liabilities and are amortized over the lease term. Changes in tenant improvement allowances are included as a component of operating activities in the consolidated statements of cash flows.

Insurance obligations. We use a combination of insurance and self-insurance for a number of risk management activities, including workers' compensation, general liability, and employee-related health care benefits. Our self-insurance and deductible liability is determined actuarially, based on claims filed and an estimate of claims incurred but not reported. Should a greater amount of claims occur compared to what is estimated or the costs of medical care increase beyond what was anticipated, our recorded reserves may not be sufficient and additional charges could be required.

Stock-based compensation. We recognize compensation expense based upon the grant date fair value of all stock-based awards. We use historical data to estimate pre-vesting forfeitures and to recognize stock-based compensation expense. All stock-based compensation awards are expensed over the service or performance periods of the awards.

Income taxes. We account for our uncertain tax positions in accordance with Accounting Standards Codification (“ASC”) 740. We are required to make assumptions and judgments regarding our income tax exposures. Our policy is to recognize interest and/or penalties related to all tax positions in income tax expense. To the extent that accrued interest and penalties do not ultimately become payable, amounts accrued will be reduced and reflected as a reduction of the overall income tax provision in the period that such determination is made.

The critical accounting policies noted above are not intended to be a comprehensive list of all of our accounting policies. In many cases, the accounting treatment of a particular transaction is specifically dictated by Generally Accepted Accounting Principles (“GAAP”), with no need for management’s judgment in their application. There are also areas in which management’s judgment in selecting one alternative accounting principle over another would not produce a materially different result. See our audited consolidated financial statements and notes thereto under Item 8 in this Annual Report on Form 10-K, which contain accounting policies and other disclosures required by GAAP. 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.

Forward-Looking Statements

Our Annual Report on Form 10-K for fiscal 2012, and information we provide in our Annual Report to Stockholders, press releases, telephonic reports, and other investor communications including those on our corporate website, 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 Item 1A in this Annual Report on Form 10-K 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.

ITEM 7A. 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 February 2, 2013.

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 February 2, 2013, 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 have two outstanding series of unsecured notes held by institutional investors: 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 February 2, 2013 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 have a material impact on 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 year ended February 2, 2013. 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 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Consolidated Statements of Earnings

(\$000, except per share data)	Year Ended February 2, 2013	Year Ended January 28, 2012	Year Ended January 29, 2011
Sales	\$9,721,065	\$8,608,291	\$7,866,100
Costs and Expenses			
Costs of goods sold	7,011,428	6,240,760	5,729,735
Selling, general and administrative	1,437,886	1,304,065	1,229,775
Interest expense, net	6,907	10,322	9,569
Total costs and expenses	8,456,221	7,555,147	6,969,079
Earnings before taxes	1,264,844	1,053,144	897,021
Provision for taxes on earnings	478,081	395,974	342,224
Net earnings	\$786,763	\$657,170	\$554,797
Earnings per share			
Basic	\$3.59	\$2.91	\$2.35
Diluted	\$3.53	\$2.86	\$2.31
Weighted average shares outstanding (000)			
Basic	219,130	225,915	235,641
Diluted	222,784	229,982	239,805
Dividends			
Cash dividends declared per share	\$0.59	\$0.47	\$0.35

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

Consolidated Statements of Comprehensive Income

(\$000)	Year ended February 2, 2013	Year ended January 28, 2012	Year ended January 29, 2011
Net earnings	\$786,763	\$657,170	\$554,797
Other comprehensive income:			
Change in unrealized (loss) gain on investments, net of tax	(50) 147	318
Comprehensive income	\$786,713	\$657,317	\$555,115

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

Consolidated Balance Sheets (\$000, except share data)	February 2, 2013	January 28, 2012
Assets		
Current Assets		
Cash and cash equivalents	\$646,761	\$649,835
Short-term investments	1,087	658
Accounts receivable	59,617	50,848
Merchandise inventory	1,209,237	1,130,070
Prepaid expenses and other	94,318	87,362
Deferred income taxes	20,407	5,598
Total current assets	2,031,427	1,924,371
Property and Equipment		
Land and buildings	372,659	338,027
Fixtures and equipment	1,551,590	1,408,647
Leasehold improvements	732,671	657,312
Construction-in-progress	258,691	131,881
	2,915,611	2,535,867
Less accumulated depreciation and amortization	1,422,327	1,294,145
Property and equipment, net	1,493,284	1,241,722
Long-term investments	4,374	