ROSS STORES INC
Form 10-K
March 29, 2011

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 January 29, 2011
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	Name of each exchange on which registered
Common stock, par value $.01	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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes 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. X

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 company” in Rule 12b-2 of the Exchange Act. Large accelerated filer X Accelerated filer Non-accelerated filer Smaller reporting company

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

The aggregate market value of the voting common stock held by non-affiliates of the Registrant as of July 31, 2010 was $6,170,382,419, 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 10, 2011 was 117,599,994.

Documents incorporated by reference:

Portions of the Proxy Statement for Registrant's 2011 Annual Meeting of Stockholders, which will be filed on or before May 30, 2011, 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 accessories stores. At January 29, 2011, we operated a total of 1,055 stores, of which 988 were Ross Dress for Less® ("Ross") locations in 27 states and Guam and 67 were dd's DISCOUNTS® stores in six states. Both brands target value-conscious women and men between the ages of 18 and 54. Ross target customers are primarily from middle income households, while the dd's DISCOUNTS target customer is typically from more moderate income households. The decisions we make, from merchandising, purchasing, and pricing, to the locations of our stores, are based on these customer profiles.

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 percent off department and specialty store regular prices. dd's DISCOUNTS features 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 percent off moderate department and discount store regular prices. We believe that both Ross and dd's DISCOUNTS 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 January 29, 2011, January 30, 2010, and January 31, 2009 as fiscal 2010, fiscal 2009, and fiscal 2008, respectively.

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 percent below department and specialty store regular prices at Ross, and 20 to 70 percent 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 of brand names 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 2010 was approximately as follows: Ladies 29%, Home Accents and Bed and Bath 25%, Men's 13%, Accessories, Lingerie, Fine Jewelry, and Fragrances 12%, Shoes 12%, and Children's 9%. Our merchandise offerings also include product categories such as small furniture and furniture accents, educational toys and games, luggage, gourmet food and cookware, watches, sporting goods and, in select Ross stores, fine jewelry.

Purchasing. We have a combined network of approximately 7,800 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 2010, we continued our emphasis on this important sourcing strategy in response to compelling opportunities available in the marketplace. Packaway accounted for approximately 47% and 38% of total inventories as of January 29, 2011 and January 30, 2010. This growth 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.

In 2009 we completed a chain-wide rollout of information system enhancements and process changes to improve our merchandising capabilities. We continue to utilize these tools which are designed to strengthen our ability to plan, buy, and allocate at a more local versus regional level. The long-term objective of these investments is to fine tune our merchandise offerings to address more localized customer preferences and thereby gradually increase sales productivity and gross profit margins in both newer and existing regions and markets.

Our 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 merchandise organization to further enhance our ability to deliver name brand bargains to our customers. At the end of fiscal 2010, we had a total of approximately 450 merchants for Ross and dd’s DISCOUNTS combined, up from 410 in the prior year. The Ross and dd’s DISCOUNTS buying organizations are separate and distinct. These buying resources include merchandise management, buyers, and assistant buyers. Ross and dd’s DISCOUNTS buyers have an average of about 12 years of experience, including merchandising positions with other retailers such as Ann Taylor, Bloomingdale's, Burlington Coat Factory, Foot Locker, HomeGoods, 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 percent 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 percent 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 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. 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

At January 29, 2011, we operated a total of 1,055 stores comprised of 988 Ross stores and 67 dd’s DISCOUNTS stores. Our stores are conveniently located in predominantly community and neighborhood shopping centers in heavily populated urban and suburban areas. Where the size of the market permits, we cluster stores to benefit from economies of scale in advertising, distribution, and field management.

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 promote 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, promoting a self-service atmosphere. At most stores, shopping carts 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 and credit cards in a matter of seconds. In addition, the POS systems allow us to accept debit cards and electronic gift cards from customers. For Ross and dd's DISCOUNTS combined, approximately 58% of payments in fiscal 2010 and fiscal 2009 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 credited 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 keep operating costs low are:

- Labor costs that generally are 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 as a result of centralized merchandising, marketing, and purchasing decisions.
- Flexible store layout criteria which facilitates 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 the following:

- We made enhancements to our merchandise planning systems and began a multi-year program to upgrade our inventory allocation system.
- We made improvements to our core merchandising system to provide our merchants with new tools to increase their effectiveness.
- We implemented enhancements to our IT systems to support expansion into new markets and new regions.
- We made improvements to our warehouse management and control systems to drive process efficiencies in our distribution centers and to provide the ability to support future volume requirements.
- We upgraded our sales audit system to reduce system processing times.
- We automated our customer check deposit process to reduce overall bank fees and accelerate check funding.
- We implemented a new Credit Card Tokenization system for added security.

Distribution

We have four distribution processing facilities–-two in California and one each in Pennsylvania and 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.

In addition, we own one 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 store growth in 2011. Information on the size and locations of our distribution centers and warehouse facilities is found under "Properties" in Item 2.

Advertising

We rely primarily on television advertising to communicate the Ross value proposition-brand-name merchandise at low everyday prices. This strategy reflects our belief that television is the most efficient and cost-effective medium for communicating everyday savings on a wide selection of brand-name bargains for both the family and home. 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 January 29, 2011, we had approximately 49,500 total employees, including an estimated 35,500 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 accessories industry are offering significant discounts on brand-name merchandise, offering a well-balanced assortment that appeals to our target customer, 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 accessories through catalogs or over the internet. The retail apparel and home-related businesses may become even more competitive in the future.

dd's DISCOUNTS

At January 29, 2011, we operated 67 dd's DISCOUNTS in six states: 40 in California, 14 in Texas, 7 in Florida, 2 in Arizona, 2 in Georgia, and 2 in Nevada. At January 30, 2010, we had 39 dd's DISCOUNTS stores in California, 7 in Texas, 5 in Florida, and 1 in Arizona, for a total of 52 stores. This younger off-price concept targets the needs of households with more moderate incomes than Ross customers. We believe this is one of the fastest growing demographic markets in the country. dd's DISCOUNTS features a moderately-priced assortment of first-quality, in-season, name brand apparel, accessories, footwear, and home fashions at everyday savings of 20 to 70 percent off moderate department and discount store regular prices.

The dd's DISCOUNTS business generally has similar merchandise departments and categories to those of Ross, but features a different mix of brands at lower average price points. The typical dd's DISCOUNTS store is located in an established shopping center in a densely populated urban or suburban neighborhood. The merchant, store, and distribution organizations for dd's DISCOUNTS and Ross are separate and distinct; however, dd's DISCOUNTS shares certain other corporate and support services with Ross.

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 2010, 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 risk factors 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. These risk factors include:

- An increase in the level of competitive pressures in the apparel or home-related merchandise industry.
- Changes in the level of consumer spending on or preferences for apparel or home-related merchandise.

- The potential impact from the macro-economic environment and uncertainty in financial and credit markets 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 conditions.

- Unseasonable weather trends that could affect consumer demand for seasonal apparel and apparel-related products.

- A change 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 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, and 26% 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 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.

- Our ability to effectively operate our various supply chain, core merchandising, and other information systems.

- Our ability to improve our merchandising capabilities through implementation of new processes and systems enhancements.

- Our ability to improve new store sales and profitability, especially in newer regions and markets.

- Our ability to achieve and maintain targeted levels of productivity and efficiency in our distribution centers.

- Our ability to lease or acquire acceptable new store sites with favorable demographics and long-term financial returns.

- Our ability to identify and to successfully enter new geographic markets.

- Our ability to achieve planned gross margins by effectively managing inventories, markdowns, and shrink.

- Our ability to 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 January 29, 2011, we operated a total of 1,055 stores, of which 988 were Ross locations in 27 states and Guam and 67 were dd's DISCOUNTS stores in six states. All stores are leased, with the exception of two locations which we own.

During fiscal 2010, we opened 41 new Ross stores and closed six existing stores. The average approximate Ross store size is 29,600 square feet.

During fiscal 2010, we opened 15 new dd's DISCOUNTS stores. The average approximate dd's DISCOUNTS store size is 22,700 square feet.

During fiscal 2010, 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 2011 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 enter new states for both Ross and dd's DISCOUNTS in 2011. 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 as of January 29, 2011 and January 30, 2010.

State/Territory	January 29, 2011	January 30, 2010
Alabama	17	17
Arizona	56	52
California	275	259
Colorado	29	28
Delaware	1	1
Florida	127	125
Georgia	46	44
Guam	1	1
Hawaii	12	12
Idaho	9	9
Louisiana	11	11
Maryland	18	18
Mississippi	5	5
Montana	6	6
Nevada	24	20
New Jersey	10	10
New Mexico	8	6
North Carolina	33	32
Oklahoma	19	18
Oregon	26	25
Pennsylvania	33	32
South Carolina	20	20
Tennessee	25	25
Texas	166	153
Utah	14	12
Virginia	32	32
Washington	30	30
Wyoming	2	2
Total	1,055	1,005

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 January 29, 2011, 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 (5) years, or twenty-two (22) 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 distribution centers, warehouses, and office locations as of January 29, 2011. 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
Office space		
Los Angeles, California	26,000	Lease
New York City, New York	201,000	Lease
Pleasanton, California	181,000	Lease

In October 2008, we purchased 167 acres of land in South Carolina.

See additional discussion under "Distribution" in Item 1.

ITEM 3. LEGAL PROCEEDINGS.

Like many California retailers, we have been named in class action lawsuits regarding wage and hour claims. Class action litigation involving allegations that hourly associates have missed meal and/or rest break periods, as well as allegations of unpaid overtime wages to store managers and assistant store managers at Company stores under state law remains pending as of January 29, 2011.

We are also party to various other legal proceedings arising in the normal course of business. Actions filed against us include commercial, product, customer, intellectual property, and labor and employment-related claims, including lawsuits in which plaintiffs 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 these legal proceedings will not have a material adverse effect on our financial condition, results of operations, or cash flows.

ITEM 4. (REMOVED AND RESERVED).

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	60	Vice Chairman and Chief Executive Officer
Douglas Baker	52	President and Chief Merchandising Officer, dd’s DISCOUNTS
James S. Fassio	56	President and Chief Development Officer
Michael O’Sullivan	47	President and Chief Operating Officer
Barbara Rentler	53	President and Chief Merchandising Officer, Ross Dress for Less
Lisa Panattoni	48	Group Executive Vice President, Merchandising
John G. Call	52	Senior Vice President and Chief Financial Officer

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 of 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, General Merchandise Manager of dd’s DISCOUNTS from December 2006 to June 2009. Mr. Baker joined Ross in November 1995 as Vice President 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 Hill Department Stores.

Mr. Fassio has served as President and Chief Development Officer since 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 has served as President and Chief Operating Officer since 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 a partner with Bain & Company providing consulting advice to retail, consumer goods, financial services and private equity clients.

Ms. Rentler has served as President and Chief Merchandising Officer of Ross Dress for Less since December 2009. 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 has served as Group Executive Vice President, Merchandising for Ross Home, Men’s and Children’s since 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 has served as Senior Vice President and Chief Financial Officer since joining the Company in June 1997. From June 1997 to February 2009 he also served as Corporate Secretary. Mr. Call was Senior Vice President, Chief Financial Officer, Secretary and Treasurer of Friedman's from June 1993 until joining Ross in 1997. 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 808 stockholders of record as of March 10, 2011 and the closing stock price on that date was $70.56 per share.

Cash dividends. In January 2011, our Board of Directors declared a quarterly cash dividend of $.22 per common share, payable on March 31, 2011. Our Board of Directors declared quarterly cash dividends of $.16 per common share in January, May, August, and November 2010, cash dividends of $.11 per common share in January, May, August, and November 2009, and cash dividends of $.095 per common share in January, May, August, and November 2008.

Issuer purchases of equity securities. Information regarding shares of common stock we repurchased during the fourth quarter of fiscal 2010 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 (10/31/2010-11/27/2010)	274,487	$ 64.14	273,505	$ 445,000
December (11/28/2010-01/01/2011)	618,931	$ 63.78	618,931	$ 406,000
January (01/02/2011-01/29/2011)	478,275	$ 64.93	472,788	$ 375,000
Total	1,371,693	$ 64.25	1,365,224	$ 900,000[2]

1 We acquired 6,469 shares of treasury stock during the quarter ended January 29, 2011. 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 2011, our Board of Directors approved a new two-year $900 million stock repurchase program for fiscal 2011 and 2012, replacing the $375 million remaining under the prior two-year $750 million stock repurchase program approved in January 2010 for fiscal 2010 and 2011.

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 five year period comparison graph assumes that the value of the investment in our common stock at each fiscal year end and the comparative indexes was $100 on January 31, 2006 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 for each period. Data with respect to returns for the S&P indexes is not readily available for periods shorter than one month. The total return assumes the reinvestment of dividends at the frequency with which dividends are paid. The graph is a historical representation of past performance only and is not necessarily indicative of future returns to stockholders.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

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

*$100 invested on 1/28/06 in stock or 1/31/06 in index, including reinvestment of dividends.
Fiscal year ended January 29. Indexes calculated on month-end basis.

	Indexed Returns for Years Ended					
	Base Period					
Company / Index	2006	2007	2008	2009	2010	2011
Ross Stores, Inc.	100	112	104	104	163	236
S&P 500 Index	100	115	112	69	91	112
S&P Retailing Group	100	114	99	62	101	128

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)	2010	2009	2008	2007	2006[1]
Operations					
Sales	$ 7,866,100	$ 7,184,213	$ 6,486,139	$ 5,975,212	$ 5,570,210
Cost of goods sold	5,729,735	5,327,278	4,956,576	4,618,220	4,317,527
Percent of sales	72.8%	74.2%	76.4%	77.3%	77.5%
Selling, general and administrative	1,229,775	1,130,813	1,034,357	935,901	863,033
Percent of sales	15.6%	15.7%	16.0%	15.7%	15.5%
Interest expense (income), net	9,569	7,593	(157)	(4,029)	(8,627)
Earnings before taxes	897,021	718,529	495,363	425,120	398,277
Percent of sales	11.4%	10.0%	7.6%	7.1%	7.2%
Provision for taxes on earnings	342,224	275,772	189,922	164,069	156,643
Net earnings	554,797	442,757	305,441	261,051	241,634
Percent of sales	7.1%	6.2%	4.7%	4.4%	4.3%
Basic earnings per share	$ 4.71	$ 3.60	$ 2.36	$ 1.93	$ 1.73
Diluted earnings per share	$ 4.63	$ 3.54	$ 2.33	$ 1.90	$ 1.70
Cash dividends declared per common share	$ 0.700	$ 0.490	$ 0.395	$ 0.320	$ 0.255

1 Fiscal 2006 was a 53-week year; all other fiscal years presented were 52 weeks.

Selected Financial Data

($000, except per share data)	2010	2009	2008	2007	2006[1]
Financial Position					
Cash and cash equivalents	$ 833,924	$ 768,343	$ 321,355	$ 257,580	$ 367,388
Merchandise inventory	1,086,917	872,498	881,058	1,025,295	1,051,729
Property and equipment, net	983,776	942,999	951,656	868,315	748,233
Total assets	3,116,204	2,768,633	2,355,511	2,371,322	2,358,591
Return on average assets	19%	17%	13%	11%	11%
Working capital	690,919	554,933	358,456	387,396	431,699
Current ratio	1.5:1	1.5:1	1.4:1	1.4:1	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	10%	11%	13%	13%	14%
Stockholders' equity	1,332,692	1,157,293	996,369	970,649	909,830
Return on average stockholders' equity	45%	41%	31%	28%	28%
Book value per common share outstanding at year-end	$ 11.29	$ 9.41	$ 7.82	$ 7.24	$ 6.53
Operating Statistics					
Number of stores opened	56	56	77	98	66
Number of stores closed	6	7	11	5	3
Number of stores at year-end	1,055	1,005	956	890	797
Comparable store sales increase[2] (52-week basis)	5%	6%	2%	1%	4%
Sales per average square foot of selling space3 (52-week basis)	$ 324	$ 311	$ 298	$ 301	$ 305
Square feet of selling space at year-end (000)	24,800	23,700	22,500	21,100	18,600
Number of employees at year-end	49,500	45,600	40,000	39,100	35,800
Number of common stockholders of record at year-end	804	767	754	760	749

[1] Fiscal 2006 was a 53-week year; all other fiscal years presented were 52 weeks.

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

3 Based on average annual selling square footage.

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

Overview

We are the second largest off-price apparel and home goods retailer in the United States. At the end of fiscal 2010, we operated 988 Ross Dress for Less® ("Ross") locations in 27 states and Guam, and 67 dd's DISCOUNTS® stores in six states. Ross offers first-quality, in-season, name brand and designer apparel, accessories, footwear and home fashions at everyday savings of 20 to 60 percent off department and specialty store regular prices. dd's DISCOUNTS features a more moderately-priced assortment of first-quality, in-season, name brand apparel, accessories, footwear and home fashions at everyday savings of 20 to 70 percent 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 profitability and improve 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 five of the largest off-price retailers in the United States increased 8% during 2010 on top of a 7% increase in 2009. This compares to total national apparel sales which increased 2% during 2010 compared to a 5% decrease in 2009, according to data published by the NPD Group, Inc., a leading provider of comprehensive consumer and retail information worldwide.

We believe that the stronger relative sales gains of the off-price retailers during 2009 and 2010 were driven mainly by an increased focus on value by consumers over the past two years. Our sales and earnings gains in 2010 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 our 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 2011, 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 help us maximize our profitability.

We refer to our fiscal years ended January 29, 2011, January 30, 2010, and January 31, 2009 as fiscal 2010, fiscal 2009, and fiscal 2008, respectively. Fiscal 2010, 2009, and 2008 each had 52 weeks.

Results of Operations

The following table summarizes the financial results for fiscal 2010, 2009, and 2008.

	2010	2009	2008
Sales			
Sales (millions)	$ 7,866	$ 7,184	$ 6,486
Sales growth	9.5%	10.8%	8.6%
Comparable store sales growth	5%	6%	2%
Costs and expenses (as a percent of sales)			
Cost of goods sold	72.8%	74.2%	76.4%
Selling, general and administrative	15.6%	15.7%	16.0%
Interest expense, net	0.1%	0.1%	0.0%
Earnings before taxes (as a percent of sales)	11.4%	10.0%	7.6%
Net earnings (as a percent of sales)	7.1%	6.2%	4.7%

Stores. Total stores open at the end of 2010, 2009, and 2008 were 1,055, 1,005, and 956, respectively. The number of stores at the end of fiscal 2010, 2009, and 2008 increased by 5%, 5%, and 7% 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.

	2010	2009	2008
Stores at the beginning of the period	1,005	956	890
Stores opened in the period	56	56	77
Stores closed in the period	(6)	(7)	(11)
Stores at the end of the period	1,055	1,005	956
Selling square footage at the end of the period (000)	24,800	23,700	22,500

Sales. Sales for fiscal 2010 increased $681.9 million, or 9.5%, compared to the prior year due to the opening of 50 net new stores during 2010, and a 5% increase in sales from “comparable” stores (defined as stores that have been open for more than 14 complete months). Sales for fiscal 2009 increased $698.1 million, or 10.8%, compared to the prior year due to the opening of 49 net new stores during 2009, and a 6% increase in sales from comparable stores.

Our sales mix is shown below for fiscal 2010, 2009, and 2008:

	2010	2009	2008
Ladies	29%	30%	32%
Home accents and bed and bath	25%	24%	23%
Men's	13%	13%	14%
Accessories, lingerie, fine jewelry, and fragrances	12%	13%	12%
Shoes	12%	11%	10%
Children's	9%	9%	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, to diversify our merchandise mix, and to 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 2010, 2009, and 2008, 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 2010 increased $402.5 million compared to the prior year mainly due to increased sales from the opening of 50 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 2010 decreased approximately 130 basis points from the prior year. This improvement was mainly the result of an 80 basis point increase in merchandise gross margin, which included a 15 basis point benefit from lower shortage. In addition, occupancy leveraged 30 basis points, and distribution costs declined by about 30 basis points. These improvements were partially offset by an increase in freight costs of about 10 basis points.

Cost of goods sold in fiscal 2009 increased $370.7 million compared to the prior year mainly due to increased sales from the opening of 49 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 2009 decreased approximately 230 basis points from the prior year. This improvement was mainly the result of a 170 basis point increase in merchandise gross margin, which included a 40 basis point benefit from lower shortage. In addition, freight costs declined by about 50 basis points, occupancy leveraged 35 basis points, and distribution costs declined by about 10 basis points. These improvements were partially offset by a 35 basis point increase in buying expenses due in part to higher incentive costs versus the prior year.

We cannot be sure that the gross profit margins realized in fiscal 2010, 2009, and 2008 will continue in future years.

Selling, general and administrative expenses. For fiscal 2010, selling, general and administrative expenses ("SG&A") increased $99.0 million compared to the prior year, mainly due to increased store operating costs reflecting the opening of 50 net new stores during the year.

SG&A as a percentage of sales for fiscal 2010 decreased by approximately 10 basis points compared to the prior year mainly driven by leverage on store operating expenses.

For fiscal 2009, SG&A increased $96.5 million compared to the prior year, mainly due to increased store operating costs reflecting the opening of 49 net new stores during the year.

SG&A as a percentage of sales for fiscal 2009 decreased by approximately 20 basis points compared to the prior year. This decrease was mainly driven by 40 basis points of leverage on store operating expenses that was partially offset by a 20 basis point increase in general and administrative expenses due in part to higher incentive costs versus the prior year.

The largest component of SG&A is payroll. The total number of employees, including both full and part-time, as of fiscal year end 2010, 2009, and 2008 was approximately 49,500, 45,600, and 40,000, respectively.

Interest expense (income), net. In fiscal 2010, interest expense increased by $1.3 million primarily due to lower capitalization of construction interest. In fiscal 2010, interest income decreased by $0.7 million primarily due to lower investment yields as compared to the prior year. As a percentage of sales, net interest expense in fiscal 2010 remained flat compared to the prior year. The table below shows interest expense and income for fiscal 2010, 2009, and 2008:

($ millions)	2010	2009	2008
Interest expense	$ 10.7	$ 9.4	$ 8.3
Interest income	(1.1)	(1.8)	(8.5)
Total interest expense (income), net	$ 9.6	$ 7.6	$ (0.2)

Taxes on earnings. Our effective tax rate for fiscal 2010, 2009, and 2008 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 law, 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 2011 will be about 38%.

Net earnings. Net earnings as a percentage of sales for fiscal 2010 were higher compared to fiscal 2009 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 2009 were higher compared to fiscal 2008 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 2010 was $4.63, compared to $3.54 in fiscal 2009. This 31% increase in diluted earnings per share is attributable to an approximate 25% increase in net earnings and a 4% 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 2009 was $3.54, compared to $2.33 in fiscal 2008. This 52% increase in diluted earnings per share is attributable to an approximate 45% increase in net earnings and a 5% reduction in weighted average diluted shares outstanding largely due to the repurchase of common stock under our 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, capital expenditures in connection with opening new stores, and investments in distribution centers and information systems. We also use cash to repurchase stock under our stock repurchase program and to pay dividends.

($ millions)	2010	2009	2008
Cash flows provided by operating activities	$ 673.0	$ 888.4	$ 583.4
Cash flows used in investing activities	(196.8)	(136.8)	(218.7)
Cash flows used in financing activities	(410.6)	(304.6)	(300.9)
Net increase in cash and cash equivalents	$ 65.6	$ 447.0	$ 63.8

Operating Activities

Net cash provided by operating activities was $673.0 million, $888.4 million, and $583.4 million in fiscal 2010, 2009, and 2008, respectively. The primary sources of cash provided by operating activities in fiscal 2010, 2009, and 2008 were net earnings plus non-cash expenses for depreciation and amortization. Net cash from operations decreased in 2010 compared to 2009 primarily due to cash used to purchase additional packaway inventory at the end of 2010. Accounts payable leverage (defined as accounts payable divided by merchandise inventory) was 71% as of January 29, 2011 and 75% as of January 30, 2010. The decrease in leverage was due to higher packaway inventory.

Our primary source of liquidity 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.

Investing Activities

In fiscal 2010, 2009, and 2008, our capital expenditures were $198.7 million, $158.5 million, and $224.4 million, respectively. Our capital expenditures included costs of fixtures and leasehold improvements to open new stores and costs to implement information technology systems, build or expand distribution centers, and various other expenditures related to our stores, buying, and corporate offices. In fiscal 2008 we also purchased land in South Carolina with the intention of building a new distribution center in the future. We opened 56, 56, and 77 new stores in fiscal 2010, 2009, and 2008, respectively.

We had purchases of investments of $6.8 million, $2.9 million, and $37.0 million in fiscal 2010, 2009, and 2008, respectively. We had sales of investments of $8.6 million, $24.5 million, and $42.5 million in fiscal 2010, 2009, and 2008, respectively.

We are forecasting approximately $380 million to $390 million in capital expenditures in 2011 to fund expenditures for fixtures and leasehold improvements to open both new Ross and dd's DISCOUNTS stores, for the relocation or upgrade of existing stores, for investments in store and merchandising systems, buildings, equipment and systems, and for various buying and corporate office expenditures. We expect to fund these expenditures with available cash and cash flows from operations.

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

($ millions)	2010	2009	2008
New stores	$ 72.3	$ 55.4	$ 52.0
Store renovations and improvements	63.4	44.3	47.3
Information systems	17.0	10.4	13.2
Distribution centers, corporate office, and other	46.0	48.4	111.9
Total capital expenditures	$ 198.7	$ 158.5	$ 224.4

Financing Activities

During fiscal 2010, 2009, and 2008, our liquidity and capital requirements were provided by available cash, and cash flows from operations. Our buying offices, our corporate headquarters, one distribution center, one trailer parking lot, three warehouse facilities, and all but two of our store locations are leased and, except for certain leasehold improvements and equipment, do not represent capital investments. We own one distribution center in each of the following cities: Carlisle, Pennsylvania; Moreno Valley, California; and Fort Mill, South Carolina; and one warehouse facility in Fort Mill, South Carolina.

We repurchased 6.7 million, 7.4 million, and 9.3 million shares of our common stock for aggregate purchase prices of approximately $375 million, $300 million, and $300 million in 2010, 2009, and 2008, respectively. In January 2011, our Board of Directors approved a new two-year $900 million stock repurchase program for fiscal 2011 and 2012, replacing the $375 million remaining under the prior two-year $750 million stock repurchase program approved in January 2010.

In January 2011, our Board of Directors declared a quarterly cash dividend of $.22 per common share, payable on March 31, 2011. Our Board of Directors declared quarterly cash dividends of $.16 per common share in January, May, August, and November 2010, cash dividends of $.11 per common share in January, May, August, and November 2009, and cash dividends of $.095 per common share in January, May, August, and November 2008.

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 2011.

In March 2011 we entered into a new $600 million unsecured, revolving credit facility. This credit facility, which replaced our previous $600 million revolving credit facility, expires in March 2016. Interest on this facility is based on LIBOR plus an applicable margin (currently 150 basis points) and is payable upon maturity but not less than quarterly.

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 January 29, 2011:

($000)	Less than 1 year	1 - 3 years	3 - 5 years	After 5 years	Total1
Senior notes	$ -	$-	$-	$ 150,000	$ 150,000
Interest payment obligations	9,667	19,335	19,335	40,528	88,865
Operating leases:					
Rent obligations	348,287	686,203	490,638	447,547	1,972,675
Synthetic leases	5,705	6,045	-	-	11,750
Other synthetic lease obligations	1,322	56,499	-	-	57,821
Purchase obligations	1,320,471	11,745	-	-	1,332,216
Total contractual obligations	$ 1,685,452	$ 779,827	$ 509,973	$ 638,075	$ 3,613,327

1 We have a $41.8 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 January 29, 2011, we were in compliance with these covenants.

Off-Balance Sheet Arrangements

Operating leases. We lease our two buying offices, our corporate headquarters, one distribution center, one trailer parking lot, three warehouse facilities, and all but two 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 $1.8 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. As of January 29, 2011, we have accrued approximately $3.5 million related to an estimated shortfall in the residual value guarantee recorded in accrued expenses and other in the accompanying consolidated balance sheets. The synthetic lease agreement includes a prepayment penalty for early payoff of the lease. Our contractual obligation of $56 million 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 January 29, 2011 we have approximately $2.4 million of residual value guarantee asset and liability. These residual value guarantees are being 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 2013 and 2014. The third warehouse is in Fort Mill, South Carolina, with a lease expiring in 2013. We also own a 423,000 square foot warehouse in Fort Mill, South Carolina. All four 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 distribution center.

We lease approximately 181,000 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 201,000 and 26,000 square feet of office space for our New York City and Los Angeles buying offices, respectively. The lease terms for these facilities expire in 2021 and 2014, respectively, and contain renewal provisions.

Purchase obligations. As of January 29, 2011 we had purchase obligations of approximately $1,332 million. These purchase obligations primarily consist of merchandise inventory purchase orders, commitments related to store fixtures and supplies, and information technology service and maintenance contracts. Merchandise inventory purchase orders of $1,250 million represent purchase obligations of less than one year as of January 29, 2011.

Commercial Credit Facilities

The table below presents our significant available commercial credit facilities at January 29, 2011:

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

Revolving credit facility. At January 29, 2011, we had available a $600 million unsecured revolving credit facility with our banks. The credit facility contained a $300 million sublimit for issuance of standby letters of credit, of which $230.4 million was available at January 29, 2011. Interest pricing on this credit facility was LIBOR plus an applicable margin (45 basis points at January 29, 2011) and was payable upon maturity but not less than quarterly. Our borrowing ability under this credit facility was subject to our maintaining certain financial ratios. As of January 29, 2011 we had no borrowings outstanding under this facility.

In March 2011 we entered into a new $600 million unsecured, revolving credit facility. This credit facility, which replaced our previous $600 million revolving credit facility, expires in March 2016. Interest on this facility is based on LIBOR plus an applicable margin (currently 150 basis points) and is payable upon maturity but not less than quarterly.

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 January 29, 2011, we were in compliance with these covenants.

Standby letters of credit. We use standby letters of credit to collateralize certain obligations related to our self-insured workers' compensation and general liability claims. We had $69.6 million and $65.2 million in standby letters of credit outstanding at January 29, 2011 and January 30, 2010, respectively.

Trade letters of credit. We had $35.2 million and $32.9 million in trade letters of credit outstanding at January 29, 2011 and January 30, 2010, 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, which may even be the beginning of the same selling season in the following year. Packaway inventory accounted for approximately 47% and 38% of total inventories as of January 29, 2011 and January 30, 2010. 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 periodic 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 2010, 2009, or 2008.

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 five to 12 years for equipment and 20 to 40 years for real property. 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.

Self-insurance. We self-insure certain of our workers’ compensation and general liability risks as well as certain coverages under our health plans. Our self-insurance 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 2010, and information we provide in our Annual Report to Stockholders, press releases, telephonic reports, and other investor communications including 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,” “g “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 January 29, 2011.

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 January 29, 2011, 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 issued unsecured notes to institutional investors in two series: 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 January 29, 2011 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 materially impacted 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 January 29, 2011. 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 January 29, 2011	Year ended January 30, 2010	Year ended January 31, 2009
Sales	$ 7,866,100	$ 7,184,213	$ 6,486,139
Costs and Expenses			
Costs of goods sold	5,729,735	5,327,278	4,956,576
Selling, general and administrative	1,229,775	1,130,813	1,034,357
Interest expense (income), net	9,569	7,593	(157)
Total costs and expenses	6,969,079	6,465,684	5,990,776
Earnings before taxes	897,021	718,529	495,363
Provision for taxes on earnings	342,224	275,772	189,922
Net earnings	$ 554,797	$ 442,757	$ 305,441
Earnings per share			
Basic	$ 4.71	$ 3.60	$ 2.36
Diluted	$ 4.63	$ 3.54	$ 2.33
Weighted average shares outstanding (000)			
Basic	117,821	122,887	129,235
Diluted	119,902	125,014	131,315
Dividends			
Cash dividends declared per share	$ 0.700	$ 0.490	$ 0.395

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

Consolidated Balance Sheets

($000, except share data)	January 29, 2011	January 30, 2010
Assets		
Current Assets		
Cash and cash equivalents	$ 833,924	$ 768,343
Short-term investments	3,204	1,754
Accounts receivable	45,384	44,234
Merchandise inventory	1,086,917	872,498
Prepaid expenses and other	63,807	58,618
Deferred income taxes	10,003	-
Total current assets	2,043,239	1,745,447
Property and Equipment		
Land and buildings	241,138	239,688
Fixtures and equipment	1,258,707	1,189,538
Leasehold improvements	584,306	536,979
Construction-in-progress	69,237	21,812
	2,153,388	1,988,017
Less accumulated depreciation and amortization	1,169,612	1,045,018
Property and equipment, net	983,776	942,999
Long-term investments	14,082	16,848
Other long-term assets	75,107	63,339
Total assets	$ 3,116,204	$ 2,768,633
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	$ 767,455	$ 658,299
Accrued expenses and other	292,174	259,582
Accrued payroll and benefits	235,030	218,234
Income taxes payable	57,661	51,505
Deferred income taxes	-	2,894
Total current liabilities	1,352,320	1,190,514
Long-term debt	150,000	150,000
Other long-term liabilities	189,989	174,543
Deferred income taxes	91,203	96,283
Commitments and contingencies		
Stockholders' Equity		
Common stock, par value $.01 per share	1,181	1,229
Authorized 600,000,000 shares Issued and outstanding 118,063,000 and 122,929,000 shares, respectively.		
Additional paid-in capital	740,726	681,908
Treasury stock	(46,408)	(36,864)
Accumulated other comprehensive income	488	170
Retained earnings	636,705	510,850
Total stockholders' equity	1,332,692	1,157,293
Total liabilities and stockholders' equity	$ 3,116,204	$ 2,768,633

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

Consolidated Statements of Stockholders' Equity

(000)	Common stock Shares	Common stock Amount	Additional paid-in capital	Treasury stock	Accumulated other comprehensive income (loss)	Retained earnings	Total
Balance at February 2, 2008	134,096	$ 1,341	$ 577,787	$ (25,910)	$ 1,340	$ 416,091	$ 970,649
Comprehensive income:							
Net earnings	-	-	-	-	-	305,441	305,441
Unrealized investment loss	-	-	-	-	(2,514)	-	(2,514)
Total comprehensive income							302,927
Common stock issued under stock plans, net of shares used for tax withholding	2,598	25	47,848	(4,909)	-	-	42,964
Tax benefit from equity issuance	-	-	8,532	-	-	-	8,532
Stock-based compensation	-	-	22,575	-	-	-	22,575
Common stock repurchased	(9,348)	(93)	(30,625)	-	-	(269,282)	(300,000)
Dividends declared	-	-	-	-	-	(51,278)	(51,278)
Balance at January 31, 2009	127,346	$ 1,273	$ 626,117	$ (30,819)	$ (1,174)	$ 400,972	$ 996,369
Comprehensive income:							
Net earnings	-	-	-	-	-	442,757	442,757
Unrealized investment gain	-	-	-	-	1,344	-	1,344
Total comprehensive income							444,101
Common stock issued under stock plans, net of shares used for tax withholding	2,958	30	49,363	(6,045)	-	-	43,348
Tax benefit from equity issuance	-	-	8,582	-	-	-	8,582
Stock-based compensation	-	-	25,746	-	-	-	25,746
Common stock repurchased	(7,375)	(74)	(27,900)	-	-	(272,026)	(300,000)
Dividends declared	-	-	-	-	-	(60,853)	(60,853)
Balance at January 30, 2010	122,929	$ 1,229	$ 681,908	$ (36,864)	$ 170	$ 510,850	$ 1,157,293
Comprehensive income:							
Net earnings	-	-	-	-	-	554,797	554,797
Unrealized investment gain	-	-	-	-	318	-	318
Total comprehensive income							555,115
Common stock issued under stock plans, net of shares used for tax withholding	1,864	19	36,461	(9,544)	-	-	26,936
Tax benefit from equity issuance	-	-	15,412	-	-	-	15,412
Stock-based compensation	-	-	36,551	-	-	-	36,551
Common stock repurchased	(6,730)	(67)	(29,606)	-	-	(345,327)	(375,000)
Dividends declared	-	-	-	-	-	(83,615)	(83,615)
Balance at January 29, 2011	118,063	$ 1,181	$ 740,726	$ (46,408)	$ 488	$ 636,705	$ 1,332,692

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

Consolidated Statements of Cash Flows

($000)	Year ended January 29, 2011	Year ended January 30, 2010	Year ended January 31, 2009
Cash Flows From Operating Activities			
Net earnings	$ 554,797	$ 442,757	$ 305,441
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	160,693	159,043	141,802
Stock-based compensation	36,551	25,746	22,575
Deferred income taxes	(17,977)	16,113	23,804
Tax benefit from equity issuance	15,412	8,582	8,532
Excess tax benefit from stock-based compensation	(14,746)	(7,291)	(5,973)
Change in assets and liabilities:			
Merchandise inventory	(214,419)	8,560	144,237
Other current assets	(6,339)	(6,441)	(6,089)
Accounts payable	102,851	115,893	(101,682)
Other current liabilities	52,594	118,980	43,249
Other long-term, net	3,649	6,442	7,543
Net cash provided by operating activities	673,066	888,384	583,439
Cash Flows From Investing Activities			
Additions to property and equipment	(198,651)	(158,487)	(224,418)
Proceeds from sales of property and equipment	-	10	117
Purchases of investments	(6,842)	(2,904)	(36,984)
Proceeds from investments	8,648	24,548	42,522
Net cash used in investing activities	(196,845)	(136,833)	(218,763)
Cash Flows From Financing Activities			
Excess tax benefit from stock-based compensation	14,746	7,291	5,973
Issuance of common stock related to stock plans	36,479	49,393	47,873
Treasury stock purchased	(9,544)	(6,045)	(4,909)
Repurchase of common stock	(375,000)	(300,000)	(300,000)
Dividends paid	(77,321)	(55,202)	(49,838)
Net cash used in financing activities	(410,640)	(304,563)	(300,901)
Net increase in cash and cash equivalents	65,581	446,988	63,775
Cash and cash equivalents:			
Beginning of year	768,343	321,355	257,580
End of year	$ 833,924	$ 768,343	$ 321,355
Supplemental Cash Flow Disclosures			
Interest paid	$ 9,668	$ 9,668	$ 9,676
Income taxes paid	$ 330,589	$ 201,232	$ 167,478
Non-Cash Investing Activities			
Increase (decrease) in fair value of investment securities	$ 490	$ 1,435	$ (2,514)

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A: Summary of Significant Accounting Policies

Business. Ross Stores, Inc. and its subsidiaries (the “Company”) is an off-price retailer of first-quality, in-season, name brand and designer apparel, accessories, footwear, and home fashions for the entire family. At the end of fiscal 2010, the Company operated 988 Ross Dress for Less® (“Ross”) locations in 27 states and Guam and 67 dd’s DISCOUNTS® stores in six states, all of which are supported by four distribution centers. The Company’s headquarters, one buying office, two distribution centers, and 26% of its stores are located in California.

Segment reporting. The Company has one reportable segment. The Company’s operations include only activities related to off-price retailing in stores throughout the United States.

Basis of presentation and fiscal year. The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned. Intercompany transactions and accounts have been eliminated. The Company follows the National Retail Federation fiscal calendar and utilizes a 52-53 week fiscal year whereby the fiscal year ends on the Saturday nearest to January 31. The fiscal years ended January 29, 2011, January 30, 2010 and January 31, 2009 are referred to as fiscal 2010, fiscal 2009, and fiscal 2008, respectively, and had 52 weeks.

Use of accounting estimates. The preparation of consolidated financial statements in conformity with Generally Accepted Accounting Principles in the United States of America (“GAAP”) requires the Company to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The Company’s significant accounting estimates include valuation reserves for inventory shortage, packaway inventory costs, useful lives of fixed assets, self-insurance reserves, and uncertain tax position reserves.

Purchase obligations. As of January 29, 2011, the Company had purchase obligations of approximately $1,332 million. These purchase obligations primarily consist of merchandise inventory purchase orders, commitments related to store fixtures and supplies, and information technology service and maintenance contracts. Merchandise inventory purchase orders of $1,250 million represent purchase obligations of less than one year as of January 29, 2011.

Cash and cash equivalents. Cash equivalents consist of highly liquid, fixed income instruments purchased with an original maturity of three months or less.

Investments. The Company’s investments are comprised of various debt securities. At January 29, 2011 and January 30, 2010, these investments were classified as available-for-sale and are stated at fair value. Investments are classified as either short- or long-term based on their original maturities and the Company’s intent. Investments with an original maturity of less than one year are classified as short-term. See Note B for additional information.

Merchandise inventory. Merchandise inventory is stated at the lower of cost (determined using a weighted average basis) or net realizable value. The Company purchases 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 the Company's warehouses until a later date, which may even be the beginning of the same selling season in the following year. Packaway inventory accounted for approximately 47% and 38% of total inventories as of January 29, 2011 and January 30, 2010. Merchandise inventory includes acquisition, processing, and storage costs related to packaway inventory.The cost of the Company’s merchandise inventory is reduced by valuation reserves for shortage based on historical shortage experience from the Company’s physical merchandise inventory counts and cycle counts.

Cost of goods sold. In addition to product costs, the Company includes in cost of goods sold its buying, distribution and freight expenses as well as occupancy costs, and depreciation and amortization related to the Company's retail stores, buying, and distribution facilities. Buying expenses include costs to procure merchandise inventories. Distribution expenses include the cost of operating the Company's distribution centers.

Property and equipment. 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 five to 12 years for equipment and 20 to 40 years for real property. Depreciation and amortization expense on property and equipment was $160.7 million, $159.0 million, and $141.8 million for fiscal 2010, 2009, and 2008, respectively. The cost of leasehold improvements is amortized over the useful life of the asset or the applicable lease term, whichever is less. Computer hardware and software costs, net of amortization, of $102.0 million and $106.7 million at January 29, 2011 and January 30, 2010, respectively, are included in fixtures and equipment and are amortized over their estimated useful life generally ranging from five to seven years. The Company capitalizes interest during the construction period. Interest capitalized was $0.1 million and $1.8 million in fiscal 2010 and fiscal 2009, respectively.

Other long-term assets. Other long-term assets as of January 29, 2011 and January 30, 2010 consisted of the following:

($000)	2010	2009
Deferred compensation (Note B)	$ 63,569	$ 50,706
Goodwill	2,889	2,889
Deposits	3,835	3,000
Other	4,814	6,744
Total	$ 75,107	$ 63,339

Other assets are principally comprised of prepaid rent and other long-term prepayments.

Property, other long-term assets, and certain identifiable intangibles that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Intangible assets that are not subject to amortization, including goodwill, are tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset may be impaired. Based on the Company's evaluation during fiscal 2010, fiscal 2009, and fiscal 2008, no impairment charges were recorded.

Store closures. The Company continually reviews the operating performance of individual stores. For stores that are closed, the Company records a liability for future minimum lease payments net of estimated sublease recoveries and related ancillary costs at the time the liability is incurred. In 2010, the Company closed six Ross stores. In 2009, the Company closed three Ross and four dd's DISCOUNTS locations. The lease loss liability related to certain of these closed stores was $4.9 million and $6.2 million, as of January 29, 2011 and January 30, 2010, respectively. Operating costs, including depreciation, of stores to be closed are expensed during the period they remain in use.

Accounts payable. Accounts payable represents amounts owed to third parties at the end of the period. Accounts payable includes book cash overdrafts (checks issued under zero balance accounts not yet presented for payment) in excess of cash balances in such accounts of approximately $53.4 million and $125.7 million at January 29, 2011 and January 30, 2010, respectively. The Company includes the change in book cash overdrafts in operating cash flows.

Self-insurance. The Company is self-insured for workers' compensation, general liability insurance costs, and costs of certain medical plans. The self-insurance liability is determined actuarially, based on claims filed and an estimate of claims incurred but not yet reported. Self-insurance reserves as of January 29, 2011 and January 30, 2010 consisted of the following:

($000)	2010	2009
Workers' compensation	$ 67,425	$ 61,525
General liability	25,490	19,196
Medical plans	3,344	3,107
Total	$ 96,259	$ 83,828

Workers' compensation and self-insured medical plan liabilities are included in accrued payroll and benefits, and accruals for general liability are included in accrued expenses and other in the accompanying consolidated balance sheets.

Other long-term liabilities. Other long-term liabilities as of January 29, 2011 and January 30, 2010 consisted of the following:

($000)	2010	2009
Deferred rent	$ 58,989	$ 58,954
Deferred compensation	63,569	50,706
Tenant improvement allowances	22,392	26,559
Income taxes (See Note F)	41,784	33,570
Other	3,255	4,754
Total	$ 189,989	$ 174,543

Lease accounting. When a lease contains "rent holidays" or requires fixed escalations of the minimum lease payments, the Company records 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. The Company begins 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.

Estimated fair value of financial instruments. The carrying value of cash and cash equivalents, short- and long-term investments, accounts receivable, other long-term assets, accounts payable, and other long-term liabilities approximates their estimated fair value. See Note B and Note D for additional fair value information.

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

Allowance for sales returns. An allowance for the gross margin loss on estimated sales returns is included in accrued expenses and other in the consolidated balance sheets. The allowance for sales returns consists of the following:

($000)	Beginning balance	Additions	Returns	Ending balance
Year ended:				
January 29, 2011	$ 5,344	$ 558,361	$ (557,836)	$ 5,869
January 30, 2010	$ 4,702	$ 506,249	$ (505,607)	$ 5,344
January 31, 2009	$ 4,559	$ 452,035	$ (451,892)	$ 4,702

Store pre-opening. Store pre-opening costs are expensed in the period incurred.

Advertising. Advertising costs are expensed in the period incurred. Advertising costs for fiscal 2010, 2009, and 2008 were $54.3 million, $53.5 million, and $53.9 million, respectively.

Stock-based compensation. The Company recognizes compensation expense based upon the grant date fair value of all stock-based awards, typically over the vesting period. See Note C for more information on the Company's stock-based compensation plans.

Taxes on earnings. The Company accounts for income taxes in accordance with Accounting Standards Codification ("ASC") 740, "Accounting for Income Taxes," which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's consolidated financial statements or tax returns. In estimating future tax consequences, the Company generally considers all expected future events other than changes in the tax law or tax rates. ASC 740 also clarifies the criteria that an individual tax position must satisfy for some or all of the benefits of that position to be recognized in a company's consolidated financial statements and prescribes a recognition threshold of more-likely-than-not, and a measurement standard for all tax positions taken or expected to be taken on a tax return, in order for those tax positions to be recognized in the consolidated financial statements. See Note F.

Treasury stock. The Company records treasury stock at cost. Treasury stock includes shares purchased from employees for tax withholding purposes related to vesting of restricted stock grants.

Earnings per share ("EPS"). The Company computes and reports both basic EPS and diluted EPS. Basic EPS is computed by dividing net earnings by the weighted average number of common shares outstanding for the period. Diluted EPS is computed by dividing net earnings by the sum of the weighted average number of common shares and dilutive common stock equivalents outstanding during the period. Diluted EPS reflects the total potential dilution that could occur from outstanding equity plan awards, including unexercised stock options and unvested shares of both performance and non-performance based awards of restricted stock.

In fiscal 2010, 2009, and 2008 there were 3,200, 19,800, and 583,000 weighted average shares, respectively, that could potentially dilute basic EPS in the future that were excluded from the calculation of diluted EPS because their effect would have been anti-dilutive for those years.

The following is a reconciliation of the number of shares (denominator) used in the basic and diluted EPS computations:

Shares in (000s)	Basic EPS	Effect of dilutive common stock equivalents	Diluted EPS
2010			
Shares	117,821	2,081	119,902
Amount	$ 4.71	$ (0.08)	$ 4.63
2009			
Shares	122,887	2,127	125,014
Amount	$ 3.60	$ (0.06)	$ 3.54
2008			
Shares	129,235	2,080	131,315
Amount	$ 2.36	$ (0.03)	$ 2.33

Sales mix. The Company's sales mix is shown below for fiscal 2010, 2009, and 2008:

	2010	2009	2008
Ladies	29%	30%	32%
Home accents and bed and bath	25%	24%	23%
Men's	13%	13%	14%
Accessories, lingerie, fine jewelry, and fragrances	12%	13%	12%
Shoes	12%	11%	10%
Children's	9%	9%	9%
Total	100%	100%	100%

Comprehensive income. Comprehensive income consists of net earnings and other comprehensive income (loss), principally unrealized investment gains or losses. Components of comprehensive income are presented in the consolidated statements of stockholders' equity.

Note B: Investments

The amortized cost and fair value of the Company's available-for-sale securities as of January 29, 2011 were:

($000)	Amortized cost	Unrealized gains	Unrealized losses	Fair value	Short-term	Long-term
Corporate securities	$ 7,465	$ 634	$ (37)	$ 8,062	$ 300	$ 7,762
U.S. government and agency securities	7,959	77	(5)	8,031	2,366	5,665
Mortgage-backed securities	1,111	82	-	1,193	538	655
Total	$ 16,535	$ 793	$ (42)	$ 17,286	$ 3,204	$ 14,082

The amortized cost and fair value of the Company's available-for-sale securities as of January 30, 2010 were:

($000)	Amortized cost	Unrealized gains	Unrealized losses	Fair value	Short-term	Long-term
Auction-rate securities	$ 1,050	$ -	$ (158)	$ 892	$ -	$ 892
Corporate securities	9,704	567	(67)	10,204	1,073	9,131
U.S. government and agency securities	5,247	30	(187)	5,090	-	5,090
Mortgage-backed securities	2,340	79	(3)	2,416	681	1,735
Total	$ 18,341	$ 676	$ (415)	$ 18,602	$ 1,754	$ 16,848

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.

Assets measured at fair value at January 29, 2011 are summarized below:

	Fair Value Measurements at Reporting Date
	Quoted Prices in