ROSS STORES INC
Form 10-Q
September 07, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark one)

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

For the quarterly period ended July 30, 2016

o 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	94-1390387
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
5130 Hacienda Drive, Dublin, California	94568-7579
(Address of principal executive offices)	(Zip Code)
Registrant's telephone number, including area code	(925) 965-4400
Former name, former address and former fiscal year, if changed since last report.	N/A

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

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 ý No o

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

Large accelerated filer ý Accelerated filer o Non-accelerated filer o Smaller reporting company o

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

The number of shares of Common Stock, with $.01 par value, outstanding on August 17, 2016 was 396,579,811.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Condensed Consolidated Statements of Earnings

($000, except stores and per share data, unaudited)	Three Months Ended July 30, 2016	Three Months Ended August 1, 2015	Six Months Ended July 30, 2016	Six Months Ended August 1, 2015
Sales	$3,180,917	$2,968,270	$6,269,912	$5,906,418
Costs and Expenses				
Cost of goods sold	2,251,845	2,119,480	4,428,050	4,186,935
Selling, general and administrative	469,511	435,226	906,435	844,524
Interest expense, net	4,213	1,652	8,577	3,655
Total costs and expenses	2,725,569	2,556,358	5,343,062	5,035,114
Earnings before taxes	455,348	411,912	926,850	871,304
Provision for taxes on earnings	173,442	153,273	354,310	330,460
Net earnings	$281,906	$258,639	$572,540	$540,844
Earnings per share				
Basic	$0.72	$0.64	$1.45	$1.33
Diluted	$0.71	$0.63	$1.44	$1.32
Weighted average shares outstanding (000)				
Basic	393,568	404,760	394,684	406,211
Diluted	395,930	407,693	397,381	409,562
Dividends				
Cash dividends declared per share	$0.1350	$0.1175	$0.2700	$0.2350
Stores open at end of period	1,501	1,424	1,501	1,424

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

Condensed Consolidated Statements of Comprehensive Income

($000, unaudited)	Three Months Ended July 30, 2016	Three Months Ended August 1, 2015	Six Months Ended July 30, 2016	Six Months Ended August 1, 2015
Net earnings	$281,906	$258,639	$572,540	$540,844
Other comprehensive (loss) income:				
Change in unrealized loss on investments, net of tax	(11)	(25)	(23)	(107)
Comprehensive income	$281,895	$258,614	$572,517	$540,737

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

Condensed Consolidated Balance Sheets

($000, unaudited)	July 30, 2016	January 30, 2016	August 1, 2015
Assets			
Current Assets			
Cash and cash equivalents	$927,718	$761,602	$630,288
Short-term investments	1,213	1,737	999
Accounts receivable	97,139	73,627	88,443
Merchandise inventory	1,560,209	1,419,104	1,509,752
Prepaid expenses and other	127,401	116,125	129,819
Total current assets	2,713,680	2,372,195	2,359,301
Property and Equipment			
Land and buildings	1,091,246	1,084,328	1,083,430
Fixtures and equipment	2,317,183	2,244,790	2,091,316
Leasehold improvements	953,700	920,392	889,893
Construction-in-progress	70,197	90,399	95,178
	4,432,326	4,339,909	4,159,817
Less accumulated depreciation and amortization	2,121,845	1,997,003	1,870,339
Property and equipment, net	2,310,481	2,342,906	2,289,478
Long-term investments	1,325	1,331	2,613
Other long-term assets	168,748	152,687	162,180
Total assets	$5,194,234	$4,869,119	$4,813,572
Liabilities and Stockholders' Equity			
Current Liabilities			
Accounts payable	$1,125,836	$945,559	$1,044,875
Accrued expenses and other	397,150	376,522	405,629
Accrued payroll and benefits	228,195	280,766	225,153
Total current liabilities	1,751,181	1,602,847	1,675,657
Long-term debt	396,259	396,025	395,793
Other long-term liabilities	296,867	268,168	287,406
Deferred income taxes	135,597	130,088	68,202
Commitments and contingencies			
Stockholders' Equity			
Common stock	3,971	4,023	4,087
Additional paid-in capital	1,179,373	1,122,329	1,080,108
Treasury stock	(268,847)	(229,525)	(224,194)
Accumulated other comprehensive income	159	182	223
Retained earnings	1,699,674	1,574,982	1,526,290
Total stockholders' equity	2,614,330	2,471,991	2,386,514
Total liabilities and stockholders' equity	$5,194,234	$4,869,119	$4,813,572

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

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Condensed Consolidated Statements of Cash Flows

($000, unaudited)	Six Months Ended July 30, 2016	Six Months Ended August 1, 2015
Cash Flows From Operating Activities		
Net earnings	$572,540	$540,844
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	148,630	128,729
Stock-based compensation	36,206	29,881
Deferred income taxes	5,509	(5,528)
Tax benefit from equity issuance	22,682	37,431
Excess tax benefit from stock-based compensation	(22,682)	(37,352)
Change in assets and liabilities:		
Merchandise inventory	(141,105)	(137,077)
Other current assets	(34,773)	(38,097)
Accounts payable	192,610	64,802
Other current liabilities	(13,108)	111
Other long-term, net	13,045	6,627
Net cash provided by operating activities	779,554	590,371
Cash Flows From Investing Activities		
Additions to property and equipment	(147,426)	(193,108)
Increase in restricted cash and investments	(143)	(73)
Purchases of investments	—	(718)
Proceeds from investments	514	602
Net cash used in investing activities	(147,055)	(193,297)
Cash Flows From Financing Activities		
Excess tax benefit from stock-based compensation	22,682	37,352
Issuance of common stock related to stock plans	9,862	11,312
Treasury stock purchased	(39,328)	(63,601)
Repurchase of common stock	(351,515)	(351,515)
Dividends paid	(108,084)	(96,942)
Net cash used in financing activities	(466,383)	(463,394)
Net increase (decrease) in cash and cash equivalents	166,116	(66,320)
Cash and cash equivalents:		
Beginning of period	761,602	696,608
End of period	$927,718	$630,288
Supplemental Cash Flow Disclosures		
Interest paid	$9,053	$8,982
Income taxes paid	$313,142	$322,294

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

Notes to Condensed Consolidated Financial Statements

Three and Six Months Ended July 30, 2016 and August 1, 2015
(Unaudited)

Note A: Summary of Significant Accounting Policies

Basis of presentation. The accompanying unaudited interim condensed consolidated financial statements have been prepared from the records of Ross Stores, Inc. and subsidiaries (the "Company") without audit and, in the opinion of management, include all adjustments (consisting of only normal, recurring adjustments) necessary to present fairly the Company's financial position as of July 30, 2016 and August 1, 2015, the results of operations and comprehensive income for the three and six month periods ended July 30, 2016 and August 1, 2015, and cash flows for the six month periods ended July 30, 2016 and August 1, 2015. The Condensed Consolidated Balance Sheet as of January 30, 2016, presented herein, has been derived from the Company's audited consolidated financial statements for the fiscal year then ended.

Accounting policies followed by the Company are described in Note A to the audited consolidated financial statements for the fiscal year ended January 30, 2016. Certain information and disclosures normally included in the notes to annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted for purposes of these interim condensed consolidated financial statements. The interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements, including notes thereto, contained in the Company's Annual Report on Form 10-K for the year ended January 30, 2016.

The results of operations and comprehensive income for the three and six month periods ended July 30, 2016 and August 1, 2015 presented herein are not necessarily indicative of the results to be expected for the full fiscal year.

Restricted cash, cash equivalents, and investments. The Company has restricted cash, cash equivalents, and investments that serve as collateral for certain insurance obligations of the Company. These restricted funds are invested in bank deposits, money market mutual funds, U.S. Government and agency securities, and corporate securities and cannot be withdrawn from the Company's account without the prior written consent of the secured parties. The following table summarizes total restricted cash, cash equivalents, and investments which were included in Prepaid expenses and other and Other long-term assets in the Condensed Consolidated Balance Sheets as of July 30, 2016, January 30, 2016, and August 1, 2015:

Restricted Assets ($000)	July 30, 2016	January 30, 2016	August 1, 2015
Prepaid expenses and other	$15,798	$ 15,770	$ 19,719
Other long-term assets	56,010	55,913	56,125
Total	$71,808	$ 71,683	$ 75,844

The classification between current and long-term is based on the timing of expected payments of the insurance obligations.

Property and equipment. As of July 30, 2016 and August 1, 2015, the Company had $4.6 million and $10.0 million, respectively, of property and equipment purchased but not yet paid. These purchases are included in Property and Equipment, Accounts payable, and Accrued expenses and other in the accompanying Condensed Consolidated Balance Sheets.

Cash Dividends. Dividends included in the Condensed Consolidated Statements of Cash Flows reflect cash dividends paid during the periods shown. Dividends per share reported on the Condensed Consolidated Statements of Earnings reflect cash dividends declared during the periods shown.

The Company's Board of Directors declared a cash dividend of $0.1350 per common share in March and May 2016 and $0.1175 per common share in February, May, August, and November 2015, respectively.

In August 2016, the Company's Board of Directors declared a cash dividend of $0.1350 per common share, payable on September 30, 2016.

Litigation, claims, and assessments. Like many retailers, the Company has been named in class action lawsuits, primarily in California, alleging violation of wage and hour laws and consumer protection laws. Class action litigation remains pending as of July 30, 2016.

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

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

Recently issued accounting standards. In March 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update ("ASU") No. 2016-09, Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. This ASU simplifies several aspects of the accounting for share-based payment transactions, including income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 is effective for the Company's annual and interim reporting periods beginning in fiscal 2017. The Company is currently assessing the impact adoption of this standard will have on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). This ASU requires balance sheet recognition for all leases with lease terms greater than one year, including a lease liability, which is a lessee‘s obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term. ASU 2016-02 is effective for the Company's annual and interim reporting periods beginning in fiscal 2019. The Company is currently evaluating the effect adoption of this new guidance will have on its consolidated financial statements.

Recently issued and adopted accounting standards. In November 2015, the FASB issued ASU 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes, which simplifies the presentation of deferred taxes by requiring deferred tax assets and liabilities be classified as noncurrent on the balance sheet. The Company early adopted ASU 2015-17 retrospectively, as of January 30, 2016. As a result, $10.7 million of its deferred tax assets previously presented in current assets have been reclassified to long-term deferred tax liabilities in the Condensed Consolidated Balance Sheet as of August 1, 2015. Adoption of this standard did not impact results of operations, retained earnings, or cash flows in the current or previous annual reporting periods.

Note B: Fair Value Measurements

The carrying value of cash and cash equivalents, short- and long-term investments, restricted cash and cash equivalents, restricted investments, accounts receivable, other long-term assets, accounts payable, and other long-term liabilities approximates their estimated fair value.

Accounting standards pertaining to fair value measurements establish a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value. The inputs used to measure fair value include: Level 1, observable inputs such as quoted prices in active markets; Level 2, inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, unobservable inputs in which little or no market data exists. This fair value hierarchy requires the Company to develop its own assumptions and 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.

There were no transfers between Level 1 and Level 2 categories during the three and six month periods ended July 30, 2016. The fair value of the Company’s financial instruments are as follows:

($000)	July 30, 2016	January 30, 2016	August 1, 2015
Cash and cash equivalents (Level 1)	$927,718	$761,602	$630,288
Investments (Level 2)	$2,538	$3,068	$3,612
Restricted cash and cash equivalents (Level 1)	$68,101	$67,947	$72,076
Restricted investments (Level 1)	$3,707	$3,736	$3,768

The underlying assets in the Company’s non-qualified deferred compensation program as of July 30, 2016, January 30, 2016, and August 1, 2015 (included in Other long-term assets and in Other long-term liabilities) primarily consist of participant-directed money market, stable value, stock, and bond funds. The fair value measurement for funds with quoted market prices in active markets (Level 1) and for funds without quoted market prices in active markets (Level 2) are as follows:

($000)	July 30, 2016	January 30, 2016	August 1, 2015
Level 1	$83,651	$ 73,633	$82,953
Level 2	16,317	12,440	12,842
Total	$99,968	$ 86,073	$95,795

Note C: Stock-Based Compensation

Stock-based compensation. For the three and six month periods ended July 30, 2016 and August 1, 2015, the Company recognized stock-based compensation expense as follows:

	Three Months Ended		Six Months Ended	
($000)	July 30, 2016	August 1, 2015	July 30, 2016	August 1, 2015

Restricted stock	$9,484	$9,395	$18,549	$17,969
Performance awards	8,290	5,537	16,239	10,642
Employee stock purchase plan	716	662	1,418	1,270
Total	$18,490	$15,594	$36,206	$29,881

Total stock-based compensation recognized in the Company's Condensed Consolidated Statements of Earnings for the three and six month periods ended July 30, 2016 and August 1, 2015 is as follows:

Statements of Earnings Classification ($000)	Three Months Ended		Six Months Ended	
	July 30, 2016	August 1, 2015	July 30, 2016	August 1, 2015
Cost of goods sold	$ 8,278	$ 7,420	$ 16,108	$ 14,483
Selling, general and administrative	10,212	8,174	20,098	15,398
Total	$ 18,490	$ 15,594	$ 36,206	$ 29,881

Restricted stock. The Company grants shares of restricted stock or restricted stock units to directors, officers, and key employees. The market value of shares of restricted stock and of the stock underlying restricted stock units at the date of grant is amortized to expense over the vesting period of generally three to five years.

During the three and six month periods ended July 30, 2016 and August 1, 2015, shares purchased by the Company for tax withholding totaled 45,063 and 682,060 and 33,705 and 1,206,903 respectively, and are considered treasury shares which are available for reissuance.

Performance shares. The Company has a performance share award program for senior executives. A performance share award represents a right to receive shares of restricted stock or restricted stock units on a specified settlement date based on the Company’s attainment of a profitability-based performance goal during the performance period, which is the Company’s fiscal year. If attained, the restricted stock or units then vest over a service period, generally two to three years from the date the performance award was granted. The release of shares related to restricted stock units earned are deferred generally for one year from the date earned.

As of July 30, 2016, shares related to unvested restricted stock and performance share awards totaled 5.4 million shares. A summary of restricted stock and performance share award activity for the six month period ended July 30, 2016 is presented below:

(000, except per share data)	Number of shares	Weighted average grant date fair value
Unvested at January 30, 2016	6,104	$ 34.87
Awarded	1,204	56.34
Released	(1,770)	27.57
Forfeited	(130)	35.89
Unvested at July 30, 2016	5,408	$ 42.31

The unamortized compensation expense at July 30, 2016 was $118.9 million which is expected to be recognized over a weighted-average remaining period of 2.2 years. The unamortized compensation expense at August 1, 2015 was $110.7 million, which was expected to be recognized over a weighted-average remaining period of 2.1 years.

Employee stock purchase plan. Under the Employee Stock Purchase Plan (“ESPP”), eligible employees participating in the quarterly offering period can choose to spend up to the lesser of 10% of their annual base earnings or the IRS annual share purchase limit of $25,000 in aggregate market value to purchase the Company’s common stock each year. The purchase price of the stock is 85% of the closing market price on the date of purchase. Purchases occur on on the last trading day of each calendar quarter. The Company recognizes expense for ESPP purchase rights equal to the value of the 15% discount given on the purchase date.

Stock option activity. A summary of the stock option activity for the six month period ended July 30, 2016 is presented below:

($000, except per share data)	Number of shares	Weighted average exercise price	Weighted average remaining contractual term	Aggregate intrinsic value
Outstanding at January 30, 2016	310,066	$ 7.34		
Granted	—	—		
Exercised	(254,674)	7.17		
Forfeited	—	—		
Outstanding at July 30, 2016, all vested	55,392	$ 8.12	0.74	$ 2,975

No stock options were granted during the six month periods ended July 30, 2016 and August 1, 2015.

As of July 30, 2016, the 55,392 options outstanding and exercisable had a weighted average exercise price of $8.12 and a weighted average remaining contractual life of 0.74 years. These options have an exercise price range of $6.35 to $8.19.

Note D: Earnings Per Share

The Company computes and reports both basic earnings per share ("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 and restricted stock units.

For the three and six month periods ended July 30, 2016, approximately 200 and 100 weighted average shares, respectively, were excluded from the calculation of diluted EPS because their effect would have been anti-dilutive for those periods presented.
For the three and six month periods ended August 1, 2015, approximately 2,100 and 2,900 weighted average shares, respectively, were excluded from the calculation of diluted EPS because their effect would have been anti-dilutive for those periods presented.

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

Shares in (000s)	Three Months Ended Basic EPS	Effect of dilutive common stock equivalents	Diluted EPS	Six Months Ended Basic EPS	Effect of dilutive common stock equivalents	Diluted EPS
July 30, 2016						
Shares	393,568	2,362	395,930	394,684	2,697	397,381
Amount	$0.72	$ (0.01)	$ 0.71	$1.45	$ (0.01)	$ 1.44
August 1, 2015						
Shares	404,760	2,933	407,693	406,211	3,351	409,562
Amount	$0.64	$ (0.01)	$ 0.63	$1.33	$ (0.01)	$ 1.32

Note E: Debt

Senior notes. Unsecured senior debt, net of unamortized discounts and debt issuance costs, consisted of the following:

($000)	July 30, 2016	January 30, 2016	August 1, 2015
6.38% Series A Senior Notes due 2018	$84,923	$ 84,906	$84,889
6.53% Series B Senior Notes due 2021	64,892	64,882	64,872
3.375% Senior Notes due 2024	246,444	246,237	246,032
Total	$396,259	$ 396,025	$395,793

As of July 30, 2016, the Company had outstanding unsecured 3.375% Senior Notes due September 2024 (the “2024 Notes”) with an aggregate principal amount of $250 million. Interest on the 2024 Notes is payable semi-annually.

As of July 30, 2016, the Company also had outstanding two other series of unsecured senior notes in the aggregate principal amount of $150 million, held by various institutional investors. 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%. Borrowings under these senior notes are subject to certain financial covenants, including interest coverage and other financial ratios. As of July 30, 2016, the Company was in compliance with these covenants.

As of July 30, 2016, January 30, 2016, and August 1, 2015, total unamortized discount and debt issuance costs were $3.7 million, $4.0 million, and $4.2 million, respectively, and were classified as a reduction of Long-term debt.

The 2024 Notes, Series A, and Series B senior notes are all subject to prepayment penalties for early payment of principal.

The aggregate fair value of the three outstanding senior note issuances was approximately $442 million, $423 million, and $425 million as of July 30, 2016, January 30, 2016, and August 1, 2015, respectively. The fair value is estimated by obtaining comparable market quotes which are considered to be Level 1 inputs under the fair value measurements and disclosures guidance.

Interest expense for the three and six month periods ended July 30, 2016 and August 1, 2015 consisted of the following:

($000)	Three Months Ended		Six Months Ended	
	July 30, 2016	August 1, 2015	July 30, 2016	August 1, 2015
Interest expense on long-term debt	$4,643	$ 4,642	$9,286	$ 9,284
Other interest expense	230	303	553	644
Capitalized interest	(5)	(3,193)	(9)	(6,002)
Interest income	(655)	(100)	(1,253)	(271)
Interest expense, net	$4,213	$ 1,652	$8,577	$ 3,655

Revolving credit facility. In April 2016, the Company entered into a new $600 million unsecured revolving credit facility. This credit facility, which replaced the Company's previous $600 million unsecured revolving credit facility, expires in April 2021 and contains a $300 million sublimit for issuance of standby letters of credit (subject to increase in proportion to any increase in the size of the credit facility). The facility also contains an option allowing the Company to increase the size of its credit facility by up to an additional $200 million, with the agreement of the lenders. Interest on any borrowings under this facility is based on LIBOR plus an applicable margin (currently 100 basis points) and is payable quarterly and upon maturity. The revolving credit facility may be extended, at the Company's option, for up to two additional one year periods, subject to customary conditions. As of July 30, 2016, the Company had no borrowings or standby letters of credit outstanding under this facility and the $600 million credit facility remains in place and available.

The revolving credit facility is subject to a financial leverage ratio covenant. As of July 30, 2016, the Company was in compliance with this covenant.

Note F: Taxes on Earnings

As of July 30, 2016, January 30, 2016, and August 1, 2015, the reserves for unrecognized tax benefits were $105.4 million, $94.2 million, and $105.2 million inclusive of $21.7 million, $18.8 million, and $20.8 million of related interest and penalties, respectively. The Company accounts for interest and penalties related to unrecognized tax benefits as a part of its provision for taxes on earnings. If recognized, $52.3 million would impact the Company's effective tax rate. The difference between the total amount of unrecognized tax benefits and the amounts that would impact the effective tax rate relates to amounts attributable to deferred income tax assets and liabilities. These amounts are net of federal and state income taxes.

It is reasonably possible that certain federal and state tax matters may be concluded or statutes of limitations may lapse during the next twelve months. Accordingly, the total amount of unrecognized tax benefits may decrease, reducing the provision for taxes on earnings by up to $5.0 million.

The Company is open to audit by the Internal Revenue Service under the statute of limitations for fiscal years 2012 through 2015. The Company's state income tax returns are generally open to audit under the various statutes of limitations for fiscal years 2011 through 2015. Certain federal and state tax returns are currently under audit by various tax authorities. The Company does not expect the results of these audits to have a material impact on the consolidated financial statements.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
Ross Stores, Inc.:

We have reviewed the accompanying condensed consolidated balance sheets of Ross Stores, Inc. and subsidiaries (the "Company") as of July 30, 2016 and August 1, 2015, and the related condensed consolidated statements of earnings and comprehensive income for the three month and six month periods ended July 30, 2016 and August 1, 2015 and of cash flows for the six month periods ended July 30, 2016 and August 1, 2015. These interim financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to such condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Ross Stores, Inc. and subsidiaries as of January 30, 2016, and the related consolidated statements of earnings, comprehensive income, stockholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated March 29, 2016, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of January 30, 2016, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/Deloitte & Touche LLP

San Francisco, California
September 7, 2016

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This section and other parts of this Form 10-Q contain forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from the results discussed in the forward-looking statements. Factors that might cause such differences include, but are not limited to, those discussed below under the caption "Forward-Looking Statements" and in Part I, Item 1A (Risk Factors) of our Annual Report on Form 10-K for 2015. The following discussion should be read in conjunction with the condensed consolidated financial statements and notes thereto included elsewhere in this Quarterly Report on Form 10-Q and the consolidated financial statements and notes thereto in our Annual Report on Form 10-K for 2015. All information is based on our fiscal calendar.

Overview

Ross Stores, Inc. operates two brands of off-price retail apparel and home fashion stores -- Ross Dress for Less® ("Ross") and dd's DISCOUNTS®. Ross is the largest off-price apparel and home fashion chain in the United States with 1,317 locations in 34 states, the District of Columbia and Guam as of July 30, 2016. Ross offers first-quality, in-season, name brand and designer apparel, accessories, footwear, and home fashions for the entire family at savings of 20% to 60% off department and specialty store regular prices every day. We also operate 184 dd's DISCOUNTS stores in 14 states that feature a more moderately-priced assortment of first-quality, in-season, name brand apparel, accessories, footwear, and home fashions for the entire family at savings of 20% to 70% off moderate department and discount store regular prices every day.

Results of Operations

The following table summarizes the financial results for the three and six month periods ended July 30, 2016 and August 1, 2015:

	Three Months Ended		Six Months Ended	
	July 30, 2016	August 1, 2015	July 30, 2016	August 1, 2015
Sales				
Sales (millions)	$3,181	$2,968	$6,270	$5,906
Sales growth	7.2 %	8.7 %	6.2 %	9.2 %
Comparable store sales growth	4 %	4 %	3 %	5 %
Costs and expenses (as a percent of sales)				
Cost of goods sold	70.8 %	71.4 %	70.6 %	70.9 %
Selling, general and administrative	14.8 %	14.7 %	14.5 %	14.3 %
Interest expense, net	0.1 %	0.0 %	0.1 %	0.1 %
Earnings before taxes (as a percent of sales)	14.3 %	13.9 %	14.8 %	14.7 %
Net earnings (as a percent of sales)	8.9 %	8.7 %	9.1 %	9.2 %

Stores. 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.

	Three Months Ended		Six Months Ended	
Store Count	July 30, 2016	August 1, 2015	July 30, 2016	August 1, 2015
Beginning of the period	1,473	1,399	1,446	1,362
Opened in the period	31	27	59	64
Closed in the period	(3)	(2)	(4)	(2)
End of the period	1,501	1,424	1,501	1,424

Sales. Sales for the three month period ended July 30, 2016 increased $213 million, or 7.2%, compared to the three month period ended August 1, 2015, due to the opening of 77 net new stores between August 1, 2015 and July 30, 2016 and a 4% increase in “comparable” store sales (defined as stores that have been open for more than 14 complete months).

Sales for the six month period ended July 30, 2016 increased $364 million, or 6.2%, compared to the six month period ended August 1, 2015, due to the opening of 77 net new stores between August 1, 2015 and July 30, 2016 and a 3% increase in comparable store sales.

Our sales mix for the three and six month periods ended July 30, 2016 and August 1, 2015 is shown below:

	Three Months Ended		Six Months Ended	
	July 30, 2016	August 1, 2015	July 30, 2016	August 1, 2015
Ladies	29 %	30 %	29 %	30 %
Home Accents and Bed and Bath	24 %	23 %	24 %	23 %
Shoes	13 %	13 %	14 %	13 %
Men's	14 %	14 %	13 %	13 %
Accessories, Lingerie, Fine Jewelry, and Fragrances	12 %	13 %	12 %	13 %
Children's	8 %	7 %	8 %	8 %
Total	100 %	100 %	100 %	100 %

We intend to address the competitive climate for off-price apparel and home goods by pursuing and refining our existing strategies and by continuing to strengthen our organization, diversify our merchandise mix, and more fully develop our systems to improve regional and local merchandise offerings. Although our strategies and store expansion program contributed to sales gains for the three and six month periods ended July 30, 2016, 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 for the three and six month periods ended July 30, 2016 increased $132 million and$241 million compared to the same periods in the prior year, mainly due to increased sales from the opening of 77 net new stores and a 4% and 3% increase in comparable store sales, respectively.

Cost of goods sold as a percentage of sales for the three month period ended July 30, 2016 decreased approximately 60 basis points from the same period in the prior year, primarily due to a 45 basis point increase in merchandise margin and lower distribution and buying costs of 10 and five basis points, respectively.

Cost of goods sold as a percentage of sales for the six month period ended July 30, 2016 decreased approximately 25 basis points from the same period in the prior year, mainly due to merchandise margins that increased 35 basis points and 10 basis points in lower buying costs. These improvements were partially offset by a 20 basis point increase in distribution expenses from the impact of opening a new distribution center in the second quarter of the prior year and the timing of packaway-related costs.

We cannot be sure that the gross profit margins realized for the three and six month periods ended July 30, 2016 will continue in the future.

Selling, general and administrative expenses. For the three and six month periods ended July 30, 2016, selling, general and administrative expenses ("SG&A") increased $34 million and $62 million compared to the same periods in the prior year, mainly due to increased store operating costs reflecting the opening of 77 net new stores between August 1, 2015 and July 30, 2016.

Selling, general and administrative expenses as a percentage of sales for the three and six month periods ended July 30, 2016 increased 10 and 15 basis points, respectively, compared to the same periods in the prior year primarily due to increases in hourly wages.

Interest expense, net. Net interest expense as a percentage of sales for the three and six month periods ended July 30, 2016 increased compared to the same periods in the prior year primarily due to a reduction of capitalized interest.

Interest expense for the three and six month periods ended July 30, 2016 and August 1, 2015 consists of the following:

	Three Months Ended		Six Months Ended	
($000)	July 30, 2016	August 1, 2015	July 30, 2016	August 1, 2015
Interest expense on long-term debt	$4,643	$ 4,642	$9,286	$ 9,284
Other interest expense	230	303	553	644
Capitalized interest	(5)	(3,193)	(9)	(6,002)
Interest income	(655)	(100)	(1,253)	(271)
Interest expense, net	$4,213	$ 1,652	$8,577	$ 3,655

Taxes on earnings. Our effective tax rate for the three month periods ended July 30, 2016 and August 1, 2015 was approximately 38% and 37%, respectively, and our effective tax rate for both the six month periods ended July 30, 2016 and August 1, 2015 was approximately 38%. The effective tax rate 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 2016 will be between 37% and 38%.

Net earnings. Net earnings as a percentage of sales for the three month period ended July 30, 2016 was higher compared to the same period in the prior year primarily due to lower cost of goods sold as a percentage of sales. Net earnings as a percentage of sales for the six month period ended July 30, 2016 was lower compared to the same period in the prior year due to higher taxes.

Earnings per share. Diluted earnings per share for the three and six month periods ended July 30, 2016 was $0.71 and $1.44, respectively, compared to $0.63 and $1.32, respectively, for the three and six month periods ended August 1, 2015. The increase in diluted earnings per share for both the three and six month periods ended July 30, 2016 is attributable to an increase in net earnings and a 3% reduction in weighted average diluted shares outstanding due to the stock repurchase program.

Financial Condition

Liquidity and Capital Resources

Our primary sources of funds for our business activities are cash flows from operations and short-term trade credit. Our primary ongoing cash requirements are for merchandise inventory purchases, payroll, rent, taxes, and capital expenditures in connection with new and existing stores, and investments in distribution centers, information systems, and buying and corporate offices. We also use cash to repurchase stock under our stock repurchase program and to pay dividends.

($000)	Six Months Ended July 30, 2016	August 1, 2015
Cash provided by operating activities	$779,554	$590,371
Cash used in investing activities	(147,055)	(193,297)
Cash used in financing activities	(466,383)	(463,394)
Net increase (decrease) in cash and cash equivalents	$166,116	$(66,320)

Operating Activities

Net cash provided by operating activities was $779.6 million and $590.4 million for the six month periods ended July 30, 2016 and August 1, 2015, respectively, and was primarily driven by net earnings excluding non-cash expenses for depreciation and amortization. Our primary source of operating cash flow is the sale of our merchandise inventory. We regularly review the age and condition of our merchandise and are able to maintain current merchandise inventory in our stores through replenishment processes and liquidation of slower-moving merchandise through clearance markdowns.

The increase in cash flow from operating activities for the six month period ended July 30, 2016, compared to the same period in the prior year was primarily driven by the changes in packaway inventory levels and the timing of packaway receipts versus last year and higher earnings. Changes in packaway inventory levels and the timing of packaway receipts and related payments versus last year resulted in higher accounts payable leverage (defined as accounts payable divided by merchandise inventory) which was 72%, 67%, and 69% as of July 30, 2016, January 30, 2016, and August 1, 2015, respectively.

As a regular part of our business, packaway inventory levels will vary over time based on availability of compelling opportunities in the marketplace. Packaway merchandise is purchased with the intent that it will be stored in our warehouses until a later date. The timing of the release of packaway inventory to our stores is principally driven by the product mix and seasonality of the merchandise, and its relation to our store merchandise assortment plans. As such, the aging of packaway varies by merchandise category and seasonality of purchases, but typically packaway remains in storage less than six months. We expect to continue to take advantage of packaway inventory opportunities to deliver bargains to our customers.

Changes in packaway inventory levels impact our operating cash flow. As of July 30, 2016, packaway inventory was 47% of total inventory compared to 47% at the end of fiscal 2015. As of August 1, 2015, packaway inventory was 46% of total inventory compared to 45% at the end of fiscal 2014.

Investing Activities

Net cash used in investing activities was $147.1 million and $193.3 million for the six month periods ended July 30, 2016 and August 1, 2015, respectively. The decrease in cash used for investing activities for the six month period ended July 30, 2016, compared to the six month period ended August 1, 2015 was primarily due to a reduction in our capital expenditures. The six month period ended August 1, 2015, included capital expenditures related to construction of a distribution center.

Our capital expenditures were $147.4 million and $193.1 million for the six month periods ended July 30, 2016 and August 1, 2015, respectively. Our capital expenditures include costs to build or expand distribution centers, open new stores and improve existing stores, and for various other expenditures related to our information technology systems, buying, and corporate offices.

We are currently forecasting approximately $325 million in capital expenditures for fiscal year 2016 to fund costs for fixtures and leasehold improvements to open new Ross and dd's DISCOUNTS stores, the upgrade or relocation of existing stores, investments in information technology systems, and for various other expenditures related to our stores, distribution centers, buying and corporate offices. Our planned capital expenditures of $325 million for fiscal year 2016 decreased from the amount of our most recent forecast of $425 million primarily due to the deferral of various distribution center projects. We expect to primarily fund capital expenditures with available cash and cash flows from operations.

Financing Activities

Net cash used in financing activities was $466.4 million and $463.4 million for the six month periods ended July 30, 2016 and August 1, 2015, respectively. For the six month periods ended July 30, 2016 and August 1, 2015, our liquidity and capital requirements were provided by available cash and cash flows from operations.

We repurchased 6.2 million and 6.9 million shares of common stock for aggregate purchase prices of approximately $351.5 million and $351.5 million during the six month periods ended July 30, 2016, and August 1, 2015, respectively. We also acquired 0.7 million and 1.2 million shares of treasury stock from our employee stock equity compensation programs, for aggregate purchase prices of approximately $39.3 million and $63.6 million during the six month periods ended July 30, 2016 and August 1, 2015, respectively. In February 2015, our Board of Directors approved a two-year $1.4 billion stock repurchase program for fiscal 2015 and 2016.

For the six month periods ended July 30, 2016 and August 1, 2015, we paid cash dividends of $108.1 million and $96.9 million, respectively.

Short-term trade credit represents a significant source of financing for merchandise inventory. Trade credit arises from customary payment terms and trade practices with our vendors. We regularly review the adequacy of credit available to us from all sources and expect to be able to maintain adequate trade credit, bank lines, and other credit sources to meet our capital and liquidity requirements, including lease payment obligations, in 2016.

In April 2016, we entered into a new $600 million unsecured revolving credit facility. This credit facility, which replaced our previous $600 million unsecured revolving credit facility, expires in April 2021 and contains a $300 million sublimit for issuance of standby letters of credit (subject to increase in proportion to any increase in the size of the credit facility). The facility also contains an option allowing us to increase the size of our revolving credit facility by up to an additional $200 million, with the agreement of the lenders. Interest on any borrowings under this facility is based on LIBOR plus an applicable margin (currently 100 basis points) and is payable quarterly and upon maturity. The revolving credit facility may be extended, at our option, for up to two additional one year periods, subject to customary conditions. As of July 30, 2016, we had no borrowings or standby letters of credit outstanding under this facility and the $600 million credit facility remains in place and available.

The revolving credit facility is subject to a financial leverage ratio covenant. As of July 30, 2016, we were in compliance with this covenant.

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 July 30, 2016:

($000)	Less than one year	1 - 3 years	3 - 5 years	After 5 years	Total[1]
Senior notes	$—	$85,000	$—	$315,000	$400,000
Interest payment obligations	18,105	33,499	25,364	31,653	108,621
Operating leases (rent obligations)	469,925	891,241	582,769	499,785	2,443,720
New York buying office ground lease[2]	6,418	12,835	12,835	949,360	981,448
Purchase obligations	2,134,726	7,782	1,392	—	2,143,900
Total contractual obligations	$2,629,174	$1,030,357	$622,360	$1,795,798	$6,077,689

[1]We have a $105.4 million liability for unrecognized tax benefits that is included in Other long-term liabilities on our interim Condensed Consolidated Balance Sheet. This liability is excluded from the schedule above as the timing of payments cannot be reasonably estimated.

[2]Our New York buying office building is subject to a total 99-year ground lease.

Senior notes. As of July 30, 2016, we had outstanding unsecured 3.375% Senior Notes due September 2024 with an aggregate principal amount of $250 million. Interest on the 2024 Notes is payable semi-annually.

As of July 30, 2016 we also had outstanding two other series of unsecured senior notes in the aggregate principal amount of $150 million, held by various institutional investors. 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%. Borrowings under these senior notes are subject to certain financial covenants, including interest coverage and other financial ratios. As of July 30, 2016, we were in compliance with these covenants.

The 2024 Notes, Series A, and Series B senior notes are all subject to prepayment penalties for early payment of principal.

Off-Balance Sheet Arrangements

Operating leases. We currently lease all but three of our store locations, three warehouse facilities, and a buying office. In addition, we have a ground lease related to our New York buying office. Except for certain leasehold improvements and equipment, these leased locations do not represent long-term capital investments.

Two of the warehouses are in Carlisle, Pennsylvania with leases expiring in 2017 and 2018. The third warehouse is in Fort Mill, South Carolina, with a lease expiring in 2019. The leases for the two Carlisle, Pennsylvania warehouses contain renewal provisions.

We currently lease approximately 68,000 square feet of office space for our Los Angeles buying office. The lease term for this facility expires in 2017 and contains renewal provisions.

Purchase obligations. As of July 30, 2016, we had purchase obligations of approximately $2,144 million. These purchase obligations primarily consist of merchandise inventory purchase orders, commitments related to construction projects, store fixtures and supplies, and information technology services, transportation, and maintenance contracts.

Standby letters of credit and collateral trust. We use standby letters of credit outside of our revolving credit facility in addition to a funded trust to collateralize our insurance obligations. As of July 30, 2016, January 30, 2016, and August 1, 2015, we had $15.3 million, $15.3 million, and $19.5 million, respectively, in standby letters of credit outstanding and $56.6 million, $56.4 million and $56.3 million, respectively, in a collateral trust. The standby letters of credit are collateralized by restricted cash and the collateral trust consists of restricted cash, cash equivalents, and investments.

Trade letters of credit. We had $45.9 million, $32.0 million, and $51.4 million in trade letters of credit outstanding at July 30, 2016, January 30, 2016, and August 1, 2015, respectively.

Dividends. In August 2016, our Board of Directors declared a cash dividend of $0.1350 per common share, payable on September 30, 2016.

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.

Critical Accounting Policies

Management's Discussion and Analysis of Financial Condition and Results of Operations is based on our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of our condensed 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. Actual results may differ significantly from these estimates. During the second quarter of fiscal 2016, there have been no significant changes to the policies discussed in our Annual Report on Form 10-K for the year ended January 30, 2016.

Recently issued accounting standards. In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2016-09, Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. This ASU simplifies several aspects of the accounting for share-based payment transactions, including income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 is effective for our annual and interim reporting periods beginning in fiscal 2017. We are currently assessing the impact adoption of this standard will have on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). This ASU requires balance sheet recognition for all leases with lease terms greater than one year including a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. ASU 2016-02 is effective for our annual and interim reporting periods beginning in fiscal 2019. We are currently evaluating the effect adoption of this new guidance will have on our consolidated financial statements.

Recently issued and adopted accounting standards. In November 2015, the FASB issued ASU 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes, which simplifies the presentation of deferred taxes by requiring deferred tax assets and liabilities be classified as noncurrent on the balance sheet. We early adopted ASU 2015-17 retrospectively, as of January 30, 2016. As a result, $10.7 million of our deferred tax assets previously presented in current assets have been reclassified to long-term deferred tax liabilities in the Condensed Consolidated Balance Sheet as of August 1, 2015. Adoption of this standard did not impact results of operations, retained earnings, or cash flows in the current or previous annual reporting periods.

Forward-Looking Statements

This report may contain a number of forward-looking statements regarding planned store growth, new markets, expected sales, projected earnings levels, capital expenditures, and other matters. These forward-looking statements reflect our then-current beliefs, projections, and estimates with respect to future events and our projected financial performance, operations, and competitive position. The words “plan,” “expect,” “target,” “anticipate,” “estimate,” “believe,” “forecast,” “projected,” “guidance,” “looking ahead” and similar expressions identify forward-looking statements.

Future economic and industry trends that could potentially impact revenue, profitability, and growth are difficult to predict. 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. Such risks are not limited to but may include:

- Competitive pressures in the apparel and home-related merchandise retailing industry, which are high.
- Unexpected changes in the level of consumer spending on or preferences for apparel and home-related merchandise.
- Unseasonable weather that may affect shopping patterns and consumer demand for seasonal apparel and other merchandise.
- Impacts from the macro-economic environment, financial and credit markets, and geopolitical conditions that affect consumer confidence and consumer disposable income.
- In order to achieve our planned gross margins, we must effectively manage our inventories, markdowns, and inventory shortage.
- We depend on the market availability, quantity, and quality of attractive brand name merchandise at desirable discounts, and on the ability of our buyers to purchase merchandise to enable us to offer customers a wide assortment of merchandise at competitive prices.
- Data security breaches, including cyber-attacks on our transaction processing and computer information systems, which could result in theft or unauthorized disclosure of customer, credit card, employee, or other private and valuable information that we handle in the ordinary course of our business.
- Disruptions in our supply chain or in our information systems that could impact our ability to process sales and to deliver product to our stores in a timely and cost-effective manner.
- To achieve growth, we need to expand in existing markets and enter new geographic markets.
- We need to obtain acceptable new store sites with favorable consumer demographics to achieve our planned growth.
- Consumer problems or legal issues involving the quality, safety, or authenticity of products we sell.
- An adverse outcome in various legal, regulatory, or tax matters could increase our costs.
- Damage to our corporate reputation or brands could adversely affect our sales and operating results.
- Our inability to continually attract, train, and retain associates with the retail talent necessary to execute our off-price retail strategies.
- Our inability to effectively advertise and market our business.
- Risks associated with importing merchandise from other countries.
- A natural or man-made disaster in California or in another region where we have a concentration of stores, offices, or a distribution center could harm our business.
- We may experience volatility in revenues and earnings.
- To support our continuing operations, our new store and distribution center growth plans, and our stock repurchase program and quarterly dividends, we must maintain sufficient liquidity.

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 3. 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 July 30, 2016.

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 July 30, 2016, we had no borrowings outstanding under our revolving credit facility.

We have two outstanding series of unsecured notes held by institutional investors: Series A Senior Notes due December 2018 for $85 million accrues interest at 6.38% and Series B Senior Notes due December 2021 for $65 million accrues interest at 6.53%. The amount outstanding under these notes as of July 30, 2016 was $150 million. We also have outstanding unsecured 3.375% Senior Notes due September 2024 with an aggregate principal amount of $250 million. Interest that is payable on our senior notes is based on fixed interest rates, and is therefore unaffected by changes in market interest rates.

Interest is receivable on our short- and long-term investments. Changes in interest rates may impact interest income recognized in the future, or the fair value of our investment portfolio.

A hypothetical 100 basis point increase or decrease in prevailing market interest rates would not have a material impact on our consolidated financial position, results of operations, cash flows, or the fair values of our short- and long-term investments as of and for the three month period ended July 30, 2016. 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 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of our “disclosure controls and procedures” (as defined in Exchange Act Rule 13a-15(e)) as of the end of the period covered by this report. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at that reasonable assurance level as of the end of the period covered by this report.

It should be noted that any system of controls, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system will be met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events.

Quarterly Evaluation of Changes in Internal Control Over Financial Reporting

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, also conducted an evaluation of our internal control over financial reporting to determine whether any change occurred during the second fiscal quarter of 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. Based on that evaluation, our management concluded that there was no such change during the 2016 second fiscal quarter.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The matters under the caption "Litigation, claims, and assessments" in Note A of Notes to Condensed Consolidated Financial Statements are incorporated herein by reference.

ITEM 1A. RISK FACTORS

See Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended January 30, 2016 for a description of the risks and uncertainties associated with our business.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Information regarding shares of common stock we repurchased during the second quarter of fiscal 2016 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)[2]
May (5/01/2016 - 5/28/2016)	844,039	$55.40	819,167	$478,800
June (5/29/2016 - 7/02/2016)	1,362,447	$54.17	1,342,471	$406,100
July (7/03/2016 - 7/30/2016)	977,216	$58.93	977,001	$348,500
Total	3,183,702	$55.96	3,138,639	$348,500

[1]We acquired 45,063 shares of treasury stock during the quarter ended July 30, 2016. Treasury stock includes shares acquired 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 February 2015 our Board of Directors approved a two-year $1.4 billion stock repurchase program for fiscal 2015 and 2016.

ITEM 6. EXHIBITS

Incorporated herein by reference to the list of exhibits contained in the Index to Exhibits within this Report.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

ROSS STORES, INC.
(Registrant)

Date:	September 7, 2016	By:	/s/Michael J. Hartshorn
			Michael J. Hartshorn
			Group Senior Vice President, Chief Financial Officer, and Principal Accounting Officer

INDEX TO EXHIBITS

Exhibit Number	Exhibit
3.1	Certificate of Incorporation of Ross Stores, Inc. as amended (Corrected First Restated Certificate of Incorporation, dated March 17, 1999, together with amendments thereto through Amendment of Certificate of Incorporation dated May 29, 2015) incorporated by reference to Exhibit 3.1 to the Form 10-Q filed by Ross Stores, Inc. for its quarter ended August 1, 2015.
3.2	Ross Stores, Inc. Bylaws (as amended January 23, 2013; as corrected August 11, 2016).
10.1	Second Amended and Restated Ross Stores, Inc. Incentive Compensation Plan.
10.2	Third Amendment to the Employment Agreement effective May 18, 2016 between Michael Balmuth and Ross Stores, Inc.
15	Letter re: Unaudited Interim Financial Information from Deloitte & Touche LLP dated September 7, 2016.
31.1	Certification of Chief Executive Officer Pursuant to Sarbanes-Oxley Act Section 302(a).
31.2	Certification of Chief Financial Officer Pursuant to Sarbanes-Oxley Act Section 302(a).
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350.
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase