ROSS STORES INC
Form 10-Q/A
July 07, 2016

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

FORM 10-Q/A
(Amendment No. 1)
(Mark one)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended April 30, 2016
or
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 May 18, 2016 was 399,509,797.

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EXPLANATORY NOTE

The sole purpose of this Amendment No. 1 to our Quarterly Report on Form 10-Q is to correct the inadvertent omission of conformed electronic signatures for our Chief Executive Officer and Chief Financial Officer on the Sarbanes-Oxley Act Section 302(a) and Section 906 certifications attached as exhibits. Both officers had previously executed manual certifications on the original filing date of June 8, 2016. We have updated the attached certifications in Exhibits 31.1, 31.2, 32.1, and 32.2 and conformed their electronic signatures accordingly.

No changes have been made to the original Form 10-Q. This Form 10-Q/A speaks as of the original filing date and time of the Form 10-Q, and does not update any disclosures made in the Form 10-Q.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Condensed Consolidated Statements of Earnings

($000, except stores and per share data, unaudited)	Three Months Ended April 30, 2016	May 2, 2015
Sales	$3,088,995	$2,938,148
Costs and Expenses		
Cost of goods sold	2,176,205	2,067,455
Selling, general and administrative	436,924	409,298
Interest expense, net	4,364	2,003
Total costs and expenses	2,617,493	2,478,756
Earnings before taxes	471,502	459,392
Provision for taxes on earnings	180,868	177,187
Net earnings	$290,634	$282,205
Earnings per share		
Basic	$0.73	$0.69
Diluted	$0.73	$0.69
Weighted average shares outstanding (000)		
Basic	395,799	407,653
Diluted	398,812	411,386
Dividends		
Cash dividends declared per share	$0.1350	$0.1175
Stores open at end of period	1,473	1,399

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

Condensed Consolidated Statements of Comprehensive Income

($000, unaudited)	Three Months Ended April 30, 2016	May 2, 2015
Net earnings	$290,634	$282,205
Other comprehensive (loss) income:		
Change in unrealized loss on investments, net of tax	(12)	(82)
Comprehensive income	$290,622	$282,123

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

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Condensed Consolidated Balance Sheets

($000, unaudited)	April 30, 2016	January 30, 2016	May 2, 2015
Assets			
Current Assets			
Cash and cash equivalents	$910,025	$761,602	$761,356
Short-term investments	1,727	1,737	500
Accounts receivable	96,244	73,627	88,258
Merchandise inventory	1,498,449	1,419,104	1,504,281
Prepaid expenses and other	122,678	116,125	119,381
Total current assets	2,629,123	2,372,195	2,473,776
Property and Equipment			
Land and buildings	1,090,045	1,084,328	948,551
Fixtures and equipment	2,276,885	2,244,790	1,962,115
Leasehold improvements	938,488	920,392	876,002
Construction-in-progress	64,158	90,399	302,464
	4,369,576	4,339,909	4,089,132
Less accumulated depreciation and amortization	2,051,120	1,997,003	1,812,385
Property and equipment, net	2,318,456	2,342,906	2,276,747
Long-term investments	1,333	1,331	3,141
Other long-term assets	165,265	152,687	169,795
Total assets	$5,114,177	$4,869,119	$4,923,459
Liabilities and Stockholders' Equity			
Current Liabilities			
Accounts payable	$1,056,257	$945,559	$1,128,808
Accrued expenses and other	382,107	376,522	389,804
Accrued payroll and benefits	201,830	280,766	198,081
Income taxes payable	110,702	—	108,314
Total current liabilities	1,750,896	1,602,847	1,825,007
Long-term debt	396,142	396,025	395,677
Other long-term liabilities	286,897	268,168	296,490
Deferred income taxes	140,801	130,088	72,786
Commitments and contingencies			
Stockholders' Equity			
Common stock	4,001	4,023	4,120
Additional paid-in capital	1,159,933	1,122,329	1,066,494
Treasury stock	(266,452)	(229,525)	(222,571)
Accumulated other comprehensive income	170	182	248
Retained earnings	1,641,789	1,574,982	1,485,208
Total stockholders' equity	2,539,441	2,471,991	2,333,499
Total liabilities and stockholders' equity	$5,114,177	$4,869,119	$4,923,459

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)	Three Months Ended April 30, 2016	Three Months Ended May 2, 2015
Cash Flows From Operating Activities		
Net earnings	$290,634	$282,205
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	73,878	63,316
Stock-based compensation	17,716	14,288
Deferred income taxes	10,713	(944)
Tax benefit from equity issuance	20,538	37,320
Excess tax benefit from stock-based compensation	(20,538)	(37,255)
Change in assets and liabilities:		
Merchandise inventory	(79,345)	(131,606)
Other current assets	(29,150)	(27,539)
Accounts payable	123,886	143,038
Other current liabilities	54,415	63,217
Other long-term, net	6,333	7,948
Net cash provided by operating activities	469,080	413,988
Cash Flows From Investing Activities		
Additions to property and equipment	(79,724)	(106,928)
Increase in restricted cash and investments	(44)	(9)
Purchases of investments	—	(718)
Proceeds from investments	—	601
Net cash used in investing activities	(79,768)	(107,054)
Cash Flows From Financing Activities		
Excess tax benefit from stock-based compensation	20,538	37,255
Issuance of common stock related to stock plans	5,500	7,036
Treasury stock purchased	(36,933)	(61,977)
Repurchase of common stock	(175,758)	(175,757)
Dividends paid	(54,236)	(48,743)
Net cash used in financing activities	(240,889)	(242,186)
Net increase in cash and cash equivalents	148,423	64,748
Cash and cash equivalents:		
Beginning of period	761,602	696,608
End of period	$910,025	$761,356
Supplemental Cash Flow Disclosures		
Interest paid	$4,219	$4,148
Income taxes paid	$26,763	$43,302

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

Notes to Condensed Consolidated Financial Statements

Three Months Ended April 30, 2016 and May 2, 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 April 30, 2016 and May 2, 2015, the results of operations and comprehensive income for the three month periods ended April 30, 2016 and May 2, 2015, and cash flows for the three month periods ended April 30, 2016 and May 2, 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 month periods ended April 30, 2016 and May 2, 2015 presented herein are not necessarily indicative of the results to be expected for the full fiscal year.

Stock dividend. In March 2015, the Company's Board of Directors declared a two-for-one split of the Company's common stock issued in the form of a stock dividend. Stockholders of record as of April 22, 2015 were issued one additional share of common stock on June 11, 2015 for each share held. All share and per share amounts have been adjusted to reflect the stock split.

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 April 30, 2016, January 30, 2016, and May 2, 2015:

Restricted Assets ($000)	April 30, 2016	January 30, 2016	May 2, 2015
Prepaid expenses and other	$15,778	$ 15,770	$19,706
Other long-term assets	55,940	55,913	56,085
Total	$71,718	$ 71,683	$75,791

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

Property and equipment. As of April 30, 2016 and May 2, 2015, the Company had $5.6 million and $18.0 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 2016 and $0.1175 per common share in February, May, August, and November 2015, respectively.

In May 2016, the Company's Board of Directors declared a cash dividend of $0.1350 per common share, payable on June 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 April 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 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 Financial Accounting Standards Board (“FASB”) issued ASU 2016-02, Leases (Topic 842). This ASU requires balance sheet recognition of the following 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. ASU 2015-17 is effective for annual and interim reporting periods after December 15, 2016, with early adoption permitted. The Company early adopted ASU 2015-17 retrospectively, as of January 30, 2016. As a result, $12.6 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 May 2, 2015. Adoption of this standard did not impact results of operations, retained earnings, or cash flows in the current or previous annual reporting periods. See Note F.

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 month periods ended April 30, 2016. The fair value of the Company's financial instruments are as follows:

($000)	April 30, 2016	January 30, 2016	May 2, 2015
Cash and cash equivalents (Level 1)	$910,025	$ 761,602	$761,356
Investments (Level 2)	$3,060	$ 3,068	$3,641
Restricted cash and cash equivalents (Level 1)	$67,998	$ 67,947	$72,006
Restricted investments (Level 1)	$3,720	$ 3,736	$3,785

The underlying assets in the Company's non-qualified deferred compensation program as of April 30, 2016, January 30, 2016, and May 2, 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)	April 30, 2016	January 30, 2016	May 2, 2015
Level 1	$81,285	$ 73,633	$89,536
Level 2	15,519	12,440	13,325
Total	$96,804	$ 86,073	$102,861

Note C: Stock-Based Compensation

Stock-based compensation. For the three month periods ended April 30, 2016 and May 2, 2015, the Company recognized stock-based compensation expense as follows:

($000)	Three Months Ended	
	April 30, 2016	May 2, 2015

Restricted stock	$9,065	$8,573
Performance awards	7,949	5,106
Employee stock purchase plan	702	609
Total	$17,716	$14,288

Total stock-based compensation recognized in the Company's Condensed Consolidated Statements of Earnings for the three month periods ended April 30, 2016 and May 2, 2015 is as follows:

Statements of Earnings Classification ($000)	Three Months Ended April 30, 2016	May 2, 2015
Cost of goods sold	$7,830	$7,063
Selling, general and administrative	9,886	7,225
Total	$17,716	$14,288

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 month periods ended April 30, 2016 and May 2, 2015, shares purchased by the Company for tax withholding totaled 636,997 and 1,173,198, 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 April 30, 2016, shares related to unvested restricted stock and performance share awards totaled 5.6 million shares. A summary of restricted stock and performance share award activity for the three month period ended April 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	1,154	56.41
Released	(1,575)	26.99
Forfeited	(81)	34.09
Unvested at April 30, 2016	5,602	$ 41.82

The unamortized compensation expense at April 30, 2016 was $130.2 million which is expected to be recognized over a weighted-average remaining period of 2.4 years. The unamortized compensation expense at May 2, 2015 was $120.9 million, which was expected to be recognized over a weighted-average remaining period of 2.3 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 three month period ended April 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	$ 7.34		
Granted	—	—		
Exercised	(210)	7.26		
Forfeited	—	—		
Outstanding at April 30, 2016, all vested	100	$ 7.52	0.59	$ 4,928

No stock options were granted during the three month periods ended April 30, 2016 and May 2, 2015.

The following table summarizes information about the weighted average remaining contractual life (in years) and the weighted average exercise prices for stock options both outstanding and exercisable as of April 30, 2016 (number of shares in thousands):

	Options outstanding and exercisable		
Exercise price range	Number of shares	Remaining life	Exercise price
$6.08 to $6.35	8	0.34	$ 6.22
6.89 to 6.89	37	0.05	6.89
7.66 to 8.19	55	1.00	8.13
$6.08 to $8.19	100	0.59	$ 7.52

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 month periods ended April 30, 2016 and May 2, 2015, approximately 300 and 285,100 weighted average shares, respectively, were excluded from the calculation of diluted EPS because their effect would have been anti-dilutive for those periods presented.

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

	Three Months Ended		
Shares in (000s)	Basic EPS	Effect of dilutive common stock equivalents	Diluted EPS
April 30, 2016			
Shares	395,799	3,013	398,812
Amount	$0.73	$ —	$ 0.73
May 2, 2015			
Shares	407,653	3,733	411,386
Amount	$0.69	$ —	$ 0.69

Note E: Debt

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

($000)	April 30, 2016	January 30, 2016	May 2, 2015
6.38% Series A Senior Notes due 2018	$84,914	$ 84,906	$84,881
6.53% Series B Senior Notes due 2021	64,887	64,882	64,866
3.375% Senior Notes due 2024	246,341	246,237	245,930
Total	$396,142	$ 396,025	$395,677

As of April 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 April 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 April 30, 2016, the Company was in compliance with these covenants.

As of April 30, 2016, January 30, 2016, and May 2, 2015, total unamortized discount and debt issuance costs were $3.9 million, $4.0 million, and $4.3 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 $431 million, $423 million, and $430 million as of April 30, 2016, January 30, 2016, and May 2, 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 month periods ended April 30, 2016 and May 2, 2015 consisted of the following:

($000)	Three Months Ended April 30, 2016	May 2, 2015
Interest expense on long-term debt	$4,643	$4,642
Other interest expense	323	341
Capitalized interest	(4)	(2,810)
Interest income	(598)	(170)
Interest expense, net	$4,364	$2,003

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 April 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 certain financial covenants that include a leverage ratio. As of April 30, 2016, the Company was in compliance with these covenants.

Note F: Taxes on Earnings

As of April 30, 2016, January 30, 2016, and May 2, 2015, the reserves for unrecognized tax benefits were $100.1 million, $94.2 million, and $108.1 million inclusive of $20.3 million, $18.8 million, and $25.1 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, $49.4 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.

The Company believes 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 $5.1 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.

Report of Independent Registered Public Accounting Firm

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

We have reviewed the accompanying condensed consolidated balance sheets of Ross Stores, Inc. and subsidiaries (the "Company") as of April 30, 2016 and May 2, 2015, and the related condensed consolidated statements of earnings and comprehensive income and of cash flows for the three month periods ended April 30, 2016 and May 2, 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
June 8, 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 1,295 locations in 34 states, the District of Columbia and Guam as of April 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 178 dd’s DISCOUNTS stores in 15 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.

Stock dividend. In March 2015, we declared a two-for-one split of our common stock issued in the form of a stock dividend. Stockholders of record as of April 22, 2015 were issued one additional share of common stock on June 11, 2015 for each share held. All share and per share amounts in this report have been adjusted to reflect the stock split.

Results of Operations

The following table summarizes the financial results for the three month periods ended April 30, 2016 and May 2, 2015:

	Three Months Ended			
	April 30, 2016		May 2, 2015	
Sales				
Sales (millions)	$3,089		$2,938	
Sales growth	5.1	%	9.6	%
Comparable store sales growth	2	%	5	%
Costs and expenses (as a percent of sales)				
Cost of goods sold	70.5	%	70.4	%
Selling, general and administrative	14.1	%	13.9	%
Interest expense, net	0.1	%	0.1	%
Earnings before taxes (as a percent of sales)	15.3	%	15.6	%
Net earnings (as a percent of sales)	9.4	%	9.6	%

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	
Store Count	April 30, 2016	May 2, 2015
Beginning of the period	1,446	1,362
Opened in the period	28	37
Closed in the period	(1)	—
End of the period	1,473	1,399

Sales. Sales for the three month period ended April 30, 2016 increased $151 million, or 5.1%, compared to the three month period ended May 2, 2015, due to the opening of 74 net new stores between May 2, 2015 and April 30, 2016 and a 2% increase in “comparable” store sales (defined as stores that have been open for more than 14 complete months).

Our sales mix for the three month periods ended April 30, 2016 and May 2, 2015 is shown below:

	Three Months Ended	
	April 30, 2016	May 2, 2015
Ladies	29 %	30 %
Home Accents and Bed and Bath	24 %	23 %
Shoes	14 %	14 %
Accessories, Lingerie, Fine Jewelry, and Fragrances	13 %	13 %
Men's	12 %	12 %
Children's	8 %	8 %
Total	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 month period ended April 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 month period ended April 30, 2016 increased $109 million compared to the same period in the prior year, mainly due to increased sales from the opening of 74 net new stores and a 2% increase in comparable store sales.

Cost of goods sold as a percentage of sales for the three month period ended April 30, 2016 increased approximately 10 basis points from the same period in the prior year, mainly due to a 55 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 that benefited the first quarter of 2015. These expenses were partially offset by merchandise margins that increased 35 basis points and also by 10 basis points in lower buying costs.

We cannot be sure that the gross profit margins realized for the three month period ended April 30, 2016 will continue in the future.

Selling, general and administrative expenses. For the three month period ended April 30, 2016, selling, general and administrative expenses ("SG&A") increased $28 million compared to the same period in the prior year, mainly due to increased store operating costs reflecting the opening of 74 net new stores between May 2, 2015 and April 30, 2016.

Selling, general and administrative expenses as a percentage of sales for the three month period ended April 30, 2016 increased 20 basis points compared to the same period in the prior year due to lack of leverage from the two percent increase in comparable store sales and increases in hourly wages.

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

Interest expense for the three month periods ended April 30, 2016 and May 2, 2015 consists of the following:

($000)	Three Months Ended	
	April 30, 2016	May 2, 2015
Interest expense on long-term debt	$4,643	$4,642
Other interest expense	323	341
Capitalized interest	(4)	(2,810)
Interest income	(598)	(170)
Interest expense, net	$4,364	$2,003

Taxes on earnings. Our effective tax rates for the three month periods ended April 30, 2016 and May 2, 2015 were approximately 38% and 39%, respectively. 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 April 30, 2016 was lower compared to the same period in the prior year primarily due to higher cost of goods sold and higher SG&A expenses as a percentage of sales.

Earnings per share. Diluted earnings per share for the three month period ended April 30, 2016 was $0.73 compared to $0.69 for the three month period ended May 2, 2015. The increase in diluted earnings per share for the three month period ended April 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)	Three Months Ended	
	April 30, 2016	May 2, 2015
Cash provided by operating activities	$469,080	$413,988

Cash used in investing activities	(79,768)	(107,054)
Cash used in financing activities	(240,889)	(242,186)
Net increase in cash and cash equivalents	$148,423	$64,748

Operating Activities

Net cash provided by operating activities was $469.1 million and $414.0 million for the three month periods ended April 30, 2016 and May 2, 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 three month period ended April 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 lower accounts payable leverage (defined as accounts payable divided by merchandise inventory) which was 70%, 67%, and 75% as of April 30, 2016, January 30, 2016, and May 2, 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 April 30, 2016, packaway inventory was 46% of total inventory compared to 47% at the end of fiscal 2015. As of May 2, 2015, packaway inventory was 45% of total inventory compared to 45% at the end of fiscal 2014.

Investing Activities

Net cash used in investing activities was $79.8 million and $107.1 million for the three month periods ended April 30, 2016 and May 2, 2015, respectively. The decrease in cash used for investing activities for the three month period ended April 30, 2016, compared to the three month period ended May 2, 2015 was primarily due to a reduction in our capital expenditures.

Our capital expenditures were $79.7 million and $106.9 million for the