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

# FORM 10-Q

**(Mark one)**

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

**For the quarterly period ended July 29, 2006**

**or**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from _______ to _______**

**Commission file number: 0-14678**

# Ross Stores, Inc.

**(Exact name of registrant as specified in its charter)**

| | |
|---|---|
| **Delaware** | **94-1390387** |
| **(State or other jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification No.)** |
| **4440 Rosewood Drive, Pleasanton, California** | **94588-3050** |
| **(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 ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

The number of shares of Common Stock, with $.01 par value, outstanding on August 17, 2006 was 141,106,256.

## PART I. FINANCIAL INFORMATION

### Item 1. Financial Statements

### Condensed Consolidated Statements of Earnings

| ($000, except per share data, unaudited) | Three Months Ended July 29, 2006 | Three Months Ended July 30, 2005 | Six Months Ended July 29, 2006 | Six Months Ended July 30, 2005 |
|---|---|---|---|---|
| **Sales** | **$ 1,308,052** | $ 1,171,862 | **$ 2,599,728** | $ 2,295,799 |
| **Costs and expenses** | | | | |
| Cost of goods sold | **1,024,130** | 919,166 | **2,012,966** | 1,784,165 |
| Selling, general and administrative | **210,635** | 183,652 | **417,802** | 360,705 |
| Interest income, net | **(1,554)** | (580) | **(3,438)** | (878) |
| Total costs and expenses | **1,233,211** | 1,102,238 | **2,427,330** | 2,143,992 |
| Earnings before taxes | **74,841** | 69,624 | **172,398** | 151,807 |
| Provision for taxes on earnings | **29,464** | 27,345 | **67,804** | 59,478 |
| Net earnings | **$ 45,377** | $ 42,279 | **$ 104,594** | $ 92,329 |
| **Earnings per share** | | | | |
| Basic | **$ .32** | $ .29 | **$ .74** | $ .63 |
| Diluted | **$ .32** | $ .29 | **$ .73** | $ .62 |
| **Weighted average shares outstanding (000)** | | | | |
| Basic | **140,348** | 145,102 | **140,991** | 145,555 |
| Diluted | **142,698** | 147,321 | **143,454** | 147,894 |
| **Dividends per share** | | | | |
| Cash dividends declared per share | **$ .06** | $ .05 | **$ .06** | $ .05 |
| Stores open at end of period | **770** | 695 | **770** | 695 |

See notes to condensed consolidated financial statements.

**Condensed Consolidated Balance Sheets**

| ($000, unaudited) | July 29, 2006 | January 28, 2006 | July 30, 2005 |
|---|---|---|---|
| | | (Note A) | |
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | **$ 59,351** | $ 191,767 | $ 119,397 |
| Short-term investments | **7,417** | 12,763 | 25,800 |
| Accounts receivable | **33,904** | 29,122 | 35,371 |
| Merchandise inventory | **959,792** | 938,091 | 975,846 |
| Prepaid expenses and other | **50,567** | 37,090 | 51,060 |
| Deferred income taxes | **20,014** | 20,014 | 8,968 |
| Total current assets | **1,131,045** | 1,228,847 | 1,216,442 |
| **Property and equipment** | | | |
| Land and buildings | **138,036** | 74,298 | 70,029 |
| Fixtures and equipment | **794,591** | 740,540 | 686,680 |
| Leasehold improvements | **386,320** | 376,411 | 350,311 |
| Construction-in-progress | **33,185** | 21,266 | 28,298 |
| | **1,352,132** | 1,212,515 | 1,135,318 |
| Less accumulated depreciation and amortization | **618,227** | 572,663 | 526,444 |
| Property and equipment, net | **733,905** | 639,852 | 608,874 |
| Other long-term assets | **58,057** | 58,837 | 53,025 |
| Long-term investments | **13,140** | 11,202 | — |
| Total assets | **$ 1,936,147** | $ 1,938,738 | $ 1,878,341 |
| **Liabilities and stockholders' equity** | | | |
| **Current liabilities** | | | |
| Accounts payable | **$ 537,928** | $ 474,614 | $ 534,253 |
| Accrued expenses and other | **191,581** | 200,723 | 160,527 |
| Accrued payroll and benefits | **131,082** | 128,060 | 112,455 |
| Income taxes payable | — | 25,586 | — |
| Short-term debt | — | 50,000 | — |
| Total current liabilities | **860,591** | 878,983 | 807,235 |
| Long-term debt | — | — | 50,000 |
| Other long-term liabilities | **123,760** | 122,926 | 115,127 |
| Deferred income taxes | **94,747** | 100,657 | 96,767 |
| Commitments and contingencies | | | |
| **Stockholders' equity** | | | |
| Common stock | **1,421** | 1,448 | 1,469 |
| Additional paid-in capital | **510,143** | 522,566 | 507,443 |
| Treasury stock | **(20,596)** | (18,244) | (17,578) |
| Deferred compensation | — | (29,375) | (37,114) |
| Accumulated other comprehensive (loss) income | **(173)** | 20 | — |
| Retained earnings | **366,254** | 359,757 | 354,992 |
| Total stockholders' equity | **857,049** | 836,172 | 809,212 |
| Total liabilities and stockholders' equity | **$ 1,936,147** | $ 1,938,738 | $ 1,878,341 |

See notes to condensed consolidated financial statements.

**Condensed Consolidated Statements of Cash Flows**

| ($000, unaudited) | Six Months Ended July 29, 2006 | Six Months Ended July 30, 2005 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Net earnings | **$ 104,594** | $ 92,329 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Depreciation and amortization | **50,915** | 44,891 |
| Stock-based compensation | **13,621** | 7,873 |
| Deferred income taxes | **(3,092)** | 4,566 |
| Tax benefit from equity issuance | **6,280** | 17,430 |
| Excess tax benefits from stock-based compensation | **(1,243)** | — |
| Change in assets and liabilities: | | |
| Merchandise inventory | **(21,701)** | (122,734) |
| Other current assets, net | **(18,259)** | (8,521) |
| Accounts payable | **71,954** | 89,727 |
| Other current liabilities | **(36,743)** | 13,283 |
| Other long-term, net | **2,770** | 1,147 |
| Net cash provided by operating activities | **169,096** | 139,991 |
| **Cash Flows Used in Investing Activities** | | |
| Purchase of assets under lease | **(87,329)** | — |
| Other additions to property and equipment | **(58,794)** | (96,200) |
| Sales of investments, net | **3,215** | 41,600 |
| Net cash used in investing activities | **(142,908)** | (54,600) |
| **Cash Flows Used in Financing Activities** | | |
| Repayment of term debt | **(50,000)** | — |
| Issuance of common stock related to stock plans | **8,550** | 28,391 |
| Excess tax benefits from stock-based compensation | **1,243** | — |
| Treasury stock purchased | **(2,352)** | (5,960) |
| Repurchase of common stock | **(98,867)** | (89,009) |
| Dividends paid | **(17,178)** | (14,747) |
| Net cash used in financing activities | **(158,604)** | (81,325) |
| Net (decrease) increase in cash and cash equivalents | **(132,416)** | 4,066 |
| Cash and cash equivalents: | | |
| Beginning of period | **191,767** | 115,331 |
| End of period | **$ 59,351** | $ 119,397 |
| **Non-Cash Investing Activities** | | |
| Straight-line rent capitalization in build-out period | **$ —** | $ 1,608 |
| Change in fair value of investment securities | **$ (192)** | $ — |

See notes to condensed consolidated financial statements.

**Notes to Interim Condensed Consolidated Financial Statements**

Three and Six Months Ended July 29, 2006 and July 30, 2005
(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 except as described below) necessary to present fairly the Company's financial position as of July 29, 2006 and July 30, 2005; the results of operations for the three and six months ended July 29, 2006 and July 30, 2005; and cash flows for the six months ended July 29, 2006 and July 30, 2005. The Condensed Consolidated Balance Sheet as of January 28, 2006, presented herein, has been derived from the Company's audited consolidated financial statements for the fiscal year then ended.

Accounting policies followed by the Company are described in Note A to the audited consolidated financial statements for the fiscal year ended January 28, 2006. 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 the interim condensed consolidated financial statements. The interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements, including notes thereto, contained in the Company's Annual Report on Form 10-K for the year ended January 28, 2006.

The results of operations for the three and six-month periods herein presented are not necessarily indicative of the results to be expected for the full year.

**Stock-based compensation.** Effective in fiscal year 2006, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 123(R), "Share-Based Payment," and elected to adopt the standard using the modified prospective transition method. SFAS No. 123(R) replaces SFAS No. 123, "Accounting for Stock-Based Compensation," and supersedes Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." This new accounting standard requires recognition of compensation expense based upon the grant date fair value of all stock-based awards, typically over the vesting period. Prior periods were not revised for comparative purposes.

**Reclassifications.** In prior periods, stock-based compensation expense and incentive compensation expense were included in Selling, general and administrative expenses. In accordance with SEC Staff Accounting Bulletin ("SAB") No. 107, which provides guidance on implementation of SFAS No. 123(R), all compensation-related expenses should be recorded in a manner similar to other employee payroll costs. Therefore, for prior periods, the Company has reclassified the portion of stock-based compensation and incentive compensation that relates to personnel in the merchandising and distribution organizations from Selling, general and administrative expense to Cost of goods sold. Beginning in fiscal year 2006, the portion of stock option and employee stock purchase plan ("ESPP") expenses included in stock-based compensation expense for personnel in the merchandising and distribution organizations is included in Cost of goods sold.

Under the provisions of SFAS No. 123(R), Deferred compensation previously reported as a contra-equity amount and representing the amount of unamortized value of restricted stock issued is no longer reported separately. Accordingly, Deferred compensation in the Condensed Consolidated Balance Sheet as of July 29, 2006 was reclassified to Additional paid-in capital. In addition, amortization of deferred compensation related to restricted stock is now reported as Stock-based compensation in the Condensed Consolidated Statements of Cash Flows, rather than as Depreciation and amortization.

See Note B for more information on the Company's stock-based compensation plans and implementation of SFAS No. 123(R).

**Lease accounting.** The Company has adopted the Financial Accounting Standards Board ("FASB") Staff Position ("FSP") 13-1, "Accounting for Rental Costs Incurred During a Construction Period," which requires that rental costs incurred during a construction period be expensed, not capitalized, beginning in the first quarter of 2006.

Implementation of this new standard did not have a significant impact on the Company's financial results for the three and six-month periods ended July 29, 2006. When a lease contains "rent holidays" or requires fixed escalations of the minimum lease payments, the Company records rental expense on a straight-line basis over the term of the lease and the difference between the average rental amount charged to expense and the amount payable under the lease is recorded as deferred rent. The Company amortizes deferred rent on a straight-line basis over the lease term commencing on the date the leased space is ready for its intended use. Tenant improvement allowances are included in Other long-term liabilities and are amortized over the lease term. Tenant improvement allowances are included as a component of operating cash flows in the Condensed Consolidated Statements of Cash Flows.

**Provision for litigation expense and other legal proceedings.** The Company is party to various legal proceedings arising in the normal course of business. Actions filed against the Company include commercial, customer, and labor and employment-related claims, including lawsuits in which plaintiffs allege that the Company violated state and/or federal wage and hour and related 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, resolution of these matters is not expected to have a material adverse effect on the Company's financial condition or results of operations.

Like many California retailers, the Company has been named in class action lawsuits regarding employee payroll and wage claims. The Orange County Superior Court has certified a class in a case involving whether the Company's assistant store managers in California are correctly classified as exempt managers under California Wage Orders. This is a procedural ruling and does not address the merits of the case. In the opinion of management, resolution of this matter is not expected to have a material adverse effect on the Company's financial condition or results of operations.

**Note B: Stock-Based Compensation**

**Stock options and restricted stock.** The Company has one equity incentive compensation plan, the 2004 Equity Incentive Plan (the "2004 Plan"). The 2004 Plan provides for various types of incentive awards, which may potentially include the grant of non-qualified and incentive stock options, stock appreciation rights, restricted stock purchase rights, restricted stock shares, restricted stock units, performance shares, performance units and deferred stock units. The 2004 Plan also provides for the automatic grant of stock options to each non-employee director at pre-established times and at a predetermined value. To date, the Company has granted stock options and restricted stock shares under the 2004 Plan. Under the 2004 Plan, stock options are granted at exercise prices not less than the fair market value on the date the option is granted, expire not more than ten years from the date of grant, and normally vest over a period not exceeding four years from the date of grant. The Company grants restricted shares to officers and key employees. The fair value of these shares at the date of grant is amortized as an expense on a straight-line basis over the vesting period of generally two to four years.

**Employee Stock Purchase Plan.** Under the ESPP, eligible full-time employees participating in the offering period can choose to have up to the lesser of 10% or $21,250 of their annual base earnings withheld to purchase the Company's common stock. The purchase price of the stock is the lower of 85% of the market price at the beginning of the offering period, or end of the offering period.

**Stock-based compensation.** The Company adopted the provisions of SFAS No. 123(R) on January 29, 2006, the beginning of its 2006 fiscal year, using the modified prospective method. Under SFAS No. 123(R), compensation expense is recognized based on the grant date fair value of stock-based compensation awards granted in fiscal 2006 and later, and based on the unvested portion of awards that were outstanding as of January 28, 2006 from prior year grants. Stock-based awards are valued using the Black-Scholes option pricing model, consistent with the Company's prior pro forma disclosures under SFAS No. 123. Compensation expense for unvested awards outstanding at the effective date is recognized over the remaining vesting period using the compensation cost calculated for purposes of the prior pro forma disclosures. For awards granted after the adoption date, the Company recognizes expense based on the fair value of the award on a straight-line basis over the applicable vesting term.

For the three and six-month periods ended July 29, 2006 and July 30, 2005, the Company recognized the following expense related to stock-based compensation (in $000):

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | July 29, 2006 | July 30, 2005 | July 29, 2006 | July 30, 2005 |
| Stock option and ESPP related expenses | **$ 3,308** | $ — | **$ 6,772** | $ — |
| Restricted stock amortization | **3,408** | 3,912 | **6,849** | 7,873 |
| Total stock-based compensation expense | **$ 6,716** | $ 3,912 | **$ 13,621** | $ 7,873 |

Capitalized stock-based compensation cost was not significant.

The determination of the fair value of stock options and ESPP shares, using the Black-Scholes model, is affected by the Company's stock price as well as assumptions as to the Company's expected stock price volatility over the term of the awards, actual and projected employee stock option exercise behavior, the risk-free interest rate, and expected dividends.

The Company estimates the expected term of options granted taking into account historical and expected future exercise, cancellation and forfeiture behavior. The Company estimates the volatility of the common stock by using historical volatility over a period equal to the award's expected term. The risk-free interest rates that are used in the valuation models are based upon yields of U.S. Treasury issues with remaining terms similar to the expected term on the options. Dividend yield has been estimated based on the Company's expectation of future dividend payouts.

SFAS No. 123(R) requires companies to estimate future expected forfeitures at the date of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. In previous fiscal years, the Company had recognized the impact of forfeitures as they occurred. Now, the Company uses historical data to estimate pre-vesting forfeiture rates in determining the amount of stock-based compensation expense to recognize. All stock-based compensation awards are amortized on a straight-line basis over the requisite service periods of the awards.

The fair value of the stock options and ESPP rights granted during the respective periods were estimated using the Black-Scholes option pricing model and the following weighted average assumptions:

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| **Stock Options** | July 29, 2006 | July 30, 2005 | July 29, 2006 | July 30, 2005 |
| Expected life from grant date (years) | **3.9** | 3.3 | **4.2** | 3.4 |
| Expected volatility | **31.4%** | 33.7% | **32.7%** | 33.8% |
| Risk-free interest rate | **4.9%** | 4.1% | **4.5%** | 3.8% |
| Dividend yield | **0.8%** | 0.8% | **0.8%** | 0.7% |

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| **Employee Stock Purchase Plan** | July 29, 2006 | July 30, 2005 | July 29, 2006 | July 30, 2005 |
| Expected life from grant date (years) | **1.0** | 1.0 | **1.0** | 1.0 |
| Expected volatility | **26.6%** | 30.9% | **26.6%** | 30.9% |
| Risk-free interest rate | **4.5%** | 2.9% | **4.5%** | 2.9% |
| Dividend yield | **0.8%** | 0.7% | **0.8%** | 0.7% |

Total stock-based compensation recognized in the Company's Condensed Consolidated Statements of Earnings for the periods ended July 29, 2006 and July 30, 2005 is as follows (in $000):

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| **Statements of Earnings Classification** | **July 29, 2006** | **July 30, 2005** | **July 29, 2006** | **July 30, 2005** |
| Cost of goods sold | **$ 2,919** | $ 1,874 | **$ 5,872** | $ 3,771 |
| Selling, general and administrative | **3,797** | 2,038 | **7,749** | 4,102 |
| **Total** | **$ 6,716** | $ 3,912 | **$ 13,621** | $ 7,873 |

Prior to fiscal 2006, the Company had accounted for share-based compensation costs in accordance with APB No. 25, as permitted by SFAS No. 123. Had compensation costs for the Company's equity plans been determined based on the fair value at the grant dates for awards under those plans consistent with the methods of SFAS No. 123, the Company's net earnings and earnings per share for the periods ended July 30, 2005 would have been reduced to the pro forma amounts indicated below:

| **($000, except per share data)** | | **Three Months Ended July 30, 2005** | **Six Months Ended July 30, 2005** |
|---|---|---|---|
| **Net earnings** | As reported | $ 42,279 | $ 92,329 |
| Add: Stock-based employee compensation expense included in reported net earnings, net of tax | | 2,376 | 4,788 |
| Deduct: Stock-based employee compensation expense determined under the fair value based method for all awards, net of tax | | (4,571) | (10,025) |
| **Net earnings** | Pro forma | $ 40,084 | $ 87,092 |
| **Basic earnings per share** | As reported | $ .29 | $ .63 |
| | Pro forma | $ .28 | $ .60 |
| **Diluted earnings per share** | As reported | $ .29 | $ .62 |
| | Pro forma | $ .27 | $ .59 |

The weighted average fair values per share of stock options granted for the three-month periods ended July 29, 2006 and July 30, 2005, were $8.37 and $7.67, and for the six-month periods ended July 29, 2006 and July 30, 2005, were $8.66 and $7.81, respectively. The weighted average fair values per share of employee stock purchase awards for the three-month periods ended July 29, 2006 and July 30, 2005, were $7.70 and $7.61, and for the six-month periods ended July 29, 2006 and July 30, 2005, were $7.70 and $7.61, respectively.

**Stock option activity.** The following table summarizes stock option activity for the six months ended July 29, 2006:

| | Number of shares (in thousands) | Weighted average exercise price |
|---|---|---|
| Outstanding at January 28, 2006 | 8,665 | $ 20.51 |
| Granted | 728 | 27.92 |
| Exercised | (576) | 14.80 |
| Forfeited | (188) | 26.95 |
| **Outstanding at July 29, 2006** | **8,629** | **$ 21.37** |

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 July 29, 2006 (number of shares in thousands):

| | Options outstanding | | | Options exercisable | |
|---|---|---|---|---|---|
| Exercise price range | Number of shares | Remaining life | Exercise price | Number of shares | Exercise price |
| $ 4.50 to $ 11.03 | 2,068 | 2.98 | $ 9.99 | 2,068 | $ 9.99 |
| 11.06 to 20.90 | 1,810 | 5.98 | 18.15 | 1,433 | 17.86 |
| 20.90 to 27.81 | 2,152 | 8.43 | 26.04 | 758 | 25.01 |
| 27.84 to 28.69 | 1,931 | 8.49 | 28.51 | 421 | 28.41 |
| $ 28.71 to $ 32.85 | 668 | 8.10 | 29.67 | 270 | 29.79 |
| Totals | 8,629 | 6.60 | $ 21.37 | 4,950 | $ 17.21 |

The aggregate intrinsic value (the difference between the market price and the option's exercise price) of options outstanding and options exercisable as of July 29, 2006 was $44.1 million and $41.6 million, respectively.

**Restricted stock activity.** During the six-month period ended July 29, 2006, restricted stock awards totaling 267,000 shares were issued and awards totaling 32,000 shares were forfeited. The unamortized compensation expense at July 29, 2006 was $29.1 million. During the period, shares withheld for tax withholding totaled 84,000 shares, and are considered treasury shares which are available for reissuance. As of July 29, 2006, total shares subject to repurchase related to unvested restricted stock were 2.2 million shares. A total of 3.6 million shares were available for new restricted stock awards under the 2004 Plan at the end of the period.

**Note C: Earnings Per Share ("EPS")**

SFAS No. 128, "Earnings Per Share," requires earnings per share to be computed and reported as both basic EPS and diluted EPS. Basic EPS is computed by dividing net earnings by the weighted average number of common shares outstanding for the period. Diluted EPS is computed by dividing net earnings by the sum of the weighted average number of common shares and dilutive common stock equivalents outstanding during the period. Dilutive EPS reflects the potential dilution that could occur if outstanding options to issue common stock were exercised into common stock.

For the three and six months ended July 29, 2006, there were approximately 3,857,600 and 3,641,500 shares, respectively, that could potentially dilute basic EPS in the future that were excluded from the calculation of diluted EPS because their effect would have been anti-dilutive in the periods presented. For the three and six months ended July 30, 2005, there were approximately 2,519,600 and 2,001,700 shares, respectively, that could potentially dilute basic EPS in the future that were excluded from the calculation of diluted EPS because their effect would have been anti-dilutive in the periods presented.

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

| | Three Months Ended | | | | | | Six Months Ended | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Basic EPS | | Effect of Dilutive Common Stock Equivalents | | Diluted EPS | | Basic EPS | | Effect of Dilutive Common Stock Equivalents | | Diluted EPS |
| **July 29, 2006** | | | | | | | | | | | | |
| **Shares** | | **140,348** | | **2,350** | | **142,698** | | **140,991** | | **2,463** | | **143,454** |
| **Amount** | **$** | **.32** | **$** | **.00** | **$** | **.32** | **$** | **.74** | **$** | **(.01)** | **$** | **.73** |
| **July 30, 2005** | | | | | | | | | | | | |
| Shares | | 145,102 | | 2,219 | | 147,321 | | 145,555 | | 2,339 | | 147,894 |
| Amount | $ | .29 | $ | .00 | $ | .29 | $ | .63 | $ | (.01) | $ | .62 |

**Note D: Debt and Revolving Credit**

In March 2006, the Company repaid its $50.0 million term debt in full. The borrowing was made in 2002 to finance the equipment and information systems for the Perris, California distribution center.

In July 2006, the Company amended its existing $600.0 million revolving credit facility, extending the expiration date to July 2011, and changing the interest pricing to LIBOR plus 45 basis points.

The Company has received expressions of interest to purchase an aggregate of $150 million of unregistered senior notes issuable in 12 and 15 year tranches at a weighted average interest rate of 6.45%. Completion of any transaction remains subject to the purchasers' due diligence and to finalization and execution of definitive agreements, which is expected to occur in the third quarter. The settlement of the transaction is anticipated to occur in the fourth quarter.

**Note E: Distribution Center Purchase**

In May 2006, the Company exercised its option to purchase its Fort Mill, South Carolina distribution center and paid cash in the amount of $87.3 million to acquire the facility from the lessor. The Company estimated the fair value of the components of the facility and the related equipment using various valuation techniques, including appraisals, market prices, and cost data. Amounts recorded for each component are based on these fair value estimates.

**Note F: Recently Issued Accounting Standards**

In July 2006, the FASB issued Interpretation Number 48, "Accounting for Uncertainty in Income Taxes" ("FIN No. 48"), effective for fiscal years beginning after December 15, 2006. Under FIN No. 48, companies are required to disclose uncertainties in their income tax positions, including information as to tax benefits included in returns and not recognized for financial statement purposes. The Company has not yet quantified the effects of adopting FIN No. 48.

**Report of Independent Registered Public Accounting Firm**

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

We have reviewed the accompanying condensed consolidated balance sheets of Ross Stores, Inc. and subsidiaries (the "Company") as of July 29, 2006 and July 30, 2005, and the related condensed consolidated statements of earnings for the three and six-month periods ended July 29, 2006 and July 30, 2005, and of cash flows for the six-month periods ended July 29, 2006 and July 30, 2005. 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 sheet of Ross Stores, Inc. and subsidiaries as of January 28, 2006, and the related consolidated statements of earnings, stockholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated April 4, 2006, 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 28, 2006, 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 5, 2006

**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 in Part II, Item 1A (Risk Factors) below. The following discussion should be read in conjunction with the condensed consolidated financial statements and notes thereto included elsewhere in this Form 10-Q and the consolidated financial statements and notes thereto in our 2005 Form 10-K. All information is based on our fiscal calendar.

**Overview**

We are the second largest off-price apparel and home goods retailer in the United States, with 744 Ross Dress for Less ® ("Ross") stores in 27 states and Guam, and 26 dd's DISCOUNTS® store locations in California at July 29, 2006. Ross offers first-quality, in-season, name brand and designer apparel, accessories, footwear and home fashions at everyday savings of 20% to 60% off department and specialty store regular prices. dd's DISCOUNTS features a more moderately-priced assortment of first-quality, in-season, name brand apparel, accessories, footwear and home fashions at everyday savings of 20% to 70% off moderate department and discount store regular prices.

Our primary strategy is to pursue and refine our existing off-price business, and steadily expand our store base. In establishing growth objectives for our business, we closely monitor market share trends for the off-price industry. Sales for the off-price sector grew by 11.3% during 2005, which is significantly faster than total national apparel sales, which grew by 3.6%, according to data from the NPD Group, which provides global sales and marketing information on the retail industry. Our strategies are designed to take advantage of these growth trends and continued customer demand for name-brand fashions for the family and the home at competitive everyday discounts.

**Results of Operations**

**Reclassifications.** In prior periods, stock-based compensation expense related to restricted stock grants and incentive compensation expense were included in Selling, general and administrative expenses. In accordance with SEC Staff Accounting Bulletin ("SAB") No. 107, which provides guidance on implementation of Statement of Financial Accounting Standards ("SFAS") No. 123(R), "Share-Based Payment," all compensation-related expenses should be recorded in a manner similar to other employee payroll costs. Therefore, for prior periods, we have reclassified the portion of stock-based compensation and incentive compensation that relates to personnel in the merchandising and distribution organizations from Selling, general and administrative expense to Cost of goods sold. Beginning in fiscal year 2006, the portion of stock option and employee stock purchase plan ("ESPP") expenses included in stock-based compensation expense for personnel in the merchandising and distribution organizations is also included in Cost of goods sold.

The following table summarizes the results of operations for the three and six month periods ended July 29, 2006 and July 30, 2005:

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | **July 29, 2006** | **July 30, 2005** | **July 29, 2006** | **July 30, 2005** |
| **Sales** | | | | |
| Sales (millions) | **$ 1,308** | $ 1,172 | **$ 2,600** | $ 2,296 |
| Sales growth | **11.6%** | 16.2% | **13.2%** | 14.8% |
| Comparable store sales growth | **4%** | 7% | **5%** | 5% |
| **Costs and expenses** (as a percent of sales) | | | | |
| Cost of goods sold | **78.3%** | 78.4% | **77.4%** | 77.7% |
| Selling, general and administrative | **16.1%** | 15.7% | **16.1%** | 15.7% |
| Interest income | **(0.1)%** | 0.0% | **(0.1)%** | 0.0% |
| **Earnings before taxes** | **5.7%** | 5.9% | **6.6%** | 6.6% |
| **Net earnings** | **3.5%** | 3.6% | **4.0%** | 4.0% |

**Stores.** Our operating strategy is to open additional stores based on local market penetration, the ability to leverage overhead expenses, local demographic characteristics including population, and competition. 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 | |
|---|---|---|---|---|
| | **July 29, 2006** | **July 30, 2005** | **July 29, 2006** | **July 30, 2005** |
| Stores at the beginning of the period | **746** | 673 | **734** | 649 |
| Stores opened in the period | **25** | 22 | **37** | 46 |
| Stores closed in the period | **(1)** | — | **(1)** | — |
| Stores at the end of the period | **770** | 695 | **770** | 695 |

**Sales.** Sales for the three months ended July 29, 2006 increased $136.2 million, or 11.6%, compared to the same period in the prior year due to the impact of the 75 net new stores opened between July 30, 2005 and July 29, 2006, and a 4% increase in sales from "comparable" stores (defined as stores that have been open for more than 14 complete months). Sales for the six months ended July 29, 2006 increased $303.9 million, or 13.2%, compared to the same period in the prior year due to the impact of the 75 net new stores opened between July 30, 2005 and July 29, 2006, and a 5% increase in sales from comparable stores.

Our sales mix is shown below for the three and six-month periods ended July 29, 2006 and July 30, 2005:

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | **July 29, 2006** | **July 30, 2005** | **July 29, 2006** | **July 30, 2005** |
| Ladies | **35%** | 35% | **35%** | 36% |
| Home accents and bed and bath | **20%** | 20% | **20%** | 20% |
| Men's | **16%** | 16% | **15%** | 16% |
| Fine jewelry, accessories, lingerie and fragrances | **11%** | 11% | **11%** | 11% |
| Children's | **8%** | 8% | **9%** | 8% |
| Shoes | **10%** | 10% | **10%** | 9% |
| Total | **100%** | 100% | **100%** | 100% |

We expect to address the competitive climate for apparel and home goods off-price retailers by pursuing and refining our existing strategies and by continuing to strengthen our organization, to diversify the merchandise mix, and to more fully develop the organization and systems to strengthen 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 29, 2006, we cannot be sure that they will result in a continuation of revenue or profit growth.

**Stock-based compensation.** Effective in fiscal year 2006, we adopted Statement of Financial Accounting Standards ("SFAS") No. 123(R), "Share-Based Payment," and elected to adopt the standard using the modified prospective transition method. This new accounting standard requires recognition of compensation expense based on the grant date fair value of all stock-based awards, typically amortized over the vesting period. The impact on second quarter results was to decrease earnings before taxes by approximately $3.3 million, and net income by approximately $2.0 million. The impact on results for the six-month period ended July 29, 2006 was to decrease earnings before taxes by approximately $6.8 million, and net income by approximately $4.1 million. Prior periods were not revised for comparative purposes.

See Notes A and B to the Notes to the Condensed Consolidated Financial Statements for more information on our implementation of SFAS No. 123(R) and stock-based compensation plans.

**Cost of goods sold.** Cost of goods sold for the three months ended July 29, 2006 increased $105.0 million compared to the same period in the prior year mainly due to increased sales from the opening of 75 net new stores between July 30, 2005 and July 29, 2006, a 4% increase in sales from "comparable" stores, and additional stock compensation expenses recognized pursuant to SFAS No. 123(R).

Cost of goods sold as a percentage of sales for the three months ended July 29, 2006 decreased approximately 15 basis points compared with the same period in the prior year. This decrease was mainly driven by a 25 basis point improvement in distribution and logistics costs and a 25 basis point improvement in buying expenses. These favorable trends were partially offset by a 20 basis point increase in occupancy costs and a 15 basis point increase in compensation expenses recognized pursuant to SFAS No. 123(R).

Cost of goods sold for the six months ended July 29, 2006 increased $228.8 million compared to the same period in the prior year mainly due to increased sales from the opening of 75 net new stores between July 30, 2005 and July 29, 2006, a 5% increase in sales from comparable stores, and additional stock compensation expenses recognized pursuant to SFAS No. 123(R).

Cost of goods sold as a percentage of sales for the six months ended July 29, 2006 decreased approximately 30 basis points compared with the same period in the prior year. This decrease was mainly driven by a 60 basis point improvement in distribution and logistics costs and a 10 basis point improvement in buying expenses. These favorable trends were partially offset by a 20 basis point decline in merchandise margin primarily due to a higher shortage provision, a 10 basis point increase in compensation expenses recognized pursuant to SFAS No. 123(R), and a 10 basis point increase in occupancy costs.

We cannot be sure that the gross profit margins realized for the three and six-month periods ended July 29, 2006 will continue in the future.

**Selling, general and administrative expenses.** For the three months ended July 29, 2006, Selling, general and administrative expenses increased $27.0 million compared to the same period in the prior year, mainly due to increased store operating costs reflecting the opening of 75 net new stores between July 30, 2005 and July 29, 2006.

Selling, general and administrative expenses as a percentage of sales for the three months ended July 29, 2006 increased approximately 45 basis points compared to the same period in the prior year. This increase is primarily due to a 20 basis point increase in compensation expenses recognized pursuant to SFAS No. 123(R), a 15 basis point increase in store operating costs, and a 10 basis point increase in other general and administrative costs.

For the six months ended July 29, 2006, Selling, general and administrative expenses increased $57.1 million compared to the same period in the prior year, mainly due to increased store operating costs reflecting the opening of 75 net new stores between July 30, 2005 and July 29, 2006.

Selling, general and administrative expenses as a percentage of sales for the six months ended July 29, 2006 increased approximately 35 basis points compared to the same period in the prior year.  This increase is primarily due to an approximate 15 basis point increase in compensation expenses recognized pursuant to SFAS No. 123(R), a 10 basis point increase in store operating costs and a 10 basis point increase in other general and administrative costs.

**Taxes on earnings.** Our effective tax rate for the three and six-month periods ended July 29, 2006 and July 30, 2005 was approximately 39%, which represents the applicable combined federal and state statutory rates reduced by the federal benefit of state taxes deductible on federal returns.  The effective rate is affected by changes in law, location of new stores, level of earnings and the result of tax audits.  We anticipate that our effective tax rate for fiscal 2006 will be approximately 38% to 40%.

**Net earnings.** The decrease in net earnings as a percentage of sales for the three months ended July 29, 2006, compared to the same period in the prior year, is primarily due to higher Selling, general and administrative expenses and a slightly higher tax rate, which is partially offset by higher interest income as a percentage of sales.  Net earnings as a percentage of sales for the six months ended July 29, 2006 is the same as the prior year, which is primarily due to lower Cost of goods sold and higher interest income, offset by higher Selling, general and administrative expenses as a percentage of sales.

**Earnings per share.** Diluted earnings per share increased to $.32 for the three months ended July 29, 2006 from $.29 in the prior year period, and $.73 for the six-month period ended July 29, 2006 from $.62 in the prior year period, as a result of an increase in net earnings and a decrease in weighted average diluted shares outstanding, which was largely attributable to the repurchase of common stock under the Company's 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 seasonal and new store merchandise inventory purchases, capital expenditures in connection with opening new stores, and investments in distribution centers, information systems and infrastructure.  We also use cash to repay debt, repurchase stock under our stock repurchase program and to pay dividends.

| | Six Months Ended | |
|---|---|---|
| ($000) | July 29, 2006 | July 30, 2005 |
| Cash flows from operating activities | **$ 169,096** | $ 139,991 |
| Cash flows used in investing activities | **(142,908)** | (54,600) |
| Cash flows used in financing activities | **(158,604)** | (81,325) |
| Net (decrease) increase in cash and cash equivalents | **$ (132,416)** | $ 4,066 |

**Operating Activities**

Net cash provided by operating activities was $169.1 million and $140.0 million for the six months ended July 29, 2006 and July 30, 2005, respectively. The primary source of cash from operations for the six months ended July 29, 2006 and July 30, 2005 was net earnings plus non-cash expenses for depreciation and amortization and increased trade credit, partially offset by cash used to finance merchandise inventory.

The increase in cash flows from operations for the six months ended July 29, 2006 is primarily due to a net increase in trade credit financed merchandise inventory.  Working capital (defined as current assets less current liabilities) was $270.5 million as of July 29, 2006, compared to $409.2 million as of July 30, 2005.  Our primary source of liquidity is the sale of our merchandise inventory.  We regularly review the age and condition of our merchandise and are able to maintain current merchandise inventory in our stores through replenishment processes and liquidation of slower-moving merchandise through clearance markdowns.

**Investing Activities**

During the six-month periods ended July 29, 2006 and July 30, 2005, we spent approximately $146.1 million and $96.2 million, respectively, for capital expenditures (excluding leased equipment) for fixtures and leasehold improvements to open new stores, implement information technology systems, install and implement materials handling equipment and related distribution center systems, and various other expenditures related to existing stores, buying offices and corporate offices.  For the period ended July 29, 2006, such amounts included the purchase of assets under a lease of $87.3 million.  We opened 37 and 46 new stores during the six months ended July 29, 2006 and July 30, 2005, respectively.  In addition, we received net proceeds from sales of investments of $3.2 million and $41.6 million during the six months ended July 29, 2006 and July 30, 2005, respectively.

We are forecasting approximately $265.0 million in capital expenditures for 2006 to fund fixtures and leasehold improvements to open both new Ross and dd's DISCOUNTS stores, to fund the relocation, or fixture and cosmetic upgrades of existing stores, and to fund investments in store and merchandising systems, distribution center land, buildings, equipment and systems, and various central office expenditures.  This $265.0 million forecast includes $87.3 million related to our purchase in May 2006 of the leased assets at our Fort Mill, South Carolina distribution center.  We expect to fund remaining 2006 capital expenditures out of cash flows from operations, and existing bank credit facilities and potential new debt placement.

**Financing Activities**

During the six-month periods ended July 29, 2006 and July 30, 2005, our liquidity and capital requirements were provided by cash flows from operations, bank credit facilities and trade credit.  Substantially all of our store locations, buying offices, our corporate headquarters, and one distribution center are leased and, except for certain leasehold improvements and equipment, do not represent long-term capital investments.  We own our distribution centers in Carlisle, Pennsylvania, Moreno Valley, California, and Fort Mill, South Carolina.

In March 2006, we repaid our $50.0 million term debt outstanding as of January 28, 2006 in full.  In May 2006, we exercised our option to purchase our Fort Mill, South Carolina distribution center for $87.3 million.

We repurchased 3.6 million and 3.2 million shares of common stock for an aggregate purchase price of approximately $98.9 million and $89.0 million during the six-month periods ended July 29, 2006 and July 30, 2005, respectively.  These repurchases were funded by cash flows from operations.

Short-term trade credit represents a significant source of financing for investments in merchandise inventory.  Trade credit arises from customary payment terms and trade practices with our vendors.  We regularly review the adequacy of credit available to us from all sources and expect to be able to maintain adequate trade, bank and other credit lines to meet our capital and liquidity requirements, including lease obligations in 2006.

We are evaluating alternative sources of financing for the $50.0 million term debt and the $87.3 million Fort Mill, South Carolina distribution center.  We have received expressions of interest to purchase an aggregate of $150 million of unregistered senior notes issuable in 12 and 15 year tranches at a weighted average interest rate of 6.45%.  Completion of any transaction remains subject to the purchasers' due diligence and to finalization and execution of definitive agreements, which is expected to occur in our third quarter.  The settlement of the transaction is anticipated to occur in our fourth quarter.

The table below presents our significant contractual payment obligations as of July 29, 2006:

| ($000)<br>Contractual Obligations | Less than<br>1 year | 1 – 3 years | 3 – 5 years | After 5 years | Total |
|---|---|---|---|---|---|
| Operating leases | $ 267,439 | $ 492,039 | $ 387,531 | $ 461,617 | $ 1,608,626 |
| Other financings: | | | | | |
| Synthetic leases | 9,848 | 10,130 | 8,182 | 8,181 | 36,341 |
| Other synthetic lease obligations | 3,001 | 6,375 | — | 56,000 | 65,376 |
| Purchase obligations | 838,974 | 15,986 | 1,189 | — | 856,149 |
| Total contractual obligations | $ 1,119,262 | $ 524,530 | $ 396,902 | $ 525,798 | $ 2,566,492 |

**Off-Balance Sheet Arrangements**

**Operating leases.** Substantially all of our store sites, one of our distribution centers, and our buying offices and corporate headquarters are leased and, except for certain leasehold improvements and equipment, do not represent long-term capital investments.

We have lease arrangements for certain equipment in our stores for our point-of-sale ("POS") hardware and software systems. These leases are accounted for as operating leases for financial reporting purposes. The initial terms of these leases are two years, and we typically have options to renew the leases for two to three one-year periods. Alternatively, we may purchase or return the equipment at the end of the initial or each renewal term. We have guaranteed the value of the equipment, of $9.4 million, at the end of the respective initial lease terms, which is included in Other synthetic lease obligations in the table above.

**Other financings.** We lease a 1.3 million square foot distribution center in Perris, California. The land and building for this distribution center is being financed under a $70.0 million ten-year synthetic lease that expires in July 2013. Rent expense on this center is payable monthly at a fixed annual rate of 5.8% on the lease balance of $70.0 million. At the end of the lease term, we have the option to either refinance the $70.0 million synthetic lease facility, purchase the distribution center at the amount of the then-outstanding lease obligation, or arrange a sale of the distribution center to a third party. If the distribution center is sold to a third party for less than $70.0 million, we have agreed under a residual value guarantee to pay the lessor the shortfall below $70.0 million not to exceed $56.0 million. Our contractual obligation of $56.0 million is included in Other synthetic lease obligations in the above table.

In accordance with Financial Accounting Standards Board ("FASB") Interpretation ("FIN") No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," we have recognized a liability and corresponding asset for the fair value of the residual value guarantee in the amount of $8.3 million for the Perris, California distribution center and $1.8 million for the POS lease. These residual value guarantees are being amortized on a straight-line basis over the original terms of the leases. The current portion of the related asset and liability is recorded in Prepaid expenses and other and Accrued expenses and other, respectively, and the long-term portion of the related assets and liabilities is recorded in Other long-term assets and Other long-term liabilities, respectively, in the accompanying Condensed Consolidated Balance Sheets.

In addition, we lease two separate warehouse facilities for packaway storage in Carlisle, Pennsylvania with operating leases expiring through 2011. In January 2004, we entered into a two-year lease with two one-year options for a warehouse facility in Fort Mill, South Carolina, the first option of which has been exercised extending the term to February 1, 2007. These three leased facilities are being used primarily to store packaway merchandise.

The synthetic lease facilities described above, as well as our revolving credit facility, have covenant restrictions requiring us to maintain certain interest coverage and leverage ratios. In addition, the interest rates under these agreements may vary depending on our actual interest coverage ratios. As of July 29, 2006, we were in compliance with these covenants.

**Distribution center purchase.** In May 2006, we exercised our option to purchase our Fort Mill, South Carolina distribution center and paid cash in the amount of $87.3 million to acquire the facility from the lessor. We estimated the fair value of the components of the facility and the related equipment using various valuation techniques, including appraisals, market prices, and cost data. Amounts recorded for each component are based on these fair value estimates.

**Purchase obligations.** As of July 29, 2006 we had purchase obligations of $856.1 million. These purchase obligations primarily consist of merchandise inventory purchase orders, commitments related to store fixtures and supplies, and information technology service and maintenance contracts. Merchandise inventory purchase orders of $810.2 million represent purchase obligations of less than one year as of July 29, 2006.

**Commercial Credit Facilities**

The table below presents our significant available commercial credit facilities at July 29, 2006:

| ($000) Commercial Credit Commitments | Amount of Commitment Expiration Per Period: Less than 1 year | 1 - 3 years | 3 - 5 years | After 5 years | Total amount committed |
|---|---|---|---|---|---|
| Revolving credit facility | $ — | $ — | $ 600,000 | $ — | $ 600,000 |
| Total commercial commitments | $ — | $ — | $ 600,000 | $ — | $ 600,000 |

**Revolving credit facility.** We have available a $600.0 million revolving credit facility with our banks, which contains a $300.0 million sublimit for issuances of standby letters of credit, of which $236.5 million was available at July 29, 2006. In July 2006 we amended this facility to change the expiration date and interest pricing. Interest is LIBOR-based plus an applicable margin (currently 45 basis points) and is payable upon borrowing maturity but no less than quarterly. Our borrowing ability under this credit facility is subject to our maintaining certain interest coverage and leverage ratios. We have had no borrowings under this facility, which expires in March 2011.

**Standby letters of credit.** We use standby letters of credit to collateralize certain obligations related to our self-insured workers' compensation and general liability claims. We had $63.5 million and $62.8 million in standby letters of credit outstanding at July 29, 2006 and July 30, 2005, respectively.

**Trade letters of credit.** We had $28.7 million and $21.7 million in trade letters of credit outstanding at July 29, 2006 and July 30, 2005, respectively.

**Dividends.** In August 2006, our Board of Directors declared a cash dividend payment of $.06 per common share, payable on or about October 2, 2006. Our Board of Directors declared quarterly cash dividends of $.06 per common share in May 2006, January 2006 and November 2005, and $.05 per common share in January, May and August 2005.

**Stock repurchase programs.** In November 2005, we announced that our Board of Directors authorized a new two-year stock repurchase program of up to $400.0 million for 2006 and 2007. We repurchased 3.6 million and 3.2 million shares of common stock for aggregate purchase prices of approximately $98.9 million and $89.0 million for the six months ended July 29, 2006 and July 30, 2005, respectively.

We estimate that cash flows from operations, bank credit lines and trade credit are adequate to meet operating cash needs, fund our planned capital investments, repurchase common stock and make quarterly dividend payments for at least the next twelve months.

**Critical Accounting Policies**

The preparation of our consolidated financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements. These estimates and assumptions are evaluated on an ongoing basis and are based on historical experience and on various other factors that management believes to be reasonable. We believe the following critical accounting policies describe the more significant judgments and estimates used in the preparation of our condensed consolidated financial statements.

**Merchandise inventory.** Our merchandise inventory is stated at the lower of cost or market, with cost determined on a weighted average cost method. We purchase manufacturer overruns and canceled orders both during and at the end of a season which are referred to as "packaway" inventory. Packaway inventory is purchased with the intent that it will be stored in our warehouses until a later date, which may even be the beginning of the same selling season in the following year. Included in the carrying value of our merchandise inventory is a provision for shortage. The shortage reserve is based on historical shortage rates as evaluated through our periodic physical merchandise inventory counts and cycle counts. If actual market conditions, markdowns, or shortage are less favorable than those projected by us, or if sales of the merchandise inventory are more difficult than anticipated, additional merchandise inventory write-downs may be required.

**Long-lived assets.** We record a long-lived asset impairment charge when events or changes in circumstances indicate that the carrying amount of a long-lived asset may not be recoverable based on estimated future cash flows. An impairment loss would be recognized if analysis of the undiscounted cash flow of an asset group was less than the carrying value of the asset group. If our actual results differ materially from projected results, an impairment charge may be required in the future. In the course of performing this analysis, we determined that no long-lived asset impairment charge was required for the three and six months ended July 29, 2006 and July 30, 2005.

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

**Lease accounting.** We have adopted FASB Staff Position ("FSP") 13-1, "Accounting for Rental Costs Incurred During a Construction Period," which requires that rental costs incurred during a construction period be expensed, not capitalized, beginning in the first quarter of 2006. When a lease contains "rent holidays" or requires fixed escalations of the minimum lease payments, we record rental expense on a straight-line basis and the difference between the average rental amount charged to expense and the amount payable under the lease is recorded as deferred rent. We amortize deferred rent on a straight-line basis over the lease term commencing on the date the leased space is ready for its intended use. Tenant improvement allowances are included in Other long-term liabilities and are amortized over the lease term. Changes in tenant improvement allowances are included as a component of operating activities in the Condensed Consolidated Statements of Cash Flows.

**Self-insurance.** We self insure certain of our workers' compensation and general liability risks as well as certain of our health plans. Our self-insurance liability is determined actuarially, based on claims filed and an estimate of claims incurred but not reported. Should a greater amount of claims occur compared to what is estimated or the costs of medical care and state statutory requirements increase beyond what was anticipated, our recorded reserves may not be sufficient and additional charges could be required.

**Stock-based compensation.** We now account for stock-based compensation under the provisions of SFAS No. 123(R). Under SFAS No. 123(R) compensation expense is recognized for the grant date fair value of new awards granted in fiscal 2006 and later, and for the unvested portion of awards that were outstanding as of January 28, 2006 from prior year grants. Stock-based awards are valued using the Black-Scholes option pricing model, consistent with our prior pro forma disclosures under SFAS No. 123.

Compensation expense for awards outstanding at the effective date is recognized over the remaining vesting period using the compensation cost calculated for purposes of the prior pro forma disclosures. For awards granted after the adoption date, we recognize expense for the fair value of the award on a straight-line basis over the applicable vesting term.

The determination of the fair value of stock options and ESPP shares, using the Black-Scholes model, is affected by our stock price as well as assumptions as to our expected stock price volatility over the term of the awards, actual and projected employee stock option exercise behavior, the risk-free interest rate and expected dividends.

SFAS No. 123(R) requires companies to estimate future expected forfeitures at the date of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. In previous fiscal years, we had recognized the impact of forfeitures as they occurred. Now we use historical data to estimate pre-vesting forfeitures and to recognize stock-based compensation expense. All stock-based compensation awards are amortized on a straight-line basis over the requisite service periods of the awards.

These critical accounting policies noted above are not intended to be a comprehensive list of all of our accounting policies. In many cases, the accounting treatment of a particular transaction is specifically dictated by Generally Accepted Accounting Principles (“GAAP”), with no need for management’s judgment in their application. There are also areas in which management’s judgment in selecting one alternative accounting principle over another would not produce a materially different result.

**New Accounting Pronouncements**

In July 2006, the FASB issued Interpretation Number 48, “Accounting for Uncertainty in Income Taxes” (“FIN No. 48”), effective for fiscal years beginning after December 15, 2006. Under FIN No. 48, companies are required to disclose uncertainties in their income tax positions, including information as to tax benefits included in returns and not recognized for financial statement purposes. We have not yet quantified the effects of adopting FIN No. 48.

**Forward-Looking Statements**

This report may contain a number of forward-looking statements regarding, without limitation, planned store growth, new markets, expected sales, projected earnings levels, capital expenditures and other matters. These forward-looking statements reflect our then current beliefs, projections and estimates with respect to future events and our projected financial performance, operations and competitive position. The words “plan,” “expect,” “anticipate,” “estimate,” “believe,” “forecast,” “projected,” “guidance,” “looking ahead” and similar expressions identify forward-looking statements.

Future economic and industry trends that could potentially impact revenue, profitability, and growth remain difficult to predict. As a result, our forward-looking statements are subject to risks and uncertainties which could cause our actual results to differ materially from those forward-looking statements and our previous expectations and projections. Refer to Part II, Item 1A in this quarterly report on Form 10-Q for a more complete discussion of risk factors for Ross and dd’s DISCOUNTS. The factors underlying our forecasts are dynamic and subject to change. As a result, any forecasts or forward-looking statements speak only as of the date they are given and do not necessarily reflect our outlook at any other point in time. We disclaim any obligation to update or revise these forward-looking statements.

Other risk factors are detailed in the Company’s Securities and Exchange Commission filings including, without limitation, our annual report on Form 10-K for 2005.

## 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 at July 29, 2006.

Interest that is payable on our revolving credit facilities is based on variable interest rates and is, therefore, affected by changes in market interest rates. As of July 29, 2006, we had no borrowings outstanding under our revolving credit facilities. In addition, lease payments under certain of our synthetic lease agreements are determined based on variable interest rates and are, therefore, affected by changes in market interest rates.

A hypothetical 100 basis point increase in prevailing market interest rates would not have materially impacted our consolidated financial position, results of operations, or cash flows as of and for the three and six-month periods ended July 29, 2006. 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. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective 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 2006 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 second fiscal quarter.

# PART II – OTHER INFORMATION

## Item 1. Legal Proceedings

The two paragraphs under the caption “Provision for litigation expense and other legal proceedings” in Note A of Notes to Condensed Consolidated Financial Statements are incorporated herein by reference.

## Item 1A. Risk Factors

Our quarterly report on Form 10-Q for our second fiscal quarter 2006, and information we provide in our press releases, telephonic reports and other investor communications, including those on our website, may contain a number of forward-looking statements with respect to anticipated future events and our projected financial performance, operations and competitive position that are subject to risk factors that could cause our actual results to differ materially from those forward-looking statements and our prior expectations and projections. Refer to Management's Discussion and Analysis for a more complete identification and discussion of "Forward-Looking Statements."

Our financial condition, results of operations, cash flows and the performance of our common stock may be adversely affected by a number of risk factors. Risks and uncertainties that apply to both Ross and dd's DISCOUNTS include, without limitation, the following:

**We are subject to the economic and industry risks that affect large United States retailers.**

Our business is exposed to the risks of a large, multi-store retailer, which must continually and efficiently obtain and distribute a supply of fresh merchandise throughout a large and growing network of stores. These risks include a number of factors, including:

- An increase in the level of competitive pressures in the retail apparel or home-related merchandise industry.
- Potential changes in the level of consumer spending on or preferences for apparel or home-related merchandise, including the potential impact from higher gas prices on consumer spending.
- Potential changes in geopolitical and/or general economic conditions that could affect the availability of product and/or the level of consumer spending.
- Unseasonable weather trends that could affect consumer demand for seasonal apparel and apparel-related products.
- A change in the availability, quantity or quality of attractive brand-name merchandise at desirable discounts that could impact our ability to purchase product and continue to offer customers a wide assortment of competitive bargains.
- Potential disruptions in supply chain that could impact our ability to deliver product to our stores in a timely and cost-effective manner.
- A change in the availability, quality or cost of new store real estate locations.
- A downturn in the economy or a natural disaster in California or in another region where we have a concentration of stores, or a distribution center. Our corporate headquarters, two distribution centers and 28% of our stores are located in California. As a result, these risks could significantly affect the Company's operating results and financial condition.
- Potential pressure on freight costs from higher-than-expected fuel surcharges.

**We are subject to operating risks as we attempt to execute on our merchandising and growth strategies.**

The continued success of our business depends, in part, upon our ability to increase sales at our existing store locations, and to open new stores and to operate stores on a profitable basis. Our existing strategies and store expansion programs may not result in a continuation of our anticipated revenue growth or profit growth. In executing our off-price retail strategies and working to improve our efficiency, expand our store network, and reduce our costs, we face a number of operational risks, including:

- Our ability to attract and retain personnel with the retail talent necessary to execute our strategies.
- Our ability to effectively implement and operate our various supply chain, core merchandising and other information systems, including generation of all necessary data and reports for merchants, allocators and other business users in a timely and cost-effective manner.
- Our ability in 2006 and 2007 to successfully implement new processes and systems enhancements that are expected to improve our micro-merchandising capabilities with the goal of being able to plan, buy and allocate product at a more local versus regional level.
- Our ability to improve new store sales and profitability, especially in newer regions and markets.
- Our ability to achieve and maintain targeted levels of productivity and efficiency in our distribution centers.

- Our ability to continue to obtain acceptable new store locations.
- Our ability to identify and to successfully enter new geographic markets.
- Lower than planned gross margin, including higher than planned markdowns, inventory shortage or freight costs.
- Greater than planned operating costs including, among other factors, increases in occupancy costs, advertising costs, and wage and benefit costs, including as a result of changes in labor laws or as a result of class action or other lawsuits relating to wage and hour claims and other labor-related matters.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

Information regarding shares of common stock we repurchased during the second quarter of 2006 is as follows:

| Period | Total number of shares purchased[1] | Average price paid per share | Total number of shares purchased as part of publicly announced plans or programs | Maximum approximate dollar value of shares that may yet be purchased under the plans or programs ($000) |
|---|---|---|---|---|
| May (4/30/2006-5/27/2006) | 389,671 | $ 28.75 | 388,600 | $ 340,000 |
| June (5/28/2006-7/1/2006) | 819,314 | $ 27.32 | 817,899 | $ 318,000 |
| July (7/2/2006-7/29/2006) | 656,017 | $ 25.24 | 652,430 | $ 301,000 |
| Total | 1,865,002 | $ 26.89 | 1,858,929 | |

[1] We acquired 6,073 shares during the quarter ended July 29, 2006 related to income tax withholdings for restricted stock. All remaining shares were repurchased under the two-year $400.0 million stock repurchase program publicly announced in November 2005.

**Item 4. Submission of Matters to a Vote of Security Holders**

At our Annual Meeting of Stockholders, held on May 18, 2006 (the “2006 Annual Meeting”), our stockholders voted on and approved the following proposals:

Proposal 1: To elect three Class II directors (Michael Balmuth, K. Gunnar Bjorklund and Sharon D. Garrett) for a three-year term.

Proposal 2: To approve the Company’s Second Amended and Restated Incentive Compensation Plan.

Proposal 3: To ratify the appointment of Deloitte & Touche LLP as the Company’s independent registered public accounting firm for the fiscal year ending February 3, 2007.

**2006 Annual Meeting Election Results**

Proposal 1: Election of directors

| Director | In favor | Withheld | Term expires |
|---|---|---|---|
| Michael Balmuth | 119,877,775 | 13,141,757 | 2009 |
| K. Gunnar Bjorklund | 120,485,092 | 12,534,440 | 2009 |
| Sharon D. Garrett | 125,258,108 | 7,761,424 | 2009 |

Proposal 2: Approval of the Company's Second Amended and Restated Incentive Compensation Plan.

| For | Against | Abstain |
|---|---|---|
| 127,528,275 | 5,424,053 | 67,204 |

Proposal 3: Ratification of the appointment of Deloitte & Touche LLP as the Company's independent registered public accounting firm for the fiscal year ending February 3, 2007.

| For | Against | Abstain |
|---|---|---|
| 131,568,616 | 1,428,419 | 22,497 |

**Item 6. Exhibits**

Incorporated herein by reference to the list of Exhibits contained in the Exhibit Index 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 6, 2006

By: /s/ J. Call
John G. Call
Senior Vice President, Chief Financial Officer,
Principal Accounting Officer and Corporate Secretary

## INDEX TO EXHIBITS

| Exhibit Number | Exhibit |
|---|---|
| 3.1 | Amendment of Certificate of Incorporation dated May 21, 2004 and Amendment of Certificate of Incorporation dated June 5, 2002 and Corrected First Restated Certificate of Incorporation, incorporated by reference to Exhibit 3.1 to the Form 10-Q filed by Ross Stores for its quarter ended July 31, 2004. |
| 3.2 | Amended By-laws, dated August 25, 1994, incorporated by reference to Exhibit 3.2 to the Form 10-Q filed by Ross Stores for its quarter ended July 30, 1994. |
| 10.1 | First Amendment to the Employment Agreement between Barbara Levy and Ross Stores, Inc. effective May 1, 2006. |
| 10.2 | Ross Stores, Inc. Second Amended and Restated Incentive Compensation Plan, incorporated by reference to the appendix to the Definitive Proxy Statement on Schedule 14A filed by Ross Stores, Inc. on April 12, 2006. |
| 15 | Letter re: Unaudited Interim Financial Information from Deloitte & Touche LLP dated September 5, 2006. |
| 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. |

**EXHIBIT 10.1**

## FIRST AMENDMENT TO THE EMPLOYMENT AGREEMENT

**THIS FIRST AMENDMENT TO THE EMPLOYMENT AGREEMENT** (the "Amendment") is made and entered into effective _May 1_, 2006, by and between Ross Stores, Inc. (the "Company") and Barbara Levy (the "Executive"). The Executive and the Company previously entered into an Employment Agreement (the "Agreement," attached hereto) effective February 7, 2005. Executive has indicated her desire to retire from her employment with the Company. In order to provide for an orderly transition of Executive's responsibilities, it is now the intention of the Executive and the Company to amend the Agreement as set forth below. Capitalized terms contained in this Amendment shall, unless otherwise defined herein, have the meanings assigned such terms by the Agreement. Accordingly, the Executive and the Company hereby amend the Agreement as follows:

**I.** **Term.** The Executive shall retire from the Executive's current position as Executive Vice President, Merchandising effective as of a date to be determined, subject to the provisions hereof, at the sole discretion of the Company's Chief Executive Officer (the "Retirement Date"), which date shall be no later than August 1, 2007 or 150 days following the commencement of employment of a General Merchandise Manager in Ready to Wear, whichever is sooner. The Executive and the Company further agree as follows:

**A.** The Executive shall remain employed with the Company through the Retirement Date as Executive Vice President, Merchandising, subject to the terms and conditions of the Agreement and this Amendment. The Company shall provide the Executive with written notice of the Retirement Date determined by the Chief Executive Officer at least thirty (30) days prior to the Retirement Date. Executive agrees to cooperate with the Company's public announcement of the Executive's intention to retire from the Company.

**B.** From the date of this Amendment until the Retirement Date, Executive shall cooperate with and support the hiring and training of a General Merchandise Manager in Ready to Wear and perform the Executive's duties as set forth in the Agreement. Notwithstanding the foregoing, the Executive hereby expressly agrees to support and permit reasonable changes, as determined at the discretion of the Chief Executive Officer, to the nature and scope of the Executive's authority, power, function, duties and reporting relationships of Executive's position, including specifically, the reasonable diminishment thereof as appropriate to effect an orderly transfer of the Executive's responsibilities; provided, that the Executive's title shall not be changed. Executive agrees that no such changes to the Executive's authority, power, function, duties and reporting relationships of Executive's position, individually or cumulatively, shall be deemed "Good Reason" under any provision of the Agreement for Executive's resignation from employment with the Company.

**C.** Provided the Executive remains employed through the Retirement Date, following the Retirement Date Executive will serve as an independent contractor consultant to the Company for up to two (2) days per week, as requested by the Company, for a term of twelve (12) months (the "Consulting Period"). During the Consulting Period, the Executive shall perform such duties as shall be reasonably requested by the Chief Executive Officer.

**II. Compensation and Related Matters.** In consideration of Executive's promises in Paragraph I above, and provided Executive complies with Paragraph I above, Executive shall be entitled to the following compensation and related benefits:

**A. Salary.** Executive will receive her full salary, which shall not be less than her current salary of $600,000 per annum, through the Retirement Date, paid in accordance with the terms of the Agreement except as otherwise provided herein. Executive will be eligible for annual merit increases in accordance with the focal review cycle for senior executives of the Company.

During the Consulting Period, Executive will be paid a consulting fee for her services in an annual amount equal to 100% of Executive's annual base salary in effect on the Retirement Date (the "Consulting Fee"). The Consulting Fee shall be payable in equal bi-monthly installments in accordance with the Company's normal payroll practices applicable to its senior officers. Company shall reimburse Executive for all reasonable travel and other approved expenses incurred by the Executive in performing her services hereunder, to the extent provided for under the policies and procedures established by the Company. Notwithstanding the foregoing, the portion of the Consulting Fee payable during the six-month period immediately following the Retirement Date, or such later date treated as the date of separation from service for purposes of Section 409A of the Internal Revenue Code of 1986, as amended ("Section 409A"), shall, to the extent necessary to avoid the imposition of penalties under Section 409A, be paid in a single lump sum on the first day following the expiration of such six-month period.

**B. Bonus.** The Executive will be eligible to receive a full year's bonus for fiscal year 2006, calculated and paid under the existing bonus plan for senior executives of the Company (the "Bonus Plan") and based on the Company's full 2006 fiscal year's actual results. For the Company's fiscal year 2007, (i) if Executive remains employed until August 1, 2007, Executive will be eligible to receive a full year's bonus calculated and paid under the Bonus Plan and based on the Company's full 2007 fiscal year's actual results or (ii) if Executive does not remain employed until August 1, 2007, Executive will be eligible to receive a pro-rata bonus based on number of days the Executive is employed by the Company in fiscal year 2007, calculated and paid under the Bonus Plan and based on the full 2007 fiscal year's actual results. Payments of bonuses pursuant to this paragraph shall be made at the same time as bonus payments to other senior executives of the Company under the Bonus Plan. To the extent any bonus is not paid in the normal course prior to the Retirement Date, it shall be paid at the later of when it would normally be paid, and six months after the Retirement Date.

**C. Equity.** All stock options granted to Executive by the Company will continue to vest in accordance with their existing terms. The restricted stock award granted to Executive on March 20, 2003 will vest in full on March 20, 2007, or upon termination if Retirement Date is prior to March 20, 2007.

Executive's restricted stock award granted on March 29, 2004 will vest 25% on February 1, 2007, an additional 25% on May 1, 2007, and the remaining 50% on July 31, 2007, provided Executive remains employed through those respective vesting dates; if Executive does not remain employed through those respective vesting dates, any unvested restricted stock from the March 29, 2004 award shall be forfeited, except as otherwise provided in the Employment agreement or the equity grants.

**D. Benefits.** Company will provide, at no after-tax cost to the Executive, to Executive and any of her dependents participating in the Company's medical, dental, vision and prescription plans as of the Retirement Date, continued coverage in such plans for sixty (60) months from the Retirement Date.

In addition, on the first date following a period of six (6) months immediately following the Retirement Date, the Company will pay Executive (i) a lump sum amount of $1,670, grossed up in an amount to cover estimated taxes, for estimated one-year's full premium cost for Executive's Company-provided life insurance policy, and (ii) a lump sum of $15,000, grossed up in an amount to cover estimated taxes, for estate planning services.

**E. Miscellaneous.**

(i) During the term of the Agreement and the Consulting Period and at all times thereafter, the Executive shall be entitled to the Company's "Employee Discount", provided that during the first six months after the Retirement Date, Executive shall not be eligible for the Employee Discount

(ii) Executive will not accrue vacation following the Retirement Date.

**III.** The Employment Restriction provisions of Paragraph 9 of the Agreement, including restrictions on Executive working for certain companies and entities, shall remain effective until three (3) years after the later of the Retirement Date or termination of the Consulting Period.

**IV.** **Section 409A**. If any provision of this Amendment or the Agreement (or of any award of compensation, including equity compensation or benefits) would cause the Executive to incur any additional tax or interest under Section 409A or any regulations or Treasury guidance promulgated thereunder, the Company shall, after consulting with and receiving the approval of the Executive (which shall not be unreasonably withheld), reform such provision; provided that the Company agrees to maintain, to the maximum extent practicable, the original intent and economic benefit to the Executive of the applicable provision without violating the provisions of Section 409A.

**V.** **This Amendment Not a Termination by Executive for Good Reason or Termination by Company.** The parties agree and understand that this Amendment does not constitute or give rise to grounds for a termination under the Agreement by Executive for Good Reason, or termination by Company for Cause, Without Cause or Non-Renewal, and that this Amendment, the actions contemplated by this Amendment, or Executive's separation pursuant to this Amendment, shall not entitle Executive to any additional benefits under her Agreement (i.e., under Paragraphs 6 or 8 of the Agreement) other than those provided herein.

The provision of this Amendment shall supersede conflicting provisions in the Agreement.  Except for the provisions of this Amendment as set forth above, the Agreement and all of its terms remain in full force and effect.

| | |
|---|---|
| **ROSS STORES, INC.** | **EXECUTIVE** |
| /s/ Michael Balmuth | /s/ Barbara Levy |
| Michael Balmuth<br>Vice Chairman, President and CEO | Barbara Levy |
| May 1, 2006 | May 1, 2006 |
| Date | Date |

**EXHIBIT 15**

September 5, 2006

Ross Stores, Inc.
Pleasanton, California

We have reviewed, in accordance with standards of the Public Company Accounting Oversight Board (United States), the unaudited interim financial information of Ross Stores, Inc. and subsidiaries for the three and six-month periods ended July 29, 2006 and July 30, 2005, as indicated in our report dated September 5, 2006; because we did not perform an audit, we expressed no opinion on that information.

We are aware that our report referred to above, which is included in your Quarterly Report on Form 10-Q for the quarter ended July 29, 2006, is incorporated by reference in Registration Statements No. 33-61373, No. 33-51916, No. 33-51896, No. 33-51898, No. 33-41415, No. 33-41413, No. 33-29600, No. 333-56831, No. 333-06119, No. 333-34988, No. 333-51478, and No. 333-115836 of Ross Stores, Inc., all on Form S-8.

We also are aware that the aforementioned report, pursuant to Rule 436(c) under the Securities Act of 1933, is not considered a part of the Registration Statement prepared or certified by an accountant or a report prepared or certified by an accountant within the meaning of Sections 7 and 11 of that Act.

Yours truly,

/s/Deloitte & Touche LLP

**EXHIBIT 31.1**

Ross Stores, Inc.
Certification of Chief Executive Officer
Pursuant to Sarbanes-Oxley Act Section 302(a)

I, Michael Balmuth, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Ross Stores, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 6, 2006

/s/ Michael Balmuth

Michael Balmuth
Vice Chairman, President and
Chief Executive Officer

**EXHIBIT 31.2**

Ross Stores, Inc.
Certification of Chief Financial Officer
Pursuant to Sarbanes-Oxley Act Section 302(a)

I, John G. Call, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Ross Stores, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 6, 2006

/s/ J. Call

John G. Call
Senior Vice President, Chief Financial Officer,
Principal Accounting Officer and Corporate Secretary

**EXHIBIT 32.1**

Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350,
As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Ross Stores, Inc. (the "Company") on Form 10-Q for the quarter ended July 29, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael Balmuth, as Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 ("Section 906"), that, to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: September 6, 2006

/s/ Michael Balmuth

Michael Balmuth
Vice Chairman, President
and Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**EXHIBIT 32.2**

Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350,
As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Ross Stores, Inc. (the "Company") on Form 10-Q for the quarter ended July 29, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John G. Call, as Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 ("Section 906"), that, to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: September 6, 2006

/s/ J. Call

John G. Call
Senior Vice President, Chief Financial Officer,
Principal Accounting Officer and Corporate Secretary

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.