
**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 30, 2005

or

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

For the transition period from _____ to _____

Commission file number: 0-14678

ROSS STORES, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

4440 Rosewood Drive, Pleasanton, California
(Address of principal executive offices)

94-1390387
(I.R.S. Employer Identification No.)

94588-3050
(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 an accelerated filer (as defined in Rule 12b-2 of the Act).

Yes No

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 18, 2005 was 146,106,238.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

	Three Months Ended		Six Months Ended	
	July 30, 2005	July 31, 2004	July 30, 2005	July 31, 2004
(\$000, except stores and per share data, unaudited)				
		(As Restated, see Note B)		(As Restated, see Note B)
SALES	\$ 1,171,862	\$ 1,008,600	\$ 2,295,799	\$ 2,000,492
COSTS AND EXPENSES				
Cost of goods sold, including related buying, distribution and occupancy costs	916,214	773,716	1,775,530	1,524,882
Selling, general and administrative	186,604	163,651	369,340	325,147
Impairment of long-lived assets	—	18,000	—	18,000
Interest (income) expense, net	(580)	336	(878)	506
Total costs and expenses	1,102,238	955,703	2,143,992	1,868,535
Earnings before taxes	69,624	52,897	151,807	131,957
Provision for taxes on earnings	27,345	20,683	59,478	51,596
Net earnings	\$ 42,279	\$ 32,214	\$ 92,329	\$ 80,361
EARNINGS PER SHARE				
Basic	\$.29	\$.22	\$.63	\$.54
Diluted	\$.29	\$.21	\$.62	\$.53
WEIGHTED AVERAGE SHARES OUTSTANDING (000)				
Basic	145,102	148,106	145,555	148,998
Diluted	147,321	150,903	147,894	152,148
DIVIDENDS PER SHARE				
Cash dividends declared per share	\$.05	\$.04	\$.05	\$.04
Stores open at end of period	695	616	695	616

See notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS

(\$000, unaudited)	July 30, 2005	January 29, 2005 (Note A)	July 31, 2004 (As Restated, see Note B)
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 119,397	\$ 115,331	\$ 64,353
Short-term investments	25,800	67,400	44,000
Accounts receivable	35,371	31,154	27,876
Merchandise inventory	975,846	853,112	897,542
Prepaid expenses and other	51,060	46,756	53,711
Deferred income taxes	8,968	8,968	25,047
Total current assets	1,216,442	1,122,721	1,112,529
PROPERTY AND EQUIPMENT			
Land and buildings	70,029	28,572	28,759
Fixtures and equipment	686,680	652,882	589,728
Leasehold improvements	350,311	345,195	316,760
Construction-in-progress	28,298	17,860	20,012
	1,135,318	1,044,509	955,259
Less accumulated depreciation and amortization	526,444	488,331	445,578
Property and equipment, net	608,874	556,178	509,681
Other long-term assets	53,025	57,100	58,007
Total assets	\$ 1,878,341	\$ 1,735,999	\$ 1,680,217
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable	\$ 534,253	\$ 451,861	\$ 471,651
Accrued expenses and other	160,527	154,017	152,382
Accrued payroll and benefits	112,455	105,683	103,056
Income taxes payable	—	—	(2,248)
Total current liabilities	807,235	711,561	724,841
Long-term debt	50,000	50,000	50,000
Other long-term liabilities	115,127	116,668	110,023
Deferred income taxes	96,767	92,201	75,006
Total liabilities	1,069,129	970,430	959,870
STOCKHOLDERS' EQUITY			
Common stock	1,469	1,472	1,478
Additional paid-in capital	507,443	449,524	424,664
Treasury stock	(17,578)	(11,618)	(8,447)
Deferred compensation	(37,114)	(25,266)	(26,005)
Retained earnings	354,992	351,457	328,657
Total stockholders' equity	809,212	765,569	720,347
Total liabilities and stockholders' equity	\$ 1,878,341	\$ 1,735,999	\$ 1,680,217

See notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(\$000, unaudited)	Six Months Ended	
	July 30, 2005	July 31, 2004
		(As Restated, see Note B)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	\$ 92,329	\$ 80,361
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	52,764	45,619
Deferred income taxes	4,566	(5,173)
Tax benefit from equity issuance	17,430	7,473
Impairment of long-lived assets	—	18,000
Change in assets and liabilities:		
Merchandise inventory	(122,734)	(56,051)
Other current assets, net	(8,521)	(26,827)
Accounts payable	89,727	30,033
Other current liabilities	13,283	(11,633)
Other long-term, net	1,147	18,967
Net cash provided by operating activities	139,991	100,769
CASH FLOWS USED IN INVESTING ACTIVITIES		
Additions to property and equipment	(96,200)	(60,118)
Sales (purchases) of short-term investments, net	41,600	(44,000)
Net cash used in investing activities	(54,600)	(104,118)
CASH FLOWS USED IN FINANCING ACTIVITIES		
Issuance of common stock related to stock plans	28,391	11,218
Treasury stock purchased	(5,960)	(8,447)
Repurchase of common stock	(89,009)	(123,847)
Dividends paid	(14,747)	(12,768)
Net cash used in financing activities	(81,325)	(133,844)
Net increase (decrease) in cash and cash equivalents	4,066	(137,193)
Cash and cash equivalents:		
Beginning of period	115,331	201,546
End of period	\$ 119,397	\$ 64,353
NON-CASH INVESTING ACTIVITIES		
Straight-line rent capitalization in build-out period	\$ 1,608	\$ 3,439

See notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Three and Six Months Ended July 30, 2005 and July 31, 2004
(Unaudited)

Note A: Summary of Significant Accounting Policies

Basis of Presentation. The accompanying unaudited condensed consolidated financial statements have been prepared from the records of the Company without audit and, in the opinion of management, include all adjustments (consisting of only normal, recurring adjustments) necessary to present fairly the financial position at July 30, 2005 and July 31, 2004; the results of operations for the three and six months ended July 30, 2005 and July 31, 2004; and cash flows for the six months ended July 30, 2005 and July 31, 2004. The balance sheet at January 29, 2005, presented herein, has been derived from the audited consolidated financial statements of the Company as of 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 29, 2005. 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 29, 2005.

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.

Reclassifications. Certain reclassifications have been made in the 2004 condensed consolidated financial statements to conform to the current presentation. These reclassifications include presenting deferred compensation and treasury stock as separate components of stockholders' equity.

Provision for litigation expense and other legal proceedings. The Company is party to various legal proceedings arising from normal business activities. 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 concerning claims regarding employee payroll and wage claims. Recently, the Orange County Superior Court 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.

Stock-Based Compensation. The Company accounts for stock-based awards to employees using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Because the Company grants stock option awards with exercise prices equal to fair market value, no compensation expense is recorded at issuance. Compensation expense for restricted stock awards is based on the market value of the shares awarded at the date of grant and is amortized on a straight-line basis over the vesting period. The disclosure requirements of Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation," and SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure—an amendment of FASB Statement No. 123" are set forth below.

Had compensation costs for the Company's stock option 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 would have been reduced to the pro forma amounts indicated below:

		Three Months Ended		Six Months Ended	
		July 30, 2005	July 31, 2004	July 30, 2005	July 31, 2004
(S000, except per share data)					
Net earnings	As reported	\$ 42,279	\$ 32,214	\$ 92,329	\$ 80,361
			(As Restated, see Note B)		(As Restated, see Note B)
Add: Stock-based employee compensation expense included in reported net earnings, net of tax		2,376	2,295	4,788	4,488
Deduct: Stock-based employee compensation expense determined under the fair value based method for all awards, net of tax		(4,571)	(4,716)	(10,025)	(9,149)
Net earnings	Pro forma	\$ 40,084	\$ 29,793	\$ 87,092	\$ 75,700
Basic earnings per share	As reported	\$.29	\$.22	\$.63	\$.54
	Pro forma	\$.28	\$.20	\$.60	\$.51
Diluted earnings per share	As reported	\$.29	\$.21	\$.62	\$.53
	Pro forma	\$.27	\$.20	\$.59	\$.50

At July 30, 2005, the Company had two stock-based compensation plans. SFAS No. 123 establishes a fair value method of accounting for stock options and other equity instruments. For determining pro forma earnings per share, the fair value of the stock options and employees' purchase rights were estimated using the Black-Scholes option pricing model using the following assumptions:

	Three Months Ended		Six Months Ended	
	July 30, 2005	July 31, 2004	July 30, 2005	July 31, 2004
Stock Options				
Expected life from grant date (years)	3.3	3.1	3.4	3.1
Expected volatility	33.7%	39.0%	33.8%	37.0%
Risk-free interest rate	4.1%	3.2%	3.8%	2.8%
Dividend yield	0.8%	0.6%	0.7%	0.6%

	Three Months Ended		Six Months Ended	
	July 30, 2005	July 31, 2004	July 30, 2005	July 31, 2004
Employee Stock Purchase Plan				
Expected life from grant date (years)	1.0	1.0	1.0	1.0
Expected volatility	30.9%	28.3%	30.9%	28.3%
Risk-free interest rate	2.9%	1.3%	2.9%	1.3%
Dividend yield	0.7%	0.5%	0.7%	0.5%

The weighted average fair values per share of stock options granted for the three-month periods ended July 30, 2005 and July 31, 2004, were \$7.67 and \$7.48, and for the six-month periods ended July 30, 2005 and July 31, 2004, were \$7.81 and \$7.92, respectively. The weighted average fair values per share of employee stock purchase awards for the three-month periods ended July 30, 2005 and July 31, 2004, were \$7.61 and \$6.81, and for the six-month periods ended July 30, 2005 and July 31, 2004, were \$7.61 and \$6.81, respectively.

Note B: Restatement of Prior Year Consolidated Financial Statements

On February 7, 2005, the Office of the Chief Accountant of the Securities and Exchange Commission (“SEC”) issued a letter to the American Institute of Certified Public Accountants expressing its views regarding certain operating lease accounting issues and their treatment under generally accepted accounting principles in the United States of America (“GAAP”). In response to this letter, the Company initiated a review of its lease-related accounting and determined that the Company’s method of accounting for landlord incentives or allowances under operating leases (tenant improvement allowances) and the Company’s method of accounting for “rent holidays” were not consistent with this guidance.

The Company historically accounted for tenant improvement allowances as reductions of fixed assets on the consolidated balance sheets and as reductions of capital expenditures in investing activities in the consolidated statements of cash flows. The Company historically amortized leasehold improvements over the original lease term, typically 10 years. The Company determined that the appropriate interpretation of Financial Accounting Standards Board (“FASB”) Technical Bulletin No. 88-1, “Issues Relating to Accounting for Leases,” requires these allowances to be recorded as deferred rent liabilities on the consolidated balance sheets, amortized over the lease term, and included as a component of operating activities in the consolidated statements of cash flows.

The Company historically amortized rent holiday periods on a straight-line basis over the lease term based on the store opening date, which excluded the build-out period for its stores from the term over which it expensed rent. The Company considered FASB Technical Bulletin No. 85-3, “Accounting for Operating Leases with Scheduled Rent Increases,” and determined that the lease term should commence on the date the Company takes possession of the leased space for construction purposes, which is generally one to four months prior to the opening date.

In addition, the Company historically capitalized rent during the construction period for its distribution and headquarter facilities. The Company considered interpretive guidance based on analogies to FASB Statement No. 34, “Capitalization of Interest Cost,” and FASB Statement No. 67, “Accounting for the Costs and Initial Rental Operations of Real Estate Projects” regarding capitalization of rent during the period of time a lessee is performing construction activities. The Company concluded that its historical policy of capitalizing rent during the build-out period is appropriate and corrected its accounting to apply the policy to the build-out period for all facilities, including its stores. See Note E for a new FASB Staff Position regarding the capitalization of rent during a build-out period.

In addition, the tax benefit from equity issuance is now presented as an operating activity rather than a financing activity in the condensed consolidated statements of cash flows.

The Company’s short-term investments, totaling \$44 million at July 31, 2004, comprised of state and other government obligations with original contractual maturities of ten years or more; however are highly liquid and have a short-term auction feature resulting in an effective maturity of 15 to 30 days. Previously, these investments were classified as cash equivalents. The Company restated these as short-term investments on the condensed consolidated balance sheet and the corresponding investment in short-term investments in the condensed consolidated statement of cash flows.

As a result, the Company restated its condensed consolidated financial statements as of and for the three months and six months ended July 31, 2004.

The following is a summary of the effects of the restatement on the Company's condensed consolidated statements of earnings for the three months and six months ended July 31, 2004, condensed consolidated balance sheet as of July 31, 2004, and cash flows for the six months ended July 31, 2004:

Condensed Consolidated Statements of Earnings			
(\$000, except per share data) Three months ended July 31, 2004	As Previously Reported¹	Adjustments	As Restated²
Cost of goods sold, including related buying, distribution and occupancy costs	\$ 772,743	\$ 973	\$ 773,716
Selling, general and administrative	164,032	(381)	163,651
Earnings before taxes	53,489	(592)	52,897
Provision for taxes on earnings	20,914	(231)	20,683
Net earnings	32,575	(361)	32,214
Earnings per share — basic	\$.22	\$.00	\$.22
Earnings per share — diluted	\$.22	\$ (.01)	\$.21

Condensed Consolidated Statements of Earnings			
(\$000, except per share data) Six months ended July 31, 2004	As Previously Reported¹	Adjustments	As Restated²
Cost of goods sold, including related buying, distribution and occupancy costs	\$ 1,523,365	\$ 1,517	\$ 1,524,882
Selling, general and administrative	325,463	(316)	325,147
Earnings before taxes	133,158	(1,201)	131,957
Provision for taxes on earnings	52,065	(469)	51,596
Net earnings	81,093	(732)	80,361
Earnings per share — basic	\$.54	\$.00	\$.54
Earnings per share — diluted	\$.53	\$.00	\$.53

Condensed Consolidated Balance Sheet			
(\$000, except per share data) As of July 31, 2004	As Previously Reported¹	Adjustments	As Restated
Prepaid expenses and other	\$ 53,978	\$ (267)	\$ 53,711
Deferred income taxes (asset)	22,742	2,305	25,047
Fixtures and equipment	570,833	18,895	589,728
Leasehold improvements	268,104	48,656	316,760
Accumulated depreciation	415,195	30,383	445,578
Accrued expenses and other	151,359	1,023	152,382
Other long-term liabilities	68,251	41,772	110,023
Retained earnings	332,246	(3,589)	328,657

Condensed Consolidated Statements of Cash Flows

(S000, except per share data)
Six months ended July 31, 2004

	As Previously Reported ¹	Adjustments	As Restated
Net cash provided by operating activities ³	\$ 89,644	\$ 11,125	\$ 100,769
Net cash used in investing activities	(56,466)	(47,652)	(104,118)
Net cash used in financing activities ³	(126,371)	(7,473)	(133,844)
Net decrease in cash and cash equivalents ⁴	(93,193)	(44,000)	(137,193)

¹ As previously stated in the Form 10-Q filed for the quarter ended July 31, 2004.

² See Note J in the Notes to Consolidated Financial Statements included in the Annual Report on Form 10-K for the year ended January 29, 2005.

³ The tax benefit from equity issuance was restated as an operating activity in the condensed consolidated statements of cash flows.

⁴ Short-term investments were restated from cash and cash equivalents in the condensed consolidated balance sheet.

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 options to issue common stock were exercised into common stock.

For the three months ended July 30, 2005 and July 31, 2004, there were approximately 2,519,600 and 1,437,500 shares, and for the six months ended July 30, 2005 and July 31, 2004, there were approximately 2,001,700 and 618,900 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 (option exercise price exceeds average stock price) 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 30, 2005						
Shares	145,102	2,219	147,321	145,555	2,339	147,894
Amount	\$.29	\$.00	\$.29	\$.63	\$ (.01)	\$.62
July 31, 2004						
Shares	148,106	2,797	150,903	148,998	3,150	152,148
Amount	\$.22	\$ (.01)	\$.21	\$.54	\$ (.01)	\$.53

Note D: Impairment of Long-Lived Assets

During the second quarter of 2004, the Company relocated its corporate headquarters from Newark, California to Pleasanton, California and decided to pursue a sale of its Newark facility. In accordance with SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets," the Company recognized a non-cash impairment charge of \$18 million before taxes in the second quarter of 2004 to write-down the carrying value of its Newark facility from a net book value of approximately \$33 million to the estimated fair value of approximately \$15 million. The \$18 million loss was subsequently reduced to \$15 million in the third quarter of 2004 when the Company sold the Newark facility. The fair value of the Newark facility assets held for sale of approximately \$15 million is included in "Prepaid expenses and other" in the accompanying condensed consolidated balance sheets as of July 31, 2004.

Note E: Recently Issued Accounting Standards

In November 2004, the FASB issued the revised SFAS No. 151, "Inventory Costs," which clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material (spoilage). SFAS No. 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company does not believe that the adoption of SFAS No. 151 will have a material impact on the Company's operating results or financial position.

In December 2004, the FASB issued the revised SFAS No. 123(R), "Share-Based Payment," which establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. SFAS No. 123(R) requires recognition of stock-based compensation expense in the consolidated financial statements over the period during which an employee is required to provide service in exchange for the award. SFAS No. 123(R) is effective for the fiscal year beginning after June 15, 2005. The Company will implement the requirements of the standard as of the beginning of its fiscal year 2006. The impact of adopting SFAS No. 123(R) will be dependent on numerous factors including, but not limited to, the valuation model chosen by the Company to value stock-based awards; the assumed award forfeiture rate; the accounting policies adopted concerning the method of recognizing the fair value of awards over the requisite service period; and the transition method chosen for adopting SFAS No. 123(R). The Company has not yet quantified the effects of the adoption of SFAS No. 123(R).

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections" which requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. The Company does not expect the adoption of SFAS No. 154, which is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005, to have a material impact on the consolidated financial statements.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
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 30, 2005 and July 31, 2004, and the related condensed consolidated statements of earnings for the three and six-month periods then ended and of cash flows for the six-month periods then ended. These condensed consolidated financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with 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 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 review, we are not aware of any material modifications that should be made to such condensed consolidated 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 standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Ross Stores, Inc. as of January 29, 2005, 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 13, 2005, 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 29, 2005 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Deloitte & Touche LLP
San Francisco, California

September 7, 2005

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. The Company's 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 the subsection below entitled "Forward-Looking Statements and Factors Affecting Future Performance." 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 the Company's 2004 Form 10-K. All information is based on the Company's fiscal calendar.

Restatement of Prior Year Condensed Consolidated Financial Statements

The condensed consolidated financial statements for the prior period have been restated. See Note B of the condensed consolidated financial statements for additional discussion. This discussion and analysis gives effect to such restatement.

Overview

Ross Stores, Inc. (the "Company") is the second largest off-price apparel and home goods retailer in the United States, with 682 Ross Dress for Less[®] stores in 26 states and Guam and 13 dd's DISCOUNTS[®] store locations in California at July 30, 2005. Ross Stores offers first-quality, in-season, name brand and designer apparel, accessories, footwear and home fashions at everyday savings of 20 to 60 percent off department and specialty store regular prices. dd's DISCOUNTS[®] features a more moderately-priced assortment of first-quality, in-season, name brand apparel, accessories, footwear and home fashions at everyday savings of 20 to 70 percent off moderate department and discount store regular prices.

The Company's primary strategy has been a continued focus on pursuing and refining its existing off-price business, and steadily expanding its store base. In establishing growth objectives for the business, the Company closely monitors market share trends for the off-price industry. According to data from the NPD Group, which provides global sales and marketing information on the retail industry, the off-price share of total apparel sales in 2004 grew to 8.5% from 7.6% in 2003, reflecting the ongoing importance of value to consumers. Full-priced department stores and mass merchandise retailers experienced a decline in apparel market share over the same period. The Company's 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

	Three Months Ended		Six Months Ended	
	July 30, 2005	July 31, 2004	July 30, 2005	July 31, 2004
	(As Restated, see Note B)		(As Restated, Note B)	
SALES				
Sales (millions)	\$ 1,172	\$ 1,009	\$ 2,296	\$ 2,000
Sales growth	16.2%	4.4%	14.8%	8.4%
Comparable store sales growth	7%	(3)%	5%	0%
COSTS AND EXPENSES (as a percent of sales)				
Cost of goods sold, including related buying, distribution and occupancy costs	78.2%	76.7%	77.3%	76.2%
Selling, general and administrative	15.9%	16.2%	16.1%	16.3%
Impairment of long-lived assets	0%	1.8%	0%	0.9%
EARNINGS BEFORE TAXES	5.9%	5.3%	6.6%	6.6%
NET EARNINGS	3.6%	3.2%	4.0%	4.0%

Stores. The Company's operating strategy is to open additional stores in new and existing markets based on local market penetration, the ability to leverage overhead expenses, local demographic characteristics including population, and competition. Management continually evaluates opportunistic real estate acquisitions and opportunities for potential new store locations. The Company also evaluates its current store locations and determines store closures based on similar criteria.

	Three Months Ended		Six Months Ended	
	July 30, 2005	July 31, 2004	July 30, 2005	July 31, 2004
Stores at the beginning of the period	673	599	649	568
Stores opened in the period	22	17	46	48
Stores closed in the period	—	—	—	—
Stores at the end of the period	695	616	695	616

Sales. The 16% total sales increase for the three months ended July 30, 2005 over the prior year reflects the opening of 79 net new stores between July 31, 2004 and July 30, 2005, and a 7% increase in sales from "comparable" stores (defined as stores that have been open for more than 14 complete months). The 15% total sales increase for the six months ended July 30, 2005 over the same period in the prior year reflects the opening of 79 net new stores between July 31, 2004 and July 30, 2005, and a 5% increase in sales from comparable stores.

The Company's sales mix for the three and six months ended July 30, 2005 and July 31, 2004 was as follows:

	Three Months Ended		Six Months Ended	
	July 30, 2005	July 31, 2004	July 30, 2005	July 31, 2004
Ladies	35%	36%	36%	36%
Home accents and bed and bath	20%	20%	20%	19%
Men's	16%	17%	16%	17%
Fine jewelry, accessories, lingerie and fragrances	11%	12%	11%	11%
Children's	8%	6%	8%	8%
Shoes	10%	9%	9%	9%
Total	100%	100%	100%	100%

Management expects to address the competitive climate for apparel and home goods off-price retailers by pursuing and refining the Company's existing strategies and by continuing to strengthen its organization, to diversify the merchandise mix, and to more fully develop the organization and systems to strengthen regional merchandise offerings. Although the Company's strategies and store expansion program contributed to sales gains for the three and six-month periods ended July 30, 2005, there can be no assurance that these will result in a continuation of revenue or profit growth.

Cost of Goods Sold. Cost of goods sold increased \$142.5 million for the three months ended July 30, 2005 compared to the same period in the prior year, mainly due to increased sales from the opening of 79 net new stores between July 31, 2004 and July 30, 2005, and increased distribution and logistics costs.

Cost of goods sold as a percentage of sales for the three months ended July 30, 2005 increased approximately 150 basis points compared with the same period in the prior year. This increase is largely attributable to lower merchandise gross margin and higher distribution and logistics costs during the quarter. Higher markdowns primarily contributed to an approximate 130 basis point increase in merchandise cost of goods sold as a percentage of sales. Distribution and logistics costs as a percentage of sales increased by approximately 50 basis points. This was partially offset by a 30 basis point decrease in store occupancy and depreciation costs as a percentage of sales, which benefited from leverage on the 7% increase in comparable store sales.

Cost of goods sold increased \$250.6 million for the six months ended July 30, 2005 compared to the same period in the prior year, mainly due to increased sales from the opening of 79 net new stores between July 31, 2004 and July 30, 2005, and increased distribution and logistics costs.

Cost of goods sold as a percentage of sales for the six months ended July 30, 2005 increased approximately 110 basis points compared with the same period in the prior year. This increase is largely attributable to lower merchandise gross margin and higher distribution and logistics costs. Higher markdowns contributed to an approximate 80 basis point increase in merchandise cost of goods sold as a percentage of sales. Distribution and logistics costs as a percentage of sales increased by approximately 45 basis points. This was partially offset by a 15 basis point decrease in store occupancy and depreciation costs as a percentage of sales.

There can be no assurance that the gross profit margins realized for the three and six-month periods ended July 30, 2005 will continue in the future.

Selling, General and Administrative Expenses. Selling, general, and administrative expenses increased \$23.0 million for the three months ended July 30, 2005 compared to the same period in the prior year, primarily due to increased store operating costs reflecting the opening of 79 net new stores between July 31, 2004 and July 30, 2005, and increased information technology costs and related depreciation.

For the three months ended July 30, 2005, selling, general and administrative expenses as a percentage of sales decreased approximately 30 basis points compared to the same period in the prior year, primarily due to leverage from the 7% increase in sales from comparable stores. As a percentage of sales, store operating costs decreased approximately 40 basis points.

This was partially offset by an increase in information technology and related depreciation costs and an approximate 10 basis point increase in other occupancy costs primarily due to the move into the new corporate headquarters.

Selling, general, and administrative expenses increased \$44.2 million for the six months ended July 30, 2005 compared to the same period in the prior year, primarily due to increased store operating costs reflecting the opening of 79 net new stores between July 31, 2004 and July 30, 2005, and increased information technology costs and related depreciation.

For the six months ended July 30, 2005, selling, general and administrative expenses as a percentage of sales decreased approximately 15 basis points compared to the same period in the prior year. As a percentage of sales, advertising and store operating costs decreased approximately 30 basis points, primarily due to leverage from the 5% increase in sales from comparable stores partially offset by an approximate 15 basis point increase primarily due to increased information technology costs and related depreciation.

Impairment of Long-Lived Assets. During the second quarter of 2004, the Company relocated its corporate headquarters from Newark, California to Pleasanton, California and decided to pursue a sale of its Newark facility. In accordance with Statement of Financial Accounting Standards ("SFAS") No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets," the Company recognized a non-cash impairment charge of \$18 million before taxes in the second quarter of 2004 to write-down the carrying value of its Newark facility from a net book value of approximately \$33 million to the estimated fair value of approximately \$15 million. The \$18 million loss was subsequently reduced to \$15 million in the third quarter of 2004 when the Company sold the Newark facility. The fair value of the Newark facility assets held for sale of approximately \$15 million is included in "Prepaid expenses and other" in the accompanying condensed consolidated balance sheets as of July 31, 2004.

Taxes on Earnings. The Company's effective tax rate for the three and six months ended July 30, 2005 and July 31, 2004 was approximately 39%, which represents the applicable Federal and State statutory rates reduced by the Federal benefit received for State taxes. The effective rate is affected by changes in law, location of new stores, level of earnings and the result of tax audits. The Company anticipates that its effective tax rate for fiscal 2005 will be approximately 38% to 40%.

Net Earnings. The increase in net earnings as a percentage of sales for the three months ended July 30, 2005, compared to the same period in the prior year, is primarily due to lower selling, general and administrative expenses as a percentage of sales and the effect of the prior year impairment charge. Diluted earnings per share increased to \$.29 from \$.21 in the prior year as a result of an increase in net earnings and a decrease in weighted average diluted shares outstanding, which was largely attributable to the acquisition of common stock under the Company's stock repurchase program.

Net earnings as a percentage of sales for the six months ended July 30, 2005, compared to the same period in the prior year, remained flat primarily due to lower selling, general and administrative expenses as a percentage of sales offset by the effect of the prior year impairment charge. Diluted earnings per share increased to \$.62 from \$.53 in the prior year as a result of an increase in net earnings and a decrease in weighted average diluted shares outstanding, which was largely attributable to the acquisition of common stock under the Company's stock repurchase program.

Financial Condition

Liquidity and Capital Resources

The Company's primary sources of funds for its business activities are cash flows from operations and short-term trade credit. The Company's primary ongoing cash requirements are for seasonal and new store merchandise inventory purchases and capital expenditures in connection with new stores, and investments in information systems and infrastructure. The Company also uses cash to repurchase stock under its stock repurchase program and to pay dividends.

(S000)	Six Months Ended	
	July 30, 2005	July 31, 2004
		(As Restated See Note B)
Cash flows from operating activities	\$ 139,991	\$ 100,769
Cash flows used in investing activities	(54,600)	(104,118)
Cash flows used in financing activities	(81,325)	(133,844)
Net increase (decrease) in cash and cash equivalents	\$ 4,066	\$ (137,193)

Operating Activities

Net cash provided by operating activities was \$140.0 million for the six months ended July 30, 2005, and \$100.8 million for the six months ended July 31, 2004. The primary source of cash from operations for the six months ended July 30, 2005 was net earnings plus non-cash expenses for depreciation and amortization, partially offset by cash used to purchase merchandise inventory, net of trade payables. The increase in cash flows from operations for the six months ended July 30, 2005 is primarily due to an increase of accounts payable leverage (defined as accounts payable divided by merchandise inventory) from 53% at July 31, 2004 to 55% at July 30, 2005. Working capital (defined as current assets less current liabilities) was \$409 million as of July 30, 2005, compared to \$388 million as of July 31, 2004. The Company's primary source of liquidity is the sale of its merchandise inventory. Management regularly reviews the age and condition of the merchandise and is able to maintain current merchandise inventory in its stores through replenishment processes and liquidation of slower-moving merchandise through clearance markdowns.

Investing Activities

During the six-month periods ended July 30, 2005 and July 31, 2004, the Company spent approximately \$96.2 million and \$60.1 million, respectively, for capital expenditures (excluding leased equipment) for fixtures and leasehold improvements to open new stores, implement management information systems, install and implement materials handling equipment and related distribution center systems, and various other expenditures related to existing stores, buying offices, corporate offices and the purchase of a warehouse in Moreno Valley, California ("Moreno Valley warehouse"). The Company opened 46 and 48 net new stores during the six months ended July 30, 2005 and July 31, 2004, respectively. In addition, the Company sold \$41.6 million and purchased \$44.0 million, net, in short-term investments during the six months ended July 30, 2005 and July 31, 2004, respectively.

The Company is forecasting approximately \$185 million in capital expenditures for fiscal 2005 to fund fixtures and leasehold improvements to open both new Ross stores and dd's DISCOUNTS® stores. In addition, these capital expenditures are expected to cover the relocation, or remodel of existing stores, and investments in store and merchandising systems, distribution center land, buildings, equipment and systems, and various central office expenditures. The Company expects to fund these expenditures out of cash flows from operations, and existing bank and credit facilities.

Financing Activities

During the six-month periods ended July 30, 2005 and July 31, 2004, liquidity and capital requirements were provided by cash flows from operations, and trade credit. Substantially all of the Company's store sites, buying offices, its headquarters, and certain distribution centers are leased and, except for certain leasehold improvements and equipment, do not represent long-term capital investments. The Company owns its distribution centers in Carlisle, Pennsylvania and Moreno Valley, California.

The Company repurchased 3.2 million and 4.5 million shares of common stock for an aggregate purchase price of approximately \$89.0 million and \$123.8 million during the periods ended July 30, 2005 and July 31, 2004, respectively. These stock 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 the Company's vendors. Management regularly reviews the adequacy of credit available to the Company from all sources and has been able to maintain adequate lines to meet the capital and liquidity requirements of the Company.

The table below presents significant contractual payment obligations of the Company as of July 30, 2005:

(S000) Contractual Obligations	Less than 1 Year	1 - 3 Years	4 - 5 Years	After 5 Years	Total
Long-term debt	\$ 2,505	\$ 51,044	\$ —	\$ —	\$ 53,549
Operating leases	224,065	400,201	306,214	381,463	1,311,943
Other financings:					
Synthetic leases	10,086	8,819	8,182	12,272	39,359
Other synthetic lease obligations	84,205	2,004	—	56,000	142,209
Purchase obligations	835,253	9,167	2,256	—	846,676
Total contractual obligations	\$ 1,156,114	\$ 471,235	\$ 316,652	\$ 449,735	\$ 2,393,736

Long-Term Debt. The Company has a \$50 million senior unsecured term loan agreement to finance the equipment and information systems for its Perris, California distribution center. Total borrowings under the term loan were \$50 million as of July 30, 2005. The Company has estimated interest on long-term debt of \$3.5 million during the term of the loan, which is calculated based upon prevailing interest rates (LIBOR plus 150 basis points) and is included in "Long-term debt" in the table above. Interest is payable no less than quarterly at the bank's applicable prime rate or at LIBOR plus an applicable margin (currently 150 basis points) which resulted in an effective interest rate of 5.01% at July 30, 2005. All amounts outstanding under the term loan will be due and payable in December 2006. Borrowings under this term loan are subject to certain operating and financial covenants including maintaining certain interest coverage and leverage ratios.

Off-Balance Sheet Arrangements

Operating Leases. Substantially all of the Company's store sites, certain distribution centers, and the Company's buying offices and corporate headquarters are leased and, except for certain leasehold improvements and equipment, do not represent long-term capital investments. The Company owns its distribution centers in Carlisle, Pennsylvania and Moreno Valley, California.

The Company has lease arrangements for certain equipment in its stores for its 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 the Company typically has options to renew the leases for two to three one-year periods. Alternatively, the Company may purchase or return the equipment at the end of the initial or each renewal term. The Company has guaranteed the value of the equipment at the end of the respective initial lease terms of \$12.0 million, which is included in “Other synthetic lease obligations” in the table above.

In January 2004, the Company commenced its lease on its corporate headquarters in Pleasanton, California. The lease has an initial term of 10.5 years with three five-year renewal options.

In October 2004, the Company entered into a lease arrangement to use a portion of its previously sold Newark, California distribution center (“Newark Facility”) to support distribution activities for dd’s DISCOUNTS® for an initial lease term of two years, with a one-year renewal option, a minor part of its remaining useful life.

Other Financings. The Company leases a 1.3 million square foot distribution center in Fort Mill, South Carolina. This distribution center, including equipment and systems, is being financed under an \$87.3 million, five-year operating lease, commonly referred to as a synthetic lease, which expires in May 2006. Monthly rent expense is currently payable at 90 basis points over LIBOR on the lease balance of \$87.3 million. The Company has estimated rent expense on the lease which is calculated based upon prevailing interest rates (LIBOR plus 90 basis points) and is included in “Synthetic leases” in the contractual obligations table above. At the end of the lease term, the Company must refinance the \$87.3 million synthetic lease facility, purchase the distribution center at the amount of the then-outstanding lease balance, or arrange a sale of the distribution center to a third party. The Company has agreed under a residual value guarantee to pay the lessor up to 85% of the lease balance. The Company’s obligation under this residual value guarantee of \$74.2 million is included in “Other synthetic lease obligations” in the contractual obligations table above.

The Company also leases a 1.3 million square foot distribution center in Perris, California. This distribution center is being financed under a \$70 million ten-year synthetic lease facility that expires in July 2013. Rent expense on this center is payable monthly at a fixed annual rate of 5.8% on the lease balance of \$70 million. At the end of the lease term, the Company must refinance the \$70 million synthetic lease facility, purchase the distribution center at the amount of the then-outstanding lease balance, or arrange a sale of the distribution center to a third party. If the distribution center is sold to a third party for less than \$70 million, the Company has agreed under a residual value guarantee to pay the lessor the shortfall below \$70 million not to exceed \$56 million. The Company’s contractual obligation of \$56 million is included in “Other synthetic lease obligations” in the above table. The \$50 million financing of equipment and systems for the Perris, California center is included in “Long-term debt” in the table above.

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,” the Company has 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 \$1.5 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, the Company leases two separate warehouse facilities for packaway storage in Carlisle, Pennsylvania with operating leases expiring through 2011. In January 2004, the Company entered into a two-year lease with two one-year options for a warehouse facility in Fort Mill, South Carolina. These three leased facilities are being used primarily to store packaway merchandise.

The synthetic lease facilities described above, as well as the Company’s long-term debt and revolving credit facility, have covenant restrictions requiring the Company to maintain certain interest coverage and leverage ratios. In addition, the interest rates under these agreements may vary depending on the Company’s actual interest coverage ratios. As of July 30, 2005, the Company was in compliance with these covenants.

In December 2003, the FASB issued the revised FIN No. 46(R), “Consolidation of Variable Interest Entities,” which addresses consolidation by business enterprises of entities that are not controllable through voting interests or in which the equity investors do not bear the residual economic risks and rewards. FIN No. 46(R) explains how to identify variable interest entities and how an enterprise should assess its interest in an entity to decide whether to consolidate that entity.

The Company was not required under FIN No. 46(R) to consolidate its synthetic leases since the lessors/owners are not variable interest entities.

Purchase Obligations. As of July 30, 2005, the Company had purchase obligations of \$846.7 million. These purchase obligations primarily consist of merchandise inventory purchase orders, commitments related to store fixtures, supplies, and information technology service and maintenance contracts. Total merchandise inventory purchase orders of \$799.4 million are all purchase obligations of less than one year as of July 30, 2005.

Commercial Credit Facilities

The table below presents significant commercial credit facilities available to the Company as of July 30, 2005:

(S000) Commercial Credit Commitments	Amount of Commitment Expiration Per Period				Total Amount Committed
	Less than 1 Year	1 - 3 Years	4 - 5 Years	Over 5 Years	
Revolving credit facility ¹	\$ —	\$ —	\$ 600,000	\$ —	\$ 600,000
Total commercial commitments	\$ —	\$ —	\$ 600,000	\$ —	\$ 600,000

¹ Contains a \$200 million sublimit for issuances of letters of credit, of which \$62.8 million is outstanding and \$137.2 million is available as of July 30, 2005.

Revolving Credit Facility. In 2004, the Company entered into a \$600 million revolving credit facility with its banks, which contains a \$200 million sublimit for issuances of letters of credit of which \$137.2 million was available at July 30, 2005. Interest is LIBOR-based plus an applicable margin (currently 75 basis points) and is payable upon borrowing maturity but no less than quarterly. Borrowing under this credit facility is subject to the Company maintaining certain interest coverage and leverage ratios. The Company has had no borrowings under this facility. This revolving credit facility is scheduled to expire in March 2009.

Standby Letters of Credit. The Company uses standby letters of credit to collateralize certain obligations related to its self-insured workers' compensation and general liability claims. The Company had \$62.8 million and \$65.2 million in standby letters of credit outstanding at July 30, 2005 and July 31, 2004, respectively.

Trade Letters of Credit. The Company had \$21.7 million and \$27.1 million in trade letters of credit outstanding at July 30, 2005 and July 31, 2004, respectively.

Dividends. In May 2005, a quarterly cash dividend payment of \$.05 per common share was declared by the Company's Board of Directors, and was paid on July 1, 2005. In August 2005, a quarterly cash dividend of \$.05 per common share was declared by the Company's Board of Directors, payable on or about September 30, 2005.

Stock Repurchase Program. In January 2004, the Company announced that the Board of Directors authorized a stock repurchase program of up to \$350 million for 2004 and 2005. During the six months ended July 30, 2005, the Company repurchased approximately 3.2 million shares for an aggregate purchase price of approximately \$89.0 million.

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

Critical Accounting Policies

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

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

Long-lived Assets. The Company records 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. During the second quarter of 2004, the Company relocated its corporate headquarters from Newark, California to Pleasanton, California and decided to pursue a sale of its Newark facility. The Company recognized a non-cash impairment charge of \$18 million before taxes in the second quarter of 2004 to write-down the carrying value of its Newark facility from its net book value of approximately \$33 million to the estimated fair value of approximately \$15 million. The fair value of the Newark facility assets held for sale of approximately \$15 million is included in "Prepaid expenses and other" in the accompanying condensed consolidated balance sheets as of July 31, 2004.

Self-Insurance. The Company self-insures certain of its workers' compensation and general liability risks as well as certain of its health insurance plans. The Company's 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, reserves recorded may not be sufficient and additional charges could be required.

The above listing is not intended to be a comprehensive list of all of the Company's accounting policies. In many cases, the accounting treatment of a particular transaction is specifically dictated by Generally Accepted Accounting Principles, with no need for management's judgment in their application.

New Accounting Pronouncements

In November 2004, the FASB issued the revised SFAS No. 151, "Inventory Costs," which clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material (spoilage). SFAS No. 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company does not believe that the adoption of SFAS No. 151 will have a material impact on the Company's operating results or financial position.

In December 2004, the FASB issued the revised SFAS No. 123(R), "Share-Based Payment," which establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. SFAS No. 123(R) requires recognition of stock-based compensation expense in the consolidated financial statements over the period during which an employee is required to provide service in exchange for the award. SFAS No. 123(R) is effective for the fiscal year beginning after June 15, 2005. The Company will implement the requirements of the standard as of the beginning of its fiscal year 2006. The impact of adopting SFAS No. 123(R) will be dependent on numerous factors including, but not limited to, the valuation

model chosen by the Company to value stock-based awards; the assumed award forfeiture rate; the accounting policies adopted concerning the method of recognizing the fair value of awards over the requisite service period; and the transition method chosen for adopting SFAS No. 123(R). The Company has not yet quantified the effects of the adoption of SFAS No. 123(R).

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections" which requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. The Company does not expect the adoption of SFAS No. 154, which is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005, to have a material impact on the consolidated financial statements.

dd's DISCOUNTS[®]

The Company operates 13 dd's DISCOUNTS[®] stores, its off-price concept targeted to serve the needs of lower-income households, which it believes to be one of the fastest growing demographic markets in the country. dd's DISCOUNTS[®] features a moderately-priced assortment of first-quality, in-season, name brand apparel, accessories, footwear and home fashions at everyday savings of 20 to 70 percent off moderate department and discount store regular prices. The Company opened ten initial stores at locations in California during the second half of 2004 and three stores during the first half of 2005. This new business generally has similar merchandise departments and categories to those of Ross, but features a different mix of brands, consisting mostly of moderate department store and discount store labels at lower average price points. The average dd's DISCOUNTS[®] store is approximately 26,000 gross square feet and is located in an established strip shopping center in densely populated urban and suburban neighborhoods. The dd's DISCOUNTS[®] and Ross merchant, store and distribution organizations are separate and distinct; however, dd's DISCOUNTS[®] shares other certain corporate and support services with Ross.

Moreno Valley Warehouse Acquisition

On May 20, 2005, the Company acquired a warehouse property consisting of land and building in Moreno Valley, California for \$38.3 million. The Company funded the acquisition with its existing cash balances and is currently using the warehouse for storing packaway inventory.

Forward-Looking Statements and Factors Affecting Future Performance

This report includes certain forward-looking statements regarding forecasted capital expenditures, and expected sales and earnings levels, which reflect the Company's current beliefs, projections and estimates with respect to future events and the Company's future financial performance, operations and competitive position. The words "expect," "anticipate," "estimate," "believe," "looking ahead," "forecast," "guidance," "plan," "projected," and similar expressions identify forward-looking statements. These forward looking statements are subject to risks and uncertainties that could cause the Company's actual results to differ materially from historical results or current expectations.

Risks and uncertainties that apply to both Ross and dd's DISCOUNTS[®] stores include, without limitation, the Company's ability to effectively operate and integrate various new supply chain and core merchandising systems, including generation of all necessary information in a timely and cost effective manner; achieving and maintaining targeted levels of productivity and efficiency in its distribution centers; obtaining acceptable new store locations; competitive pressures in the apparel industry; changes in the level of consumer spending on or preferences for apparel or home-related merchandise; changes in geopolitical and general economic conditions; unseasonable weather trends; disruptions in supply chain; lower than planned gross margin, higher than planned markdowns, higher than expected inventory shortage, and greater than planned operating costs; the Company's ability to continue to purchase attractive brand-name merchandise at desirable discounts, the Company's ability to identify and successfully enter new geographic markets, and the Company's ability to attract and retain personnel with the retail talent necessary to execute its strategies.

The Company's corporate headquarters, certain of its distribution centers and 29% of its stores are located in California. Therefore, a downturn in the California economy or a major California natural disaster could significantly affect the Company's operating results and financial condition.

The Company's continued success depends, in part, upon its ability to increase sales at existing locations, and to open new stores and to operate stores on a profitable basis. There can be no assurance that the Company's existing strategies and store expansion program will result in a continuation of revenue growth or profit growth.

Future economic and industry trends that could potentially impact revenue and profitability remain difficult to predict. The factors underlying the Company's forecasts are dynamic and subject to change. As a result, any forecasts speak only as of the date they are given and do not necessarily reflect the Company's outlook at any other point in time. The Company disclaims any obligation to update or revise these forward-looking statements.

Other risk factors are detailed in the Company's Form 10-K for fiscal 2004.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to market risks, which primarily include changes in interest rates. The Company does not engage in financial transactions for trading or speculative purposes.

Interest that is payable on the Company's revolving credit facilities and long-term debt is based on variable interest rates and is, therefore, affected by changes in market interest rates. In addition, lease payments under certain of the Company's synthetic lease agreements are determined based on variable interest rates and are, therefore, affected by changes in market interest rates. As of July 30, 2005, the Company had no borrowings outstanding under its revolving credit facilities and had \$50 million of long-term debt outstanding which accrues interest at LIBOR plus 150 basis points.

A hypothetical 100 basis point increase in prevailing market interest rates would not have materially impacted the Company's consolidated financial position, results of operations, or cash flows as of and for the three and six-month periods ended July 30, 2005. The Company does not consider the potential losses in future earnings and cash flows from reasonably possible near term changes in interest rates to be material.

The Company occasionally uses forward contracts to hedge against fluctuations in foreign currency prices. The Company had no outstanding forward contracts at July 30, 2005.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Management, with the participation of the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the Company's "disclosure controls and procedures" (as defined in Exchange Act Rule 13a-15(e)) as of the end of the quarterly period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's 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

Management, with the participation of the Chief Executive Officer and Chief Financial Officer, also conducted an evaluation of the Company's internal control over financial reporting to determine whether any change occurred during the second fiscal quarter of 2005 that has materially affected, or is reasonably likely to materially affect, internal control over financial reporting. Based on that evaluation, management has concluded that there was no such change during the second fiscal quarter.

PART II – OTHER INFORMATION

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

Information regarding shares of common stock repurchased by the Company during the second quarter of 2005 is as follows:

Period	Total Number of Shares (or Units) Purchased ¹	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs (\$000)
May (5/1/2005-5/28/2005)	424,400	\$ 26.78	424,400	\$ 121,000
June (5/29/2005-7/2/2005)	683,127	\$ 29.44	679,582	\$ 101,000
July (7/3/2005-7/30/2005)	555,275	\$ 27.06	554,909	\$ 86,000
Total	1,662,802	\$ 27.96	1,658,891	\$ 86,000

¹ The Company acquired 3,911 shares for the quarter ended July 30, 2005 related to income tax withholdings for restricted stock. All remaining shares were repurchased under the two-year \$350 million stock repurchase program publicly announced on February 5, 2004.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

At the Annual Meeting of Stockholders, held on May 19, 2005 (the “2005 Annual Meeting”), the stockholders of the company voted on and approved the following proposals:

Proposal 1: To elect three Class III directors (Stuart G. Moldaw, George P. Orban and Donald H. Seiler) for a three-year term.

Proposal 2: To ratify the appointment of Deloitte & Touche LLP as the Company’s independent auditors for the fiscal year ending January 28, 2006.

2004 ANNUAL MEETING ELECTION RESULTS

PROPOSAL 1: ELECTION OF DIRECTORS

DIRECTOR	IN FAVOR	WITHHELD	TERM EXPIRES
Stuart G. Moldaw	130,077,676	7,523,555	2008
George P. Orban	133,135,532	4,465,699	2008
Donald H. Seiler	120,300,871	17,300,360	2008

PROPOSAL 2: RATIFICATION OF THE APPOINTMENT OF DELOITTE & TOUCHE LLP AS INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS FOR THE FISCAL YEAR ENDING JANUARY 28, 2006

FOR	AGAINST	ABSTAIN
115,950,758	21,609,049	41,424

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)

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

Date: September 8, 2005

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	Second Amendment to the Employment Agreement effective May 18, 2005 between Michael Balmuth and Ross Stores, Inc.
10.2	First Amendment to the Ross Stores, Inc. 2004 Equity Incentive Plan, effective May 17, 2005.
10.3	Form of Stock Option Agreement for Non-Employee Directors for options granted pursuant to Ross Stores, Inc. 2004 Equity Incentive Plan.
15	Letter re: Unaudited Interim Financial Information from Deloitte & Touche dated September 7, 2005.
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.

SECOND AMENDMENT TO THE EMPLOYMENT AGREEMENT

THE SECOND AMENDMENT TO THE EMPLOYMENT AGREEMENT (the "Second Amendment") is made and entered effective the 18 day of May 2005, by Ross Stores, Inc. (the "Company") and Michael Balmuth (the "Executive"). The Executive and the Company previously entered into an Employment Agreement effective May 31, 2001 and a First Amendment to the Employment Agreement effective January 30, 2003 (the original Agreement and First Amendment to the Employment Agreement are attached and collectively referred to herein as "the Agreement"), and it is now the intention of the Executive and the Company to further amend the Agreement as set forth below. Accordingly, the Executive and the Company now enter into this Second Amendment.

- I. The Executive and the Company amend the Agreement by deleting Paragraph 1 of the Agreement in its entirety and replacing it with the following new paragraph 1:
 1. **Term.** The employment of the Executive by the Company will continue as of the date hereof and end on January 29, 2009, unless extended or terminated in accordance with this Agreement, including the extensions contemplated both in paragraphs 1 and 4(b). During August 2007, and during August every other year thereafter (every two years) for so long as the Executive is employed by the Company, upon the written request of the Executive, the Board shall consider extending the Executive's employment with the Company. Such request must be delivered to the Chairman of the Compensation Committee no later than the July 31st which precedes the August in which the requested extension will be considered. The Board shall advise the Executive, in writing, on or before the September 1st following its consideration of the Executive's written request, whether it approves of such extension. The failure of the Board to provide such written advice shall constitute approval of the Executive's request for the extension. If the Executive's request for an extension is approved, this Agreement shall be extended two additional years.

- II. The Executive and the Company further amend the Agreement by deleting the first sentence of Paragraph 2 of the Agreement in its entirety and replacing it with the following new sentence:
 2. **Position and Duties.** The Executive shall continue to serve as the Vice Chairman of the Board, President and Chief Executive Officer of the Company with overall responsibility for its corporate policy making, organization and operation, and accomplishment of its plans and objectives.

- III. The Executive and the Company further amend the Agreement by deleting Paragraph 4(a) of the Agreement in its entirety and replacing it with the following new Paragraph 4(a):
 - 4(a). **Salary.** During his employment, the Company shall pay the Executive a base salary of not less than Nine Hundred and Thirty Eight Thousand Dollars (\$938,000) per annum. The base salary shall be payable in equal installments in accordance with the Company's normal payroll practices applicable to senior officers. Subject to the first sentence of this paragraph, the Executive's base salary may be adjusted from time to time by the Board in accordance with normal business practices by the Company. In addition, the Company shall pay the Executive each year an amount ("Premium Payment") equal to the sum of: (i) the total premiums for such year on certain life insurance policies held in an irrevocable life insurance trust established by the Executive, with an aggregate face value of \$12 million; and (ii) an amount necessary to gross-up Executive for any federal, state and local income tax liability attributable to the premium amounts. The Premium Payment shall be adjusted each year to reflect changes in the annual premiums with respect to such policies.

IV. The Executive and the Company further amend the Employment Agreement by adding the following paragraph 22:

22. Compliance with Section 409A. It is the mutual intention of Executive and the Company that the provision of all payments and benefits pursuant to this Agreement be made in compliance with the requirements of Section 409A of the Internal Revenue Code (concerning the treatment of nonqualified deferred compensation plans), but only to the extent that Section 409A is applicable to such payments and benefits and only to the extent that Executive determines, in his discretion, that compliance with Section 409A with respect to any such payment or benefit will result in the greatest after-tax or other benefit to Executive. For purposes of this paragraph 22, references to Section 409A include all regulations and other guidance promulgated by the Secretary of the Treasury pursuant to such Section. Notwithstanding any provision of this paragraph 22 to the contrary, this Agreement shall not be modified pursuant to this paragraph 22 with respect to any payment or benefit which Executive and the Company mutually determine is an amount treated as deferred prior to January 1, 2005 for purposes of Section 409A(d).

- (a) **Further Amendment.** As soon as reasonably practicable following the effective date of this Second Amendment, but in any event on or before December 31, 2005:
- (i) Executive and the Company shall mutually determine in good faith the extent to which any one or more present provisions of this Agreement would fail to comply with the applicable requirements of Section 409A and such modifications to the Agreement, if any, as would be required to avoid the imposition of additional tax pursuant to Section 409A(a)(1)(B) with respect to any payment or benefit to be provided to Executive under the Agreement. Except as provided by paragraph 22(b) below, such modifications to this Agreement shall, to the maximum extent permitted in compliance with the requirements of Section 409A, preserve (but not increase) the aggregate monetary face value of such payments and benefits in the absence of such modifications.
 - (ii) Executive shall determine, in his discretion, which, if any, of such modifications to this Agreement determined in accordance with paragraph 22(a)(i) above would result in the greatest after-tax or other benefit to Executive. If requested by Executive, the Company and Executive shall further amend this Agreement to reflect any one or more of such modifications elected by Executive. Executive shall be solely responsible for any additional tax or interest imposed by Section 409A as a result of Executive's failure to elect any modification to this Agreement determined in accordance with paragraph 22(a)(i).
- (b) **Interest.** If, in accordance with paragraph 22(a), this Agreement is modified to delay the date of any payment or benefit which, in the absence of such modification, would have occurred within six (6) months following the date of termination of Executive's employment with the Company (the "Original Payment Date") to a date six (6) months or more following the date of termination of Executive's employment with the Company (the "Delayed Payment Date"), then the principal amount of such payment or benefit shall accrue interest from the Original Payment Date to the Delayed Payment Date at the applicable Federal rate provided for in Section 7872(f)(2)(A) of the Internal Revenue Code. The Company shall pay such accrued interest to Executive on the Delayed Payment Date.

- (c) **Attorney's Fees and Costs.** Any dispute or claim relating to or arising out of any delay in the Company's provision of payments or benefits in accordance with any modification of this Agreement pursuant to paragraph 22(a) or the provision of interest in accordance with paragraph 22(b) shall be resolved by binding arbitration in accordance with paragraph 19. However, notwithstanding the provisions of paragraph 20 regarding attorney's fees and costs to the contrary, the Company shall reimburse Executive for any and all attorney's fees and costs reasonably incurred by Executive in clarifying or enforcing Executive's rights with respect to such delayed payments or benefits or interest if Executive establishes liability with respect to the merits of the claim in respect of which such attorney's fees and costs are incurred. Executive shall reimburse the Company for any and all attorney's fees and costs reasonably incurred by Company in defending any such claim brought by Executive if the arbitrator determines that such claim by Executive is frivolous or maintained in bad faith.

Except for the amendments, as set forth above, the Agreement and all of its terms remain in force and in effect.

ROSS STORES, INC.

EXECUTIVE

/s/ Norman A. Ferber

/s/ Michael Balmuth

Norman Ferber

Michael Balmuth

5/18/05

Date

Date

Ross Stores, Inc.

2004 Equity Incentive Plan

As Amended Through May 17, 2005

Ross Stores, Inc.
2004 Equity Incentive Plan
As Amended Through May 17, 2005

1. **ESTABLISHMENT, PURPOSE AND TERM OF PLAN.**

1.1 **Establishment.** The Ross Stores, Inc. 2004 Equity Incentive Plan (the "**Plan**") is hereby established effective as of May 20, 2004, the date of its approval by the stockholders of the Company (the "**Effective Date**").

1.2 **Purpose.** The purpose of the Plan is to advance the interests of the Participating Company Group and its stockholders by providing an incentive to attract, retain and reward persons performing services for the Participating Company Group and by motivating such persons to contribute to the growth and profitability of the Participating Company Group. The Plan seeks to achieve this purpose by providing for Awards in the form of Options, Stock Appreciation Rights, Restricted Stock Purchase Rights, Restricted Stock Bonuses, Performance Shares, Performance Units, Restricted Stock Units and Deferred Compensation Awards.

1.3 **Term of Plan.** The Plan shall continue in effect until the earlier of its termination by the Board or the date on which all of the shares of Stock available for issuance under the Plan have been issued and all restrictions on such shares under the terms of the Plan and the agreements evidencing Awards granted under the Plan have lapsed. However, all Awards shall be granted, if at all, within ten (10) years from the Effective Date.

2. **DEFINITIONS AND CONSTRUCTION.**

2.1 **Definitions.** Whenever used herein, the following terms shall have their respective meanings set forth below:

(a) "**Affiliate**" means (i) an entity, other than a Parent Corporation, that directly, or indirectly through one or more intermediary entities, controls the Company or (ii) an entity, other than a Subsidiary Corporation, that is controlled by the Company directly, or indirectly through one or more intermediary entities. For this purpose, the term "control" (including the term "controlled by") means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of the relevant entity, whether through the ownership of voting securities, by contract or otherwise; or shall have such other meaning assigned such term for the purposes of registration on Form S-8 under the Securities Act.

(b) "**Award**" means any Option, SAR, Restricted Stock Purchase Right, Restricted Stock Bonus, Performance Share, Performance Unit, Restricted Stock Unit or Deferred Compensation Award granted under the Plan.

(c) "**Award Agreement**" means a written agreement between the Company and a Participant setting forth the terms, conditions and restrictions of the Award granted to the Participant. An Award Agreement may be an "Option Agreement," an "SAR Agreement," a "Restricted Stock Purchase Agreement," a "Restricted Stock Bonus Agreement," a "Performance Share Agreement," a "Performance Unit Agreement," a "Restricted Stock Unit Agreement," or a "Deferred Compensation Award Agreement."

(d) **“Board”** means the Board of Directors of the Company.

(e) **“Change in Control”** means, unless otherwise defined by the Participant’s Award Agreement or contract of employment or service, the occurrence of any of the following:

(i) any “person” (as such term is used in Sections 13(d) and 14(d) of the Exchange Act), other than (1) a trustee or other fiduciary holding stock of the Company under an employee benefit plan of a Participating Company or (2) a corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of the stock of the Company, becomes the “beneficial owner” (as defined in Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of stock of the Company representing more than fifty percent (50%) of the total combined voting power of the Company’s then-outstanding voting stock; or

(ii) an Ownership Change Event or series of related Ownership Change Events (collectively, a **“Transaction”**) in which the stockholders of the Company immediately before the Transaction do not retain immediately after the Transaction direct or indirect beneficial ownership of more than fifty percent (50%) of the total combined voting power of the outstanding voting securities of the Company or, in the case of an Ownership Change Event described in Section 2.1(x)(iii), the entity to which the assets of the Company were transferred (the **“Transferee”**), as the case may be; or

(iii) a liquidation or dissolution of the Company.

For purposes of the preceding sentence, indirect beneficial ownership shall include, without limitation, an interest resulting from ownership of the voting securities of one or more corporations or other business entities which own the Company or the Transferee, as the case may be, either directly or through one or more subsidiary corporations or other business entities. The Committee shall have the right to determine whether multiple sales or exchanges of the voting securities of the Company or multiple Ownership Change Events are related, and its determination shall be final, binding and conclusive.

(f) **“Code”** means the Internal Revenue Code of 1986, as amended, and any applicable regulations promulgated thereunder.

(g) **“Committee”** means the Compensation Committee or other committee of the Board duly appointed to administer the Plan and having such powers as shall be specified by the Board. If no committee of the Board has been appointed to administer the Plan, the Board shall exercise all of the powers of the Committee granted herein, and, in any event, the Board may in its discretion exercise any or all of such powers.

(h) **“Company”** means Ross Stores, Inc., a Delaware corporation, or any successor corporation thereto.

(i) “**Consultant**” means a person engaged to provide consulting or advisory services (other than as an Employee or a member of the Board) to a Participating Company, provided that the identity of such person, the nature of such services or the entity to which such services are provided would not preclude the Company from offering or selling securities to such person pursuant to the Plan in reliance on registration on a Form S-8 Registration Statement under the Securities Act.

(j) “**Deferred Compensation Award**” means an award of Stock Units granted to a Participant pursuant to Section 12 of the Plan.

(k) “**Director**” means a member of the Board.

(l) “**Disability**” means the permanent and total disability of the Participant, within the meaning of Section 22(e)(3) of the Code.

(m) “**Dividend Equivalent**” means a credit, made at the discretion of the Committee or as otherwise provided by the Plan, to the account of a Participant in an amount equal to the cash dividends paid on one share of Stock for each share of Stock represented by an Award held by such Participant.

(n) “**Employee**” means any person treated as an employee (including an Officer or a member of the Board who is also treated as an employee) in the records of a Participating Company and, with respect to any Incentive Stock Option granted to such person, who is an employee for purposes of Section 422 of the Code; provided, however, that neither service as a member of the Board nor payment of a director’s fee shall be sufficient to constitute employment for purposes of the Plan. The Company shall determine in good faith and in the exercise of its discretion whether an individual has become or has ceased to be an Employee and the effective date of such individual’s employment or termination of employment, as the case may be. For purposes of an individual’s rights, if any, under the Plan as of the time of the Company’s determination, all such determinations by the Company shall be final, binding and conclusive, notwithstanding that the Company or any court of law or governmental agency subsequently makes a contrary determination.

(o) “**Exchange Act**” means the Securities Exchange Act of 1934, as amended.

(p) “**Fair Market Value**” means, as of any date, the value of a share of Stock or other property as determined by the Committee, in its discretion, or by the Company, in its discretion, if such determination is expressly allocated to the Company herein, subject to the following:

(i) Except as otherwise determined by the Committee, if, on such date, the Stock is listed on a national or regional securities exchange or market system, the Fair Market Value of a share of Stock shall be the closing price of a share of Stock (or the mean of the closing bid and asked prices of a share of Stock if the Stock is so quoted instead) as quoted on the Nasdaq National Market, The Nasdaq SmallCap Market or such other national or regional securities exchange or market system constituting the primary market for the Stock, as reported in *The Wall Street Journal* or such other source as the Company deems reliable. If the relevant date

does not fall on a day on which the Stock has traded on such securities exchange or market system, the date on which the Fair Market Value shall be established shall be the last day on which the Stock was so traded prior to the relevant date, or such other appropriate day as shall be determined by the Committee, in its discretion.

(ii) Notwithstanding the foregoing, the Committee may, in its discretion, determine the Fair Market Value on the basis of the opening, closing, high, low or average sale price of a share of Stock or the actual sale price of a share of Stock received by a Participant, on such date, the preceding trading day, the next succeeding trading day or an average determined over a period of trading days. The Committee may vary its method of determination of the Fair Market Value as provided in this Section for different purposes under the Plan.

(iii) If, on such date, the Stock is not listed on a national or regional securities exchange or market system, the Fair Market Value of a share of Stock shall be as determined by the Committee in good faith without regard to any restriction other than a restriction which, by its terms, will never lapse.

(q) "**Incentive Stock Option**" means an Option intended to be (as set forth in the Award Agreement) and which qualifies as an incentive stock option within the meaning of Section 422(b) of the Code.

(r) "**Insider**" means an Officer, a Director or any other person whose transactions in Stock are subject to Section 16 of the Exchange Act.

(s) "**Nonemployee Director**" means a Director who is not an Employee.

(t) "**Nonemployee Director Option**" means an Option granted to a Nonemployee Director pursuant to Section 7 of the Plan. Nonemployee Director Options shall be Nonstatutory Stock Options.

(u) "**Nonstatutory Stock Option**" means an Option not intended to be (as set forth in the Award Agreement) an incentive stock option within the meaning of Section 422(b) of the Code.

(v) "**Officer**" means any person designated by the Board as an officer of the Company.

(w) "**Option**" means the right to purchase Stock at a stated price for a specified period of time granted to a Participant pursuant to Section 6 or Section 7 of the Plan. An Option may be either an Incentive Stock Option or a Nonstatutory Stock Option.

(x) "**Ownership Change Event**" means the occurrence of any of the following with respect to the Company: (i) the direct or indirect sale or exchange in a single or series of related transactions by the stockholders of the Company of more than fifty percent (50%) of the voting stock of the Company; (ii) a merger or consolidation in which the Company is a party; or (iii) the sale, exchange, or transfer of all or substantially all of the assets of the Company (other than a sale, exchange or transfer to one or more subsidiaries of the Company).

- Code.
- (y) **“Parent Corporation”** means any present or future “parent corporation” of the Company, as defined in Section 424(e) of the Code.
 - (z) **“Participant”** means any eligible person who has been granted one or more Awards.
 - (aa) **“Participating Company”** means the Company or any Parent Corporation, Subsidiary Corporation or Affiliate.
 - (bb) **“Participating Company Group”** means, at any point in time, all entities collectively which are then Participating Companies.
 - (cc) **“Performance Award”** means an Award of Performance Shares or Performance Units.
 - (dd) **“Performance Award Formula”** means, for any Performance Award, a formula or table established by the Committee pursuant to Section 10.3 of the Plan which provides the basis for computing the value of a Performance Award at one or more threshold levels of attainment of the applicable Performance Goal(s) measured as of the end of the applicable Performance Period.
 - (ee) **“Performance Goal”** means a performance goal established by the Committee pursuant to Section 10.3 of the Plan.
 - (ff) **“Performance Period”** means a period established by the Committee pursuant to Section 10.3 of the Plan at the end of which one or more Performance Goals are to be measured.
 - (gg) **“Performance Share”** means a bookkeeping entry representing a right granted to a Participant pursuant to Section 10 of the Plan to receive a payment equal to the value of a Performance Share, as determined by the Committee, based on performance.
 - (hh) **“Performance Unit”** means a bookkeeping entry representing a right granted to a Participant pursuant to Section 10 of the Plan to receive a payment equal to the value of a Performance Unit, as determined by the Committee, based upon performance.
 - (ii) **“Predecessor Plan”** means each of the Company’s 1992 Stock Option Plan, 2000 Equity Incentive Plan, 1991 Outside Directors Stock Option Plan and 1988 Restricted Stock Plan.
 - (jj) **“Restricted Stock Award”** means an Award of a Restricted Stock Bonus or a Restricted Stock Purchase Right.
 - (kk) **“Restricted Stock Bonus”** means Stock granted to a Participant pursuant to Section 9 of the Plan.
 - (ll) **“Restricted Stock Purchase Right”** means a right to purchase Stock granted to a Participant pursuant to Section 9 of the Plan.

(mm) "**Restricted Stock Unit**" or "**Stock Unit**" means a bookkeeping entry representing a right granted to a Participant pursuant to Section 11 or Section 12 of the Plan, respectively, to receive a share of Stock on a date determined in accordance with the provisions of Section 11 or Section 12, as applicable, and the Participant's Award Agreement.

(nn) "**Restriction Period**" means the period established in accordance with Section 9.5 of the Plan during which shares subject to a Restricted Stock Award are subject to Vesting Conditions.

(oo) "**Rule 16b-3**" means Rule 16b-3 under the Exchange Act, as amended from time to time, or any successor rule or regulation.

(pp) "**SAR**" or "**Stock Appreciation Right**" means a bookkeeping entry representing, for each share of Stock subject to such SAR, a right granted to a Participant pursuant to Section 8 of the Plan to receive payment of an amount equal to the excess, if any, of the Fair Market Value of a share of Stock on the date of exercise of the SAR over the exercise price.

(qq) "**Section 162(m)**" means Section 162(m) of the Code.

(rr) "**Securities Act**" means the Securities Act of 1933, as amended.

(ss) "**Service**" means a Participant's employment or service with the Participating Company Group, whether in the capacity of an Employee, a Director or a Consultant. A Participant's Service shall not be deemed to have terminated merely because of a change in the capacity in which the Participant renders such Service or a change in the Participating Company for which the Participant renders such Service, provided that there is no interruption or termination of the Participant's Service. Furthermore, a Participant's Service shall not be deemed to have terminated if the Participant takes any military leave, sick leave, or other bona fide leave of absence approved by the Company. However, if any such leave taken by a Participant exceeds ninety (90) days, then on the one hundred eighty-first (181st) day following the commencement of such leave any Incentive Stock Option held by the Participant shall cease to be treated as an Incentive Stock Option and instead shall be treated thereafter as a Nonstatutory Stock Option, unless the Participant's right to return to Service with the Participating Company Group is guaranteed by statute or contract. Notwithstanding the foregoing, unless otherwise designated by the Company or required by law, a leave of absence shall not be treated as Service for purposes of determining vesting under the Participant's Award Agreement. A Participant's Service shall be deemed to have terminated either upon an actual termination of Service or upon the entity for which the Participant performs Service ceasing to be a Participating Company. Subject to the foregoing, the Company, in its discretion, shall determine whether the Participant's Service has terminated and the effective date of such termination.

(tt) "**Stock**" means the common stock of the Company, as adjusted from time to time in accordance with Section 4.3 of the Plan.

(uu) "**Subsidiary Corporation**" means any present or future "subsidiary corporation" of the Company, as defined in Section 424(f) of the Code.

(vv) “**Ten Percent Owner**” means a Participant who, at the time an Option is granted to the Participant, owns stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of a Participating Company (other than an Affiliate) within the meaning of Section 422(b)(6) of the Code.

(ww) “**Vesting Conditions**” mean those conditions established in accordance with Section 9.5 or Section 11.3 of the Plan prior to the satisfaction of which shares subject to a Restricted Stock Award or Restricted Stock Unit Award, respectively, remain subject to forfeiture or a repurchase option in favor of the Company upon the Participant’s termination of Service.

2.2 **Construction.** Captions and titles contained herein are for convenience only and shall not affect the meaning or interpretation of any provision of the Plan. Except when otherwise indicated by the context, the singular shall include the plural and the plural shall include the singular. Use of the term “or” is not intended to be exclusive, unless the context clearly requires otherwise.

3. **ADMINISTRATION.**

3.1 **Administration by the Committee.** The Plan shall be administered by the Committee. All questions of interpretation of the Plan or of any Award shall be determined by the Committee, and such determinations shall be final and binding upon all persons having an interest in the Plan or such Award.

3.2 **Authority of Officers.** Any Officer shall have the authority to act on behalf of the Company with respect to any matter, right, obligation, determination or election which is the responsibility of or which is allocated to the Company herein, provided the Officer has apparent authority with respect to such matter, right, obligation, determination or election. The Board may, in its discretion, delegate to a committee comprised of one or more Officers the authority to grant one or more Awards, without further approval of the Board or the Committee, to any Employee, other than a person who, at the time of such grant, is an Insider; provided, however, that (a) such Awards shall not be granted for shares in excess of the maximum aggregate number of shares of Stock authorized for issuance pursuant to Section 4.1, (b) the exercise price per share of each such Award which is an Option or Stock Appreciation Right shall be not less than the Fair Market Value per share of the Stock on the effective date of grant (or, if the Stock has not traded on such date, on the last day preceding the effective date of grant on which the Stock was traded), and (c) each such Award shall be subject to the terms and conditions of the appropriate standard form of Award Agreement approved by the Board or the Committee and shall conform to the provisions of the Plan and such other guidelines as shall be established from time to time by the Board or the Committee.

3.3 **Administration with Respect to Insiders.** With respect to participation by Insiders in the Plan, at any time that any class of equity security of the Company is registered pursuant to Section 12 of the Exchange Act, the Plan shall be administered in compliance with the requirements, if any, of Rule 16b-3.

3.4 **Committee Complying with Section 162(m).** If the Company is a “publicly held corporation” within the meaning of Section 162(m), the Board may establish a Committee of “outside directors” within the meaning of Section 162(m) to approve the grant of any Award which might reasonably be anticipated to result in the payment of employee remuneration that would otherwise exceed the limit on employee remuneration deductible for income tax purposes pursuant to Section 162(m).

3.5 **Powers of the Committee.** In addition to any other powers set forth in the Plan and subject to the provisions of the Plan, the Committee shall have the full and final power and authority, in its discretion:

- (a) to determine the persons to whom, and the time or times at which, Awards shall be granted and the number of shares of Stock or units to be subject to each Award;
- (b) to determine the type of Award granted and to designate Options as Incentive Stock Options or Nonstatutory Stock Options;
- (c) to determine the Fair Market Value of shares of Stock or other property;
- (d) to determine the terms, conditions and restrictions applicable to each Award (which need not be identical) and any shares acquired pursuant thereto, including, without limitation, (i) the exercise or purchase price of shares purchased pursuant to any Award, (ii) the method of payment for shares purchased pursuant to any Award, (iii) the method for satisfaction of any tax withholding obligation arising in connection with Award, including by the withholding or delivery of shares of Stock, (iv) the timing, terms and conditions of the exercisability or vesting of any Award or any shares acquired pursuant thereto, (v) the Performance Award Formula and Performance Goals applicable to any Award and the extent to which such Performance Goals have been attained, (vi) the time of the expiration of any Award, (vii) the effect of the Participant’s termination of Service on any of the foregoing, and (viii) all other terms, conditions and restrictions applicable to any Award or shares acquired pursuant thereto not inconsistent with the terms of the Plan;
- (e) to determine whether an Award of SARs, Performance Shares or Performance Units will be settled in shares of Stock, cash, or in any combination thereof;
- (f) to approve one or more forms of Award Agreement;
- (g) to amend, modify, extend, cancel or renew any Award or to waive any restrictions or conditions applicable to any Award or any shares acquired pursuant thereto;
- (h) to accelerate, continue, extend or defer the exercisability or vesting of any Award or any shares acquired pursuant thereto, including with respect to the period following a Participant’s termination of Service;
- (i) without the consent of the affected Participant and notwithstanding the provisions of any Award Agreement to the contrary, to unilaterally substitute at any time a Stock Appreciation Right providing for settlement solely in shares of Stock in place of any outstanding Option, provided that such Stock Appreciation Right covers the same number of shares of Stock and provides for the same exercise price (subject in each case to adjustment in accordance with Section 4.3) as the replaced Option and otherwise provides substantially equivalent terms and conditions as the replaced Option, as determined by the Committee;

(j) to prescribe, amend or rescind rules, guidelines and policies relating to the Plan, or to adopt sub-plans or supplements to, or alternative versions of, the Plan, including, without limitation, as the Committee deems necessary or desirable to comply with the laws or regulations of or to accommodate the tax policy, accounting principles or custom of, foreign jurisdictions whose citizens may be granted Awards; and

(k) to correct any defect, supply any omission or reconcile any inconsistency in the Plan or any Award Agreement and to make all other determinations and take such other actions with respect to the Plan or any Award as the Committee may deem advisable to the extent not inconsistent with the provisions of the Plan or applicable law.

3.6 **Option or SAR Repricing.** Without the affirmative vote of holders of a majority of the shares of Stock cast in person or by proxy at a meeting of the stockholders of the Company at which a quorum representing a majority of all outstanding shares of Stock is present or represented by proxy, the Board shall not approve a program providing for either (a) the cancellation of outstanding Options or SARs and the grant in substitution thereof of new Options or SARs having a lower exercise price or (b) the amendment of outstanding Options or SARs to reduce the exercise price thereof. This paragraph shall not be construed to apply to “issuing or assuming a stock option in a transaction to which section 424(a) applies,” within the meaning of Section 424 of the Code.

3.7 **Indemnification.** In addition to such other rights of indemnification as they may have as members of the Board or the Committee or as officers or employees of the Participating Company Group, members of the Board or the Committee and any officers or employees of the Participating Company Group to whom authority to act for the Board, the Committee or the Company is delegated shall be indemnified by the Company against all reasonable expenses, including attorneys’ fees, actually and necessarily incurred in connection with the defense of any action, suit or proceeding, or in connection with any appeal therein, to which they or any of them may be a party by reason of any action taken or failure to act under or in connection with the Plan, or any right granted hereunder, and against all amounts paid by them in settlement thereof (provided such settlement is approved by independent legal counsel selected by the Company) or paid by them in satisfaction of a judgment in any such action, suit or proceeding, except in relation to matters as to which it shall be adjudged in such action, suit or proceeding that such person is liable for gross negligence, bad faith or intentional misconduct in duties; provided, however, that within sixty (60) days after the institution of such action, suit or proceeding, such person shall offer to the Company, in writing, the opportunity at its own expense to handle and defend the same.

4. **SHARES SUBJECT TO PLAN.**

4.1 **Maximum Number of Shares Issuable.** Subject to adjustment as provided in Section 4.2 and Section 4.3, the maximum aggregate number of shares of Stock that may be issued under the Plan shall be fifteen million (15,000,000) and shall consist of authorized but unissued or reacquired shares of Stock or any combination thereof. If an outstanding Award for any reason expires or is terminated or canceled without having been exercised or settled in full, or if shares of Stock acquired pursuant to an Award subject to forfeiture or repurchase are forfeited or repurchased by the Company at the Participant's purchase price, the shares of Stock allocable to the terminated portion of such Award or such forfeited or repurchased shares of Stock shall again be available for issuance under the Plan. Shares of Stock shall not be deemed to have been issued pursuant to the Plan (a) with respect to any portion of an Award that is settled in cash or (b) to the extent such shares are withheld or reacquired by the Company in satisfaction of tax withholding obligations pursuant to Section 16.2. Upon payment in shares of Stock pursuant to the exercise of an SAR, the number of shares available for issuance under the Plan shall be reduced only by the number of shares actually issued in such payment. If the exercise price of an Option is paid by tender to the Company, or attestation to the ownership, of shares of Stock owned by the Participant, the number of shares available for issuance under the Plan shall be reduced by the net number of shares for which the Option is exercised.

4.2 **Adjustment for Unissued Predecessor Plan Shares.** The maximum aggregate number of shares of Stock that may be issued under the Plan as set forth in Section 4.1 shall be cumulatively increased from time to time by:

- (a) the number of shares of Stock subject to that portion of any option or other award outstanding pursuant to a Predecessor Plan as of the Effective Date which, on or after the Effective Date, expires or is terminated or canceled for any reason without having been exercised or settled in full;
- (b) the number of shares of Stock acquired pursuant to a Predecessor Plan subject to forfeiture or repurchase by the Company at the Participant's purchase price which, on or after the Effective Date, is so forfeited or repurchased; and
- (c) the number of shares of Stock that are withheld or reacquired by the Company on or after the Effective Date in satisfaction of tax withholding obligations pursuant to a Predecessor Plan;

provided, however, that the aggregate number of shares of Stock authorized for issuance under the Predecessor Plans that may become authorized for issuance under the Plan pursuant to this Section 4.2 shall not exceed 13,701,846.

4.3 **Adjustments for Changes in Capital Structure.** Subject to any required action by the stockholders of the Company, in the event of any change in the Stock effected without receipt of consideration by the Company, whether through merger, consolidation, reorganization, reincorporation, recapitalization, reclassification, stock dividend, stock split, reverse stock split, split-up, split-off, spin-off, combination of shares, exchange of shares, or similar change in the capital structure of the Company, or in the event of payment of a dividend or distribution to the stockholders of the Company in a form other than Stock (excepting normal cash dividends) that has a material effect on the Fair Market Value of shares of Stock, appropriate adjustments shall be made in the number and kind of shares subject to the Plan and to any outstanding Awards, in the Award limits set forth in Section 5.4, in the Nonemployee

Director Options to be granted automatically pursuant to Section 7, and in the exercise or purchase price per share under any outstanding Award in order to prevent dilution or enlargement of Participants' rights under the Plan. For purposes of the foregoing, conversion of any convertible securities of the Company shall not be treated as "effected without receipt of consideration by the Company." Any fractional share resulting from an adjustment pursuant to this Section 4.3 shall be rounded down to the nearest whole number, and in no event may the exercise or purchase price under any Award be decreased to an amount less than the par value, if any, of the stock subject to such Award. The Committee in its sole discretion, may also make such adjustments in the terms of any Award to reflect, or related to, such changes in the capital structure of the Company or distributions as it deems appropriate, including modification of Performance Goals, Performance Award Formulas and Performance Periods. The adjustments determined by the Committee pursuant to this Section 4.3 shall be final, binding and conclusive.

5. **ELIGIBILITY AND AWARD LIMITATIONS.**

5.1 **Persons Eligible for Awards.** Awards may be granted only to Employees, Consultants and Directors. For purposes of the foregoing sentence, "Employees," "Consultants" and "Directors" shall include prospective Employees, prospective Consultants and prospective Directors to whom Awards are granted in connection with written offers of an employment or other service relationship with the Participating Company Group; provided, however, that no Stock subject to any such Award shall vest, become exercisable or be issued prior to the date on which such person commences Service. A Nonemployee Director Option may be granted only to a person who, at the time of grant, is a Nonemployee Director.

5.2 **Participation.** Awards other than Nonemployee Director Options are granted solely at the discretion of the Committee. Eligible persons may be granted more than one Award. However, excepting Nonemployee Director Options, eligibility in accordance with this Section shall not entitle any person to be granted an Award, or, having been granted an Award, to be granted an additional Award.

5.3 **Incentive Stock Option Limitations.**

(a) **Persons Eligible.** An Incentive Stock Option may be granted only to a person who, on the effective date of grant, is an Employee of the Company, a Parent Corporation or a Subsidiary Corporation (each being an "**ISO-Qualifying Corporation**"). Any person who is not an Employee of an ISO-Qualifying Corporation on the effective date of the grant of an Option to such person may be granted only a Nonstatutory Stock Option. An Incentive Stock Option granted to a prospective Employee upon the condition that such person become an Employee of an ISO-Qualifying Corporation shall be deemed granted effective on the date such person commences Service with an ISO-Qualifying Corporation, with an exercise price determined as of such date in accordance with Section 6.1.

(b) **Fair Market Value Limitation.** To the extent that options designated as Incentive Stock Options (granted under all stock option plans of the Participating Company Group, including the Plan) become exercisable by a Participant for the first time during any calendar year for stock having a Fair Market Value greater than One Hundred Thousand Dollars (\$100,000), the portion of such options which exceeds such amount shall be

treated as Nonstatutory Stock Options. For purposes of this Section, options designated as Incentive Stock Options shall be taken into account in the order in which they were granted, and the Fair Market Value of stock shall be determined as of the time the option with respect to such stock is granted. If the Code is amended to provide for a limitation different from that set forth in this Section, such different limitation shall be deemed incorporated herein effective as of the date and with respect to such Options as required or permitted by such amendment to the Code. If an Option is treated as an Incentive Stock Option in part and as a Nonstatutory Stock Option in part by reason of the limitation set forth in this Section, the Participant may designate which portion of such Option the Participant is exercising. In the absence of such designation, the Participant shall be deemed to have exercised the Incentive Stock Option portion of the Option first. Upon exercise, shares issued pursuant to each such portion shall be separately identified.

5.4 **Award Limits.**

(a) **Maximum Number of Shares Issuable Pursuant to Incentive Stock Options.** Subject to adjustment as provided in Section 4.3, the maximum aggregate number of shares of Stock that may be issued under the Plan pursuant to the exercise of Incentive Stock Options shall not exceed fifteen million (15,000,000) shares. The maximum aggregate number of shares of Stock that may be issued under the Plan pursuant to all Awards other than Incentive Stock Options shall be the number of shares determined in accordance with Section 4.1, subject to adjustment as provided in Section 4.2 and Section 4.3 and further subject to the limitation set forth in Section 5.4(b) below.

(b) **Aggregate Limit on Full Value Awards.** Subject to adjustment as provided in Section 4.3, in no event shall more than five million (5,000,000) shares in the aggregate be issued under the Plan pursuant to the exercise or settlement of Restricted Stock Awards, Restricted Stock Unit Awards and Performance Awards.

(c) **Section 162(m) Award Limits.** The following limits shall apply to the grant of any Award if, at the time of grant, the Company is a “publicly held corporation” within the meaning of Section 162(m).

(i) **Options and SARs.** Subject to adjustment as provided in Section 4.3, no Employee shall be granted within any fiscal year of the Company one or more Options or Freestanding SARs which in the aggregate are for more than the lesser of (1) three million (3,000,000) shares or (2) two percent (2%) of the number of shares of Stock issued and outstanding as reported in the most recent periodic report filed with the Securities and Exchange Commission.

(ii) **Restricted Stock and Restricted Stock Unit Awards.** Subject to adjustment as provided in Section 4.3, no Employee shall be granted within any fiscal year of the Company one or more Restricted Stock Awards or Restricted Stock Unit Awards, subject to Vesting Conditions based on the attainment of Performance Goals, for more than the lesser of (1) one million five hundred thousand (1,500,000) shares or (2) one percent (1%) of the number of shares of Stock issued and outstanding as reported in the most recent periodic report filed with the Securities and Exchange Commission.

(iii) **Performance Awards.** Subject to adjustment as provided in Section 4.3, no Employee shall be granted (1) Performance Shares which could result in such Employee receiving more than five hundred thousand (500,000) shares for each full fiscal year of the Company contained in the Performance Period for such Award, or (2) Performance Units which could result in such Employee receiving more than five million dollars (\$5,000,000) for each full fiscal year of the Company contained in the Performance Period for such Award. No Participant may be granted more than one Performance Award for the same Performance Period.

6. **TERMS AND CONDITIONS OF OPTIONS.**

Options shall be evidenced by Award Agreements specifying the number of shares of Stock covered thereby, in such form as the Committee shall from time to time establish. No Option or purported Option shall be a valid and binding obligation of the Company unless evidenced by a fully executed Award Agreement. Award Agreements evidencing Options may incorporate all or any of the terms of the Plan by reference and, except as otherwise set forth in Section 7 with respect to Nonemployee Director Options, shall comply with and be subject to the following terms and conditions:

6.1 **Exercise Price.** The exercise price for each Option shall be established in the discretion of the Committee; provided, however, that (a) the exercise price per share shall be not less than the Fair Market Value of a share of Stock on the effective date of grant of the Option and (b) no Incentive Stock Option granted to a Ten Percent Owner shall have an exercise price per share less than one hundred ten percent (110%) of the Fair Market Value of a share of Stock on the effective date of grant of the Option. Notwithstanding the foregoing, an Option (whether an Incentive Stock Option or a Nonstatutory Stock Option) may be granted with an exercise price lower than the minimum exercise price set forth above if such Option is granted pursuant to an assumption or substitution for another option in a manner qualifying under the provisions of Section 424(a) of the Code.

6.2 **Exercisability and Term of Options.** Options shall be exercisable at such time or times, or upon such event or events, and subject to such terms, conditions, performance criteria and restrictions as shall be determined by the Committee and set forth in the Award Agreement evidencing such Option; provided, however, that (a) no Option shall be exercisable after the expiration of ten (10) years after the effective date of grant of such Option, (b) no Incentive Stock Option granted to a Ten Percent Owner shall be exercisable after the expiration of five (5) years after the effective date of grant of such Option, and (c) no Option granted to a prospective Employee, prospective Consultant or prospective Director may become exercisable prior to the date on which such person commences Service. Subject to the foregoing, unless otherwise specified by the Committee in the grant of an Option, any Option granted hereunder shall terminate ten (10) years after the effective date of grant of the Option, unless earlier terminated in accordance with its provisions.

6.3 **Payment of Exercise Price.**

(a) **Forms of Consideration Authorized.** Except as otherwise provided below, payment of the exercise price for the number of shares of Stock being purchased pursuant to any Option shall be made (i) in cash, by check or in cash equivalent, (ii) by tender to

the Company, or attestation to the ownership, of shares of Stock owned by the Participant having a Fair Market Value not less than the exercise price, (iii) by delivery of a properly executed notice of exercise together with irrevocable instructions to a broker providing for the assignment to the Company of the proceeds of a sale or loan with respect to some or all of the shares being acquired upon the exercise of the Option (including, without limitation, through an exercise complying with the provisions of Regulation T as promulgated from time to time by the Board of Governors of the Federal Reserve System) (a "*Cashless Exercise*"), (iv) by such other consideration as may be approved by the Committee from time to time to the extent permitted by applicable law, or (v) by any combination thereof. The Committee may at any time or from time to time grant Options which do not permit all of the foregoing forms of consideration to be used in payment of the exercise price or which otherwise restrict one or more forms of consideration.

(b) ***Limitations on Forms of Consideration.***

(i) **Tender of Stock.** Notwithstanding the foregoing, an Option may not be exercised by tender to the Company, or attestation to the ownership, of shares of Stock to the extent such tender or attestation would constitute a violation of the provisions of any law, regulation or agreement restricting the redemption of the Company's stock. Unless otherwise provided by the Committee, an Option may not be exercised by tender to the Company, or attestation to the ownership, of shares of Stock unless such shares either have been owned by the Participant for more than six (6) months (and not used for another Option exercise by attestation during such period) or were not acquired, directly or indirectly, from the Company.

(ii) **Cashless Exercise.** The Company reserves, at any and all times, the right, in the Company's sole and absolute discretion, to establish, decline to approve or terminate any program or procedures for the exercise of Options by means of a Cashless Exercise, including with respect to one or more Participants specified by the Company notwithstanding that such program or procedures may be available to other Participants.

6.4 **Effect of Termination of Service.**

(a) **Option Exercisability.** Subject to earlier termination of the Option as otherwise provided herein and unless otherwise provided by the Committee in the grant of an Option and set forth in the Award Agreement, an Option shall be exercisable after a Participant's termination of Service only during the applicable time period determined in accordance with this Section and thereafter shall terminate:

(i) **Disability.** If the Participant's Service terminates because of the Disability of the Participant, the Option, to the extent unexercised and exercisable on the date on which the Participant's Service terminated, may be exercised by the Participant (or the Participant's guardian or legal representative) at any time prior to the expiration of twelve (12) months after the date on which the Participant's Service terminated, but in any event no later than the date of expiration of the Option's term as set forth in the Award Agreement evidencing such Option (the "*Option Expiration Date*").

(ii) **Death.** If the Participant's Service terminates because of the death of the Participant, the Option, to the extent unexercised and exercisable on the date on which the Participant's Service terminated, may be exercised by the Participant's legal representative or other person who acquired the right to exercise the Option by reason of the Participant's death at any time prior to the expiration of twelve (12) months after the date on which the Participant's Service terminated, but in any event no later than the Option Expiration Date. The Participant's Service shall be deemed to have terminated on account of death if the Participant dies within three (3) months after the Participant's termination of Service.

(iii) **Other Termination of Service.** If the Participant's Service terminates for any reason, except Disability or death, the Option, to the extent unexercised and exercisable by the Participant on the date on which the Participant's Service terminated, may be exercised by the Participant at any time prior to the expiration of three (3) months after the date on which the Participant's Service terminated, but in any event no later than the Option Expiration Date.

(b) **Extension if Exercise Prevented by Law.** Notwithstanding the foregoing, if the exercise of an Option within the applicable time periods set forth in Section 6.4(a) is prevented by the provisions of Section 15 below, the Option shall remain exercisable until three (3) months (or such longer period of time as determined by the Committee, in its discretion) after the date the Participant is notified by the Company that the Option is exercisable, but in any event no later than the Option Expiration Date.

(c) **Extension if Participant Subject to Section 16(b).** Notwithstanding the foregoing, if a sale within the applicable time periods set forth in Section 6.4(a) of shares acquired upon the exercise of the Option would subject the Participant to suit under Section 16(b) of the Exchange Act, the Option shall remain exercisable until the earliest to occur of (i) the tenth (10th) day following the date on which a sale of such shares by the Participant would no longer be subject to such suit, (ii) the one hundred and ninetieth (190th) day after the Participant's termination of Service, or (iii) the Option Expiration Date.

6.5 **Transferability of Options.** During the lifetime of the Participant, an Option shall be exercisable only by the Participant or the Participant's guardian or legal representative. Prior to the issuance of shares of Stock upon the exercise of an Option, the Option shall not be subject in any manner to anticipation, alienation, sale, exchange, transfer, assignment, pledge, encumbrance, or garnishment by creditors of the Participant or the Participant's beneficiary, except transfer by will or by the laws of descent and distribution. Notwithstanding the foregoing, to the extent permitted by the Committee, in its discretion, and set forth in the Award Agreement evidencing such Option, a Nonstatutory Stock Option shall be assignable or transferable subject to the applicable limitations, if any, described in the General Instructions to Form S-8 Registration Statement under the Securities Act.

7. **TERMS AND CONDITIONS OF NONEMPLOYEE DIRECTOR OPTIONS.**

Nonemployee Director Options shall be evidenced by Award Agreements specifying the number of shares of Stock covered thereby, in such form as the Committee shall from time to time establish. Such Award Agreements may incorporate all or any of the terms of the Plan by reference and shall comply with and be subject to the terms and conditions of Section 6 to the extent not inconsistent with this Section and the following terms and conditions:

7.1 Grant of Nonemployee Director Options.

(a) **Initial Option.** Subject to the execution by the Nonemployee Director of an appropriate Award Agreement, each person who first becomes a Nonemployee Director on or after the Effective Date shall be granted on the date such person first becomes a Nonemployee Director an Option (an "**Initial Option**") to purchase a number of shares of Stock determined by dividing the Initial Option Award Value (as defined below) by the Fair Market Value of a Share of Stock on such date and rounding to the nearest whole number. The Initial Option Award Value shall initially equal \$300,000. On the date of each annual meeting of the stockholders of the Company (an "**Annual Meeting**"), commencing with the Annual Meeting held in 2006 and continuing for each Annual Meeting held thereafter during the term of the Plan, the Initial Option Award Value as previously in effect shall be increased by three percent (3%), and such increased Initial Option Award Value shall be effective for Initial Options granted on and after such date.

(b) **Annual Option.** Subject to the execution by the Nonemployee Director of an appropriate Award Agreement, each Nonemployee Director (including any Director who previously did not qualify as a Nonemployee Director but who subsequently becomes a Nonemployee Director) shall be granted automatically and without further action of the Committee on the date of each Annual Meeting, commencing with the Annual Meeting held in 2005 and continuing for each Annual Meeting held thereafter during the term of the Plan, immediately following which such person remains a Nonemployee Director an Option (an "**Annual Option**") to purchase a number of shares of Stock determined by dividing the Annual Option Award Value (as defined below) by the Fair Market Value of a Share of Stock on such date and rounding to the nearest whole number; provided, however, that a Nonemployee Director granted an Initial Option after the December 1 immediately preceding the date of an Annual Meeting shall not be granted an Annual Option pursuant to this Section with respect to the same Annual Meeting. The Annual Option Award Value shall initially equal \$250,000. On the date of each Annual Meeting"), commencing with the Annual Meeting held in 2006 and continuing for each Annual Meeting held thereafter during the term of the Plan, the Annual Option Award Value as previously in effect shall be increased by three percent (3%), and such increased Annual Option Award Value shall be effective for Annual Options granted on such date.

(c) **Effective Date Option.** Subject to the execution by the Nonemployee Director of an appropriate Award Agreement, each Nonemployee Director (including any Director who previously did not qualify as a Nonemployee Director but who is a Nonemployee Director on the Effective Date) who remains a Nonemployee Director immediately following the Annual Meeting occurring on the Effective Date shall be granted automatically and without further action of the Committee on the Effective Date an Option (an "**Effective Date Option**") to purchase eight thousand (8,000) shares of Stock; provided, however, that a Nonemployee Director granted an Initial Option after December 1, 2003 shall not be granted an Effective Date Option.

(d) **Right to Decline Nonemployee Director Option.** Notwithstanding the foregoing, any person may elect not to receive a Nonemployee Director Option by delivering written notice of such election to the Board no later than the day prior to the date such Nonemployee Director Option would otherwise be granted. A person so declining a Nonemployee Director Option shall receive no payment or other consideration in lieu of such declined Nonemployee Director Option. A person who has declined a Nonemployee Director Option may revoke such election by delivering written notice of such revocation to the Board no later than the day prior to the date such Nonemployee Director Option would be granted pursuant to Section 7.1(a) or (b), as the case may be.

7.2 **Exercise Price.** The exercise price per share of Stock subject to a Nonemployee Director Option shall be the Fair Market Value of a share of Stock on the date of grant of the Nonemployee Director Option.

7.3 **Exercisability and Term of Nonemployee Director Options.** Except as otherwise provided in the Plan or in the Award Agreement evidencing a Nonemployee Director Option and provided that the Participant's Service has not terminated prior to the relevant date, each Nonemployee Director Option shall vest and become exercisable as to one-sixth (1/6) of the shares initially subject thereto on the date occurring six (6) months after the date of grant and as to one thirty-sixth (1/36) of the shares initially subject thereto following each full month of the Participant's continuous Service thereafter until the Nonemployee Director Option is fully vested. Each Nonemployee Director Option shall terminate and cease to be exercisable on the tenth (10th) anniversary of the date of grant of the Nonemployee Director Option, unless earlier terminated in accordance with the terms of the Plan or the Award Agreement evidencing such Option.

7.4 **Effect of Termination of Service.**

(a) **Option Exercisability.** Subject to earlier termination of the Nonemployee Director Option as otherwise provided herein, a Nonemployee Director Option shall be exercisable after the Participant's termination of Service only during the applicable time period determined in accordance with this Section and thereafter shall terminate:

(i) **Disability.** If the Participant's Service terminates because of the Disability of the Participant, the Nonemployee Director Option, to the extent unexercised and exercisable on the date on which the Participant's Service terminated, may be exercised by the Participant (or the Participant's guardian or legal representative) at any time prior to the expiration of twelve (12) months after the date on which the Participant's Service terminated, but in any event no later than the Option Expiration Date.

(ii) **Death.** If the Participant's Service terminates because of the death of the Participant, the Nonemployee Director Option, to the extent unexercised and exercisable on the date on which the Participant's Service terminated, may be exercised by the Participant's legal representative or other person who acquired the right to exercise the Nonemployee Director Option by reason of the Participant's death at any time prior to the expiration of twelve (12) months after the date on which the Participant's Service terminated, but in any event no later than the Option Expiration Date. The Participant's Service shall be deemed to have terminated on account of death if the Participant dies within three (3) months after the Participant's termination of Service.

(iii) **Retirement.** With respect to Nonemployee Director Options granted on or after May 19, 2005, if the Participant's Service terminates because of the Retirement (as defined below) of the Participant, the Nonemployee Director Option, to the extent unexercised and exercisable on the date on which the Participant's Service terminated, may be exercised by the Participant (or the Participant's guardian or legal representative) at any time prior to the expiration of sixty (60) months after the date on which the Participant's Service terminated, but in any event no later than the Option Expiration Date. For purposes of this Section, "**Retirement**" means resignation from Service on the Board after attaining the age of 55 and after at least ten years of Service on the Board.

(iv) **Other Termination of Service.** If the Participant's Service terminates for any reason, except Disability, death, or Retirement (if applicable), the Nonemployee Director Option, to the extent unexercised and exercisable by the Participant on the date on which the Participant's Service terminated, may be exercised by the Participant at any time prior to the expiration of six (6) months after the date on which the Participant's Service terminated, but in any event no later than the Option Expiration Date.

(b) **Extension if Exercise Prevented by Law.** Notwithstanding the foregoing, if the exercise of a Nonemployee Director Option within the applicable time periods set forth in Section 7.4(a) is prevented by the provisions of Section 15 below, the Nonemployee Director Option shall remain exercisable until three (3) months after the date the Participant is notified by the Company that the Nonemployee Director Option is exercisable, but in any event no later than the Option Expiration Date.

(c) **Extension if Participant Subject to Section 16(b).** Notwithstanding the foregoing, if a sale within the applicable time periods set forth in Section 7.4(a) of shares acquired upon the exercise of the Nonemployee Director Option would subject the Participant to suit under Section 16(b) of the Exchange Act, the Nonemployee Director Option shall remain exercisable until the earliest to occur of (i) the tenth (10th) day following the date on which a sale of such shares by the Participant would no longer be subject to such suit, (ii) the one hundred and ninetieth (190th) day after the Participant's termination of Service, or (iii) the Option Expiration Date.

8. **TERMS AND CONDITIONS OF STOCK APPRECIATION RIGHTS.**

Stock Appreciation Rights shall be evidenced by Award Agreements specifying the number of shares of Stock subject to the Award, in such form as the Committee shall from time to time establish. No SAR or purported SAR shall be a valid and binding obligation of the Company unless evidenced by a fully executed Award Agreement. Award Agreements evidencing SARs may incorporate all or any of the terms of the Plan by reference and shall comply with and be subject to the following terms and conditions:

8.1 **Types of SARs Authorized.** SARs may be granted in tandem with all or any portion of a related Option (a "**Tandem SAR**") or may be granted independently of any Option (a "**Freestanding SAR**"). A Tandem SAR may be granted either concurrently with the grant of the related Option or at any time thereafter prior to the complete exercise, termination, expiration or cancellation of such related Option.

8.2 **Exercise Price.** The exercise price for each SAR shall be established in the discretion of the Committee; provided, however, that (a) the exercise price per share subject to a Tandem SAR shall be the exercise price per share under the related Option and (b) the exercise price per share subject to a Freestanding SAR shall be not less than the Fair Market Value of a share of Stock on the effective date of grant of the SAR.

8.3 **Exercisability and Term of SARs.**

(a) **Tandem SARs.** Tandem SARs shall be exercisable only at the time and to the extent, and only to the extent, that the related Option is exercisable, subject to such provisions as the Committee may specify where the Tandem SAR is granted with respect to less than the full number of shares of Stock subject to the related Option. The Committee may, in its discretion, provide in any Award Agreement evidencing a Tandem SAR that such SAR may not be exercised without the advance approval of the Company and, if such approval is not given, then the Option shall nevertheless remain exercisable in accordance with its terms. A Tandem SAR shall terminate and cease to be exercisable no later than the date on which the related Option expires or is terminated or canceled. Upon the exercise of a Tandem SAR with respect to some or all of the shares subject to such SAR, the related Option shall be canceled automatically as to the number of shares with respect to which the Tandem SAR was exercised. Upon the exercise of an Option related to a Tandem SAR as to some or all of the shares subject to such Option, the related Tandem SAR shall be canceled automatically as to the number of shares with respect to which the related Option was exercised.

(b) **Freestanding SARs.** Freestanding SARs shall be exercisable at such time or times, or upon such event or events, and subject to such terms, conditions, performance criteria and restrictions as shall be determined by the Committee and set forth in the Award Agreement evidencing such SAR; provided, however, that no Freestanding SAR shall be exercisable after the expiration of ten (10) years after the effective date of grant of such SAR.

8.4 **Exercise of SARs.** Upon the exercise (or deemed exercise pursuant to Section 8.5) of an SAR, the Participant (or the Participant's legal representative or other person who acquired the right to exercise the SAR by reason of the Participant's death) shall be entitled to receive payment of an amount for each share with respect to which the SAR is exercised equal to the excess, if any, of the Fair Market Value of a share of Stock on the date of exercise of the SAR over the exercise price. Payment of such amount shall be made in cash, shares of Stock, or any combination thereof as determined by the Committee. Unless otherwise provided in the Award Agreement evidencing such SAR, payment shall be made in a lump sum as soon as practicable following the date of exercise of the SAR. The Award Agreement evidencing any SAR may provide for deferred payment in a lump sum or in installments. When payment is to be made in shares of Stock, the number of shares to be issued shall be determined on the basis of the Fair Market Value of a share of Stock on the date of exercise of the SAR. For purposes of Section 8, an SAR shall be deemed exercised on the date on which the Company receives notice of exercise from the Participant or as otherwise provided in Section 8.5.

8.5 **Deemed Exercise of SARs.** If, on the date on which an SAR would otherwise terminate or expire, the SAR by its terms remains exercisable immediately prior to such termination or expiration and, if so exercised, would result in a payment to the holder of such SAR, then any portion of such SAR which has not previously been exercised shall automatically be deemed to be exercised as of such date with respect to such portion.

8.6 **Effect of Termination of Service.** Subject to earlier termination of the SAR as otherwise provided herein and unless otherwise provided by the Committee in the grant of an SAR and set forth in the Award Agreement, an SAR shall be exercisable after a Participant's termination of Service only during the applicable time period determined in accordance with Section 6.4 (treating the SAR as if it were an Option) and thereafter shall terminate.

8.7 **Nontransferability of SARs.** During the lifetime of the Participant, an SAR shall be exercisable only by the Participant or the Participant's guardian or legal representative. Prior to the exercise of an SAR, the SAR shall not be subject in any manner to anticipation, alienation, sale, exchange, transfer, assignment, pledge, encumbrance, or garnishment by creditors of the Participant or the Participant's beneficiary, except transfer by will or by the laws of descent and distribution.

9. **TERMS AND CONDITIONS OF RESTRICTED STOCK AWARDS.**

Restricted Stock Awards shall be evidenced by Award Agreements specifying whether the Award is a Restricted Stock Bonus or a Restricted Stock Purchase Right and the number of shares of Stock subject to the Award, in such form as the Committee shall from time to time establish. No Restricted Stock Award or purported Restricted Stock Award shall be a valid and binding obligation of the Company unless evidenced by a fully executed Award Agreement. Award Agreements evidencing Restricted Stock Awards may incorporate all or any of the terms of the Plan by reference and shall comply with and be subject to the following terms and conditions:

9.1 **Types of Restricted Stock Awards Authorized.** Restricted Stock Awards may be in the form of either a Restricted Stock Bonus or a Restricted Stock Purchase Right. Restricted Stock Awards may be granted upon such conditions as the Committee shall determine, including, without limitation, upon the attainment of one or more Performance Goals described in Section 10.4. If either the grant of a Restricted Stock Award or the lapsing of the Restriction Period is to be contingent upon the attainment of one or more Performance Goals, the Committee shall follow procedures substantially equivalent to those set forth in Sections 10.3 through 10.5(a).

9.2 **Purchase Price.** The purchase price for shares of Stock issuable under each Restricted Stock Purchase Right shall be established by the Committee in its discretion. No monetary payment (other than applicable tax withholding) shall be required as a condition of receiving shares of Stock pursuant to a Restricted Stock Bonus, the consideration for which shall be services actually rendered to a Participating Company or for its benefit. Notwithstanding the foregoing, the Participant shall furnish consideration in the form of cash or past services rendered to a Participating Company or for its benefit having a value not less than the par value of the shares of Stock subject to such Restricted Stock Award.

9.3 **Purchase Period.** A Restricted Stock Purchase Right shall be exercisable within a period established by the Committee, which shall in no event exceed thirty (30) days from the effective date of the grant of the Restricted Stock Purchase Right; provided, however, that no Restricted Stock Purchase Right granted to a prospective Employee, prospective Consultant or prospective Director may become exercisable prior to the date on which such person commences Service.

9.4 **Payment of Purchase Price.** Except as otherwise provided below, payment of the purchase price for the number of shares of Stock being purchased pursuant to any Restricted Stock Purchase Right shall be made (a) in cash, by check, or in cash equivalent, (b) by such other consideration as may be approved by the Committee from time to time to the extent permitted by applicable law, or (c) by any combination thereof. The Committee may at any time or from time to time grant Restricted Stock Purchase Rights which do not permit all of the foregoing forms of consideration to be used in payment of the purchase price or which otherwise restrict one or more forms of consideration. Restricted Stock Bonuses shall be issued in consideration for past services actually rendered to a Participating Company or for its benefit.

9.5 **Vesting and Restrictions on Transfer.** Shares issued pursuant to any Restricted Stock Award may or may not be made subject to Vesting Conditions based upon the satisfaction of such Service requirements, conditions, restrictions or performance criteria, including, without limitation, Performance Goals as described in Section 10.4, as shall be established by the Committee and set forth in the Award Agreement evidencing such Award. During any Restriction Period in which shares acquired pursuant to a Restricted Stock Award remain subject to Vesting Conditions, such shares may not be sold, exchanged, transferred, pledged, assigned or otherwise disposed of other than pursuant to an Ownership Change Event, as defined in Section 2.1(x), or as provided in Section 9.8. Upon request by the Company, each Participant shall execute any agreement evidencing such transfer restrictions prior to the receipt of shares of Stock hereunder and shall promptly present to the Company any and all certificates representing shares of Stock acquired hereunder for the placement on such certificates of appropriate legends evidencing any such transfer restrictions.

9.6 **Voting Rights; Dividends and Distributions.** Except as provided in this Section, Section 9.5 and any Award Agreement, during the Restriction Period applicable to shares subject to a Restricted Stock Award, the Participant shall have all of the rights of a stockholder of the Company holding shares of Stock, including the right to vote such shares and to receive all dividends and other distributions paid with respect to such shares. However, in the event of a dividend or distribution paid in shares of Stock or any other adjustment made upon a change in the capital structure of the Company as described in Section 4.3, any and all new, substituted or additional securities or other property (other than normal cash dividends) to which the Participant is entitled by reason of the Participant's Restricted Stock Award shall be immediately subject to the same Vesting Conditions as the shares subject to the Restricted Stock Award with respect to which such dividends or distributions were paid or adjustments were made.

9.7 **Effect of Termination of Service.** Unless otherwise provided by the Committee in the grant of a Restricted Stock Award and set forth in the Award Agreement, if a Participant's Service terminates for any reason, whether voluntary or involuntary (including the

Participant's death or disability), then (a) the Company shall have the option to repurchase for the purchase price paid by the Participant any shares acquired by the Participant pursuant to a Restricted Stock Purchase Right which remain subject to Vesting Conditions as of the date of the Participant's termination of Service and (b) the Participant shall forfeit to the Company any shares acquired by the Participant pursuant to a Restricted Stock Bonus which remain subject to Vesting Conditions as of the date of the Participant's termination of Service. The Company shall have the right to assign at any time any repurchase right it may have, whether or not such right is then exercisable, to one or more persons as may be selected by the Company.

9.8 **Nontransferability of Restricted Stock Award Rights.** Prior to the issuance of shares of Stock pursuant to a Restricted Stock Award, rights to acquire such shares shall not be subject in any manner to anticipation, alienation, sale, exchange, transfer, assignment, pledge, encumbrance or garnishment by creditors of the Participant or the Participant's beneficiary, except transfer by will or the laws of descent and distribution. All rights with respect to a Restricted Stock Award granted to a Participant hereunder shall be exercisable during his or her lifetime only by such Participant or the Participant's guardian or legal representative.

10. TERMS AND CONDITIONS OF PERFORMANCE AWARDS.

Performance Awards shall be evidenced by Award Agreements in such form as the Committee shall from time to time establish. No Performance Award or purported Performance Award shall be a valid and binding obligation of the Company unless evidenced by a fully executed Award Agreement. Award Agreements evidencing Performance Awards may incorporate all or any of the terms of the Plan by reference and shall comply with and be subject to the following terms and conditions:

10.1 **Types of Performance Awards Authorized.** Performance Awards may be in the form of either Performance Shares or Performance Units. Each Award Agreement evidencing a Performance Award shall specify the number of Performance Shares or Performance Units subject thereto, the Performance Award Formula, the Performance Goal(s) and Performance Period applicable to the Award, and the other terms, conditions and restrictions of the Award.

10.2 **Initial Value of Performance Shares and Performance Units.** Unless otherwise provided by the Committee in granting a Performance Award, each Performance Share shall have an initial value equal to the Fair Market Value of one (1) share of Stock, subject to adjustment as provided in Section 4.3, on the effective date of grant of the Performance Share, and each Performance Unit shall have an initial value of one hundred dollars (\$100). The final value payable to the Participant in settlement of a Performance Award determined on the basis of the applicable Performance Award Formula will depend on the extent to which Performance Goals established by the Committee are attained within the applicable Performance Period established by the Committee.

10.3 **Establishment of Performance Period, Performance Goals and Performance Award Formula.** In granting each Performance Award, the Committee shall establish in writing the applicable Performance Period, Performance Award Formula and one or

more Performance Goals which, when measured at the end of the Performance Period, shall determine on the basis of the Performance Award Formula the final value of the Performance Award to be paid to the Participant. Unless otherwise permitted in compliance with the requirements under Section 162(m) with respect to “performance-based compensation,” the Committee shall establish the Performance Goal(s) and Performance Award Formula applicable to each Performance Award no later than the earlier of (a) the date ninety (90) days after the commencement of the applicable Performance Period or (b) the date on which 25% of the Performance Period has elapsed, and, in any event, at a time when the outcome of the Performance Goals remains substantially uncertain. Once established, the Performance Goals and Performance Award Formula shall not be changed during the Performance Period. The Company shall notify each Participant granted a Performance Award of the terms of such Award, including the Performance Period, Performance Goal(s) and Performance Award Formula.

10.4 **Measurement of Performance Goals.** Performance Goals shall be established by the Committee on the basis of targets to be attained (“*Performance Targets*”) with respect to one or more measures of business or financial performance (each, a “*Performance Measure*”), subject to the following:

(a) ***Performance Measures.*** Performance Measures shall have the same meanings as used in the Company’s financial statements, or, if such terms are not used in the Company’s financial statements, they shall have the meaning applied pursuant to generally accepted accounting principles, or as used generally in the Company’s industry. Performance Measures shall be calculated with respect to the Company and each Subsidiary Corporation consolidated therewith for financial reporting purposes or such division or other business unit as may be selected by the Committee. For purposes of the Plan, the Performance Measures applicable to a Performance Award shall be calculated in accordance with generally accepted accounting principles, but prior to the accrual or payment of any Performance Award for the same Performance Period and excluding the effect (whether positive or negative) of any change in accounting standards or any extraordinary, unusual or nonrecurring item, as determined by the Committee, occurring after the establishment of the Performance Goals applicable to the Performance Award. Each such adjustment, if any, shall be made solely for the purpose of providing a consistent basis from period to period for the calculation of Performance Measures in order to prevent the dilution or enlargement of the Participant’s rights with respect to a Performance Award. Performance Measures may be one or more of the following, as determined by the Committee:

- (i) sales revenue;
- (ii) gross margin;
- (iii) operating margin;
- (iv) operating income;
- (v) pre-tax profit;

- (vi) earnings before interest, taxes and depreciation and amortization;
- (vii) net income;
- (viii) expenses;
- (ix) the market price of the Stock;
- (x) earnings per share;
- (xi) return on stockholder equity;
- (xii) return on capital;
- (xiii) return on net assets;
- (xiv) economic value added; and
- (xv) market share.

(b) **Performance Targets.** Performance Targets may include a minimum, maximum, target level and intermediate levels of performance, with the final value of a Performance Award determined under the applicable Performance Award Formula by the level attained during the applicable Performance Period. A Performance Target may be stated as an absolute value or as a value determined relative to a standard selected by the Committee.

10.5 Settlement of Performance Awards.

(a) **Determination of Final Value.** As soon as practicable following the completion of the Performance Period applicable to a Performance Award, the Committee shall certify in writing the extent to which the applicable Performance Goals have been attained and the resulting final value of the Award earned by the Participant and to be paid upon its settlement in accordance with the applicable Performance Award Formula.

(b) **Discretionary Adjustment of Award Formula.** In its discretion, the Committee may, either at the time it grants a Performance Award or at any time thereafter, provide for the positive or negative adjustment of the Performance Award Formula applicable to a Performance Award granted to any Participant who is not a “covered employee” within the meaning of Section 162(m) (a “**Covered Employee**”) to reflect such Participant’s individual performance in his or her position with the Company or such other factors as the Committee may determine. If permitted under a Covered Employee’s Award Agreement, the Committee shall have the discretion, on the basis of such criteria as may be established by the Committee, to reduce some or all of the value of the Performance Award that would otherwise be paid to the Covered Employee upon its settlement notwithstanding the attainment of any Performance Goal and the resulting value of the Performance Award determined in accordance with the Performance Award Formula. No such reduction may result in an increase in the amount payable upon settlement of another Participant’s Performance Award.

(c) **Effect of Leaves of Absence.** Unless otherwise required by law, payment of the final value, if any, of a Performance Award held by a Participant who has taken in excess of thirty (30) days in leaves of absence during a Performance Period shall be prorated on the basis of the number of days of the Participant's Service during the Performance Period during which the Participant was not on a leave of absence.

(d) **Notice to Participants.** As soon as practicable following the Committee's determination and certification in accordance with Sections 10.5(a) and (b), the Company shall notify each Participant of the determination of the Committee.

(e) **Payment in Settlement of Performance Awards.** As soon as practicable following the Committee's determination and certification in accordance with Sections 10.5(a) and (b), payment shall be made to each eligible Participant (or such Participant's legal representative or other person who acquired the right to receive such payment by reason of the Participant's death) of the final value of the Participant's Performance Award. Payment of such amount shall be made in cash, shares of Stock, or a combination thereof as determined by the Committee. Unless otherwise provided in the Award Agreement evidencing a Performance Award, payment shall be made in a lump sum. An Award Agreement may provide for deferred payment in a lump sum or in installments. If any payment is to be made on a deferred basis, the Committee may, but shall not be obligated to, provide for the payment during the deferral period of Dividend Equivalents or interest.

(f) **Provisions Applicable to Payment in Shares.** If payment is to be made in shares of Stock, the number of such shares shall be determined by dividing the final value of the Performance Award by the value of a share of Stock determined by the method specified in the Award Agreement. Such methods may include, without limitation, the closing market price on a specified date (such as the settlement date) or an average of market prices over a series of trading days. Shares of Stock issued in payment of any Performance Award may be fully vested and freely transferable shares or may be shares of Stock subject to Vesting Conditions as provided in Section 9.5. Any shares subject to Vesting Conditions shall be evidenced by an appropriate Award Agreement and shall be subject to the provisions of Sections 9.5 through 9.8 above.

10.6 **Voting Rights; Dividend Equivalent Rights and Distributions.** Participants shall have no voting rights with respect to shares of Stock represented by Performance Share Awards until the date of the issuance of such shares, if any (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). However, the Committee, in its discretion, may provide in the Award Agreement evidencing any Performance Share Award that the Participant shall be entitled to receive Dividend Equivalents with respect to the payment of cash dividends on Stock having a record date prior to the date on which the Performance Shares are settled or forfeited. Such Dividend Equivalents, if any, shall be credited to the Participant in the form of additional whole Performance Shares as of the date of payment of such cash dividends on Stock. The number of additional Performance Shares (rounded to the nearest whole number) to be so credited shall be determined by dividing (a) the amount of cash dividends paid on such date with respect to the number of shares of Stock represented by the Performance Shares previously credited to the Participant by (b) the Fair Market Value per share of Stock on such date. Dividend Equivalents

may be paid currently or may be accumulated and paid to the extent that Performance Shares become nonforfeitable, as determined by the Committee. Settlement of Dividend Equivalents may be made in cash, shares of Stock, or a combination thereof as determined by the Committee, and may be paid on the same basis as settlement of the related Performance Share as provided in Section 10.5. Dividend Equivalents shall not be paid with respect to Performance Units. In the event of a dividend or distribution paid in shares of Stock or any other adjustment made upon a change in the capital structure of the Company as described in Section 4.3, appropriate adjustments shall be made in the Participant's Performance Share Award so that it represents the right to receive upon settlement any and all new, substituted or additional securities or other property (other than normal cash dividends) to which the Participant would be entitled by reason of the shares of Stock issuable upon settlement of the Performance Share Award, and all such new, substituted or additional securities or other property shall be immediately subject to the same Performance Goals as are applicable to the Award.

10.7 **Effect of Termination of Service.** Unless otherwise provided by the Committee in the grant of a Performance Award and set forth in the Award Agreement, the effect of a Participant's termination of Service on the Performance Award shall be as follows:

(a) **Death or Disability.** If the Participant's Service terminates because of the death or Disability of the Participant before the completion of the Performance Period applicable to the Performance Award, the final value of the Participant's Performance Award shall be determined by the extent to which the applicable Performance Goals have been attained with respect to the entire Performance Period and shall be prorated based on the number of months of the Participant's Service during the Performance Period. Payment shall be made following the end of the Performance Period in any manner permitted by Section 10.5.

(b) **Other Termination of Service.** If the Participant's Service terminates for any reason except death or Disability before the completion of the Performance Period applicable to the Performance Award, such Award shall be forfeited in its entirety; provided, however, that in the event of an involuntary termination of the Participant's Service, the Committee, in its sole discretion, may waive the automatic forfeiture of all or any portion of any such Award.

10.8 **Nontransferability of Performance Awards.** Prior to settlement in accordance with the provisions of the Plan, no Performance Award shall be subject in any manner to anticipation, alienation, sale, exchange, transfer, assignment, pledge, encumbrance, or garnishment by creditors of the Participant or the Participant's beneficiary, except transfer by will or by the laws of descent and distribution. All rights with respect to a Performance Award granted to a Participant hereunder shall be exercisable during his or her lifetime only by such Participant or the Participant's guardian or legal representative.

11. **TERMS AND CONDITIONS OF RESTRICTED STOCK UNIT AWARDS.**

Restricted Stock Unit Awards shall be evidenced by Award Agreements specifying the number of Restricted Stock Units subject to the Award, in such form as the Committee shall from time to time establish. No Restricted Stock Unit Award or purported Restricted Stock Unit Award shall be a valid and binding obligation of the Company unless

evidenced by a fully executed Award Agreement. Award Agreements evidencing Restricted Stock Units may incorporate all or any of the terms of the Plan by reference and shall comply with and be subject to the following terms and conditions:

11.1 **Grant of Restricted Stock Unit Awards.** Restricted Stock Unit Awards may be granted upon such conditions as the Committee shall determine, including, without limitation, upon the attainment of one or more Performance Goals described in Section 10.4. If either the grant of a Restricted Stock Unit Award or the Vesting Conditions with respect to such Award is to be contingent upon the attainment of one or more Performance Goals, the Committee shall follow procedures substantially equivalent to those set forth in Sections 10.3 through 10.5(a).

11.2 **Purchase Price.** No monetary payment (other than applicable tax withholding, if any) shall be required as a condition of receiving a Restricted Stock Unit Award, the consideration for which shall be services actually rendered to a Participating Company or for its benefit.

11.3 **Vesting.** Restricted Stock Units may or may not be made subject to Vesting Conditions based upon the satisfaction of such Service requirements, conditions, restrictions or performance criteria, including, without limitation, Performance Goals as described in Section 10.4, as shall be established by the Committee and set forth in the Award Agreement evidencing such Award.

11.4 **Voting Rights, Dividend Equivalent Rights and Distributions.** Participants shall have no voting rights with respect to shares of Stock represented by Restricted Stock Units until the date of the issuance of such shares (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). However, the Committee, in its discretion, may provide in the Award Agreement evidencing any Restricted Stock Unit Award that the Participant shall be entitled to receive Dividend Equivalents with respect to the payment of cash dividends on Stock having a record date prior to date on which Restricted Stock Units held by such Participant are settled. Such Dividend Equivalents, if any, shall be paid by crediting the Participant with additional whole Restricted Stock Units as of the date of payment of such cash dividends on Stock. The number of additional Restricted Stock Units (rounded to the nearest whole number) to be so credited shall be determined by dividing (a) the amount of cash dividends paid on such date with respect to the number of shares of Stock represented by the Restricted Stock Units previously credited to the Participant by (b) the Fair Market Value per share of Stock on such date. Such additional Restricted Stock Units shall be subject to the same terms and conditions and shall be settled in the same manner and at the same time (or as soon thereafter as practicable) as the Restricted Stock Units originally subject to the Restricted Stock Unit Award. In the event of a dividend or distribution paid in shares of Stock or any other adjustment made upon a change in the capital structure of the Company as described in Section 4.3, appropriate adjustments shall be made in the Participant's Restricted Stock Unit Award so that it represents the right to receive upon settlement any and all new, substituted or additional securities or other property (other than normal cash dividends) to which the Participant would be entitled by reason of the shares of Stock issuable upon settlement of the Award, and all such new, substituted or additional securities or other property shall be immediately subject to the same Vesting Conditions as are applicable to the Award.

11.5 **Effect of Termination of Service.** Unless otherwise provided by the Committee in the grant of a Restricted Stock Unit Award and set forth in the Award Agreement, if a Participant's Service terminates for any reason, whether voluntary or involuntary (including the Participant's death or disability), then the Participant shall forfeit to the Company any Restricted Stock Units pursuant to the Award which remain subject to Vesting Conditions as of the date of the Participant's termination of Service.

11.6 **Settlement of Restricted Stock Unit Awards.** The Company shall issue to a Participant on the date on which Restricted Stock Units subject to the Participant's Restricted Stock Unit Award vest or on such other date determined by the Committee, in its discretion, and set forth in the Award Agreement one (1) share of Stock (and/or any other new, substituted or additional securities or other property pursuant to an adjustment described in Section 11.4) for each Restricted Stock Unit then becoming vested or otherwise to be settled on such date, subject to the withholding of applicable taxes. Notwithstanding the foregoing, if permitted by the Committee and set forth in the Award Agreement, the Participant may elect in accordance with terms specified in the Award Agreement to defer receipt of all or any portion of the shares of Stock or other property otherwise issuable to the Participant pursuant to this Section.

11.7 **Nontransferability of Restricted Stock Unit Awards.** Prior to the issuance of shares of Stock in settlement of a Restricted Stock Unit Award, the Award shall not be subject in any manner to anticipation, alienation, sale, exchange, transfer, assignment, pledge, encumbrance, or garnishment by creditors of the Participant or the Participant's beneficiary, except transfer by will or by the laws of descent and distribution. All rights with respect to a Restricted Stock Unit Award granted to a Participant hereunder shall be exercisable during his or her lifetime only by such Participant or the Participant's guardian or legal representative.

12. **DEFERRED COMPENSATION AWARDS.**

12.1 **Establishment of Deferred Compensation Award Programs.** This Section 12 shall not be effective unless and until the Committee determines to establish a program pursuant to this Section. The Committee, in its discretion and upon such terms and conditions as it may determine, may establish one or more programs pursuant to the Plan under which:

(a) Participants designated by the Committee who are Insiders or otherwise among a select group of highly compensated Employees may irrevocably elect, prior to a date specified by the Committee, to reduce such Participant's compensation otherwise payable in cash (subject to any minimum or maximum reductions imposed by the Committee) and to be granted automatically at such time or times as specified by the Committee one or more Awards of Stock Units with respect to such numbers of shares of Stock as determined in accordance with the rules of the program established by the Committee and having such other terms and conditions as established by the Committee.

(b) Participants designated by the Committee who are Insiders or otherwise among a select group of highly compensated Employees may irrevocably elect, prior to a date specified by the Committee, to be granted automatically an Award of Stock Units with respect to such number of shares of Stock and upon such other terms and conditions as established by the Committee in lieu of:

- (i) shares of Stock otherwise issuable to such Participant upon the exercise of an Option;
- (ii) cash or shares of Stock otherwise issuable to such Participant upon the exercise of an SAR; or
- (iii) cash or shares of Stock otherwise issuable to such Participant upon the settlement of a Performance Award.

12.2 **Terms and Conditions of Deferred Compensation Awards.** Deferred Compensation Awards granted pursuant to this Section 12 shall be evidenced by Award Agreements in such form as the Committee shall from time to time establish. No such Deferred Compensation Award or purported Deferred Compensation Award shall be a valid and binding obligation of the Company unless evidenced by a fully executed Award Agreement. Award Agreements evidencing Deferred Compensation Awards may incorporate all or any of the terms of the Plan by reference and shall comply with and be subject to the following terms and conditions:

- (a) **Vesting Conditions.** Deferred Compensation Awards shall not be subject to any vesting conditions.
- (b) **Terms and Conditions of Stock Units.**

(i) **Voting Rights; Dividend Equivalent Rights and Distributions.** Participants shall have no voting rights with respect to shares of Stock represented by Stock Units until the date of the issuance of such shares (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). However, a Participant shall be entitled to receive Dividend Equivalents with respect to the payment of cash dividends on Stock having a record date prior to date on which Stock Units held by such Participant are settled. Such Dividend Equivalents shall be paid by crediting the Participant with additional whole and/or fractional Stock Units as of the date of payment of such cash dividends on Stock. The method of determining the number of additional Stock Units to be so credited shall be specified by the Committee and set forth in the Award Agreement. Such additional Stock Units shall be subject to the same terms and conditions and shall be settled in the same manner and at the same time (or as soon thereafter as practicable) as the Stock Units originally subject to the Stock Unit Award. In the event of a dividend or distribution paid in shares of Stock or any other adjustment made upon a change in the capital structure of the Company as described in Section 4.3, appropriate adjustments shall be made in the Participant's Stock Unit Award so that it represent the right to receive upon settlement any and all new, substituted or additional securities or other property (other than normal cash dividends) to which the Participant would be entitled by reason of the shares of Stock issuable upon settlement of the Award.

(ii) **Settlement of Stock Unit Awards.** A Participant electing to receive an Award of Stock Units pursuant to this Section 12 shall specify at the time of such election a settlement date with respect to such Award. The Company shall issue to the Participant as soon as practicable following the earlier of the settlement date elected by the Participant or the date of termination of the Participant's Service, a number of whole shares of Stock equal to the number of whole Stock Units subject to the Stock Unit Award. Such shares of Stock shall be fully vested, and the Participant shall not be required to pay any additional consideration (other than applicable tax withholding) to acquire such shares. Any fractional Stock Unit subject to the Stock Unit Award shall be settled by the Company by payment in cash of an amount equal to the Fair Market Value as of the payment date of such fractional share.

(iii) **Nontransferability of Stock Unit Awards.** Prior to their settlement in accordance with the provision of the Plan, no Stock Unit Award shall be subject in any manner to anticipation, alienation, sale, exchange, transfer, assignment, pledge, encumbrance, or garnishment by creditors of the Participant or the Participant's beneficiary, except transfer by will or by the laws of descent and distribution. All rights with respect to a Stock Unit Award granted to a Participant hereunder shall be exercisable during his or her lifetime only by such Participant or the Participant's guardian or legal representative.

13. **STANDARD FORMS OF AWARD AGREEMENT.**

13.1 **Award Agreements.** Each Award shall comply with and be subject to the terms and conditions set forth in the appropriate form of Award Agreement approved by the Committee and as amended from time to time. Any Award Agreement may consist of an appropriate form of Notice of Grant and a form of Agreement incorporated therein by reference, or such other form or forms, including electronic media, as the Committee may approve from time to time.

13.2 **Authority to Vary Terms.** The Committee shall have the authority from time to time to vary the terms of any standard form of Award Agreement either in connection with the grant or amendment of an individual Award or in connection with the authorization of a new standard form or forms; provided, however, that the terms and conditions of any such new, revised or amended standard form or forms of Award Agreement are not inconsistent with the terms of the Plan.

14. **CHANGE IN CONTROL.**

14.1 **Effect of Change in Control on Options and SARs.**

(a) **Accelerated Vesting.** Notwithstanding any other provision of the Plan to the contrary except as provided in this Section 14.1(a), the Committee, in its sole discretion, may provide in any Award Agreement or, in the event of a Change in Control, may take such actions as it deems appropriate to provide for the acceleration of the exercisability and vesting in connection with such Change in Control of any or all outstanding Options and SARs and shares acquired upon the exercise of such Options and SARs upon such conditions and to such extent as the Committee shall determine. Any unexercisable or unvested portion of each outstanding Nonemployee Director Option and any shares acquired upon the exercise thereof shall be immediately exercisable and vested in full as of the date ten (10) days prior to the date of the Change in Control but conditioned upon the consummation of the Change in Control.

(b) **Assumption or Substitution.** In the event of a Change in Control, the surviving, continuing, successor, or purchasing entity or parent thereof, as the case may be (the “**Acquiror**”), may, without the consent of any Participant, either assume the Company’s rights and obligations under outstanding Options and SARs or substitute for outstanding Options and SARs substantially equivalent options and SARs (as the case may be) for the Acquiror’s stock. Any Options or SARs which are not assumed by the Acquiror in connection with the Change in Control nor exercised as of the time of consummation of the Change in Control shall terminate and cease to be outstanding effective as of the time of consummation of the Change in Control.

(c) **Cash-Out of Options.** The Committee may, in its sole discretion and without the consent of any Participant, determine that, upon the occurrence of a Change in Control, each or any Option or SAR outstanding immediately prior to the Change in Control shall be canceled in exchange for a payment with respect to each vested share of Stock subject to such canceled Option or SAR in (i) cash, (ii) stock of the Company or of a corporation or other business entity a party to the Change in Control, or (iii) other property which, in any such case, shall be in an amount having a Fair Market Value equal to the excess of the Fair Market Value of the consideration to be paid per share of Stock in the Change in Control over the exercise price per share under such Option or SAR (the “**Spread**”). In the event such determination is made by the Committee, the Spread (reduced by applicable withholding taxes, if any) shall be paid to Participants in respect of their canceled Options and SARs as soon as practicable following the date of the Change in Control.

14.2 **Effect of Change in Control on Restricted Stock Awards.** The Committee may, in its discretion, provide in any Award Agreement evidencing a Restricted Stock Award that, in the event of a Change in Control, the lapsing of the Restriction Period applicable to the shares subject to the Restricted Stock Award held by a Participant whose Service has not terminated prior to the Change in Control shall be accelerated effective immediately prior to the consummation of the Change in Control to such extent as specified in such Award Agreement. Any acceleration of the lapsing of the Restriction Period that was permissible solely by reason of this Section 14.2 and the provisions of such Award Agreement shall be conditioned upon the consummation of the Change in Control.

14.3 **Effect of Change in Control on Performance Awards.** The Committee may, in its discretion, provide in any Award Agreement evidencing a Performance Award that, in the event of a Change in Control, the Performance Award held by a Participant whose Service has not terminated prior to the Change in Control or whose Service terminated by reason of the Participant’s death or Disability shall become payable effective as of the date of the Change in Control to such extent as specified in such Award Agreement.

14.4 **Effect of Change in Control on Restricted Stock Unit Awards.** The Committee may, in its discretion, provide in any Award Agreement evidencing a Restricted Stock Unit Award that, in the event of a Change in Control, the Restricted Stock Unit Award held by a Participant whose Service has not terminated prior to such date shall be settled effective as of the date of the Change in Control to such extent as specified in such Award Agreement.

14.5 **Effect of Change in Control on Deferred Compensation Awards.** The Committee may, in its discretion, provide in any Award Agreement evidencing a Deferred Compensation Award that, in the event of a Change in Control, the Stock Units pursuant to such Award shall be settled effective as of the date of the Change in Control to such extent as specified in such Award Agreement.

15. **COMPLIANCE WITH SECURITIES LAW.**

The grant of Awards and the issuance of shares of Stock pursuant to any Award shall be subject to compliance with all applicable requirements of federal, state and foreign law with respect to such securities and the requirements of any stock exchange or market system upon which the Stock may then be listed. In addition, no Award may be exercised or shares issued pursuant to an Award unless (a) a registration statement under the Securities Act shall at the time of such exercise or issuance be in effect with respect to the shares issuable pursuant to the Award or (b) in the opinion of legal counsel to the Company, the shares issuable pursuant to the Award may be issued in accordance with the terms of an applicable exemption from the registration requirements of the Securities Act. The inability of the Company to obtain from any regulatory body having jurisdiction the authority, if any, deemed by the Company's legal counsel to be necessary to the lawful issuance and sale of any shares hereunder shall relieve the Company of any liability in respect of the failure to issue or sell such shares as to which such requisite authority shall not have been obtained. As a condition to issuance of any Stock, the Company may require the Participant to satisfy any qualifications that may be necessary or appropriate, to evidence compliance with any applicable law or regulation and to make any representation or warranty with respect thereto as may be requested by the Company.

16. **TAX WITHHOLDING.**

16.1 **Tax Withholding in General.** The Company shall have the right to deduct from any and all payments made under the Plan, or to require the Participant, through payroll withholding, cash payment or otherwise, including by means of a Cashless Exercise of an Option, to make adequate provision for, the federal, state, local and foreign taxes, if any, required by law to be withheld by the Participating Company Group with respect to an Award or the shares acquired pursuant thereto. The Company shall have no obligation to deliver shares of Stock, to release shares of Stock from an escrow established pursuant to an Award Agreement, or to make any payment in cash under the Plan until the Participating Company Group's tax withholding obligations have been satisfied by the Participant.

16.2 **Withholding in Shares.** The Company shall have the right, but not the obligation, to deduct from the shares of Stock issuable to a Participant upon the exercise or settlement of an Award, or to accept from the Participant the tender of, a number of whole shares of Stock having a Fair Market Value, as determined by the Company, equal to all or any part of the tax withholding obligations of the Participating Company Group. The Fair Market Value of any shares of Stock withheld or tendered to satisfy any such tax withholding obligations shall not exceed the amount determined by the applicable minimum statutory withholding rates.

17. **AMENDMENT OR TERMINATION OF PLAN.**

The Committee may amend, suspend or terminate the Plan at any time. However, without the approval of the Company's stockholders, there shall be (a) no increase in the maximum aggregate number of shares of Stock that may be issued under the Plan (except by operation of the provisions of Section 4.3), (b) no change in the class of persons eligible to receive Incentive Stock Options, and (c) no other amendment of the Plan that would require approval of the Company's stockholders under any applicable law, regulation or rule. No amendment, suspension or termination of the Plan shall affect any then outstanding Award unless expressly provided by the Committee. In any event, no amendment, suspension or termination of the Plan may adversely affect any then outstanding Award without the consent of the Participant unless necessary to comply with any applicable law, regulation or rule.

18. **MISCELLANEOUS PROVISIONS.**

18.1 **Repurchase Rights.** Shares issued under the Plan may be subject to one or more repurchase options, or other conditions and restrictions as determined by the Committee in its discretion at the time the Award is granted. The Company shall have the right to assign at any time any repurchase right it may have, whether or not such right is then exercisable, to one or more persons as may be selected by the Company. Upon request by the Company, each Participant shall execute any agreement evidencing such transfer restrictions prior to the receipt of shares of Stock hereunder and shall promptly present to the Company any and all certificates representing shares of Stock acquired hereunder for the placement on such certificates of appropriate legends evidencing any such transfer restrictions.

18.2 **Provision of Information.** Each Participant shall be given access to information concerning the Company equivalent to that information generally made available to the Company's common stockholders.

18.3 **Rights as Employee, Consultant or Director.** No person, even though eligible pursuant to Section 5, shall have a right to be selected as a Participant, or, having been so selected, to be selected again as a Participant. Nothing in the Plan or any Award granted under the Plan shall confer on any Participant a right to remain an Employee, Consultant or Director or interfere with or limit in any way any right of a Participating Company to terminate the Participant's Service at any time. To the extent that an Employee of a Participating Company other than the Company receives an Award under the Plan, that Award shall in no event be understood or interpreted to mean that the Company is the Employee's employer or that the Employee has an employment relationship with the Company.

18.4 **Rights as a Stockholder.** A Participant shall have no rights as a stockholder with respect to any shares covered by an Award until the date of the issuance of such shares (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). No adjustment shall be made for dividends, distributions or other rights for which the record date is prior to the date such shares are issued, except as provided in Section 4.3 or another provision of the Plan.

18.5 **Fractional Shares.** The Company shall not be required to issue fractional shares upon the exercise or settlement of any Award.

18.6 **Severability.** If any one or more of the provisions (or any part thereof) of this Plan shall be held invalid, illegal or unenforceable in any respect, such provision shall be modified so as to make it valid, legal and enforceable, and the validity, legality and enforceability of the remaining provisions (or any part thereof) of the Plan shall not in any way be affected or impaired thereby.

18.7 **Beneficiary Designation.** Subject to local laws and procedures, each Participant may file with the Company a written designation of a beneficiary who is to receive any benefit under the Plan to which the Participant is entitled in the event of such Participant's death before he or she receives any or all of such benefit. Each designation will revoke all prior designations by the same Participant, shall be in a form prescribed by the Company, and will be effective only when filed by the Participant in writing with the Company during the Participant's lifetime. If a married Participant designates a beneficiary other than the Participant's spouse, the effectiveness of such designation may be subject to the consent of the Participant's spouse. If a Participant dies without an effective designation of a beneficiary who is living at the time of the Participant's death, the Company will pay any remaining unpaid benefits to the Participant's legal representative.

18.8 **Unfunded Obligation.** Participants shall have the status of general unsecured creditors of the Company. Any amounts payable to Participants pursuant to the Plan shall be unfunded and unsecured obligations for all purposes, including, without limitation, Title I of the Employee Retirement Income Security Act of 1974. No Participating Company shall be required to segregate any monies from its general funds, or to create any trusts, or establish any special accounts with respect to such obligations. The Company shall retain at all times beneficial ownership of any investments, including trust investments, which the Company may make to fulfill its payment obligations hereunder. Any investments or the creation or maintenance of any trust or any Participant account shall not create or constitute a trust or fiduciary relationship between the Committee or any Participating Company and a Participant, or otherwise create any vested or beneficial interest in any Participant or the Participant's creditors in any assets of any Participating Company. The Participants shall have no claim against any Participating Company for any changes in the value of any assets which may be invested or reinvested by the Company with respect to the Plan.

18.9 **Choice of Law.** Except to the extent governed by applicable federal law, the validity, interpretation, construction and performance of the Plan and each Award Agreement shall be governed by the laws of the State of California, without regard to its conflict of law rules.

IN WITNESS WHEREOF, the undersigned Secretary of the Company certifies that the foregoing sets forth the Ross Stores, Inc. 2004 Equity Incentive Plan as duly adopted and amended by the Committee through May 17, 2005.

/s/ John Call

Secretary

PLAN HISTORY AND NOTES TO COMPANY

March 17, 2004	Board adopts Plan with a reserve of 15,000,000 shares, subject to increase by up to 13,529,070 shares from Predecessor Plan awards.
May 20, 2004	Stockholders approve Plan.
May 17, 2005	Compensation Committee amends Section 7.4 of Plan to extend the post-termination exercise period following retirement of a director holding Nonemployee Director Options granted on or after May 19, 2005 to a period of 60 months.
IMPORTANT NOTE: Implementation of Section 12—Deferred Compensation Awards or Section 11.6—deferral of RSU settlement	Upon establishment of a Deferred Compensation Award program pursuant to Section 12 or deferral of settlement of RSUs pursuant to Section 11.6, determine whether such program will constitute a “top-hat” pension plan under ERISA. If so, file notice with Dept. of Labor under ERISA Reg. 2520.104-23 within 120 days of adoption of resolutions by the Committee to establish the program to obtain exemption from reporting and disclosure requirements of ERISA.
IMPORTANT NOTE: IRC 162(m) 5 year reapproval of performance goals	Because the Committee may change the targets under performance goals, Section 162(m) requires stockholder reapproval of the material terms of performance goals no later than the annual meeting in the 5th year following the year in which the public company stockholders initially approved such material terms. See Treas. Reg. 1.162-27(e)(4)(vi).
IMPORTANT NOTE: Nasdaq/NYSE evergreen formula plan term limited to 10 years	Because the Plan has share add-back features, the Nasdaq and NYSE stockholder approval rules require that the plan term not exceed 10 years without stockholder reapproval. See NASD Rule 4350(i)(1)(A) and IM-4320-5; NYSE Listed Company Manual Sec. 303A(8) and FAQs Regarding New Rules on Stockholder Approval for Equity Compensation Plans posted on NYSE website, dated 12/16/2003.

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**ROSS STORES, INC.
STOCK OPTION AGREEMENT
FOR NONEMPLOYEE DIRECTOR**

Ross Stores, Inc. has granted to the Participant named in the *Notice of Grant* (the "**Grant Notice**") to which this Stock Option Agreement for Nonemployee Director (the "**Option Agreement**") is attached an Option (the "**Option**") to purchase certain shares of Stock upon the terms and conditions set forth in the Grant Notice and this Option Agreement. The Option has been granted pursuant to the Ross Stores, Inc. 2004 Equity Incentive Plan (the "**Plan**"), as amended to the Grant Date, the provisions of which are incorporated herein by reference. By signing the Grant Notice, the Participant: (a) acknowledges receipt of and represents that the Participant has read and is familiar with the Grant Notice, this Option Agreement, the Plan and a prospectus for the Plan in the form most recently registered with the Securities and Exchange Commission (the "**Plan Prospectus**"), (b) accepts the Option subject to all of the terms and conditions of the Grant Notice, this Option Agreement and the Plan and (c) agrees to accept as binding, conclusive and final all decisions or interpretations of the Committee upon any questions arising under the Grant Notice, this Option Agreement or the Plan.

1. **DEFINITIONS AND CONSTRUCTION.**

1.1 **Definitions.** Unless otherwise defined herein, capitalized terms shall have the meanings assigned in the Grant Notice or the Plan. Wherever used herein, the following terms shall have their respective meanings set forth below:

- (a) "**Option Price**" means the Option Price as set forth in the Grant Notice and as adjusted from time to time pursuant to Section 9.
- (b) "**Number of Option Shares**" means the Number of Shares Granted as set forth in the Grant Notice and as adjusted from time to time pursuant to Section 9.
- (c) "**Vested Shares**" means, on any relevant date, that portion of the Number of Option Shares which has cumulatively become vested in accordance with the vesting schedule set forth in the Grant Notice. Provided that the Participant's Service has not terminated prior to the relevant vesting date described in the Grant Notice, a portion of the Number of Option Shares will become Vested Shares at the applicable periodic rate set forth in the Grant Notice.

1.2 **Construction.** Captions and titles contained herein are for convenience only and shall not affect the meaning or interpretation of any provision of this Option Agreement. Except when otherwise indicated by the context, the singular shall include the plural and the plural shall include the singular. Use of the term "or" is not intended to be exclusive, unless the context clearly requires otherwise.

2. **TAX STATUS OF OPTION.**

This Option is intended to be a Nonstatutory Stock Option and shall not be treated as an incentive stock option within the meaning of Section 422(b) of the Code.

3. **ADMINISTRATION.**

All questions of interpretation concerning this Option Agreement shall be determined by the Committee. All determinations by the Committee shall be final and binding upon all persons having an interest in the Option. Any Officer shall have the authority to act on behalf of the Company with respect to any matter, right, obligation, or election which is the responsibility of or which is allocated to the Company herein, provided the Officer has apparent authority with respect to such matter, right, obligation, or election.

4. **EXERCISE OF THE OPTION.**

4.1 **Right to Exercise.** Except as otherwise provided herein, the Option shall be exercisable on and after the Grant Date and prior to the termination of the Option (as provided in Section 6) in an amount not to exceed the number of Vested Shares less the number of shares previously acquired upon exercise of the Option. In no event shall the Option be exercisable for more shares than the Number of Option Shares.

4.2 **Method of Exercise.** Exercise of the Option shall be by means of electronic or written notice (the "*Exercise Notice*") in a form authorized by the Company. An electronic Exercise Notice must be digitally signed or authenticated by the Participant in such manner as required by the notice and transmitted to the Chief Financial Officer of the Company or other authorized representative of the Company (including a third-party administrator designated by the Company). In the event that the Participant is not authorized or is unable to provide an electronic Exercise Notice, the Option shall be exercised by a written Exercise Notice addressed to the Company, which shall be signed by the Participant and delivered in person, by certified or registered mail, return receipt requested, by confirmed facsimile transmission, or by such other means as the Company may permit, to the Chief Financial Officer of the Company, or other authorized representative of the Company (including a third-party administrator designated by the Company). Each Exercise Notice, whether electronic or written, must state the Participant's election to exercise the Option, the number of whole shares of Stock for which the Option is being exercised and such other representations and agreements as to the Participant's investment intent with respect to such shares as may be required pursuant to the provisions of this Option Agreement. Further, each Exercise Notice must be received by the Company prior to the termination of the Option as set forth in Section 6 and must be accompanied by full payment of the aggregate Option Price for the number of shares of Stock being purchased. The Option shall be deemed to be exercised upon receipt by the Company of such electronic or written Exercise Notice and the aggregate Option Price.

4.3 **Payment of Option Price.**

(a) **Forms of Consideration Authorized.** Except as otherwise provided below, payment of the aggregate Option Price for the number of shares of Stock for which the Option is being exercised shall be made (i) in cash or by check, (ii) if permitted by the Company, by tender to the Company, or attestation to the ownership, of whole shares of Stock owned by the Participant having a Fair Market Value not less than the aggregate Option Price, (iii) by means of a Cashless Exercise, as defined in Section 4.3(b), or (iv) by any combination of the foregoing.

(b) **Limitations on Forms of Consideration.**

(i) **Tender of Stock.** Notwithstanding the foregoing, the Option may not be exercised by tender to the Company, or attestation to the ownership, of shares of Stock to the extent such tender or attestation would constitute a violation of the provisions of any law, regulation or agreement restricting the redemption of the Company's stock. If required by the Company, the Option may not be exercised by tender to the Company, or attestation to the ownership, of shares of Stock unless such shares either have been owned by the Participant for more than six (6) months or such other period, if any, required by the Company (and not used for another option exercise by attestation during such period) or were not acquired, directly or indirectly, from the Company.

(ii) **Cashless Exercise.** A "*Cashless Exercise*" means the delivery of a properly executed notice together with irrevocable instructions to a broker in a form acceptable to the Company providing for the assignment to the Company of the proceeds of a sale or loan with respect to some or all of the shares of Stock acquired upon the exercise of the Option pursuant to a program or procedure approved by the Company (including, without limitation, through an exercise complying with the provisions of Regulation T as promulgated from time to time by the Board of Governors of the Federal Reserve System). The Company reserves, at any and all times, the right, in the Company's sole and absolute discretion, to establish, decline to approve or terminate any such program or procedure, including with respect to the Participant notwithstanding that such program or procedures may be available to others.

4.4 **Tax Withholding.** At the time the Option is exercised, in whole or in part, or at any time thereafter as requested by the Company, the Participant agrees to make adequate provision for (including by means of a Cashless Exercise to the extent permitted by the Company), any sums required to satisfy the federal, state, local and foreign tax withholding obligations of the Company, if any, which arise in connection with the Option. The Company shall have no obligation to deliver shares of Stock until the tax withholding obligations of the Company have been satisfied by the Participant.

4.5 **Beneficial Ownership of Shares; Certificate Registration.** The Participant hereby authorizes the Company, in its sole discretion, to deposit for the benefit of the Participant with any broker with which the Participant has an account relationship of which the Company has notice any or all shares acquired by the Participant pursuant to the exercise of the Option. Except as provided by the preceding sentence, a certificate for the shares as to which the Option is exercised shall be registered in the name of the Participant, or, if applicable, in the names of the heirs of the Participant.

4.6 **Restrictions on Grant of the Option and Issuance of Shares.** The grant of the Option and the issuance of shares of Stock upon exercise of the Option shall be subject to compliance with all applicable requirements of federal, state or foreign law with respect to such securities. The Option may not be exercised if the issuance of shares of Stock upon exercise would constitute a violation of any applicable federal, state or foreign securities laws or other law or regulations or the requirements of any stock exchange or market system upon which the Stock may then be listed. In addition, the Option may not be exercised unless (i) a registration statement under the Securities Act shall at the time of exercise of the Option be in effect with respect to the shares issuable upon exercise of the Option or (ii) in the opinion of legal counsel to the Company, the shares issuable upon exercise of the Option may be issued in accordance with the terms of an applicable exemption from the registration requirements of the Securities Act. **THE PARTICIPANT IS CAUTIONED THAT THE OPTION MAY NOT BE EXERCISED UNLESS THE FOREGOING CONDITIONS ARE SATISFIED. ACCORDINGLY, THE PARTICIPANT MAY NOT BE ABLE TO EXERCISE THE OPTION WHEN DESIRED EVEN THOUGH THE OPTION IS VESTED.** The inability of the Company to obtain from any regulatory body having jurisdiction the authority, if any, deemed by the Company's legal counsel to be necessary to the lawful issuance and sale of any shares subject to the Option shall relieve the Company of any liability in respect of the failure to issue or sell such shares as to which such requisite authority shall not have been obtained. As a condition to the exercise of the Option, the Company may require the Participant to satisfy any qualifications that may be necessary or appropriate, to evidence compliance with any applicable law or regulation and to make any representation or warranty with respect thereto as may be requested by the Company.

4.7 **Fractional Shares.** The Company shall not be required to issue fractional shares upon the exercise of the Option.

5. **TRANSFERABILITY OF THE OPTION.**

5.1 Except as provided in Section 5.2, the Option may be exercised during the lifetime of the Participant only by the Participant or the Participant's guardian or legal representative and may not be assigned or transferred in any manner except by will or by the laws of descent and distribution. Following the death of the Participant, the Option, to the extent provided in Section 7.1, may be exercised by the Participant's legal representative or by any person empowered to do so under the deceased Participant's will or under the then applicable laws of descent and distribution.

5.2 With the consent of the Committee and subject to any conditions or restrictions as the Committee may impose, in its discretion, the Participant may transfer during the Participant's lifetime and prior to the Participant's termination of Service all or any portion of the Option to one or more of such persons (each a "***Permitted Transferee***") as permitted in accordance with the applicable limitations, if any, described in the General Instructions to the Form S-8 Registration Statement under the Securities Act. No transfer or purported transfer of the Option shall be effective unless and until: (i) the Participant has delivered to the Company a

written request describing the terms and conditions of the proposed transfer in such form as the Company may require, (ii) the Participant has made adequate provision, in the sole determination of the Company, for satisfaction of the tax withholding obligations of the Company as provided in Section 4.4 that may arise with respect to the transferred portion of the Option, (iii) the Committee has approved the requested transfer, and (iv) the Participant has delivered to the Company written documentation of the transfer in such form as the Company may require. With respect to the transferred portion of the Option, all of the terms and conditions of the Grant Notice, this Option Agreement and the Plan shall apply to the Permitted Transferee and not to the original Participant, except for (i) the Participant's rendering of Service, (ii) provision for the Company's tax withholding obligations, if any, and (iii) any subsequent transfer of the Option by the Permitted Transferee, which shall be prohibited except as provided in Section 5.1, unless otherwise permitted by the Board, in its sole discretion. The Company shall have no obligation to notify a Permitted Transferee of any expiration, termination, lapse or acceleration of the transferred Option, including, without limitation, an early termination of the transferred Option resulting from the termination of Service of the original Participant. Exercise of the transferred Option by a Permitted Transferee shall be subject to compliance with all applicable federal, state and foreign securities laws; however, the Company shall have no obligation to register with any federal, state or foreign securities commission or agency such transferred Option or any shares that may be issuable upon the exercise of the transferred Option by the Permitted Transferee.

6. **TERMINATION OF THE OPTION.**

The Option shall terminate and may no longer be exercised after the first to occur of (a) the close of business on the Expiration Date, (b) the close of business on the last date for exercising the Option following termination of the Participant's Service as described in Section 7, or (c) a Change in Control to the extent provided in Section 8.

7. **EFFECT OF TERMINATION OF SERVICE.**

7.1 **Option Exercisability.**

(a) **Disability.** If the Participant's Service terminates because of the Disability of the Participant, the Option, to the extent unexercised and exercisable on the date on which the Participant's Service terminated, may be exercised by the Participant (or the Participant's guardian or legal representative) at any time prior to the expiration of twelve (12) months after the date on which the Participant's Service terminated, but in any event no later than the Expiration Date.

(b) **Death.** If the Participant's Service terminates because of the death of the Participant, the Option, to the extent unexercised and exercisable on the date on which the Participant's Service terminated, may be exercised by the Participant's legal representative or other person who acquired the right to exercise the Option by reason of the Participant's death at any time prior to the expiration of twelve (12) months after the date on which the Participant's Service terminated, but in any event no later than the Expiration Date. The Participant's Service shall be deemed to have terminated on account of death if the Participant dies within three (3) months after the Participant's termination of Service.

(c) **Retirement.** If the Participant's Service terminates because of the Retirement (as defined below) of the Participant, the Option, to the extent unexercised and exercisable on the date on which the Participant's Service terminated, may be exercised by the Participant (or the Participant's guardian or legal representative) at any time prior to the expiration of sixty (60) months after the date on which the Participant's Service terminated, but in any event no later than the Expiration Date. For purposes of this Section, "**Retirement**" means resignation from Service on the Board after attaining the age of 55 and after at least ten years of Service on the Board.

(d) **Other Termination of Service.** If the Participant's Service terminates for any reason, except Disability, death or Retirement, the Option, to the extent unexercised and exercisable by the Participant on the date on which the Participant's Service terminated, may be exercised by the Participant at any time prior to the expiration of six (6) months after the date on which the Participant's Service terminated, but in any event no later than the Expiration Date.

7.2 **Extension if Exercise Prevented by Law.** Notwithstanding the foregoing, if the exercise of the Option within the applicable time periods set forth in Section 7.1 is prevented by the provisions of Section 4.6, the Option shall remain exercisable until three (3) months after the date the Participant is notified by the Company that the Option is exercisable, but in any event no later than the Expiration Date.

7.3 **Extension if Participant Subject to Section 16(b).** Notwithstanding the foregoing, if a sale within the applicable time periods set forth in Section 7.1 of shares acquired upon the exercise of the Option would subject the Participant to suit under Section 16(b) of the Exchange Act, the Option shall remain exercisable until the earliest to occur of (i) the tenth (10th) day following the date on which a sale of such shares by the Participant would no longer be subject to such suit, (ii) the one hundred and ninetieth (190th) day after the Participant's termination of Service, or (iii) the Expiration Date.

8. **CHANGE IN CONTROL.**

8.1 **Effect of Change in Control on Option.** In the event of a Change in Control, any unexercisable or unvested portion of the Option and any shares acquired upon the exercise thereof shall be immediately exercisable and vested in full as of a date prior to the date of the Change in Control specified by the Committee. Any exercise or vesting of the Option and any shares acquired upon the exercise thereof that was permissible solely by reason of this Section 8.1 shall be conditioned upon the consummation of the Change in Control. In addition, the surviving, continuing, successor, or purchasing entity or parent thereof, as the case may be (the "**Acquiror**"), may either assume the Company's rights and obligations under the Option or substitute for the Option a substantially equivalent option for the Acquiror's stock. The Option shall terminate and cease to be outstanding effective as of the date of the Change in Control to the extent that the Option is neither assumed by the Acquiror in connection with the Change in Control nor exercised as of the date of the Change in Control.

8.2 Federal Excise Tax Under Section 4999 of the Code.

(a) **Excess Parachute Payment.** In the event that any acceleration of vesting pursuant to this Option Agreement and any other payment or benefit received or to be received by the Participant would subject the Participant to any excise tax pursuant to Section 4999 of the Code due to the characterization of such acceleration of vesting, payment or benefit as an excess parachute payment under Section 280G of the Code, the Participant may elect, in his or her sole discretion, to reduce the amount of any acceleration of vesting called for under this Option Agreement in order to avoid such characterization.

(b) **Determination by Independent Accountants.** To aid the Participant in making any election called for under Section 8.2(a), upon the occurrence of any event that might reasonably be anticipated to give rise to acceleration of vesting under Section 8.1 (an "**Event**"), the Company shall promptly request a determination in writing by independent public accountants selected by the Company (the "**Accountants**"). Unless the Company and the Participant otherwise agree in writing, the Accountants shall determine and report to the Company and the Participant within twenty (20) days of the date of the Event the amount of such acceleration of vesting, payments and benefits which would produce the greatest after-tax benefit to the Participant. For the purposes of such determination, the Accountants may rely on reasonable, good faith interpretations concerning the application of Sections 280G and 4999 of the Code. The Company and the Participant shall furnish to the Accountants such information and documents as the Accountants may reasonably request in order to make their required determination. The Company shall bear all fees and expenses the Accountants may reasonably charge in connection with their services contemplated by this Section 8.2(b).

9. ADJUSTMENTS FOR CHANGES IN CAPITAL STRUCTURE.

Subject to any required action by the stockholders of the Company, in the event of any change in the Stock effected without receipt of consideration by the Company, whether through merger, consolidation, reorganization, reincorporation, recapitalization, reclassification, stock dividend, stock split, reverse stock split, split-up, split-off, spin-off, combination of shares, exchange of shares, or similar change in the capital structure of the Company, or in the event of payment of a dividend or distribution to the stockholders of the Company in a form other than Stock (excepting normal cash dividends) that has a material effect on the Fair Market Value of shares of Stock, appropriate adjustments shall be made in the number, Option Price and class of shares of stock subject to the Option. For purposes of the foregoing, conversion of any convertible securities of the Company shall not be treated as "effected without receipt of consideration by the Company." Any fractional share resulting from an adjustment pursuant to this Section shall be rounded down to the nearest whole number, and in no event may the Option Price be decreased to an amount less than the par value, if any, of the stock subject to the Option. The Committee in its sole discretion, may also make such adjustments in the terms of the Option to reflect, or related to, such changes in the capital structure of the Company or distributions as it deems appropriate. The adjustments determined by the Committee pursuant to this Section shall be final, binding and conclusive.

10. **RIGHTS AS A STOCKHOLDER.**

The Participant shall have no rights as a stockholder with respect to any shares covered by the Option until the date of the issuance of the shares for which the Option has been exercised (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). No adjustment shall be made for dividends, distributions or other rights for which the record date is prior to the date the shares are issued, except as provided in Section 9.

11. **LEGENDS.**

The Company may at any time place legends referencing any applicable federal, state or foreign securities law restrictions on all certificates representing shares of stock subject to the provisions of this Option Agreement. The Participant shall, at the request of the Company, promptly present to the Company any and all certificates representing shares acquired pursuant to the Option in the possession of the Participant in order to carry out the provisions of this Section.

12. **MISCELLANEOUS PROVISIONS.**

12.1 **Termination or Amendment.** The Board or Committee may terminate or amend the Plan or the Option at any time; provided, however, that except as provided in Section 8.1 in connection with a Change in Control, no such termination or amendment may adversely affect the Option or any unexercised portion hereof without the consent of the Participant unless such termination or amendment is necessary to comply with any applicable law or government regulation. No amendment or addition to this Option Agreement shall be effective unless in writing.

12.2 **Further Instruments.** The parties hereto agree to execute such further instruments and to take such further action as may reasonably be necessary to carry out the intent of this Option Agreement.

12.3 **Binding Effect.** Subject to the restrictions on transfer set forth herein, this Option Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective heirs, executors, administrators, successors and assigns.

12.4 **Delivery of Documents and Notices.** Any document relating to participation in the Plan or any notice required or permitted hereunder shall be given in writing and shall be deemed effectively given (except to the extent that this Option Agreement provides for effectiveness only upon actual receipt of such notice) upon personal delivery, electronic delivery at the e-mail address, if any, provided for the Participant by a Participating Company, or upon deposit in the U.S. Post Office or foreign postal service, by registered or certified mail, or with a nationally recognized overnight courier service, with postage and fees prepaid, addressed to the other party at the address shown below that party's signature to the Grant Notice or at such other address as such party may designate in writing from time to time to the other party.

(a) **Description of Electronic Delivery.** The Plan documents, which may include but do not necessarily include: the Plan, the Grant Notice, this Option Agreement, the Plan Prospectus, and any reports of the Company provided generally to the Company's stockholders, may be delivered to the Participant electronically. In addition, the Participant may deliver electronically the Exercise Notice called for by Section 4.2 to the Company or to such third party involved in administering the Plan as the Company may designate from time to time. Such means of electronic delivery may include but do not necessarily include the delivery of a link to a Company intranet or the internet site of a third party involved in administering the Plan, the delivery of the document via e-mail or such other means of electronic delivery specified by the Company.

(b) **Consent to Electronic Delivery.** The Participant acknowledges that the Participant has read Section 12.4(a) of this Option Agreement and consents to the electronic delivery of the Plan documents and the delivery of the Exercise Notice, as described in Section 12.4(a). The Participant acknowledges that he or she may receive from the Company a paper copy of any documents delivered electronically at no cost to the Participant by contacting the Chief Financial Officer of the Company by telephone or in writing. The Participant further acknowledges that the Participant will be provided with a paper copy of any documents if the attempted electronic delivery of such documents fails. Similarly, the Participant understands that the Participant must provide the Company or any designated third party administrator with a paper copy of any documents if the attempted electronic delivery of such documents fails. The Participant may revoke his or her consent to the electronic delivery of documents described in Section 12.4(a) or may change the electronic mail address to which such documents are to be delivered (if Participant has provided an electronic mail address) at any time by notifying the Company of such revoked consent or revised e-mail address by telephone, postal service or electronic mail. Finally, the Participant understands that he or she is not required to consent to electronic delivery of documents described in Section 12.4(a).

12.5 **Integrated Agreement.** The Grant Notice, this Option Agreement and the Plan, together with any employment, service or other agreement between the Participant and a Participating Company referring to the Option, shall constitute the entire understanding and agreement of the Participant and the Participating Company Group with respect to the subject matter contained herein and supersede any prior agreements, understandings, restrictions, representations, or warranties among the Participant and the Participating Company Group with respect to such subject matter. To the extent contemplated herein, the provisions of the Grant Notice, the Option Agreement and the Plan shall survive any exercise of the Option and shall remain in full force and effect.

12.6 **Applicable Law.** This Option Agreement shall be governed by the laws of the State of California as such laws are applied to agreements between California residents entered into and to be performed entirely within the State of California.

12.7 **Counterparts.** The Grant Notice may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

Participant Name: _____

Date: _____

**ROSS STORES, INC.
NONEEMPLOYEE DIRECTOR STOCK OPTION EXERCISE NOTICE**

Ross Stores, Inc.
Attention: Stock Administration
4440 Ross Stores Inc.
Pleasanton, CA 94588

Ladies and Gentlemen:

1. **Option.** I was granted a nonstatutory stock option (the "**Option**") to purchase shares of the common stock (the "**Shares**") of Ross Stores, Inc. (the "**Company**") pursuant to the Company's 2004 Equity Incentive Plan (the "**Plan**"), my Notice of Grant (the "**Grant Notice**") and my Stock Option Agreement for Nonemployee Director (the "**Option Agreement**") as follows:

Option Number: _____

Grant Date: _____

Number of Option Shares: _____

Option Price per Share: \$ _____

2. **Exercise of Option.** I hereby elect to exercise the Option to purchase the following number of Shares, all of which are Vested Shares in accordance with the Grant Notice and the Option Agreement:

Total Shares Purchased: _____

Total Option Price (Total Shares X Option Price per Share) \$ _____

3. **Payments.** I enclose payment in full of the total Option Price for the Shares in the following form(s), as authorized by my Option Agreement:

™ Cash: \$ _____

™ Check: \$ _____

™ Tender of Company Stock: Contact Plan Administrator

™ Cashless Exercise (same-day sale): Contact Plan Administrator

5. **Participant Information.**

My address is:

My Social Security Number is:

I understand that I am purchasing the Shares pursuant to the terms of the Grant Notice and my Option Agreement, copies of which I have received and carefully read and understand.

Very truly yours,

(Signature)

Receipt of the above is hereby acknowledged.

ROSS STORES, INC.

By:

Title:

Dated:

September 7, 2005

Ross Stores, Inc.
Pleasanton, California

We have made a review, in accordance with standards of the Public Company Accounting Oversight Board (United States of America), of the unaudited interim condensed consolidated financial statements of Ross Stores, Inc., for the periods ended July 30, 2005 and July 31, 2004, as indicated in our report dated September 7, 2005; 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 30, 2005, is incorporated by reference in Registration Statements Nos. 33-61373, 33-51916, 33-51896, 33-51898, 33-41415, 33-41413, 33-29600, 333-56831, 333-06119, 333-34988, 333-51478, and 333-115836 of Ross Stores, Inc., 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
San Francisco, California

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 8, 2005

/s/ Michael Balmuth

Michael Balmuth
Vice Chairman, President
and Chief Executive Officer

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 8, 2005

/s/ J. Call

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

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 30, 2005 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 8, 2005

/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.

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 30, 2005 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 8, 2005

/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.