ROSS STORES INC
Form 10-K
April 03, 2007

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

FORM 10-K

(Mark one)

X	ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 **For the fiscal year ended February 3, 2007**
	or
___	TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the transition period from ___________ to ___________

Commission file number 0-14678

Ross Stores, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**94-1390387**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
4440 Rosewood Drive, Pleasanton, California	**94588-3050**
(Address of principal executive offices)	(Zip Code)
Registrant's telephone number, including area code	**(925) 965-4400**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common stock, par value $.01	**Nasdaq Stock Markets LLC**

Securities registered pursuant to Section 12(g) of the Act:

Title of each class

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes X No ___

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ___ No X

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. __X__

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

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

The aggregate market value of the voting common stock held by non-affiliates of the Registrant as of July 29, 2006 was $3,436,248,585, based on the closing price on that date as reported by the NASDAQ Stock Market®. Shares of voting stock held by each director and executive officer have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares of Common Stock, with $.01 par value, outstanding on March 16, 2007 was 139,023,168.

Documents incorporated by reference:
Portions of the Proxy Statement for Registrant's 2007 Annual Meeting of Stockholders, which will be filed on or before June 4, 2007, are incorporated herein by reference into Part III.

PART I

Item 1. Business.

Ross Stores, Inc. and its subsidiaries (we or the Company) operate two chains of off-price retail apparel and home accessories stores. At February 3, 2007, there were 771 Ross Dress for Less® (Ross) locations in 27 states and Guam and 26 dds DISCOUNTS® stores in California. Both chains target value-conscious women and men between the ages of 18 and 54. Ross customers are primarily from middle income households, while the dds DISCOUNTS target customer is typically from lower income households. The decisions we make, from merchandising, purchasing and pricing, to the locations of our stores, are aimed at these customer bases.

Ross offers first-quality, in-season, name-brand and designer apparel, accessories, footwear and home merchandise for the entire family at everyday savings of 20% to 60% off department and specialty store regular prices. dds DISCOUNTS features more moderately-priced assortments of first-quality, in-season, name-brand and fashion apparel, accessories, footwear and home merchandise for the entire family at everyday savings of 20% to 70% off moderate department and discount store regular prices. We believe that both Ross and dds DISCOUNTS derive a competitive advantage by offering a wide assortment of product within each of our merchandise categories in organized and easy-to-shop store environments.

Our mission is to offer competitive values to our target customers by focusing on the following key strategic objectives:

- Achieve an appropriate level of recognizable brands, labels and fashions at strong discounts throughout the store.
- Meet customer needs on a more regional and local basis.
- Deliver an in-store shopping experience that reflects the expectations of the off-price customer.
- Manage real estate growth to compete effectively across all of our markets.

The original Ross Stores, Inc. was incorporated in California in 1957. In August 1982, the Company was purchased by some of our then and current directors and stockholders. In June 1989, we reincorporated in the state of Delaware. In 2004, we opened our first dds DISCOUNTS locations.

We refer to our fiscal years ended February 3, 2007, January 28, 2006 and January 29, 2005 as fiscal 2006, fiscal 2005, and fiscal 2004, respectively.

Merchandising, Purchasing and Pricing

We seek to provide our customers with a wide assortment of first-quality, in-season, brand-name and fashion apparel, accessories, footwear and home merchandise for the entire family at everyday savings of 20% to 60% below regular department and specialty store prices at Ross, and 20% to 70% below moderate department and discount store prices at dds DISCOUNTS. We sell recognizable branded merchandise that is current and fashionable in each category. New merchandise typically is received from three to five times per week at both Ross and dds DISCOUNTS stores. Our buyers review their merchandise assortments on a weekly basis, enabling them to respond to selling trends and purchasing opportunities in the market. Our Ross merchandising strategy is reflected in our television advertising for our Ross stores, which emphasizes a strong value message -- our customers will find great savings every day on a broad assortment of brand-name merchandise.

Merchandising. Our merchandising strategy incorporates a combination of off-price buying techniques to purchase advance-of-season, in-season, and past-season merchandise for both Ross and dds DISCOUNTS. We believe nationally recognized name brands sold at compelling discounts will continue to be an important determinant of our success. We generally leave the brand-name label on the merchandise we sell.

We have established merchandise assortments that we believe are attractive to our target customers. Although we offer fewer classifications of merchandise than most department stores, we generally offer a large selection of brand names within each classification with a wide assortment of vendors, labels, prices, colors, styles and fabrics within each size or item. Over the past several years, we have diversified our merchandise offerings by adding new product categories such as maternity, small furniture and furniture accents, educational toys and games, luggage, gourmet food and cookware, watches, sporting goods and, in select Ross stores, fine jewelry. The mix of comparable store sales by department in fiscal 2006 for Ross was approximately as follows: Ladies 33%, Home Accents and Bed and Bath 22%, Men's 15%, Fine Jewelry, Accessories, Lingerie and Fragrances 11%, Shoes 10%, and Childrens 9%.

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Purchasing. We have a combined network of approximately 6,000 vendors and manufacturers for both Ross and dds DISCOUNTS and believe we have adequate sources of first-quality merchandise to meet our requirements. We purchase the vast majority of our merchandise directly from manufacturers and have not experienced any difficulty in obtaining sufficient merchandise inventory.

We believe that our ability to effectively execute certain off-price buying strategies is a key factor in our success. Our buyers use a number of methods that enable us to offer our customers brand-name and fashion merchandise at strong everyday discounts relative to department and specialty stores for Ross and moderate department and discount stores for dds DISCOUNTS. By purchasing later in the merchandise buying cycle than department and specialty stores, we are able to take advantage of imbalances between retailers demand for products and manufacturers supply of those products.

Unlike most department and specialty stores, we typically do not require that manufacturers provide promotional and markdown allowances, return privileges, split shipments, drop shipments to stores or delayed deliveries of merchandise. For most orders, only one delivery is made to one of our four distribution centers. These flexible requirements further enable our buyers to obtain significant discounts on in-season purchases.

The vast majority of the merchandise that we offer in all of our stores is acquired through opportunistic purchases created by manufacturer overruns and canceled orders both during and at the end of a season. These buys are referred to as "close-out" and "packaway" purchases. Close-outs can be shipped to stores in-season, allowing us to get in-season goods in our stores at lower prices. Packaway merchandise is purchased with the intent that it will be stored in our warehouses until a later date, which may even be the beginning of the same selling season in the following year. Packaway purchases are an effective method of increasing the percentage of prestige and national brands at competitive savings within our merchandise assortments. Packaway merchandise is mainly fashion basics and, therefore, not usually affected by shifts in fashion trends.

In fiscal 2006, we continued our emphasis on this important sourcing strategy in response to compelling opportunities available in the marketplace. Packaway accounted for approximately 38% of total inventories as of February 3, 2007, compared to 41% at the end of the prior year. We believe the strong discounts we are able to offer on packaway merchandise are a key driver of our business.

We are currently working to improve our analytical capabilities for merchandise planning, buying and allocation through the development of new processes and systems enhancements that are expected over the next few years to address more localized customer preferences. The long-term objective of these investments is to finetune our merchandise offerings at a more local level to improve sales productivity and gross profit margins. Once fully implemented, these new analytical capabilities and systems enhancements are also expected to provide us with the tools to improve, over time, store sales productivity and profitability in both newer and existing regions and markets.

Our buying offices are located in New York City and Los Angeles, the nation's two largest apparel markets. These strategic locations allow our buyers to be in the market on a daily basis, sourcing opportunities and negotiating purchases with vendors and manufacturers. These locations also enable our buyers to strengthen vendor relationships -- a key element in the success of our off-price buying strategies.

We have a total of approximately 300 merchants for Ross and dds DISCOUNTS combined, although the two buying organizations are separate and distinct. These buying resources include merchandise management, buyers and assistant buyers. Ross and dds DISCOUNTS buyers have an average of about 13 years of experience, including merchandising positions with other retailers such as Bloomingdale's, Burlington Coat Factory, Dayton Hudson, Foot Locker, Kohls, Lechters, Lord & Taylor, Macy's, Marshalls, Nordstrom, Robinsons/May, Sterns, T.J. Maxx and Value City. We believe that the investment we have made over the years in our merchandise organization enables our merchants to spend more time in the market developing and nurturing relationships with a wide array of manufacturers and vendors, enhancing our ability to continue to procure the most desirable brands and fashions at competitive discounts.

Our off-price buying strategies and our experienced teams of merchants enable us to purchase Ross merchandise at net prices that are lower than prices paid by department and specialty stores and dds DISCOUNTS merchandise at net prices that are lower than prices paid by moderate department and discount stores.

Pricing. Our policy is to sell brand-name merchandise at Ross that is priced 20% to 60% below most department and specialty store regular prices. At dds DISCOUNTS, we sell more moderate brand-name product and fashions that are priced 20% to 70% below most moderate department and discount store regular prices. Our pricing policy is reflected on the price tag displaying our selling price as well as the comparable selling price for that item in department and/or specialty stores for Ross merchandise, or in more moderate department and discount stores for dds DISCOUNTS merchandise.

Our pricing strategy at Ross differs from that of a department or specialty store. We purchase our merchandise at lower prices and mark it up less than a department or specialty store. This strategy enables us to offer customers consistently low prices. We review specified departments in the stores weekly for possible markdowns based on the rate of sale as well as at the end of fashion seasons to promote faster turnover of merchandise inventory and to accelerate the flow of fresh merchandise. A similar pricing strategy is in place at dds DISCOUNTS where prices are compared to those in moderate department and discount stores.

Stores

At February 3, 2007, we operated a total of 797 stores, of which 771 are Ross stores and 26 are dds DISCOUNTS stores. Our stores are conveniently located in predominantly community and neighborhood strip shopping centers in heavily populated urban and suburban areas. Where the size of the market permits, we cluster stores to maximize economies of scale in advertising, distribution and field management.

We believe a key element of our success is our organized, attractive, easy-to-shop, in-store environments at both Ross and dds DISCOUNTS, which allow customers to shop at their own pace. Our stores are designed for customer convenience in their merchandise presentation, dressing rooms, checkout and merchandise return areas. Each store's sales area is based on a prototype single floor design with a racetrack aisle layout. A customer can locate desired departments by signs displayed just below the ceiling of each department. We encourage our customers to select among sizes and prices through prominent category and sizing markers, promoting a self-service atmosphere. At most stores, shopping carts, baskets, and/or shopping bags are available at the entrance for customer convenience. All cash registers are centrally located at store entrances for customer ease and efficient staffing.

The Company uses point-of-sale (POS) hardware and software systems in all stores, which minimizes transaction time for the customer at the checkout counter by electronically scanning each ticket at the point of sale and authorizing credit for personal checks and credit cards in a matter of seconds. In addition, the POS systems allow us to accept PIN-based debit cards and electronic gift cards from customers. On a combined basis, approximately 55% of payments in fiscal 2006 and 54% of payments in 2005 were made with credit cards and debit cards. We provide cash or credit card refunds on all merchandise returned with a receipt within 30 days. Merchandise returns having a receipt older than 30 days are exchanged or credited with a credit voucher at the price on the receipt.

Operating Costs

Consistent with the other aspects of our business strategy, we strive to keep operating costs as low as possible. Among the factors which have enabled the Company to operate at low costs are:

- Labor costs that generally are lower than full-price department and specialty stores due to (i) a store design that creates a self-service retail format and (ii) the utilization of labor saving technologies.
- Economies of scale with respect to general and administrative costs as a result of centralized merchandising, marketing and purchasing decisions.
- Flexible store layout criteria which facilitates conversion of existing buildings to our format.

Distribution

We have a total of four distribution processing facilities. We lease a 1.3 million square foot distribution center in Perris, California. We own our 1.3 million square foot distribution center in Fort Mill, South Carolina, which we purchased in 2006, our 685,000 square foot distribution center in Moreno Valley, California, which we purchased in 2005, and our 426,000 square foot distribution center located in Carlisle, Pennsylvania. We have plans for future expansion at the Moreno Valley, California, distribution center. See additional discussion in Managements Discussion and Analysis.

In addition, we lease three separate warehouse facilities for packaway storage, two of which are located in Carlisle, Pennsylvania, totaling approximately 239,000 and 246,000 square feet, and the third in Fort Mill, South Carolina, totaling 253,000 square feet. We utilize other third-party facilities as needed for storage of packaway inventory.

In fiscal 2007 we plan to continue to invest in our distribution network by spending approximately $90 million, mainly for the expansion of our Moreno Valley facility to increase our distribution and packaway storage capacity.

We also utilize third-party cross docks to distribute merchandise to stores on a regional basis. Shipments are made by contract carriers to the stores from three to five times per week depending on location.

We believe that our existing distribution centers with their expansion capabilities will provide adequate processing capacity to support store growth into fiscal year 2008.

Information Systems

In fiscal 2006, we continued to invest in new systems and technology to provide a platform for growth over the next several years. Recent initiatives include the following:

- We implemented additional enhancements to our Core Merchandising applications in order to support our continued growth. We are now in the process of implementing capabilities which we will use to enhance our new store opening process, pre-season planning, and in-season trending. We plan to roll out these enhancements over the next few years.

- We introduced a new store-level Task Management System, which allows us to improve store staff productivity, better monitor and address problems and improve two-way communications between corporate personnel and personnel in the field.
- We began a chain level update to our store network in order to increase communication bandwidth while decreasing monthly recurring costs. We plan to complete this network upgrade in fiscal 2007. This improvement will open the opportunity to deploy additional capabilities in the stores, to streamline internal processes and to improve operational efficiencies.
- We implemented enhancements to our Transportation Management System. These improvements provided increased supply chain visibility and improved freight routing capabilities.
- We implemented additional enhancements to our Warehouse Management System at all distribution centers. These improvements provided increased operational and inventory control, as well as improved transaction accountability.

Advertising

We rely primarily on television advertising to communicate the Ross value proposition -- brand-name merchandise at low everyday prices. This strategy reflects our belief that television is the most efficient and cost-effective medium for communicating everyday savings on a wide selection of brand-name bargains for both the family and home. Advertising for dd's DISCOUNTS is primarily focused on new store grand openings.

Trademarks

The trademarks for Ross Dress For Less® and dd's DISCOUNTS® have been registered with the United States Patent and Trademark Office.

Employees

As of February 3, 2007, we had approximately 35,800 total employees, including an estimated 22,500 part-time employees. Additionally, we hire temporary employees -- especially during the peak seasons. Our employees are non-union. Management considers the relationship between the Company and our employees to be good.

Competition

We believe the principal competitive factors in the off-price retail apparel and home accessories industry are offering significant discounts on brand-name merchandise, offering a well-balanced assortment appealing to our target customer, and consistently providing store environments that are convenient and easy to shop. To execute this concept, we have invested in our buying organization and developed a merchandise allocation system to distribute product based on regional factors, as well as other systems and procedures to maximize cost efficiencies and leverage expenses in an effort to mitigate competitive pressures on gross margin. We believe that we are well positioned to compete on the basis of each of these factors.

Nevertheless, the national retail apparel market is highly fragmented and competitive. We face intense competition for business from department stores, specialty stores, discount stores, warehouse stores, other off-price retailers and manufacturer-owned outlet stores, many of which are units of large national or regional chains that have substantially greater resources than we do. We also compete to some degree with retailers that sell apparel and home accessories through catalogs or over the internet. The retail apparel business may become even more competitive in the future.

dd's DISCOUNTS

As of February 3, 2007, we operated 26 dd's DISCOUNTS stores. This newer off-price concept targets the needs of lower income households, which we believe 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 and fashion apparel, accessories, footwear and home merchandise at everyday savings of 20% to 70% off moderate department and discount store regular prices. We opened ten initial locations in California during the second half of

2004, another ten stores in 2005, and six stores during fiscal 2006. This 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 dds DISCOUNTS store is approximately 27,000 gross square feet and is located in an established strip shopping center in a densely populated urban or suburban neighborhood. The merchant, store and distribution organizations for dds DISCOUNTS and Ross are separate and distinct; however, dds DISCOUNTS shares certain other corporate and support services with Ross.

Available Information

The internet address for our website is www.rossstores.com. Our Annual Reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports are made available free of charge on or through our website, promptly after being electronically filed with the Securities and Exchange Commission.

Item 1A. Risk Factors.

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

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

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

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

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

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

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

- Our ability to attract and retain personnel with the retail expertise necessary to execute our strategies.
- Our ability to effectively implement and operate our various supply chain, core merchandising and other information systems, including generation of all necessary data and reports for merchants, allocators and other business users in a timely and cost-effective manner.
- Our ability to successfully implement new processes and systems enhancements that are expected to improve our merchandising capabilities over the next few years with the goal of being able to plan, buy and allocate product at a more local versus regional level.
- Our ability to improve new store sales and profitability, especially in newer regions and markets.
- Our ability to achieve and maintain targeted levels of productivity and efficiency in our distribution centers.
- Our ability to continue to acquire or lease acceptable new store locations.
- Our ability to identify and to successfully enter new geographic markets.
- Lower than planned gross margin, including higher than planned markdowns, inventory shortage or freight costs.
- Greater than planned operating costs including, among other factors, increases in occupancy costs, advertising costs, and wage and benefit costs, including the impact of changes in labor laws or as a result of class action or other lawsuits relating to wage and hour claims and other labor-related matters.
- Our ability to convert certain former Albertsons real estate sites to the Ross and dds DISCOUNTS formats in a timely and cost-effective manner and on acceptable terms, and the ability to achieve targeted levels of sales, profits and cash flows from these acquired store locations.

Item 1B. Unresolved Staff Comments

We have received no written comments regarding our periodic or current reports from the staff of the Securities and Exchange Commission that were issued 180 days or more preceding the end of our 2006 fiscal year and that remain unresolved.

Item 2. Properties

Stores

From August 1982 to February 3, 2007, we expanded from six Ross locations in California to 771 Ross stores in 27 states and one Ross store in Guam. In addition, we operate 26 dds DISCOUNTS locations in California. All stores are leased, with the exception of two locations.

During fiscal 2006, we opened 60 new Ross stores, relocated two stores and closed three existing locations. The average new Ross store in fiscal 2006 was approximately 30,000 gross square feet, yielding about 25,000 square feet of selling space. As of February 3, 2007, our 771 Ross stores generally ranged in size from about 25,000 to 35,000 gross square feet and had an average of 29,900 gross square feet and 24,000 selling square feet.

During fiscal 2006, we opened six new dds DISCOUNTS stores. The average new dds DISCOUNTS store in fiscal 2006 was approximately 27,000 gross square feet, yielding about 21,600 square feet of selling space. As of February 3, 2007, our 26 dds DISCOUNTS stores had an average of 27,000 gross square feet and 20,900 selling square feet. All of our dds DISCOUNTS locations are currently in California.

During fiscal 2006, no one store accounted for more than 1% of our sales.

We carry earthquake insurance to mitigate our risk on our corporate headquarters, distribution centers, buying offices, and all of our stores.

Our real estate strategy in 2007 and 2008 is to open additional stores, mainly in existing regions, to increase our market penetration and to reduce overhead and advertising expenses as a percentage of sales in each market. Important considerations in evaluating a new market are the availability of potential sites, demographic characteristics, competition and population density of the market. In addition, we continue to consider opportunistic real estate acquisitions.

In October 2006, we announced an agreement with Albertsons LLC to acquire certain leasehold rights to 46 former Albertsons sites in California, Florida, Texas, Arizona, Colorado and Oklahoma. We plan to incorporate about 40 of these sites into our 2007 expansion program. This real estate opportunity allowed us to acquire a substantial number of store sites in several of our established, top performing markets.

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The following table summarizes the locations of our stores by state as of February 3, 2007 and January 28, 2006. California includes 26 and 20 dds DISCOUNTS locations at February 3, 2007 and January 28, 2006, respectively.

State/Territory	**February 3, 2007**	January 28, 2006
Alabama	**11**	9
Arizona	**38**	35
California	**223**	212
Colorado	**25**	22
Delaware	**1**	-
Florida	**87**	85
Georgia	**40**	32
Guam	**1**	1
Hawaii	**11**	11
Idaho	**8**	6
Louisiana	**9**	9
Maryland	**16**	15
Mississippi	**3**	3
Montana	**5**	5
Nevada	**14**	13
New Jersey	**8**	8
New Mexico	**5**	5
North Carolina	**26**	24
Oklahoma	**13**	9
Oregon	**21**	20
Pennsylvania	**22**	20
South Carolina	**18**	17
Tennessee	**14**	12
Texas	**117**	105
Utah	**9**	7
Virginia	**23**	20
Washington	**27**	27
Wyoming	**2**	2
Total	**797**	734

Where possible, we have obtained sites in buildings requiring minimal alterations. This has allowed us to establish stores in new locations in a relatively short period of time at reasonable costs in a given market. To date, we have been able to secure leases in suitable locations for our stores. At February 3, 2007, the majority of our Ross stores had unexpired original lease terms ranging from three to ten years with three to four renewal options of five years each. The average unexpired original lease term of our leased stores is six years, or 22 years if renewal options are included. At February 3, 2007, the majority of our dd's DISCOUNTS stores had unexpired original lease terms ranging from eight to ten years with three to four renewal options of five years each. The average unexpired original lease term of our leased stores is nine years, or 28 years if renewal options are included. See Note E of Notes to Consolidated Financial Statements.

See additional discussion under "Stores" in Item 1.

Distribution Centers

We operate two 1.3 million square foot distribution centers -- one in Fort Mill, South Carolina, and the other in Perris, California. The South Carolina facility opened in July 2002 and was originally financed under a synthetic lease. We exercised the option to purchase this property in May 2006. The Perris, California, facility opened in September 2003 and is financed with a ten-year synthetic lease facility that expires in July 2013. We also own a 426,000 square foot distribution center located in Carlisle, Pennsylvania. In addition, we own our 685,000 square foot Moreno Valley, California distribution center, which we purchased in 2005 to increase our distribution and packaway storage capacity. We have plans for future expansion at the Moreno Valley distribution center. See additional discussion in Management's Discussion and Analysis.

In addition, in November 2001 we entered into a nine-year lease for a 239,000 square foot warehouse and a ten-year lease for a 246,000 square foot warehouse in Carlisle, Pennsylvania. In June 2006, we entered into a two-year lease extension with one one-year option for our 253,000 square foot warehouse in Fort Mill, South Carolina, extending the term to February 2009. All three of these properties are used to store our packaway inventory.

See additional discussion under "Distribution" in Item 1.

Corporate Headquarters

The Company leases approximately 181,000 square feet of office space for our corporate headquarters in Pleasanton, California, under several facility leases. The lease terms for these facilities generally expire between 2010 and 2014 and contain renewal provisions.

Item 3. Legal Proceedings

We are party to class action lawsuits alleging misclassification of assistant store managers and missed meal and rest break periods, and other litigation incident to our business. We believe that none of these legal proceedings will have a material adverse effect on our financial condition or results of operations. See Note J to Notes to Consolidated Financial Statements.

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

Not applicable.

Executive Officers of the Registrant

The following sets forth the names and ages of our executive officers, indicating each person's principal occupation or employment during at least the past five years. The term of office is at the discretion of our Board of Directors.

Name	Age	Position
Michael Balmuth	56	Vice Chairman, President and Chief Executive Officer

Gary L. Cribb	42	Executive Vice President and Chief Operations Officer
James S. Fassio	52	Executive Vice President, Property Development, Construction and Store Design
Michael O'Sullivan	43	Executive Vice President and Chief Administrative Officer
Lisa Panattoni	44	Executive Vice President, Merchandising
Barbara Rentler	49	Executive Vice President, Merchandising
John G. Call	48	Senior Vice President, Chief Financial Officer and Corporate Secretary

Mr. Balmuth joined the Board of Directors as Vice Chairman and became Chief Executive Officer in September 1996. In February 2005, he also assumed responsibilities as President. Prior to 1996, he served as the Company's Executive Vice President, Merchandising since July 1993 and Senior Vice President and General Merchandise Manager since November 1989. Before joining the Company, he was Senior Vice President and General Merchandising Manager at Bon Marché in Seattle from September 1988 through November 1989. From April 1986 to September 1988, he served as Executive Vice President and General Merchandising Manager for Karen Austin Petites.

Mr. Cribb has served as Executive Vice President and Chief Operations Officer since February 2005. He joined the Company in August 2002 as Senior Vice President of Store Operations. From December 1998 to August 2002, Mr. Cribb was Senior Vice President of Sales and Operations for Staples. Prior to joining Staples, he held various management positions with Office Depot from 1991 to 1998, most recently as Regional Vice President. His prior experience also includes various positions with Marshalls and The May Department Stores Company.

Mr. Fassio has served as Executive Vice President, Property Development, Construction and Store Design since February 2005. From March 1991 to February 2005, Mr. Fassio served as Senior Vice President, Property Development, Construction and Store Design. He joined the Company in June 1988 as Vice President of Real Estate. Prior to joining the Company, Mr. Fassio was Vice President, Real Estate and Construction at Craftmart, and Property Director of Safeway Stores.

Mr. O'Sullivan has served as Executive Vice President and Chief Administrative Officer since February 2005. He joined the Company in September 2003 as Senior Vice President, Strategic Planning and Marketing. From 1991 to 2003, Mr. O'Sullivan was with Bain & Company, most recently as a partner, providing consulting advice to retail, consumer goods, financial services and private equity clients.

Ms. Panattoni has served as Executive Vice President, Merchandising since October 2005. She joined the Company as Senior Vice President and General Merchandise Manager, Home in January 2005. In December 2006, she was given additional responsibility for the Home business at both Ross and dd's DISCOUNTS. Prior to joining the Company, Ms. Panattoni was with The TJX Companies, most recently serving as Senior Vice President of Merchandising and Marketing for HomeGoods from 1998 to 2004, and as Divisional Merchandise Manager at Marmaxx Home Store from 1994 to 1998.

Ms. Rentler has served as Executive Vice President, Merchandising since December 2006. She joined the Company in February 1986 and served as Executive Vice President and Chief Merchandising Officer of dd's DISCOUNTS from February 2005 to December 2006. Previously, she was Senior Vice President and Chief Merchandising Officer of dd's DISCOUNTS from January 2004 to February 2005 and Senior Vice President and General Merchandise Manager from February 2001 to January 2004. She also served as Vice President and Group Divisional Merchandise Manager from March 1999 to February 2001. Prior to that, she held various merchandising positions with the Company.

Mr. Call has served as Senior Vice President, Chief Financial Officer and Corporate Secretary since June 1997. From June 1993 until joining the Company in 1997, Mr. Call was Senior Vice President, Chief Financial Officer, Secretary and Treasurer of Friedmans Inc. For five years prior to joining Friedmans in June 1993, Mr. Call held various positions with Ernst & Young LLP.

PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

General information. See the information set forth under the caption "Quarterly Financial Data (Unaudited)" under Note K of Notes to Consolidated Financial Statements in Item 8 of this Annual Report, which is incorporated herein by reference. Our stock is traded on The NASDAQ Global Select Market® under the symbol ROST. There were 742 stockholders of record as of March 16, 2007 and the closing stock price on that date was $31.62 per share.

Cash dividends. In January 2007, our Board of Directors declared a quarterly cash dividend payment of $.075 per common share, payable on or about March 30, 2007. Our Board of Directors declared quarterly cash dividends of $.06 per common share in January, May, August and November 2006, cash dividends of $.06 per common share in November 2005, and cash dividends of $.05 per common share in January, May and August 2005.

Issuer purchases of equity securities. Information regarding shares of common stock we repurchased during the fourth quarter of fiscal 2006 is as follows:

Period	Total number of shares (or units) purchased[1]	Average price paid per share (or unit)	Total number of shares (or units) purchased as part of publicly announced plans or programs	Maximum number (or approximate dollar value) of shares (or units) that may yet be purchased under the plans or programs ($000)
November (10/29/2006-11/25/2006)	320,465	$ 30.87	319,858	$ 242,000
December (11/26/2006-12/30/2006)	701,024	$ 30.30	700,722	$ 221,000
January (12/31/2006-2/3/2007)	679,768	$ 32.36	654,059	$ 200,000
Total	1,701,257	$ 31.23	1,674,639	$ 200,000

1 We acquired 26,618 shares during the quarter ended February 3, 2007 related to income tax withholdings for restricted stock. All remaining shares were repurchased under the two-year $400.0 million stock repurchase program announced in November 2005.

See Note H to Notes to Consolidated Financial Statements for equity compensation plan information and Item 12 for Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Stockholder Return Performance Graph

The following information in this Item 5 shall not be deemed filed for purposes of Section 18 of the Securities Act of 1934, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933.

Set forth below is a line graph comparing the cumulative total stockholder returns for the Company's common stock over the last five years with the Standard & Poors 500 Index and the Standard & Poors Retailing Group. The comparison graph assumes that the value of the investment in the Company’s common stock and the comparative indices was $100 on January 31, 2002 and measures the performance of this investment as of the last trading day in the month of January for each of the following five years. These measurement dates are based on the historical month-end data available and may vary slightly from the Company's actual fiscal year-end date for each period. Data with respect to returns for the Standard & Poors indices is not readily available for periods shorter than one month. The total return assumes the reinvestment of dividends at the frequency with which dividends are paid. The graph is a historical representation of past performance only and is not necessarily indicative of future returns to stockholders.

COMPARISON OF FIVE-YEAR CUMULATIVE TOTAL RETURN*
Among Ross Stores, Inc., S & P 500 Index
and S & P Retailing Group

* $100 invested on 1/31/02 in stock or index-including reinvestment of dividends. Fiscal year ending January 31.

		Indexed Returns for Years Ending				
Company / Index	**Base Period January 2002**	**January 2003**	**January 2004**	**January 2005**	**January 2006**	**January 2007**
ROSS STORES INC	100	108	155	160	165	184
S&P 500 INDEX	100	77	104	110	121	139
S&P RETAILING GROUP	100	71	106	124	132	151

Item 6. Selected Financial Data

The following selected financial data is derived from our consolidated financial statements. The data set forth below should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” the section “Forward-Looking Statements” in the Company’s Annual Report on Form 10-K and our consolidated financial statements and notes thereto.

($000, except per share data)	**2006[1]**	2005	2004	2003	2002
Operations					
Sales	**$ 5,570,210**	$ 4,944,179	$ 4,239,990	$ 3,920,583	$ 3,531,349
Cost of goods sold[2]	**4,317,527**	3,852,591	3,286,604	2,925,454	2,636,086
Percent of sales	**77.5%**	77.9%	77.5%	74.6%	74.6%
Selling, general and administrative[2]	**863,033**	766,144	657,668	621,706	566,452
Percent of sales	**15.5%**	15.5%	15.5%	15.9%	16.0%
Impairment of long-lived assets[3]	**-**	-	15,818	-	-
Interest (income)	**(8,627)**	(2,898)	915	(262)	279

expense, net					
Earnings before taxes	**398,277**	328,342	278,985	373,685	328,532
Percent of sales	**7.2%**	6.6%	6.6%	9.5%	9.3%
Provision for taxes on earnings	**156,643**	128,710	109,083	146,111	128,456
Net earnings	**241,634**	199,632	169,902	227,574	200,076
Percent of sales	**4.3%**	4.0%	4.0%	5.8%	5.7%
Basic earnings per share	**$ 1.73**	$ 1.38	$ 1.15	$ 1.50	$ 1.28
Diluted earnings per share	**$ 1.70**	$ 1.36	$ 1.13	$ 1.47	$ 1.25
Cash dividends declared per common share	**$ .255**	$ .220	$ .178	$ .129	$ .100

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

2 In periods prior to fiscal 2006, stock-based compensation expense and incentive compensation expense were included in selling, general and administrative expenses. In accordance with the Company's implementation of Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment," all compensation-related expenses are recorded in a manner similar to other employee payroll costs. Therefore, for periods prior to fiscal 2006, the Company has reclassified the portion of stock-based compensation and incentive compensation that relates to personnel in the merchandising and distribution organizations from selling, general and administrative expense to cost of goods sold. See also Notes to Consolidated Financial Statements.

3 For the year ended January 29, 2005, the Company recognized a net impairment charge of $15.8 million on its previously owned corporate headquarters in Newark, California.

Selected Financial Data

($000, except per share data)	**2006[1]**	2005	2004	2003	2002
Financial Position					
Merchandise inventory	**$1,051,729**	$ 938,091	$ 853,112	$ 841,491	$ 716,518
Property and equipment, net	**748,233**	639,852	556,178	516,618	429,325
Total assets[2]	**2,358,591**	1,938,738	1,741,215	1,691,465	1,406,129
Return on average assets	**11%**	11%	10%	15%	16%
Working capital[2]	**431,699**	349,864	416,376	409,507	313,878
Current ratio	**1.4:1**	1.4:1	1.6:1	1.6:1	1.5:1
Long-term debt	**150,000**	-	50,000	50,000	25,000
Long					