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 October 31, 2020

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

For the transition period from __________ to __________

Commission file number: 0-14678

Ross Stores, Inc.

(Exact name of registrant as specified in its charter)

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

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

Title of each class	Trading symbol	Name of each exchange on which registered
Common stock, par value $.01	**ROST**	**Nasdaq Global Select Market**

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 has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).
Yes ☒ No ☐
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐
Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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 November 13, 2020 was 356,463,102.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Condensed Consolidated Statements of Operations

($000, except stores and per share data, unaudited)	Three Months Ended October 31, 2020	Three Months Ended November 2, 2019	Nine Months Ended October 31, 2020	Nine Months Ended November 2, 2019
Sales	**$ 3,754,509**	$ 3,849,117	**$ 8,281,894**	$ 11,625,628
Costs and Expenses				
Cost of goods sold	**2,711,419**	2,766,432	**6,681,530**	8,311,950
Selling, general and administrative	**877,857**	604,605	**1,812,657**	1,754,825
Interest expense (income), net	**28,740**	(4,402)	**64,261**	(14,819)
Total costs and expenses	**3,618,016**	3,366,635	**8,558,448**	10,051,956
Earnings (loss) before taxes	**136,493**	482,482	**(276,554)**	1,573,672
Provision (benefit) for taxes on earnings (loss)	**5,296**	111,550	**(123,956)**	368,877
Net earnings (loss)	**$ 131,197**	$ 370,932	**$ (152,598)**	$ 1,204,795
Earnings (loss) per share				
Basic	**$ 0.37**	$ 1.04	**$ (0.43)**	$ 3.35
Diluted	**$ 0.37**	$ 1.03	**$ (0.43)**	$ 3.32
Weighted-average shares outstanding (000)				
Basic	**352,481**	356,879	**352,320**	359,919
Diluted	**354,457**	359,299	**352,320**	362,455
Store count at end of period	**1,869**	1,810	**1,869**	1,810

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

Condensed Consolidated Statements of Comprehensive Income (Loss)

	Three Months Ended				Nine Months Ended			
($000, unaudited)	**October 31, 2020**		November 2, 2019		**October 31, 2020**		November 2, 2019	
Net earnings (loss)	**$**	**131,197**	$	370,932	**$**	**(152,598)**	$	1,204,795
Other comprehensive income (loss)		—		—		—		—
Comprehensive income (loss)	**$**	**131,197**	**$**	**370,932**	**$**	**(152,598)**	**$**	**1,204,795**

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

Condensed Consolidated Balance Sheets

($000, except share data, unaudited)	October 31, 2020	February 1, 2020	November 2, 2019
Assets			
Current Assets			
Cash and cash equivalents	**$ 4,416,124**	$ 1,351,205	$ 1,142,709
Accounts receivable	**122,654**	102,236	124,853
Merchandise inventory	**1,630,390**	1,832,339	2,168,796
Prepaid expenses and other	**347,399**	147,048	170,304
Total current assets	**6,516,567**	3,432,828	3,606,662
Property and Equipment			
Land and buildings	**1,185,442**	1,177,262	1,173,131
Fixtures and equipment	**3,201,940**	3,115,003	3,032,151
Leasehold improvements	**1,243,755**	1,219,736	1,199,591
Construction-in-progress	**372,950**	189,536	145,756
	6,004,087	5,701,537	5,550,629
Less accumulated depreciation and amortization	**3,297,203**	3,048,101	2,984,747
Property and equipment, net	**2,706,884**	2,653,436	2,565,882
Operating lease assets	**3,132,056**	3,053,782	3,042,298
Other long-term assets	**215,159**	208,321	200,999
Total assets	**$ 12,570,666**	$ 9,348,367	$ 9,415,841
Liabilities and Stockholders' Equity			
Current Liabilities			
Accounts payable	**$ 2,426,390**	$ 1,296,482	$ 1,480,205
Accrued expenses and other	**655,408**	462,111	496,623
Current operating lease liabilities	**590,122**	564,481	559,433
Accrued payroll and benefits	**269,709**	364,435	321,977
Income taxes payable	**—**	14,425	—
Total current liabilities	**3,941,629**	2,701,934	2,858,238
Long-term debt	**2,512,037**	312,891	312,778
Non-current operating lease liabilities	**2,672,139**	2,610,528	2,601,372
Other long-term liabilities	**290,795**	214,086	225,934
Deferred income taxes	**135,029**	149,679	140,740
Commitments and contingencies			
Stockholders' Equity			
Common stock, par value $.01 per share Authorized 1,000,000,000 shares Issued and outstanding 356,449,000, 356,775,000 and 359,378,000 shares, respectively	**3,564**	3,568	3,594
Additional paid-in capital	**1,546,078**	1,458,307	1,435,713
Treasury stock	**(478,419)**	(433,328)	(429,583)
Retained earnings	**1,947,814**	2,330,702	2,267,055
Total stockholders' equity	**3,019,037**	3,359,249	3,276,779
Total liabilities and stockholders' equity	**$ 12,570,666**	$ 9,348,367	$ 9,415,841

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

Condensed Consolidated Statements of Stockholders' Equity

	Nine Months Ended October 31, 2020					
	Common stock		Additional paid-in capital	Treasury stock	Retained earnings	Total
(000)	Shares	Amount				
Balance at February 1, 2020	356,775	$ 3,568	$ 1,458,307	$ (433,328)	$ 2,330,702	$ 3,359,249
Net loss	—	—	—	—	(305,842)	(305,842)
Common stock issued under stock plans, net of shares used for tax withholding	318	3	5,441	(32,317)	—	(26,873)
Stock-based compensation	—	—	24,739	—	—	24,739
Common stock repurchased	(1,171)	(12)	(3,576)	—	(128,879)	(132,467)
Dividends declared ($0.285 per share)	—	—	—	—	(101,414)	(101,414)
Balance at May 2, 2020	355,922	$ 3,559	$ 1,484,911	$ (465,645)	$ 1,794,567	$ 2,817,392
Net earnings	—	—	—	—	22,047	22,047
Common stock issued under stock plans, net of shares used for tax withholding	84	1	5,630	(29)	—	5,602
Stock-based compensation	—	—	22,158	—	—	22,158
Balance at August 1, 2020	356,006	$ 3,560	$ 1,512,699	$ (465,674)	$ 1,816,614	$ 2,867,199
Net earnings	—	—	—	—	131,197	131,197
Common stock issued under stock plans, net of shares used for tax withholding	443	4	6,009	(12,745)	3	(6,729)
Stock-based compensation	—	—	27,370	—	—	27,370
Balance at October 31, 2020	356,449	$ 3,564	$ 1,546,078	$ (478,419)	$ 1,947,814	$ 3,019,037

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

Condensed Consolidated Statements of Stockholders' Equity

	Nine Months Ended November 2, 2019					
	Common stock					
(000)	Shares	Amount	Additional paid-in capital	Treasury stock	Retained earnings	Total
Balance at February 2, 2019	368,242	$ 3,682	$ 1,375,965	$ (372,663)	$ 2,298,762	$ 3,305,746
Net earnings	—	—	—	—	421,142	421,142
Cumulative effect of adoption of accounting standard (leases), net	—	—	—	—	(19,614)	(19,614)
Common stock issued under stock plans, net of shares used for tax withholding	390	4	5,291	(50,880)	—	(45,585)
Stock-based compensation	—	—	19,689	—	—	19,689
Common stock repurchased	(3,372)	(33)	(9,387)	—	(310,710)	(320,130)
Dividends declared ($0.255 per share)	—	—	—	—	(93,722)	(93,722)
Balance at May 4, 2019	365,260	$ 3,653	$ 1,391,558	$ (423,543)	$ 2,295,858	$ 3,267,526
Net earnings	—	—	—	—	412,721	412,721
Common stock issued under stock plans, net of shares used for tax withholding	98	1	5,610	(1,469)	—	4,142
Stock-based compensation	—	—	24,924	—	—	24,924
Common stock repurchased	(3,192)	(32)	(9,116)	—	(310,981)	(320,129)
Dividends declared ($0.255 per share)	—	—	—	—	(92,920)	(92,920)
Balance at August 3, 2019	362,166	$ 3,622	$ 1,412,976	$ (425,012)	$ 2,304,678	$ 3,296,264
Net earnings	—	—	—	—	370,932	370,932
Common stock issued under stock plans, net of shares used for tax withholding	227	2	5,543	(4,571)	—	974
Stock-based compensation	—	—	25,987	—	—	25,987
Common stock repurchased	(3,015)	(30)	(8,793)	—	(316,827)	(325,650)
Dividends declared ($0.255 per share)	—	—	—	—	(91,728)	(91,728)
Balance at November 2, 2019	**359,378**	**$ 3,594**	**$ 1,435,713**	**$ (429,583)**	**$ 2,267,055**	**$ 3,276,779**

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

Condensed Consolidated Statements of Cash Flows

($000, unaudited)	Nine Months Ended October 31, 2020	Nine Months Ended November 2, 2019
Cash Flows From Operating Activities		
Net (loss) earnings	**$ (152,598)**	$ 1,204,795
Adjustments to reconcile net (loss) earnings to net cash provided by operating activities:		
Depreciation and amortization	**268,193**	255,089
Loss on early extinguishment of debt	**239,769**	—
Stock-based compensation	**74,267**	70,600
Deferred income taxes	**(14,650)**	23,070
Change in assets and liabilities:		
Merchandise inventory	**201,949**	(418,354)
Other current assets	**(31,732)**	(46,161)
Accounts payable	**1,126,574**	305,648
Other current liabilities	**118,679**	43,968
Income taxes	**(119,513)**	(42,619)
Operating lease assets and liabilities, net	**8,979**	12,911
Other long-term, net	**63,206**	1,983
Net cash provided by operating activities	**1,783,123**	1,410,930
Cash Flows From Investing Activities		
Additions to property and equipment	**(339,545)**	(401,251)
Proceeds from investments	**—**	517
Net cash used in investing activities	**(339,545)**	(400,734)
Cash Flows From Financing Activities		
Net proceeds from issuance of short-term debt	**805,601**	—
Payments of short-term debt	**(804,972)**	—
Net proceeds from issuance of long-term debt	**2,965,115**	—
Payments of long-term debt	**(775,009)**	—
Payments of debt extinguishment and debt issuance costs	**(232,000)**	—
Issuance of common stock related to stock plans	**17,088**	16,451
Treasury stock purchased	**(45,091)**	(56,920)
Repurchase of common stock	**(132,467)**	(965,909)
Dividends paid	**(101,411)**	(278,370)
Net cash provided by (used in) financing activities	**1,696,854**	(1,284,748)
Net increase (decrease) in cash, cash equivalents, and restricted cash and cash equivalents	**3,140,432**	(274,552)
Cash, cash equivalents, and restricted cash and cash equivalents:		
Beginning of period	**1,411,410**	1,478,079
End of period	**$ 4,551,842**	$ 1,203,527
Supplemental Cash Flow Disclosures		
Interest paid	**$ 70,347**	$ 10,560
Income taxes paid	**$ 10,207**	$ 388,426

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

Notes to Condensed Consolidated Financial Statements

Three and Nine Months Ended October 31, 2020 and November 2, 2019
(Unaudited)

Note A: Summary of Significant Accounting Policies

Basis of presentation. The accompanying unaudited interim condensed consolidated financial statements have been prepared from the records of Ross Stores, Inc. and subsidiaries (the “Company”) without audit and, in the opinion of management, include all adjustments (consisting of only normal, recurring adjustments) necessary to present fairly the Company’s financial position as of October 31, 2020 and November 2, 2019, the results of operations, comprehensive income (loss), and stockholders' equity for the three and nine month periods ended October 31, 2020 and November 2, 2019, and cash flows for the nine month periods ended October 31, 2020 and November 2, 2019. The Condensed Consolidated Balance Sheet as of February 1, 2020, presented herein, has been derived from the Company’s audited consolidated financial statements for the fiscal year then ended.

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 ("GAAP") have been condensed or omitted for purposes of these interim condensed consolidated financial statements. The interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements, including notes thereto, contained in the Company’s Annual Report on Form 10-K for the year ended February 1, 2020.

The results of operations, comprehensive income (loss), and stockholders' equity for the three and nine month periods ended October 31, 2020 and November 2, 2019 and cash flows for the nine month periods ended October 31, 2020 and November 2, 2019 presented herein are not necessarily indicative of the results to be expected for the full fiscal year.

Use of accounting estimates. The preparation of financial statements in conformity with GAAP requires the Company to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosures of contingent assets and liabilities at the date of the condensed consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. The Company’s significant accounting estimates include valuation reserves for inventory, packaway inventory costs, useful lives of fixed assets, insurance reserves, reserves for uncertain tax positions, estimates for provisions of the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), and legal claims. Given the global economic climate and additional, or unforeseen effects, from the COVID-19 pandemic, these estimates are more challenging, and actual results could differ materially from the Company's estimates.

Revenue recognition. All of the Company's store locations, its primary source of revenue, were temporarily closed from March 20, 2020 through a portion of the second fiscal quarter of 2020 due to the COVID-19 pandemic. The Company started a phased reopening of its stores on May 14, 2020. On average, the Company's stores were open for about 75 percent of the second quarter, with the vast majority of its store locations open and operating by the end of June 2020 and throughout the third quarter. The following sales mix table disaggregates revenue by merchandise category for the three and nine month periods ended October 31, 2020 and November 2, 2019:

	Three Months Ended		Nine Months Ended	
	October 31, 2020	November 2, 2019	**October 31, 2020**[1]	November 2, 2019
Home Accents and Bed and Bath	**26 %**	24 %	**26 %**	24 %
Ladies	**23 %**	26 %	**24 %**	27 %
Men's	**15 %**	14 %	**14 %**	14 %
Accessories, Lingerie, Fine Jewelry, and Fragrances	**15 %**	13 %	**14 %**	13 %
Shoes	**12 %**	14 %	**13 %**	14 %
Children's	**9 %**	9 %	**9 %**	8 %
Total	**100 %**	100 %	**100 %**	100 %

[1] Sales mix for the nine month period ended October 31, 2020 represents sales for the period the stores were open.

Cash, restricted cash, and restricted investments. Restricted cash, cash equivalents, and investments serve as collateral for certain insurance and trade payable obligations of the Company. These restricted funds are invested in bank deposits, money market mutual funds, U.S. Government and agency securities, and corporate securities and cannot be withdrawn from the Company's account without the prior written consent of the secured parties. The classification between current and long-term is based on the timing of expected payments of the obligations.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash and cash equivalents in the Condensed Consolidated Balance Sheets that reconcile to the amounts shown on the Condensed Consolidated Statements of Cash Flows:

($000)		**October 31, 2020**		February 1, 2020		November 2, 2019
Cash and cash equivalents	**$**	**4,416,124**	$	1,351,205	$	1,142,709
Restricted cash and cash equivalents included in:						
Prepaid expenses and other		**85,322**		10,235		10,947
Other long-term assets		**50,396**		49,970		49,871
Total restricted cash and cash equivalents		**135,718**		60,205		60,818
Total cash, cash equivalents, and restricted cash and cash equivalents	**$**	**4,551,842**	$	1,411,410	$	1,203,527

Property and equipment. As of October 31, 2020 and November 2, 2019, the Company had $22.4 million and $11.1 million, respectively, of property and equipment purchased but not yet paid. These purchases are included in Property and equipment, Accounts payable, and Accrued expenses and other in the accompanying Condensed Consolidated Balance Sheets.

Operating leases. In response to the COVID-19 pandemic, the Financial Accounting Standards Board ("FASB") provided relief under Accounting Standards Update ("ASU") 2016-02, *Leases* (Accounting Standards Codification "ASC" 842). Under this relief, companies can make a policy election on how to treat lease concessions resulting directly from the COVID-19 pandemic, provided that the modified contracts result in total cash flows that are substantially the same or less than the cash flows in the original contract.

The Company made the policy election to account for lease concessions that result from the COVID-19 pandemic as if they were made under enforceable rights in the original contract. Additionally, the Company made the policy election to account for these concessions outside of the lease modification framework described under ASC 842. The Company recorded accruals for deferred rental payments and recognized rent abatements or concessions as variable lease costs in the periods incurred. Accruals for rent payment deferrals are included in Accrued expenses and other in the accompanying Condensed Consolidated Balance Sheets.

Supplemental cash flow disclosures related to leases: Operating lease assets obtained in exchange for new operating lease liabilities (includes new leases and remeasurements or modifications of existing leases) were as follows:

	Three Months Ended				**Nine Months Ended**			
($000)		**October 31, 2020**		November 2, 2019		**October 31, 2020**		November 2, 2019
Operating lease assets obtained in exchange for new operating lease liabilities	**$**	**225,345**	$	251,465	**$**	**509,696**	$	586,840

Cash dividends. The Company's Board of Directors declared a cash dividend of $0.285 per common share in March 2020, and $0.255 per common share in March, May, August, and November 2019, respectively.

In May 2020, the Company suspended its quarterly dividends.

Litigation, claims, and assessments. Like many retailers, the Company has been named in class/representative action lawsuits, primarily in California, alleging violation of wage and hour/employment laws and consumer protection laws. Class/representative action litigation remains pending as of October 31, 2020.

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

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

Recently adopted accounting standards. In December 2019, the FASB issued ASU 2019-12, *Simplifying the Accounting for Income Taxes* (ASC 740). ASU 2019-12 eliminates certain exceptions in ASC 740 related to the methodology for calculating income taxes in an interim period. It also clarifies and simplifies other aspects of the accounting for income taxes. The amendments in ASU 2019-12 are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. Early adoption is permitted, including adoption in any interim period. The Company adopted ASU 2019-12 on a prospective basis in the first quarter of fiscal 2020. The most significant impact to the Company is the removal of a limit on the tax benefit recognized on pre-tax losses in interim periods. The adoption of this standard is not expected to have a material impact on the Company's fiscal 2020 results.

Recently issued accounting standards. The Company considers the applicability and impact of all ASUs issued by the FASB. For the three and nine month periods ended October 31, 2020, the ASUs issued by the FASB were assessed and determined to be either not applicable or are expected to have minimal impact on the Company's condensed consolidated financial results.

Note B: Fair Value Measurements

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

Accounting standards pertaining to fair value measurements establish a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value. The inputs used to measure fair value include: Level 1, observable inputs such as quoted prices in active markets; Level 2, inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, unobservable inputs in which little or no market data exists. This fair value hierarchy requires the Company to develop its own assumptions and maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Corporate, U.S. government and agency, and mortgage-backed securities are classified within Level 1 or Level 2 because these securities are valued using quoted market prices or alternative pricing sources and models utilizing market observable inputs.

There were no transfers between Level 1 and Level 2 categories during the three and nine month periods ended October 31, 2020. The fair value of the Company’s financial instruments are as follows:

($000)		**October 31, 2020**		February 1, 2020		November 2, 2019
Cash and cash equivalents (Level 1)	**$**	**4,416,124**	$	1,351,205	$	1,142,709
Restricted cash and cash equivalents (Level 1)	**$**	**135,718**	$	60,205	$	60,818
Investments (Level 2)	**$**	**8**	$	8	$	8

The underlying assets in the Company's non-qualified deferred compensation program as of October 31, 2020, February 1, 2020, and November 2, 2019 (included in Other long-term assets and in Other long-term liabilities) primarily consist of participant-directed money market, stable value, stock, and bond funds. The fair value measurement for funds with quoted market prices in active markets (Level 1) and for funds without quoted market prices in active markets (Level 2) are as follows:

($000)	October 31, 2020	February 1, 2020	November 2, 2019
Level 1	**$ 134,991**	$ 134,440	$ 129,461
Level 2	**10,391**	7,003	7,409
Total	**$ 145,382**	$ 141,443	$ 136,870

Note C: Management Incentive Plan and Stock-Based Compensation

Management incentive plan and performance share award modifications. In August 2020, the Compensation Committee of the Board of Directors approved modifications to the performance measurement goals for the management incentive plan and the performance share award program for fiscal 2020, to be based on the attainment of specific management priorities related to their response to business challenges from COVID-19, as measured and approved by the Compensation Committee, as an alternative to the previously established profitability-based performance goals. As of October 31, 2020, the Company has established an accrual for this incentive compensation based on the Compensation Committee's assessment of progress towards achievement of these specific priorities.

Stock-based compensation. For the three and nine month periods ended October 31, 2020 and November 2, 2019, the Company recognized stock-based compensation expense as follows:

	Three Months Ended		Nine Months Ended	
($000)	October 31, 2020	November 2, 2019	October 31, 2020	November 2, 2019
Restricted stock	**$ 17,330**	$ 15,030	**$ 51,450**	$ 39,388
Performance awards	**8,979**	9,979	**19,801**	28,308
Employee stock purchase plan	**1,061**	978	**3,016**	2,904
Total	**$ 27,370**	$ 25,987	**$ 74,267**	$ 70,600

Total stock-based compensation expense recognized in the Company's Condensed Consolidated Statements of Operations for the three and nine month periods ended October 31, 2020 and November 2, 2019, is as follows:

	Three Months Ended		Nine Months Ended	
Statements of Operations Classification ($000)	October 31, 2020	November 2, 2019	October 31, 2020	November 2, 2019
Cost of goods sold	**$ 13,767**	$ 13,823	**$ 38,282**	$ 40,757
Selling, general and administrative	**13,603**	12,164	**35,985**	29,843
Total	**$ 27,370**	$ 25,987	**$ 74,267**	$ 70,600

The tax benefits related to stock-based compensation expense for the three and nine month periods ended October 31, 2020 were $5.1 million and $15.3 million, respectively. The tax benefits related to stock-based compensation expense for the three and nine month periods ended November 2, 2019 were $5.5 million and $14.2 million, respectively.

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

During the three and nine month periods ended October 31, 2020 and November 2, 2019, shares purchased by the Company for tax withholding totaled 142,350 and 492,171, and 42,300 and 612,924, respectively, and are considered treasury shares which are available for reissuance.

Performance share awards. The Company has a performance share award program for senior executives. A performance share award represents a right to receive shares of restricted stock on a specified settlement date based on the Company's attainment of a performance goal during the performance period, which is the Company's fiscal year. If attained, the restricted stock then vests over a service period, generally two to three years from the date the performance award was granted.

As of October 31, 2020, shares related to unvested restricted stock and performance share awards totaled 4.3 million shares. A summary of restricted stock and performance share award activity for the nine month period ended October 31, 2020, is presented below:

(000, except per share data)	Number of shares		Weighted-average grant date fair value
Unvested at February 1, 2020	4,394	$	76.20
Awarded	1,118		94.42
Released	(1,229)		65.65
Forfeited	(20)		81.67
Unvested at October 31, 2020	**4,263**	**$**	**83.99**

The unamortized compensation expense at October 31, 2020, was $178.2 million, which is expected to be recognized over a weighted-average remaining period of 2.1 years. The unamortized compensation expense at November 2, 2019, was $169.6 million, which was expected to be recognized over a weighted-average remaining period of 2.2 years.

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

Note D: Earnings (Loss) Per Share

The Company computes and reports both basic earnings (loss) per share ("EPS") and diluted EPS. Basic EPS is computed by dividing net earnings (loss) by the weighted-average number of common shares outstanding for the period. Diluted EPS is computed by dividing net earnings (loss) by the sum of the weighted-average number of common shares and dilutive common stock equivalents outstanding during the period, except in cases where the effect of the common stock equivalents would be anti-dilutive. Diluted EPS reflects the total potential dilution that could occur from outstanding equity plan awards and unvested shares of both performance and non-performance based awards of restricted stock. For periods of net loss, basic and diluted EPS are the same as the effect of the assumed vesting of restricted stock units is anti-dilutive.

For the three month period ended October 31, 2020, approximately 80,600 weighted-average shares were excluded from the calculation of diluted EPS because their effect would have been anti-dilutive for the period presented. For the nine month period ended October 31, 2020, basic and diluted EPS were the same due to the Company's net loss. For the three and nine month periods ended November 2, 2019, approximately 11,800 and 19,100, respectively, weighted-average shares were excluded from the calculation of diluted EPS because their effect would have been anti-dilutive for the periods presented.

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

	Three Months Ended			Nine Months Ended		
Shares in (000s)	Basic EPS	Effect of dilutive common stock equivalents	Diluted EPS	Basic EPS	Effect of dilutive common stock equivalents	Diluted EPS
October 31, 2020						
Shares	**352,481**	**1,976**	**354,457**	**352,320**	**—**	**352,320**
Amount	**$ 0.37**	**$ —**	**$ 0.37**	**$ (0.43)**	**$ —**	**$ (0.43)**
November 2, 2019						
Shares	356,879	2,420	359,299	359,919	2,536	362,455
Amount	$ 1.04	$ (0.01)	$ 1.03	$ 3.35	$ (0.03)	$ 3.32

Note E: Debt

Long-term debt. Unsecured senior debt, net of unamortized discounts and debt issuance costs, consisted of the following:

($000)	**October 31, 2020**	February 1, 2020	November 2, 2019
6.530% Series B Senior Notes due 2021	**$ 64,883**	$ 64,963	$ 64,958
3.375% Senior Notes due 2024	**248,256**	247,928	247,820
4.600% Senior Notes due 2025	**694,310**	—	—
0.875% Senior Notes due 2026	**493,297**	—	—
4.700% Senior Notes due 2027	**238,944**	—	—
4.800% Senior Notes due 2030	**132,220**	—	—
1.875% Senior Notes due 2031	**493,998**	—	—
5.450% Senior Notes due 2050	**146,129**	—	—
Total long-term debt	**$ 2,512,037**	$ 312,891	$ 312,778

Senior notes. As of October 31, 2020, the Company had outstanding Series B unsecured Senior Notes in the aggregate principal amount of $65 million held by various institutional investors. The Series B notes are due in December 2021, and bear interest at 6.530%. Borrowings under these Senior Notes are subject to certain financial covenants that were amended in June 2020, and are consistent with the corresponding covenants in the Company's existing revolving credit facility. As of October 31, 2020, the Company was in compliance with these covenants.

As of October 31, 2020, the Company also had outstanding unsecured 3.375% Senior Notes due September 2024 (the “2024 Notes”) with an aggregate principal amount of $250 million. Interest on the 2024 Notes is payable semi-annually.

In April 2020, the Company issued an aggregate of $2.0 billion in unsecured senior notes in four tenors as follows: 4.600% Senior Notes due April 2025 (the “2025 Notes”) with an aggregate principal amount of $700 million, 4.700% Senior Notes due April 2027 (the “2027 Notes”) with an aggregate principal amount of $400 million, 4.800% Senior Notes due April 2030 (the “2030 Notes”) with an aggregate principal amount of $400 million, and 5.450% Senior Notes due April 2050 (the “2050 Notes”) with an aggregate principal amount of $500 million. Cash proceeds, net of discounts and other issuance costs, were approximately $1.973 billion. Interest on the 2025, 2027, 2030, and 2050 Notes is payable semi-annually beginning October 2020.

In October 2020, the Company accepted for purchase approximately $775 million in aggregate principal amount of senior notes pursuant to cash tender offers as follows: $351 million of the 2050 Notes, $266 million of the 2030 Notes, and $158 million of the 2027 Notes. The Company paid approximately $1.003 billion aggregate consideration (including transaction costs, and accrued and unpaid interest) and recorded an approximately $240 million loss on the early extinguishment for the accepted notes.

In October 2020, the Company issued an aggregate of $1.0 billion in unsecured senior notes in two tenors as follows: 0.875% Senior Notes due April 2026 (the "2026 Notes") with an aggregate principal amount of $500 million and 1.875% Senior Notes due April 2031 (the "2031 Notes") with an aggregate principal amount of $500 million. Cash proceeds, net of discounts and other issuance costs, were approximately $987.2 million. Interest on the 2026 and 2031 Notes is payable semi-annually beginning April 2021. The Company used the net proceeds from the offering of the 2026 and 2031 Notes to fund the purchase of the accepted notes from its tender offers.

The Series B and all of the Senior Notes are subject to prepayment penalties for early payment of principal.

As of October 31, 2020, February 1, 2020, and November 2, 2019, total unamortized discount and debt issuance costs were $28.0 million, $2.1 million, and $2.2 million, respectively, and were classified as a reduction of Long-term debt.

As of October 31, 2020, the aggregate fair value of the eight outstanding series of Senior Notes was approximately $2.8 billion. As of February 1, 2020 and November 2, 2019, the aggregate fair value of the two then outstanding series of Senior Notes was approximately $335 million and $333 million, respectively. The fair value is estimated by obtaining comparable market quotes which are considered to be Level 1 inputs under the fair value measurements and disclosures guidance.

Revolving credit facilities. In July 2019, the Company entered into an $800 million unsecured revolving credit facility, which replaced the Company's previous $600 million unsecured revolving credit facility. This current credit facility expires in July 2024, and contains a $300 million sublimit for issuance of standby letters of credit. The facility also contains an option allowing the Company to increase the size of its credit facility by up to an additional $300 million, with the agreement of the lenders. Interest on borrowings under this facility is based on LIBOR (or an alternate benchmark rate, if LIBOR is no longer available) plus an applicable margin and is payable quarterly and upon maturity. The revolving credit facility may be extended, at the Company's option, for up to two additional one year periods, subject to customary conditions.

In March 2020, the Company borrowed $800 million available under its revolving credit facility. Interest on the loan was based on LIBOR plus 0.875% (or 1.76%).

In May 2020, the Company amended its $800 million unsecured revolving credit facility (the "Amended Credit Facility") to temporarily suspend, for the second and third quarters of fiscal 2020, the Consolidated Adjusted Debt to EBITDAR ratio financial covenant, and to apply a transitional modification to that ratio effective in the fourth quarter of fiscal 2020. The Amended Credit Facility also established a new temporary minimum liquidity requirement, effective for the first quarter of fiscal 2020 and through the end of April 2021. As of October 31, 2020, the Company was in compliance with these amended covenants.

In October 2020, the Company repaid in full the $800 million it borrowed under the unsecured revolving credit facility. As a result, the Company currently has no borrowings or standby letters of credit outstanding under this facility, and the $800 million credit facility remains in place and available.

In May 2020, the Company also entered into an additional $500 million 364-day senior revolving credit facility which was scheduled to expire in April 2021. In October 2020, the Company terminated this senior revolving credit facility. The Company had no borrowings under that credit facility at any time.

The table below shows the components of interest expense and income for the three and nine month periods ended October 31, 2020 and November 2, 2019:

	Three Months Ended		Nine Months Ended	
($000)	**October 31, 2020**	November 2, 2019	**October 31, 2020**	November 2, 2019
Interest expense on long-term debt	**$ 27,826**	$ 3,284	**66,338**	$ 9,850
Interest expense on short-term debt	**2,565**	—	**7,861**	—
Other interest expense	**2,535**	216	**3,844**	756
Capitalized interest	**(3,856)**	(1,186)	**(9,359)**	(3,069)
Interest income	**(330)**	(6,716)	**(4,423)**	(22,356)
Interest expense (income), net	**$ 28,740**	$ (4,402)	**$ 64,261**	$ (14,819)

Note F: Taxes on Earnings (Loss)

On March 27, 2020, the CARES Act was signed into law. The CARES Act made several significant changes to business tax provisions including modifications for net operating losses, employee retention credits, and deferral of employer payroll tax payments. The modifications for net operating losses eliminate the taxable income limitation for certain net operating losses and allow the carry back of net operating losses arising in 2018, 2019, and 2020 to the five prior tax years, respectively.

The Company's effective tax rates for the three month periods ended October 31, 2020 and November 2, 2019, were approximately 4% and 23%, respectively. The decrease in the effective tax rate of 19% for the three month period ended October 31, 2020 compared to the three month period ended November 2, 2019 was primarily due to fluctuations in forecasted pre-tax earnings. The Company's effective tax rates for the nine month periods ended October 31, 2020 and November 2, 2019, were approximately 45% and 23%, respectively. The increase in the effective tax rate of 22% for the nine month period ended October 31, 2020 compared to the nine month period ended November 2, 2019 was primarily due to a pre-tax loss for the nine month period ended October 31, 2020. The effective tax rate is impacted by changes in tax law and accounting guidance, location of new stores, level of earnings, tax effects associated with share-based compensation, and uncertain tax positions.

As of October 31, 2020, February 1, 2020, and November 2, 2019, the reserves for unrecognized tax benefits were $76.1 million, $67.1 million, and $83.4 million, inclusive of $9.4 million, $7.2 million, and $13.9 million of related interest and penalties, respectively. In November 2019, the Company resolved uncertain tax positions with a tax authority. As a result, the Company recognized a decrease in reserves for tax positions in prior periods of $16.2 million, inclusive of $6.6 million of related reserves for interest and penalties. The Company accounts for interest and penalties related to unrecognized tax benefits as a part of its provision for taxes on earnings. If recognized, $60.6 million would impact the Company’s effective tax rate. It is reasonably possible that certain state tax matters may be concluded or statutes of limitations may lapse during the next 12 months. Accordingly, the total amount of unrecognized tax benefits may decrease by up to $10.1 million. The difference between the total amount of unrecognized tax benefits and the amounts that would impact the effective tax rate relates to amounts attributable to deferred income tax assets and liabilities. These amounts are net of federal and state income taxes.

The Company is open to audit by the Internal Revenue Service under the statute of limitations for fiscal years 2017 through 2019. The Company’s state income tax returns are generally open to audit under the various statutes of limitations for fiscal years 2015 through 2019. Certain state tax returns are currently under audit by various tax authorities. The Company does not expect the results of these audits to have a material impact on the condensed consolidated financial statements.

Report of Independent Registered Public Accounting Firm

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

Results of Review of Interim Financial Information

We have reviewed the accompanying condensed consolidated balance sheets of Ross Stores, Inc. and subsidiaries (the "Company") as of October 31, 2020 and November 2, 2019, the related condensed consolidated statements of operations, comprehensive income (loss), and stockholders' equity for the three and nine month periods ended October 31, 2020 and November 2, 2019, and cash flows for the nine month periods ended October 31, 2020 and November 2, 2019, and the related notes (collectively referred to as the "interim financial information"). Based on our reviews, we are not aware of any material modifications that should be made to the accompanying interim financial information for it to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheet of the Company as of February 1, 2020, and the related consolidated statements of earnings, comprehensive income, stockholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated March 31, 2020, we expressed an unqualified opinion on those consolidated financial statements and included an explanatory paragraph regarding a change in accounting principle. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of February 1, 2020 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Basis for Review Results

This interim financial information is the responsibility of the Company's management. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our reviews in accordance with standards of the PCAOB. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the PCAOB, 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.

/s/ Deloitte & Touche LLP

San Francisco, California
December 9, 2020

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

This section and other parts of this Form 10-Q contain forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from the results discussed in the forward-looking statements. Factors that might cause such differences include, but are not limited to, those discussed below under the caption "Forward-Looking Statements" and in Part II, Item 1A (Risk Factors) of this Form 10-Q, and also those in Part I, Item 1A (Risk Factors) of our Annual Report on Form 10-K for 2019. The following discussion should be read in conjunction with the condensed consolidated financial statements and notes thereto included elsewhere in this Quarterly Report on Form 10-Q and the consolidated financial statements and notes thereto in our Annual Report on Form 10-K for 2019. All information is based on our fiscal calendar.

Overview

Ross Stores, Inc. operates two brands of off-price retail apparel and home fashion stores – Ross Dress for Less® ("Ross") and dd's DISCOUNTS®. Ross is the largest off-price apparel and home fashion chain in the United States, with 1,594 locations in 40 states, the District of Columbia and Guam as of October 31, 2020. Ross offers first-quality, in-season, name brand and designer apparel, accessories, footwear, and home fashions for the entire family at savings of 20% to 60% off department and specialty store regular prices every day. We also operate 275 dd's DISCOUNTS stores in 21 states that feature a more moderately-priced assortment of first-quality, in-season, name brand apparel, accessories, footwear, and home fashions for the entire family at savings of 20% to 70% off moderate department and discount store regular prices every day.

Effects of the COVID-19 Pandemic on Our Business

The United States and other countries are experiencing an ongoing, major global health pandemic related to the outbreak of a novel strain of coronavirus, COVID-19. Governmental authorities in affected regions have taken and continue to take dramatic actions in an effort to slow down the spread of the disease. Like other retailers across the country, we temporarily closed all store locations, our distribution centers, and buying and corporate offices. Our closures took effect March 20, 2020, and we remained closed through a portion of our fiscal second quarter. We also instituted "work from home" measures for many of our associates.

The vast majority of our store locations and all our distribution centers were open and operating by the end of June 2020 and throughout the third quarter, though our stores were operating on shorter hours for a period of time compared to the prior year. All our distribution centers were reopened by the end of May 2020.

The impacts from the COVID-19 pandemic and the related economic disruption have had a material adverse impact on our results of operations, financial position, and cash flows in fiscal 2020. The condensed consolidated results reflect the significant revenue decline and other impacts from our temporary store closures (for approximately half of the first quarter and 25 percent of the second quarter). Core business results improved during the third quarter; however, we expect material adverse effects from the pandemic to continue through the current fiscal year and potentially beyond. This will cause our results for interim periods throughout fiscal 2020 to not be comparable to our results in the corresponding prior year periods.

The temporary closure of all our stores significantly impacted our ability to sell seasonal inventory in a timely manner. As we reopened our stores and resumed operations in the middle of the second quarter, a significant portion of the merchandise in our stores was aged and out of season. We took deep markdowns to sell through this inventory. During the initial reopenings, sales were ahead of our conservative plans as we benefited from pent-up consumer demand and aggressive markdowns. In the weeks after reopening, sales trends were negatively affected by depleted store inventory levels while we were ramping up our buying and distribution capabilities. During the third quarter, sales improved substantially compared to the second quarter. This was driven by several factors, including an improvement in our merchandise assortments, a later back-to-school season, stronger performance in our larger markets, and our return to more normal store hours.

The ongoing effect of the pandemic on consumer behavior and spending patterns remains highly uncertain. Despite the initial surge in customer demand as our stores reopened, we expect customer demand to be generally suppressed for an extended period. In addition, there are currently resurgences in the spread of COVID-19 throughout the United States, which may also recur in the future, in one or more regions, and which have and could require our stores and distribution centers to temporarily close again nationally, regionally, or in specific locations. These closures would further negatively impact our revenue and operations.

In response to COVID-19, we incurred various costs to reopen our stores and distribution centers, and we incur ongoing operating costs for additional processes and procedures to facilitate social distancing, to enhance cleaning and sanitation activities, and to provide personal protective equipment to our associates. These actions, combined with various other actions taken to reduce costs, resulted in approximately $25 million and $90 million of additional net costs in the three and nine month periods ended October 31, 2020, respectively. We expect to incur higher operating costs related to our response to COVID-19 on an ongoing basis.

To preserve our financial liquidity and enhance our financial flexibility, we borrowed $800 million from our revolving credit facility in March 2020, completed a $2.0 billion senior notes offering in April 2020, and entered into a new $500 million 364-day senior revolving credit facility in May 2020. In the third quarter of fiscal 2020, we refinanced $775 million in aggregate principal amount of our higher interest senior notes with the issuance of $1.0 billion in aggregate principal amount of lower interest rate senior notes. This action significantly reduced the annual interest expense and total cash outlays over the life of the debt. In addition to the senior notes refinancing, during the third quarter, we also took several other actions to reduce our ongoing debt costs, including the repayment of the $800 million revolving credit facility and termination of the undrawn $500 million 364-day senior revolving credit facility.

In addition, we suspended our stock repurchase program in March 2020 and suspended quarterly dividends in May 2020, and we have taken measures to reduce our expenses, inventory receipts, and planned capital expenditures. Beginning April 5, 2020, we implemented temporary furloughs for a large portion of our hourly store and distribution center and other associates in our buying and corporate offices who could not work productively while our stores and distribution centers were closed. Employee health benefits for eligible associates continued during the temporary furlough at no cost to the impacted associates. We also reduced payroll expenses through temporary salary reductions for senior executives and other personnel, which remained in effect until May 24, 2020, when more than half of our stores reopened. In conjunction with these payroll expense reduction measures, effective April 1, 2020, the non-employee members of our Board of Directors suspended the cash elements of their director compensation, which remained in effect until August 2020.

In May 2020, in connection with the phased reopening of our store and distribution center locations, we began recalling many of these furloughed associates as they were able to resume productive work. As of October 2020, with all of our stores and all distribution centers reopened, the majority of these associates have returned to work.

Beginning in May 2020, we suspended rent payments associated with the leases for our temporarily closed stores. During the second and third quarters of fiscal 2020, we negotiated rent deferrals and/or rent abatements (primarily for second quarter lease payments) for a significant number of our stores. The repayment of the deferrals will be at later dates, primarily in fiscal 2021. We have recorded accruals for rent payment deferrals and have recorded rent abatements associated with the second and third quarters as a reduction of variable lease costs.

Given the unprecedented impact the COVID-19 pandemic has had on our business, and the continued uncertainty surrounding the pandemic, including its unknown duration and severity and potential for resurgence, and the unknown overall impact on consumer demand and store productivity, we expect that impacts from the COVID-19 pandemic and the related economic disruption will have a material adverse impact on our consolidated results of operations, financial position, and cash flows throughout the remainder of fiscal 2020 and potentially beyond.

Results of Operations

The following table summarizes the financial results for the three and nine month periods ended October 31, 2020 and November 2, 2019:

	Three Months Ended		Nine Months Ended	
	October 31, 2020	November 2, 2019	**October 31, 2020**	November 2, 2019
Sales				
Sales (millions)	**$ 3,755**	$ 3,849	**$ 8,282**	$ 11,626
Sales (decline) growth	**(2.5 %)**	8.4 %	**(28.8 %)**	6.9 %
Comparable store sales (decline) growth	**(3 %)** [1]	5 % [1]	**n/a** [2]	3 % [1]
Costs and expenses (as a percent of sales)				
Cost of goods sold	**72.2 %**	71.9 %	**80.7 %**	71.5 %
Selling, general and administrative	**23.4 %**	15.7 %	**21.9 %**	15.1 %
Interest expense (income), net	**0.8 %**	(0.1 %)	**0.8 %**	(0.1 %)
Earnings (loss) before taxes (as a percent of sales)	**3.6 %**	12.5 %	**(3.4 %)**	13.5 %
Net earnings (loss) (as a percent of sales)	**3.5 %**	9.6 %	**(1.8 %)**	10.4 %

[1] Comparable store sales represents sales from stores that have been open for more than 14 complete months.

[2] Given that stores were open for less than seven weeks of the 13-week period ended May 2, 2020, the comparable store sales metric for the nine months ended October 31, 2020, is not meaningful.

Stores. In response to the impacts from the COVID-19 pandemic, we have reduced our planned new store openings for fiscal 2020. We did not open any new stores in the second quarter of fiscal 2020, and opened 39 stores in the third quarter. Our longer term expansion strategy is to open additional stores based on market penetration, local demographic characteristics, competition, expected store profitability, and the ability to leverage overhead expenses. We continually evaluate opportunistic real estate acquisitions and opportunities for potential new store locations. We also evaluate our current store locations and determine store closures based on similar criteria.

	Three Months Ended		Nine Months Ended	
Store Count	**October 31, 2020**	November 2, 2019	**October 31, 2020**	November 2, 2019
Beginning of the period	**1,832**	1,772	**1,805**	1,717
Opened in the period	**39** [1]	42	**66** [1]	98
Closed in the period	**(2)**	(4) [2]	**(2)**	(5) [2]
End of the period	**1,869**	1,810	**1,869**	1,810

[1] Includes the reopening of a store previously temporarily closed due to a weather event.

[2] Includes a temporary closure of a store impacted by a weather event.

Sales. Sales for the three month period ended October 31, 2020, decreased $94.6 million, or 2.5%, compared to the three month period ended November 2, 2019. This was primarily due to COVID-19's negative impact on customer demand which resulted in a 3% decline in comparable store sales. We opened 59 net new stores between November 2, 2019 and October 31, 2020, which partially offset the comparable store sales decline.

Sales for the nine month period ended October 31, 2020, decreased $3.3 billion, or 28.8%, compared to the nine month period ended November 2, 2019. This was primarily due to the negative impact from store closures during the March 2020 to June 2020 period and COVID-19's negative impact on customer demand. We opened 59 net new stores between

November 2, 2019 and October 31, 2020. The sales from these stores partially offset the sales decline while the stores were open in the period.

Comparable store sales. For the three month period ended October 31, 2020, comparable store sales represents sales from stores that have been open for more than 14 complete months. For the three month period ended October 31, 2020, comparable store sales were down 3%. Comparable stores sales were impacted by COVID-19's negative impact on customer demand and by other factors. Given that stores were open for less than seven weeks of the 13-week period ended May 2, 2020, the comparable store sales metric for the nine month period ended October 31, 2020, is not meaningful.

Our sales mix for the three and nine month periods ended October 31, 2020 and November 2, 2019 is shown below:

	Three Months Ended		Nine Months Ended	
	October 31, 2020	November 2, 2019	**October 31, 2020**[1]	November 2, 2019
Home Accents and Bed and Bath	**26 %**	24 %	**26 %**	24 %
Ladies	**23 %**	26 %	**24 %**	27 %
Men's	**15 %**	14 %	**14 %**	14 %
Accessories, Lingerie, Fine Jewelry, and Fragrances	**15 %**	13 %	**14 %**	13 %
Shoes	**12 %**	14 %	**13 %**	14 %
Children's	**9 %**	9 %	**9 %**	8 %
Total	**100 %**	100 %	**100 %**	100 %

[1] Sales mix for the nine month period ended October 31, 2020 represents sales for the period the stores were open.

Our historic strategies and store expansion program have contributed to our sales gains in the past. However, given the impacts from the COVID-19 pandemic on our results for the first nine months of fiscal 2020, and the significant ongoing impacts and uncertainties, including the unknown overall impact on consumer demand and shopping behavior, and the unknown duration of the pandemic and potential responses to it (which may require stores and distribution centers to close again nationally, regionally, or in specific locations), we cannot be sure that our strategies and resumption of our store expansion program will result in a continuation of our historical sales growth or in a recovery of, or an increase in, net earnings.

Cost of goods sold. Cost of goods sold for the three month period ended October 31, 2020, decreased $55.0 million compared to the same period in the prior year, primarily due to lower sales resulting from COVID-19's negative impact on customer demand.

Cost of goods sold as a percentage of sales for the three month period ended October 31, 2020, increased approximately 35 basis points from the same period in the prior year, primarily due to a 90 basis point increase in freight costs, a 70 basis point increase in distribution expenses, a 40 basis point increase in buying costs, and a 25 basis point deleveraging of occupancy costs. These increases were partially offset by a 190 basis point improvement in merchandise margin.

Cost of goods sold for the nine month period ended October 31, 2020, decreased $1.6 billion compared to the same period in the prior year, mainly due to the lower sales from the closing of all store locations starting on March 20, 2020 through a portion of the second quarter of fiscal 2020, COVID-19's negative impact on customer demand post store reopenings, and the temporary furlough of most hourly associates in our distribution centers and some associates in our buying offices. These decreases were partially offset by higher markdowns used to clear aged and seasonal inventory, expenditures for COVID-19 related measures, and higher packaway-related expenses.

Selling, general and administrative expenses. For the three month period ended October 31, 2020, selling, general and administrative expenses ("SG&A") increased $273.3 million compared to the same period in the prior year, primarily due to approximately $240 million in long-term debt refinancing costs, and COVID-related expenses for supplies, cleaning, and payroll related to additional safety protocols.

Selling, general and administrative expenses as a percentage of sales for the three month period ended October 31, 2020, increased 765 basis points, which includes a 640 basis point impact from the long-term debt refinancing costs, a 65 basis point impact from higher COVID-related operating costs, and a 60 basis point impact from the deleveraging effect from the decline in same store sales.

For the nine month period ended October 31, 2020, selling, general and administrative expenses increased $57.8 million compared to the same period in the prior year, primarily due to approximately $240 million in long-term debt refinancing costs, COVID-related expenses for supplies, cleaning, and payroll-related to additional safety protocols, and payments to associates while our stores were closed (net of employee retention credits under the CARES Act), partially offset by payroll-related cost reduction measures in response to the COVID-19 pandemic (including the temporary furlough of most hourly associates in our stores prior to reopening, and some associates in our corporate offices), and reductions in non-business critical operating expenses.

Interest expense (income), net. Interest expense (income), net for the three and nine month periods ended October 31, 2020, increased $33.1 million and $79.1 million, respectively, compared to the same periods in the prior year. These increases were primarily due to higher interest expense on long-term debt due to the issuance of Senior Notes in April 2020 and October 2020 (net of repurchase of Senior Notes), lower interest income due to lower interest rates, and higher interest expense on short-term debt due to the draw down on our $800 million revolving credit facility in March 2020 (which was subsequently repaid in October 2020), partially offset by higher capitalized interest primarily related to the construction of our Brookshire, Texas distribution center. Interest expense (income), net for the three and nine month periods ended October 31, 2020 and November 2, 2019, consists of the following:

	Three Months Ended		Nine Months Ended	
($000)	**October 31, 2020**	November 2, 2019	**October 31, 2020**	November 2, 2019
Interest expense on long-term debt	**$ 27,826**	$ 3,284	**$ 66,338**	$ 9,850
Interest expense on short-term debt	**2,565**	—	**7,861**	—
Other interest expense	**2,535**	216	**3,844**	756
Capitalized interest	**(3,856)**	(1,186)	**(9,359)**	(3,069)
Interest income	**(330)**	(6,716)	**(4,423)**	(22,356)
Interest expense (income), net	**$ 28,740**	$ (4,402)	**$ 64,261**	$ (14,819)

Taxes on earnings (loss). On March 27, 2020, the CARES Act was signed into law. The CARES Act made several significant changes to business tax provisions including modifications for net operating losses, employee retention credits, and deferral of employer payroll tax payments. The modifications for net operating losses eliminate the taxable income limitation for certain net operating losses and allow the carry back of net operating losses arising in 2018, 2019, and 2020 to the five prior tax years, respectively.

Our effective tax rates for the three month periods ended October 31, 2020 and November 2, 2019, were approximately 4% and 23%, respectively. The decrease in the effective tax rate of 19% for the three month period ended October 31, 2020 compared to the three month period ended November 2, 2019 was primarily due to fluctuations in forecasted pre-tax earnings. Our effective tax rates for the nine month periods ended October 31, 2020 and November 2, 2019, were approximately 45% and 23%, respectively. The increase in the effective tax rate of 22% for the nine month period ended October 31, 2020 compared to the nine month period ended November 2, 2019 was primarily due to a pre-tax loss for the nine month period ended October 31, 2020. The effective tax rate is impacted by changes in tax law and accounting guidance, location of new stores, level of earnings, tax effects associated with share-based compensation, and uncertain tax positions.

Net earnings (loss). Net earnings as a percentage of sales for the three month period ended October 31, 2020, was lower compared to the same period in the prior year primarily due to higher SG&A, higher interest expense, and higher cost of goods sold, partially offset by lower taxes on earnings.

Net loss as a percentage of sales for the nine month period ended October 31, 2020 was 1.8% compared to the net earnings as a percentage of sales of 10.4% for the same period in the prior year. The change was primarily due to higher cost of goods sold, higher SG&A, and higher interest expense, partially offset by income tax benefit on net loss for the nine month period ended October 31, 2020.

Earnings (loss) per share. Diluted earnings per share for the three month periods ended October 31, 2020 and November 2, 2019 were $0.37 and $1.03, respectively. The diluted earnings per share for the three month period ended

October 31, 2020, was primarily attributable to the long-term debt refinancing costs, COVID-19 related operating costs, and lower sales from COVID-19's negative impact on customer demand.

Diluted loss per share was $(0.43) for the nine month period ended October 31, 2020, compared to diluted earnings per share of $3.32 for the nine month period ended November 2, 2019. The diluted loss per share for the nine month period ended October 31, 2020, was primarily attributable to lower sales due to the closing of all our store locations starting on March 20, 2020 through a portion the second quarter of fiscal 2020, COVID-19's negative impact on customer demand, higher markdowns to clear aged and seasonal inventory, long-term debt refinancing costs, payments to associates while our stores were closed (net of employee retention credits under the CARES Act), and higher expenditures for COVID-19 related measures, partially offset by income tax benefits.

Financial Condition

Liquidity and Capital Resources

As previously noted, the United States and other countries are experiencing a major global health pandemic related to the outbreak of a novel strain of coronavirus, COVID-19. Governmental authorities in affected regions have taken, and continue to take, dramatic actions in an effort to slow down the spread of the disease. Similar to other retailers across the country, we temporarily closed all store locations, our distribution centers, and buying and corporate offices, effective March 20, 2020 through May 14, 2020, when we began a phased process of resuming operations. The vast majority of our store locations and all our distribution centers were open and operating by the end of June 2020 and throughout the third quarter, though our stores were operating on shorter hours for a period of time compared to the prior year. All our distribution centers were reopened by the end of May 2020.

The impacts from the COVID-19 pandemic and the related economic disruption have had a material adverse impact on our results of operations, financial position, and cash flows in fiscal 2020. Our results reflect the impact of the significant revenue decline from our temporary store closures and COVID-19's negative impact on customer demand, higher markdowns to clear aged and seasonal inventory, higher financing costs related to long-term debt, and increased expenditures for COVID-19 related measures.

To preserve our financial liquidity and enhance our financial flexibility, we borrowed $800 million from our revolving credit facility in March 2020, completed a $2.0 billion senior notes offering in April 2020, and entered into a new $500 million 364-day senior revolving credit facility in May 2020. In the third quarter of fiscal 2020, we refinanced $775 million in aggregate principal amount of our higher interest senior notes with the issuance of $1.0 billion in aggregate principal amount of lower interest rate senior notes. This action significantly reduced the annual interest expense and total cash outlays over the life of the debt. In addition to the senior notes refinancing, during the third quarter, we also took several other actions to reduce our ongoing debt costs, including the repayment of the $800 million revolving credit facility and termination of the undrawn $500 million 364-day senior revolving credit facility.

In addition, we suspended our stock repurchase program in March 2020 and suspended quarterly dividends in May 2020, and we have taken measures to reduce our expenses, inventory receipts, and planned capital expenditures. Beginning April 5, 2020, we implemented temporary furloughs for a large portion of our hourly store and distribution center and other associates in our buying and corporate offices who could not work productively while our stores and distribution centers were closed. Employee health benefits for eligible associates continued during the temporary furlough at no cost to the impacted associates. We also reduced payroll expenses through temporary salary reductions for senior executives and other personnel, which remained in effect until May 24, 2020, when more than half of our stores reopened. In conjunction with these payroll expense reduction measures, effective April 1, 2020, the non-employee members of our Board of Directors suspended the cash elements of their director compensation, which remained in effect until August 2020.

In May 2020, in connection with the phased reopening of our store and distribution center locations, we began recalling many of these furloughed associates as they were able to resume productive work. As of October 2020, with all of our stores and all distribution centers reopened, the majority of these associates have returned to work.

Beginning in May 2020, we suspended rent payments associated with the leases for our temporarily closed stores. During the second and third quarters of fiscal 2020, we negotiated rent deferrals and/or rent abatements (primarily for second quarter lease payments) for a significant number of our stores. The repayment of the deferrals will be at later dates, primarily in fiscal 2021. We recorded accruals for rent payment deferrals and recorded rent abatements associated with the second and third quarters as a reduction of variable lease costs.

We ended the third quarter of fiscal 2020 with over $5.2 billion in liquidity, which consists of $4.4 billion unrestricted cash balances and the $800 million available under our senior revolving credit facility.

Historically, our primary sources of funds for our business activities have been cash flows from operations and short-term trade credit. Our primary ongoing cash requirements are for merchandise inventory purchases, payroll, operating and variable lease costs, taxes, and for capital expenditures in connection with new and existing stores, and investments in distribution centers, information systems, and buying and corporate offices. We also used cash to repurchase stock under our stock repurchase program and to pay dividends, and for the repayment of debt as it becomes due.

Due to the COVID-19 pandemic and related economic disruptions, and with the possibility that some of our stores, distribution centers, and other facilities may need to temporarily close again in response to government actions to slow the spread of the disease, we anticipate potential interruptions to our cash flows from operations. We anticipate that we will be required to rely more on our cash reserves and we expect to carefully monitor and manage our cash position in light of ongoing conditions and levels of operations.

	Nine Months Ended			
($000)		**October 31, 2020**		November 2, 2019
Cash provided by operating activities	**$**	**1,783,123**	$	1,410,930
Cash used in investing activities		**(339,545)**		(400,734)
Cash provided by (used in) financing activities		**1,696,854**		(1,284,748)
Net increase (decrease) in cash, cash equivalents, and restricted cash and cash equivalents	**$**	**3,140,432**	$	(274,552)

Operating Activities

Net cash provided by operating activities was $1.8 billion for the nine month period ended October 31, 2020. This was primarily driven by lower merchandise receipts as we closely managed inventory levels and used packaway inventory to replenish our stores, and higher accounts payable due to extended payment terms. This was partially offset by the net loss due to lower sales from the closing of all store locations starting on March 20, 2020 through a portion of the second quarter, and COVID-19's negative impact on customer demand. Net cash provided by operating activities was $1.4 billion for the nine month period ended November 2, 2019 and was primarily driven by net earnings excluding non-cash expenses for depreciation and amortization.

The increase in cash flow from operating activities for the nine month period ended October 31, 2020, compared to the same period in the prior year was primarily driven by higher accounts payable leverage. Accounts payable leverage (defined as accounts payable divided by merchandise inventory) was 149%, 71%, and 68% as of October 31, 2020, February 1, 2020, and November 2, 2019, respectively. The increase in accounts payable leverage from the prior year was primarily driven by lower packaway and in-store inventory and extended payment terms.

As a regular part of our business, packaway inventory levels will vary over time based on availability of compelling opportunities in the marketplace. Packaway merchandise is purchased with the intent that it will be stored in our warehouses until a later date. The timing of the release of packaway inventory to our stores is principally driven by the product mix and seasonality of the merchandise, and its relation to our store merchandise assortment plans. As such, the aging of packaway varies by merchandise category and seasonality of purchases, but typically packaway remains in storage less than six months. However, given the uncertainty around the duration of the COVID-19 pandemic, and its impact on our operations and customer demand, a portion of our current packaway inventory may remain in storage longer than our historical cycles. We expect to continue to take advantage of packaway inventory opportunities to maximize our ability to deliver bargains to our customers.

Changes in packaway inventory levels impact our operating cash flow. As of October 31, 2020, packaway inventory was 26% of total inventory compared to 46% at the end of fiscal 2019. As of November 2, 2019, packaway inventory was 39% of total inventory compared to 46% at the end of fiscal 2018.

Investing Activities

Net cash used in investing activities was $339.5 million and $400.7 million for the nine month periods ended October 31, 2020 and November 2, 2019, respectively, primarily related to capital expenditures.

Our capital expenditures were $339.5 million and $401.3 million for the nine month periods ended October 31, 2020 and November 2, 2019, respectively. Our capital expenditures include costs to build, expand, and improve distribution centers (primarily related to the ongoing construction of our Brookshire, Texas distribution center); open new stores and improve existing stores; and for various other expenditures related to our information technology systems, buying and corporate offices.

As previously noted, due to the COVID-19 pandemic and related economic disruptions, and to preserve our financial liquidity, we reduced our capital expenditure plans for fiscal 2020. Capital expenditures for fiscal 2020 are projected to be approximately $420 million, compared to our original plan of approximately $730 million. Our remaining, planned capital expenditures are expected to be used to fund commitments related to the construction of our Brookshire, Texas distribution center, costs for fixtures and leasehold improvements to open planned new Ross and dd's DISCOUNTS stores, investments in certain information technology systems, and for various other needed expenditures related to our stores, distribution centers, buying, and corporate offices. We expect to fund capital expenditures with available cash.

Financing Activities

Net cash provided by financing activities was $1.7 billion for the nine month period ended October 31, 2020. Net cash used in financing activities was $1.3 billion for the nine month period ended November 2, 2019. The increase in cash provided by financing activities for the nine month period ended October 31, 2020, compared to the nine month period ended November 2, 2019, was primarily due to the completion of our public debt offerings net of repurchase and refinancing costs, and the suspension of our share repurchases and dividends in the second quarter of 2020.

In July 2019, we entered into an $800 million unsecured revolving credit facility, which replaced our previous $600 million unsecured revolving credit facility. The current credit facility expires in July 2024, and contains a $300 million sublimit for issuance of standby letters of credit. The facility also contains an option allowing us to increase the size of our credit facility by up to an additional $300 million, with the agreement of the lenders. Interest on borrowings under this facility is based on LIBOR (or an alternate benchmark rate, if LIBOR is no longer available) plus an applicable margin (currently 75 basis points) and is payable quarterly and upon maturity. The revolving credit facility may be extended, at our option, for up to two additional one-year periods, subject to customary conditions.

In March 2020, we borrowed $800 million under our revolving credit facility. Interest on the loan was based on LIBOR plus 0.875% (or 1.76%).

In May 2020, we amended the $800 million revolving credit facility (the "Amended Credit Facility") to temporarily suspend for the second and third quarters of fiscal 2020 the Consolidated Adjusted Debt to EBITDAR ratio financial covenant, and to apply a transitional modification to that ratio effective in the fourth quarter of fiscal 2020. The Amended Credit Facility also established a new temporary minimum liquidity requirement effective for the first quarter of fiscal 2020 and through the end of April 2021. As of October 31, 2020, we were in compliance with these amended covenants.

In October 2020, we repaid in full the $800 million we borrowed under the unsecured revolving credit facility. As a result, we currently have no borrowings or standby letters of credit outstanding under this facility, and the $800 million credit facility remains in place and available.

In May 2020, we entered into an additional $500 million 364-day senior revolving credit facility which was scheduled to expire in April 2021. In October 2020, we terminated this senior revolving credit facility. We had no borrowings under that credit facility at any time.

In April 2020, we issued an aggregate of $2.0 billion in unsecured senior notes in four tenors as follows: $700 million of 4.600% Senior Notes due April 2025, $400 million of 4.700% Senior Notes due April 2027, $400 million of 4.800% Senior Notes due April 2030, and $500 million of 5.450% Senior Notes due April 2050.

In October 2020, we accepted for purchase approximately $775 million in aggregate principal amount of senior notes pursuant to cash tender offers as follows: $351 million of the 2050 Notes, $266 million of the 2030 Notes, and $158 million of the 2027 Notes. We paid approximately $1.003 billion aggregate consideration (including transaction costs, and accrued and unpaid interest) and recorded an approximately $240 million loss on the early extinguishment for the accepted notes.

In October 2020, we issued an aggregate of $1.0 billion in unsecured senior notes in two tenors as follows: 0.875% Senior Notes due April 2026 (the "2026 Notes") with an aggregate principal amount of $500 million and 1.875% Senior Notes due April 2031 (the "2031 Notes") with an aggregate principal amount of $500 million. Cash proceeds, net of discounts and other issuance costs, were approximately $987.2 million. Interest on the 2026 and 2031 Notes is payable semi-annually beginning April 2021. We used the net proceeds from the offering of the 2026 and 2031 Notes to fund the purchase of the accepted notes from our tender offers.

In June 2020, we amended the covenants associated with the $65 million outstanding Series B unsecured senior notes. The amended covenants are consistent with the corresponding covenants in our existing revolving credit facility. As of October 31, 2020, we were in compliance with these covenants.

We repurchased 1.2 million and 9.6 million shares of common stock for aggregate purchase prices of approximately $132.5 million and $965.9 million during the nine month periods ended October 31, 2020 and November 2, 2019, respectively. We also acquired 0.5 million and 0.6 million shares of treasury stock under our employee stock equity compensation programs, for aggregate purchase prices of approximately $45.1 million and $56.9 million during the nine month periods ended October 31, 2020 and November 2, 2019, respectively. In March 2019, our Board of Directors approved a two-year $2.55 billion stock repurchase program through fiscal 2020. As of the end of the third quarter of fiscal 2020, we had $1.143 billion remaining under the stock repurchase program. Due to the current economic uncertainty stemming from the severe impact of the COVID-19 pandemic, we suspended our stock repurchase program in March 2020. We have no plans to repurchase any additional shares for the remainder of the fiscal year.

For the nine month periods ended October 31, 2020 and November 2, 2019, we paid cash dividends of $101.4 million and $278.4 million, respectively. Due to the current economic uncertainty stemming from the severe impact of the COVID-19 pandemic, we suspended our quarterly dividends in May 2020.

The COVID-19 pandemic and related economic disruptions, including the temporary closure of all of our store locations effective March 20, 2020 through a portion of the second quarter, have and continue to create significant uncertainty and challenges. We believe that existing cash balances, bank credit facility, and trade credit are adequate to meet our operating, investing, and financing needs for at least the next 12 months.

Contractual Obligations and Off-Balance Sheet Arrangements

The table below presents our significant contractual obligations as of October 31, 2020:

($000)	Less than one year	1 - 3 years	3 - 5 years	After 5 years	Total[1]
Recorded contractual obligations:					
Senior notes	$ —	$ 65,000	$ 950,000	$ 1,524,991	$ 2,539,991
Operating leases	637,268	1,214,521	826,035	675,535	3,353,359
New York buying office ground lease[2]	6,417	13,730	14,178	942,211	976,536
Unrecorded contractual obligations:					
Real estate obligations[3]	5,897	26,476	29,608	93,678	155,659
Interest payment obligations	84,371	162,753	136,094	299,041	682,259
Purchase obligations[4]	3,716,478	14,656	2,309	—	3,733,443
Total contractual obligations	$ 4,450,431	$ 1,497,136	$ 1,958,224	$ 3,535,456	$ 11,441,247

[1] We have a $74.8 million liability for unrecognized tax benefits that is included in Other long-term liabilities on our interim Condensed Consolidated Balance Sheet. This liability is excluded from the schedule above as the timing of payments cannot be reasonably estimated.

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

[3] Minimum lease payments for leases signed that have not yet commenced.

[4] Purchase obligations primarily consist of merchandise inventory purchase orders, commitments related to construction projects, store fixtures and supplies, and information technology services, transportation, and maintenance contracts.

Other than the unrecorded contractual obligations noted above, we do not have any material off-balance sheet arrangements as of October 31, 2020.

Standby letters of credit and collateral trust. We use standby letters of credit outside of our $800 million revolving credit facility in addition to a funded trust to collateralize our insurance and trade payable obligations. As of October 31, 2020, February 1, 2020, and November 2, 2019, we had $16.2 million, $4.2 million, and $4.6 million, respectively, in standby letters of credit outstanding and $56.5 million, $56.0 million and $56.2 million, respectively, in a collateral trust. The standby letters of credit are collateralized by restricted cash and the collateral trust consists of restricted cash, cash equivalents, and investments.

Trade letters of credit. We had $24.7 million, $11.2 million, and $23.5 million in trade letters of credit outstanding at October 31, 2020, February 1, 2020, and November 2, 2019, respectively.

Dividends. In May 2020, we suspended our quarterly dividends.

Critical Accounting Policies and Estimates

Management's Discussion and Analysis of Financial Condition and Results of Operations is based on our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of our condensed consolidated financial statements requires our management to make estimates and assumptions that affect the reported amounts. These estimates and assumptions are evaluated on an ongoing basis and are based on historical experience and on various other factors that management believes to be reasonable. Given the global economic climate and additional or unforeseen effects from the COVID-19 pandemic, these estimates are more challenging, and actual results could differ materially from our estimates. During the third quarter of fiscal 2020, there have been no significant changes to the critical accounting policies discussed in our Annual Report on Form 10-K for the year ended February 1, 2020.

See Note A to the Condensed Consolidated Financial Statements - Summary of Significant Accounting Policies (Recently Adopted Accounting Standards) for information regarding our adoption of ASU 2019-12.

Forward-Looking Statements

This report may contain a number of forward-looking statements regarding, without limitation, the rapidly developing challenges and our plans and responses to the COVID-19 pandemic and related economic disruptions, including adjustments to our operations, planned new store growth, capital expenditures, and other matters. These forward-looking statements reflect our then-current beliefs, plans, and estimates with respect to future events and our projected financial performance, operations, and competitive position. The words “plan,” “expect,” “target,” “anticipate,” “estimate,” “believe,” “forecast,” “projected,” “guidance,” “looking ahead,” and similar expressions identify forward-looking statements.

Future impact from the ongoing COVID-19 pandemic, and other economic and industry trends that could potentially impact revenue, profitability, operating conditions, and growth are difficult to predict. Our forward-looking statements are subject to risks and uncertainties which could cause our actual results to differ materially from those forward-looking statements and our previous expectations, plans, and projections. Such risks are not limited to but may include:

- The uncertainties and potential for further significant business disruptions arising from the recent and ongoing COVID-19 pandemic, including distribution center closures, store closures, and restrictions on customer access.
- Unexpected changes in the level of consumer spending on, or preferences for, apparel and home-related merchandise, which could adversely affect us.
- Impacts from the macro-economic environment, financial and credit markets, geopolitical conditions, pandemics, or public health and public safety issues, that affect consumer confidence and consumer disposable income.
- Our need to effectively manage our inventories, markdowns, and inventory shortage in order to achieve our planned gross margins.
- Competitive pressures in the apparel and home-related merchandise retailing industry.
- Risks associated with selling and importing merchandise produced in other countries and from supply chain disruptions in other countries, including those due to COVID-19 closures.
- Unseasonable weather that may affect shopping patterns and consumer demand for seasonal apparel and other merchandise.
- Our dependence on the market availability, quantity, and quality of attractive brand name merchandise at desirable discounts, and on the ability of our buyers to purchase merchandise to enable us to offer customers a wide assortment of merchandise at competitive prices.
- Information or data security breaches, including cyber-attacks on our transaction processing and computer information systems, which could result in theft or unauthorized disclosure of customer, credit card, employee, or other private and valuable information that we handle in the ordinary course of our business.
- Disruptions in our supply chain or in our information systems that could impact our ability to process sales and to deliver product to our stores in a timely and cost-effective manner.
- Our need to obtain acceptable new store sites with favorable consumer demographics to achieve our planned new store openings.
- Our need to expand in existing markets and enter new geographic markets in order to achieve planned market penetration.
- Consumer problems or legal issues involving the quality, safety, or authenticity of products we sell, which could harm our reputation, result in lost sales, and/or increase our costs.
- An adverse outcome in various legal, regulatory, or tax matters that could increase our costs.
- Damage to our corporate reputation or brands that could adversely affect our sales and operating results.
- Our need to continually attract, train, and retain associates with the retail talent necessary to execute our off-price retail strategies.
- Our need to effectively advertise and market our business.
- Changes in U.S. tax, tariff, or trade policy regarding apparel and home-related merchandise produced in other countries, which could adversely affect our business.
- Possible volatility in our revenues and earnings.
- An additional public health or public safety crisis, demonstrations, natural or man-made disaster in California or in another region where we have a concentration of stores, offices, or a distribution center that could harm our business.
- Our need to maintain sufficient liquidity to support our continuing operations and our new store openings.

The factors underlying our forecasts are dynamic and subject to change. As a result, any forecasts or forward-looking statements speak only as of the date they are given and do not necessarily reflect our outlook at any other point in time. We disclaim any obligation to update or revise these forward-looking statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risks, which primarily include changes in interest rates. We do not engage in financial transactions for trading or speculative purposes.

We may occasionally use forward contracts to hedge against fluctuations in foreign currency prices. We had no outstanding forward contracts as of October 31, 2020.

Interest that is payable on our revolving credit facility is based on variable interest rates and is, therefore, affected by changes in market interest rates. As of October 31, 2020, we had no borrowings outstanding under our $800 million revolving credit facility.

As of October 31, 2020, we have outstanding eight series of unsecured Senior Notes. Interest that is payable on all series of our Senior Notes is based on fixed interest rates, and is therefore unaffected by changes in market interest rates.

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

A hypothetical 100 basis point increase or decrease in prevailing market interest rates would not have had a material negative impact on our condensed consolidated financial position, results of operations, cash flows, our revolving credit facility, or the fair values of our short- and long-term investments as of and for the three and nine month periods ended October 31, 2020. We do not consider the potential losses in future earnings and cash flows from reasonably possible, near-term changes in interest rates to be material.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

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

Quarterly Evaluation of Changes in Internal Control Over Financial Reporting

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, also conducted an evaluation of our internal control over financial reporting to determine whether any change occurred during the third fiscal quarter of 2020 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. Based on that evaluation, our management concluded that there was no such change during the third fiscal quarter of 2020.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

See Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended February 1, 2020 for a description of the risks and uncertainties associated with our business. Except as presented below, there have been no material changes to the risk factors described in our most recent Annual Report on Form 10-K.

The current, major health pandemic from the novel coronavirus (COVID-19) continues to severely and adversely affect our sales and our operations, and we expect it to continue to have serious adverse effects on our business and our financial condition.

The United States and other countries are experiencing a major, prolonged global health pandemic related to the outbreak of a novel strain of coronavirus (COVID-19), with related, severe disruptions to retail operations and supply chains and to general economic activities, as the affected regions have taken dramatic actions, sometimes including mandatory closure of retail operations, in an effort to slow down the spread of the disease. As the COVID-19 pandemic continues, many of our customers and associates are being impacted by recommendations and/or mandates from federal, state, and local authorities to stay home ("shelter in place" or "safer at home"), to avoid non-essential social contact and gatherings of people, and to self-quarantine. Following a chain-wide closure from late March 2020 to mid-May 2020, all of our distribution centers and substantially all of our store locations had reopened by the end of June 2020. However, the pandemic is not over, and resurgences are occurring as colder weather and the traditional flu season begins, coinciding with the holiday shopping season. "Second and third waves" of outbreaks and spreading of the disease are occurring in many places across the United States, and health officials are warning of further disruptions and quarantine responses. State and local “work from home” recommendations and mandates have been in effect for many of our corporate offices, and may continue for some time. Store closures and distribution center closures may be required again nationally, regionally, or in specific locations. The situation continues to be unprecedented and rapidly changing, and has unknown duration and severity. California announced the reinstatement of “stay at home” measures in early December, to take effect regionally in the event of rising hospitalization levels, and a number of county and city governments in California have implemented such measures in advance of the state mandates. We have a concentration of store locations in the States of California, Texas, and Florida; together those states include more than fifty percent of our stores, and they have each reported regional "hot spots" and increasing numbers of cases in recent months, which have already resulted in strict customer capacity limits, limits to our hours of operations and curfews, and in mandatory store closures, in certain areas. These "stay at home" measures may discourage in-person shopping and may reduce traffic in our stores. More than half of our distribution centers and warehouses are located in California. A required closure of these facilities would be very disruptive to our ability to supply merchandise to our stores. The temporary closure of our stores and distribution centers has already resulted in a significant loss of sales and profits and has had material adverse effects on our financial condition. Further closures, particularly during the holiday season, would also result in lost sales and profits. In addition, the COVID-19 pandemic may potentially adversely affect our ability to adequately staff our distribution centers, our stores, and our merchant and other support operations. Further, the COVID-19 pandemic has severely impacted multiple countries, which may also adversely affect our ability to access and ship products from the impacted countries. The prolonged, widespread pandemic has adversely impacted global economies, which has resulted in an economic downturn that may reduce consumer demand for our products. The extent of the impact from the COVID-19 pandemic on our business and financial results will depend largely on future developments, including the duration and spread of the outbreak within the U.S., regional surges in infection, the response by all levels of government in their efforts to contain the outbreak and to mitigate the economic disruptions, and the related impact on consumer confidence and spending, all of which are highly uncertain and cannot be predicted. Such impacts have and are expected to adversely affect our profitability, cash flows, financial results, and our capital resources.

We need to successfully operate under the health and safety measures implemented in our stores and distribution centers, and across all our operations, to comply with regulatory requirements and with the goal of keeping our customers and associates safe from the spread of the COVID-19 virus without disruptions to our operations.

We have implemented a variety of measures in our stores locations, distribution centers, and other facilities, with the goal of keeping our associates, customers, and the communities we serve safe from spreading the COVID-19 virus. These measures include additional cleaning and sanitation of stores and workspaces, return merchandise quarantining, providing associates with personal protective equipment based on CDC or other federal, state, or local health guidelines, and implementing physical distancing practices, in our stores, distribution centers, and in our other operations. This is very challenging to do, and there is significant risk, incremental costs, and uncertainty regarding requirements and implementation. Not only are these measures new and evolving, but they often require change to established habits and patterns of behavior by large groups of people, who may not fully understand or agree with the requested changes. Whatever measures we adopt, there will also be challenges in effecting consistent compliance by our customers and our associates. We will need to adapt and change these measures over time and as we learn from experience. And despite our efforts and best intentions, incidents of infection will occur at our stores, distribution centers, or in our other facilities, potentially resulting in serious illness for those affected, including our associates. This may result in required temporary closure of specific stores, distribution centers, or other facilities, and in temporary or longer term loss of key personnel during illness, and potential supply chain disruptions. We may also face claims (with or without merit) that our retail stores or our other facilities and workplaces are operating in an unsafe manner or are not in compliance with applicable laws and regulations. Any such incidents may adversely affect our operating results, increase our costs, and damage our reputation and competitive position.

We are subject to impacts from the macro-economic environment, financial and credit markets, and geopolitical conditions that affect consumer confidence and consumer disposable income. The COVID-19 pandemic may have prolonged and significant negative effects on consumer confidence, shopping behavior, and spending, which may adversely affect our sales and gross margins.
Consumer spending habits for the merchandise we sell are affected by many factors. Currently, the repercussions from the COVID-19 pandemic are unknown and present significant risks and uncertainty. There is significant uncertainty over potential changes in consumer behavior and shopping patterns as the pandemic continues and as different regions experience surges. Other factors include levels of unemployment, the size and timing of federal stimulus programs, salaries and wage rates, prevailing economic conditions, recession and fears of recession, housing costs, energy and fuel costs, income tax rates and the timing of tax refunds, inflation, consumer confidence in future economic conditions, consumer perceptions of personal well-being and security, availability of consumer credit, consumer debt levels, and consumers' disposable income. The COVID-19 pandemic, and other potential, adverse developments in any of these areas could reduce demand for our merchandise, decrease our inventory turnover, cause greater markdowns, and negatively affect our sales and margins. All of our stores are located in the United States and its territories, so we are especially susceptible to changes in the U.S. economy.

In order to achieve our planned gross margins, we must effectively manage our inventories, markdowns, and inventory shortage. As a result of potential changes in shopping behaviors due to the COVID-19 pandemic and potential disruptions to supply chains and store operations, we are at significant risk for inventory imbalances and the potential for significantly higher than normal levels of markdowns to sell through our inventory, which would negatively affect our gross margins and our operating results.
We purchase the majority of our inventory based on our sales plans. If actual demand is lower than our sales plans, we may experience excess inventory levels and need to take markdowns on excess or slow-moving inventory, resulting in decreased profit margins. We also may have insufficient fresh inventory to meet current customer demand, leading to lost sales opportunities. The pandemic may cause changes in shopping behavior so that our predictions and sales plans are less accurate, and that may lead us to have higher than usual levels of slow-moving or non-salable inventory at our prior planned price levels. We would need to aggressively and progressively reduce our selling prices in order to clear out that inventory, which would result in decreased profit margins or losses on sales of that inventory, and adversely affect our results of operations in future periods.

We are subject to impacts from instances of damage to our stores and losses of merchandise accompanying protests or demonstrations, which may result in temporary store closures.
There have been recent demonstrations and protests in cities throughout the United States. While they have generally been peaceful, in some locations they have been accompanied by violence, damage to retail stores, and the loss of merchandise. While generally subject to coverage by insurance, the repair of damage to our stores and replacement of lost merchandise may also increase our costs and temporarily disrupt store operations, and we may incur increased operating costs for additional security. Governmental authorities in affected cities and regions may take actions in an effort to protect people and property while permitting lawful and non-violent protests, including curfews and restrictions on business operations, which may be disruptive to our operations. These activities, governmental responses, and resulting media coverage may also harm consumer confidence and perceptions of personal well-being and security, which may negatively affect shopping behavior and our sales.

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

Information regarding shares of common stock we repurchased during the third quarter of fiscal 2020 is as follows:

Period	Total number of shares (or units) purchased[1]	Average price paid per share (or unit)	Total number of shares (or units) purchased as part of publicly announced plans or programs	Maximum number (or approximate dollar value) of shares (or units) that may yet be purchased under the plans or programs ($000)[2]
August (8/02/2020 - 8/29/2020)	105,529	$89.31	—	$1,142,533
September (8/30/2020 - 10/03/2020)	36,821	$90.22	—	$1,142,533
October (10/04/2020 - 10/31/2020)	—	$0.00	—	$1,142,533
Total	142,350	$89.55	—	$1,142,533

[1] We acquired 142,350 shares of treasury stock during the quarter ended October 31, 2020, which relates to shares acquired from employees for tax withholding purposes related to vesting of restricted stock grants. No shares were repurchased under our publicly announced stock repurchase program.

[2] In March 2019, our Board of Directors approved a two-year $2.55 billion stock repurchase program through fiscal 2020. Due to the current economic uncertainty stemming from the COVID-19 pandemic, we suspended our stock repurchase program as of March 2020. We have no plans to purchase any additional shares for the remainder of the fiscal year.

ITEM 6. EXHIBITS

Exhibit Number	Exhibit
3.1	Certificate of Incorporation of Ross Stores, Inc. as amended (Corrected First Restated Certificate of Incorporation, dated March 17, 1999, together with amendments thereto through Amendment of Certificate of Incorporation dated May 29, 2015) incorporated by reference to Exhibit 3.1 to the Form 10-Q filed by Ross Stores, Inc. for its quarter ended August 1, 2015.
3.2	Amended and Restated Bylaws of Ross Stores, Inc. (as amended March 8, 2017), incorporated by reference to Exhibit 3.2 to the Form 10-K filed by Ross Stores, Inc. for its fiscal year ended January 28, 2017.
4.1	Indenture, dated September 18, 2014, between Ross Stores, Inc. and U.S. Bank National Association, incorporated by reference to Exhibit 4.1 to the Form 8-K filed by Ross Stores on September 18, 2014.
4.2	Officers' Certificate, dated as of October 21, 2020 establishing the aggregate amounts, terms and forms of the Notes., incorporated by reference to Exhibit 4.2 to the Form 8-K filed by Ross Stores, Inc. on October 22, 2020.
4.3	Form of the 0.875% Senior Notes Due 2026, included in Exhibit 4.2 and incorporated by reference to Exhibit 4.2 to the Form 8-K filed by Ross Stores, Inc. on October 22, 2020.
4.4	Form of the 1.875% Senior Notes Due 2031, included in Exhibit 4.2 and incorporated by reference to Exhibit 4.2 to the Form 8-K filed by Ross Stores, Inc. on October 22, 2020.
10.1	Underwriting Agreement, dated as of October 19, 2020, by and among Ross Stores, Inc., J.P. Morgan Securities LLC and BofA Securities, Inc., as representatives of the several underwriters named therein, incorporated by reference to Exhibit 1.1 to the Form 8-K filed by Ross Stores on October 22, 2020.
10.2	Second Amended and Restated Ross Stores, Inc. Incentive Compensation Plan.
10.3	Amended Ross Stores, Inc. 2017 Equity Incentive Plan.
10.4	Amendment to Independent Contractor Consultancy Agreement effective September 24, 2020 between Norman A. Ferber and Ross Stores, Inc.
10.5	Eighth Amendment to the Employment Agreement effective September 24, 2020 between Michael Balmuth and Ross Stores, Inc.
15	Letter re: Unaudited Interim Financial Information from Deloitte & Touche LLP dated December 9, 2020.
31.1	Certification of Chief Executive Officer Pursuant to Sarbanes-Oxley Act Section 302(a).
31.2	Certification of Chief Financial Officer Pursuant to Sarbanes-Oxley Act Section 302(a).
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350.
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350.
101.INS	XBRL Instance Document. (The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.)

101.SCH	Inline XBRL Taxonomy Extension Schema
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase
104	Cover Page Interactive Data File. (The cover page interactive data file does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.)

SIGNATURES

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

ROSS STORES, INC.
(Registrant)

Date: December 9, 2020

By: /s/Travis R. Marquette
Travis R. Marquette
Group Senior Vice President and Chief Financial Officer, and
Principal Accounting Officer