

Gap Inc.

Quarterly Financial Summary  
Q3 2011

# Gap Inc.

## Gap Inc. Quarterly Financial Summary Q3 2011

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Notes to Quarterly Financial Summary:

- All dollar, share, and square footage amounts are shown in millions, with the exception of per share, per square footage, and per store data (per store data shown in thousands).
- Forth & Towne is recognized as a discontinued operation.
- Our fiscal year is a 52- or 53- week period ending on the Saturday closest to January 31. Fiscal 2006 consisted of 53 weeks.

# Gap Inc.

## Table of Contents

I.	Condensed Consolidated Statements of Income	1
II.	Condensed Consolidated Balance Sheets	2
III.	Condensed Consolidated Statements of Cash Flows	3
IV.	Selected Metrics	4

Gap Inc.  
Quarterly Financial Summary  
Section I: Condensed Consolidated Statements of Income

	Fiscal Year (number of weeks)				Fiscal Year 2010 (52)					Fiscal Year 2011 (52)		
	2006 (53)	2007 (52)	2008 (52)	2009 (52)	Q1 (13)	Q2 (13)	Q3 (13)	Q4 (13)	Full Year	Q1 (13)	Q2 (13)	Q3 (13)
Net sales	\$ 15,923	\$ 15,763	\$ 14,526	\$ 14,197	\$ 3,329	\$ 3,317	\$ 3,654	\$ 4,364	\$ 14,664	\$ 3,295	\$ 3,386	\$ 3,585
Cost of goods sold and occupancy expenses	10,266	10,071	9,079	8,473	1,928	2,003	2,149	2,695	8,775	1,991	2,135	2,271
Gross profit	5,657	5,692	5,447	5,724	1,401	1,314	1,505	1,669	5,889	1,304	1,251	1,314
Operating expenses	4,432	4,377	3,899	3,909	927	917	1,001	1,076	3,921	918	917	968
Operating income	1,225	1,315	1,548	1,815	474	397	504	593	1,968	386	334	346
Interest expense (reversal)	41	26	1	6	(10)	1	3	(2)	(8)	6	22	22
Interest income	(131)	(117)	(37)	(7)	(1)	(2)	(1)	(2)	(6)	(1)	(1)	(1)
Income from continuing operations before income taxes	1,315	1,406	1,584	1,816	485	398	502	597	1,982	381	313	325
Income taxes	506	539	617	714	183	164	199	232	778	148	124	132
Income from continuing operations, net of income taxes	809	867	967	1,102	302	234	303	365	1,204	233	189	193
Loss from discontinued operation, net of income tax benefit	(31)	(34)	-	-	-	-	-	-	-	-	-	-
Net Income	<u>\$ 778</u>	<u>\$ 833</u>	<u>\$ 967</u>	<u>\$ 1,102</u>	<u>\$ 302</u>	<u>\$ 234</u>	<u>\$ 303</u>	<u>\$ 365</u>	<u>\$ 1,204</u>	<u>\$ 233</u>	<u>\$ 189</u>	<u>\$ 193</u>
Weighted-average number of shares - basic	831	791	716	694	668	646	622	606	636	583	542	503
Weighted-average number of shares - diluted	836	794	719	699	676	651	626	612	641	588	545	505
Basic earnings per share <sup>(1)</sup> :												
Income from continuing operations	\$ 0.97	\$ 1.10	\$ 1.35	\$ 1.59	\$ 0.45	\$ 0.36	\$ 0.49	\$ 0.60	1.89	\$ 0.40	\$ 0.35	\$ 0.38
Loss from discontinued operation	(0.03)	(0.05)	-	-	-	-	-	-	-	-	-	-
Earnings per share	<u>\$ 0.94</u>	<u>\$ 1.05</u>	<u>\$ 1.35</u>	<u>\$ 1.59</u>	<u>\$ 0.45</u>	<u>\$ 0.36</u>	<u>\$ 0.49</u>	<u>\$ 0.60</u>	<u>\$ 1.89</u>	<u>\$ 0.40</u>	<u>\$ 0.35</u>	<u>\$ 0.38</u>
Diluted earnings per share <sup>(1)</sup> :												
Income from continuing operations	\$ 0.97	\$ 1.09	\$ 1.34	\$ 1.58	\$ 0.45	\$ 0.36	\$ 0.48	\$ 0.60	\$ 1.88	\$ 0.40	\$ 0.35	\$ 0.38
Loss from discontinued operation	(0.04)	(0.04)	-	-	-	-	-	-	-	-	-	-
Earnings per share	<u>\$ 0.93</u>	<u>\$ 1.05</u>	<u>\$ 1.34</u>	<u>\$ 1.58</u>	<u>\$ 0.45</u>	<u>\$ 0.36</u>	<u>\$ 0.48</u>	<u>\$ 0.60</u>	<u>\$ 1.88</u>	<u>\$ 0.40</u>	<u>\$ 0.35</u>	<u>\$ 0.38</u>
Gross margin (% of sales)	35.5%	36.1%	37.5%	40.3%	42.1%	39.6%	41.2%	38.2%	40.2%	39.6%	36.9%	36.7%
Operating expenses (% of sales)	27.8%	27.8%	26.8%	27.5%	27.8%	27.6%	27.4%	24.7%	26.7%	27.9%	27.1%	27.0%
Operating income (% of sales)	7.7%	8.3%	10.7%	12.8%	14.2%	12.0%	13.8%	13.6%	13.4%	11.7%	9.9%	9.7%

(1) Earnings per share are computed individually for each of the periods presented; therefore, the sum of the earnings per share amounts for the quarters may not equal the total for the years.

Gap Inc.  
Quarterly Financial Summary  
Section II: Condensed Consolidated Balance Sheets

	Year End Balance				Fiscal Year 2010				Fiscal Year 2011		
	2006	2007	2008	2009	Q1	Q2	Q3	Q4	Q1	Q2	Q3
<b>Assets</b>											
Cash, cash equivalents and short-term investments	\$ 2,600	\$ 1,901	\$ 1,715	\$ 2,573	\$ 2,481	\$ 1,703	\$ 1,654	\$ 1,661	\$ 2,467	\$ 2,179	\$ 1,417
Restricted cash <sup>(1)</sup>	44	38	41	18	17	-	-	-	-	-	-
Merchandise inventory	1,796	1,575	1,506	1,477	1,534	1,632	2,160	1,620	1,713	1,750	2,322
Other current assets	589	572	743	596	632	718	663	645	690	752	815
Total current assets.....	5,029	4,086	4,005	4,664	4,664	4,053	4,477	3,926	4,870	4,681	4,554
Property and equipment, net	3,197	3,267	2,933	2,628	2,585	2,565	2,587	2,563	2,559	2,560	2,550
Other long-term assets	318	485	626	693	696	690	664	576	598	565	553
Total assets.....	\$ 8,544	\$ 7,838	\$ 7,564	\$ 7,985	\$ 7,945	\$ 7,308	\$ 7,728	\$ 7,065	\$ 8,027	\$ 7,806	\$ 7,657
<b>Liabilities and stockholders' equity</b>											
Current maturities of debt	\$ 325	\$ 138	\$ 50	\$ -	\$ -	\$ -	\$ 3	\$ 3	\$ 3	\$ 43	\$ 52
Accounts payable	772	1,006	975	1,027	1,052	1,141	1,438	1,049	1,053	1,161	1,472
Accrued expenses and other current liabilities	1,159	1,259	1,076	1,063	894	872	960	993	949	952	957
Income taxes payable	16	30	57	41	145	16	11	50	85	2	1
Total current liabilities.....	2,272	2,433	2,158	2,131	2,091	2,029	2,412	2,095	2,090	2,158	2,482
Long-term debt	188	50	-	-	-	-	-	-	1,246	1,606	1,606
Lease incentives and other long-term liabilities	910	1,081	1,019	963	947	952	972	890	920	918	910
Total long-term liabilities.....	1,098	1,131	1,019	963	947	952	972	890	2,166	2,524	2,516
Common stock	55	55	55	55	55	55	55	55	55	55	55
Additional paid-in capital	2,631	2,783	2,895	2,935	2,920	2,932	2,939	2,939	2,865	2,874	2,873
Retained earnings	8,646	9,223	9,947	10,815	11,050	11,221	11,462	11,767	11,934	12,063	12,201
Accumulated other comprehensive income	77	125	123	155	146	167	183	185	200	214	226
Treasury stock, at cost	(6,235)	(7,912)	(8,633)	(9,069)	(9,264)	(10,048)	(10,295)	(10,866)	(11,283)	(12,082)	(12,696)
Total stockholders' equity.....	5,174	4,274	4,387	4,891	4,907	4,327	4,344	4,080	3,771	3,124	2,659
Total liabilities and stockholders' equity.....	\$ 8,544	\$ 7,838	\$ 7,564	\$ 7,985	\$ 7,945	\$ 7,308	\$ 7,728	\$ 7,065	\$ 8,027	\$ 7,806	\$ 7,657

(1) Beginning in Q2 fiscal year 2010 Restricted Cash is included in Other Current Assets in the Condensed Consolidated Balance Sheets.

Gap Inc.  
Quarterly Financial Summary  
Section III: Condensed Consolidated Statements of Cash Flows

	Fiscal Year (number of weeks)				Fiscal Year 2010 (52)					Fiscal Year 2011 (52)		
	2006 (53)	2007 (52)	2008 (52)	2009 (52)	Q1 (13)	Q2 (13)	Q3 (13)	Q4 (13)	Full Year	Q1 (13)	Q2 (13)	Q3 (13)
Cash flows from operating activities:												
Net income	\$ 778	\$ 833	\$ 967	\$ 1,102	\$ 302	\$ 234	\$ 303	\$ 365	\$ 1,204	\$ 233	\$ 189	\$ 193
Depreciation and amortization <sup>(1)</sup>	530	547	568	573	147	142	140	133	562	129	126	127
Change in merchandise inventory	(97)	252	51	43	(58)	(92)	(516)	539	(127)	(80)	(35)	(579)
Other, net	39	449	(174)	210	(62)	(73)	469	(229)	105	(51)	48	338
Net cash provided by operating activities.....	<u>1,250</u>	<u>2,081</u>	<u>1,412</u>	<u>1,928</u>	<u>329</u>	<u>211</u>	<u>396</u>	<u>808</u>	<u>1,744</u>	<u>231</u>	<u>328</u>	<u>79</u>
Cash flows from investing activities:												
Purchases of property and equipment	(572)	(682)	(431)	(334)	(107)	(141)	(165)	(144)	(557)	(127)	(134)	(155)
Proceeds from sale of property and equipment	22	11	1	1	-	-	-	-	-	-	-	-
Purchases of short-term investments	(1,460)	(894)	(75)	(350)	(325)	(75)	(50)	(25)	(475)	-	(50)	-
Maturities of short-term investments	1,841	1,287	251	125	125	150	150	175	600	50	25	50
Acquisition of business, net of cash acquired	-	-	(142)	-	-	-	-	-	-	-	-	-
Change in other assets	19	4	(2)	21	2	(7)	8	-	3	(2)	(1)	(1)
Net cash provided by (used for) investing activities.....	<u>(150)</u>	<u>(274)</u>	<u>(398)</u>	<u>(537)</u>	<u>(305)</u>	<u>(73)</u>	<u>(57)</u>	<u>6</u>	<u>(429)</u>	<u>(79)</u>	<u>(160)</u>	<u>(106)</u>
Cash flows from financing activities:												
Payments of long-term debt	-	(326)	(138)	(50)	-	-	-	-	-	-	-	-
Proceeds from issuance of long-term debt	-	-	-	-	-	-	-	-	-	1,246	400	-
Payments of long-term debt issuance costs	-	-	-	-	-	-	-	-	-	(11)	-	-
Proceeds from issuance of short-term debt	-	-	-	-	-	-	3	3	6	-	-	9
Payments of short-term debt	-	-	-	-	-	-	-	(3)	(3)	-	-	-
Proceeds from share-based compensation, net of withholding tax payments	190	125	75	56	45	9	8	8	70	28	12	15
Repurchases of common stock	(1,050)	(1,700)	(705)	(547)	(299)	(799)	(254)	(607)	(1,959)	(518)	(842)	(653)
Excess tax benefit from exercise of stock options and vesting of stock units	23	7	6	4	8	1	-	2	11	10	1	-
Cash dividends paid	(265)	(252)	(243)	(234)	(67)	(63)	(62)	(60)	(252)	(66)	(60)	(55)
Net cash provided by (used for) financing activities.....	<u>(1,102)</u>	<u>(2,146)</u>	<u>(1,005)</u>	<u>(771)</u>	<u>(313)</u>	<u>(852)</u>	<u>(305)</u>	<u>(657)</u>	<u>(2,127)</u>	<u>689</u>	<u>(489)</u>	<u>(684)</u>
Effect of exchange rate fluctuations on cash.....	<u>(3)</u>	<u>33</u>	<u>(18)</u>	<u>13</u>	<u>(3)</u>	<u>11</u>	<u>16</u>	<u>1</u>	<u>25</u>	<u>15</u>	<u>8</u>	<u>(1)</u>
Net increase (decrease) in cash and cash equivalents.....	<u>\$ (5)</u>	<u>\$ (306)</u>	<u>\$ (9)</u>	<u>\$ 633</u>	<u>\$ (292)</u>	<u>\$ (703)</u>	<u>\$ 50</u>	<u>\$ 158</u>	<u>\$ (787)</u>	<u>\$ 856</u>	<u>\$ (313)</u>	<u>\$ (712)</u>
Net cash provided by operating activities	\$ 1,250	\$ 2,081	\$ 1,412	\$ 1,928	\$ 329	\$ 211	\$ 396	\$ 808	\$ 1,744	\$ 231	\$ 328	\$ 79
Less: purchases of property and equipment	(572)	(682)	(431)	(334)	(107)	(141)	(165)	(144)	(557)	(127)	(134)	(155)
Free cash flow <sup>(2)</sup> .....	<u>\$ 678</u>	<u>\$ 1,399</u>	<u>\$ 981</u>	<u>\$ 1,594</u>	<u>\$ 222</u>	<u>\$ 70</u>	<u>\$ 231</u>	<u>\$ 664</u>	<u>\$ 1,187</u>	<u>\$ 104</u>	<u>\$ 194</u>	<u>\$ (76)</u>

(1) Depreciation and amortization is net of the amortization of lease incentives.

(2) Free cash flow is a non-GAAP financial measure. We believe free cash flow is an important metric because it represents a measure of how much cash a company has available for discretionary and non-discretionary items after the deduction of capital expenditures, as we require regular capital expenditures to build and maintain stores and purchase new equipment to improve our business. We use this metric internally, as we believe our sustained ability to generate free cash flow is an important driver of value creation. However, this non-GAAP financial measure is not intended to supersede or replace our GAAP results.

Gap Inc.  
Quarterly Financial Summary  
Section IV: Selected Metrics

	Fiscal Year (number of weeks)				Fiscal Year 2010 (52)					Fiscal Year 2011 (52)		
	2006 (53)	2007 (52)	2008 (52)	2009 (52)	Q1 (13)	Q2 (13)	Q3 (13)	Q4 (13)	Full Year	Q1 (13)	Q2 (13)	Q3
Rent expenses	\$ 1,045	\$ 1,095	\$ 1,114	1,106	\$ 278	\$ 267	\$ 288	\$ 296	\$ 1,129	\$ 289	\$ 296	\$ 297
Marketing expenses	\$ 573	\$ 476	\$ 435	513	\$ 113	\$ 101	\$ 142	\$ 160	\$ 516	\$ 119	\$ 114	\$ 149
Dividends per share	\$ 0.32	\$ 0.32	\$ 0.34	0.34	\$ 0.10	\$ 0.10	\$ 0.10	\$ 0.10	\$ 0.40	\$ 0.11	\$ 0.11	\$ 0.11
Square footage	38.9	39.6	39.5	38.8	38.7	38.5	38.4	38.2	38.2	37.8	37.7	37.6
Square footage - growth/decline (%) <sup>(1)</sup>	2.7%	2.3%	-0.3%	-1.8%	-1.8%	-2.3%	-2.5%	-1.5%	-1.5%	-2.3%	-2.1%	-2.1%
Average square footage <sup>(2)</sup>	38	39	40	39	39	39	38	38	39	38	38	38
Sales per average square foot (\$) <sup>(3)</sup>	\$ 395	\$ 376	\$ 336	329	\$ 77	\$ 78	\$ 85	\$ 102	\$ 342	\$ 76	\$ 80	\$ 82
Number of Company-operated store locations	3,131	3,167	3,149	3,095	3,085	3,076	3,082	3,068	3,068	3,059	3,053	3,065
Number of franchise store locations	7	64	114	136	147	151	165	178	178	186	195	211
Number of store locations	3,138	3,231	3,263	3,231	3,232	3,227	3,247	3,246	3,246	3,245	3,248	3,276
Store openings	187	271	152	75	22	16	39	41	118	25	31	59
Store closings	116	159	120	107	21	21	19	42	103	26	28	31
Working capital	\$ 2,757	\$ 1,653	\$ 1,847	2,533	\$ 2,573	\$ 2,024	\$ 2,065	1,831	1,831	2,780	2,523	2,072
Current ratio	2.21	1.68	1.86	2.19	2.23	2.00	1.86	1.87	1.87	2.33	2.17	1.83
Long-term debt to equity ratio	0.04	0.01	-	-	-	-	-	-	-	0.33	0.51	0.60
Shares outstanding	814	734	694	676	667	630	616	588	588	569	527	489
Treasury shares repurchased	58	89	46	24	14	38	15	28	96	25	42	39
Average acquisition cost per share	\$ 18	\$ 19	\$ 16	21	\$ 21	\$ 21	\$ 17	\$ 21	\$ 20	\$ 22	\$ 19	\$ 16
Inventory	\$ 1,796	\$ 1,575	\$ 1,506	1,477	\$ 1,534	\$ 1,632	\$ 2,160	\$ 1,620	\$ 1,620	\$ 1,713	\$ 1,750	\$ 2,322
Inventory per store - increase/decrease (%) <sup>(4)</sup>	3%	-15%	-6%	-1%	12%	12%	8%	8%	8%	10%	5%	6%
Return on equity <sup>(5)</sup>	14.7	17.6	22.4	23.8					26.8			
Return on average assets <sup>(6)</sup>	9.0	10.2	12.6	14.2					16.0			

(1) Square footage growth/decline (%) represents year over year % change.

(2) Annual average square footage is calculated using a 13-point average. Quarterly average square footage is calculated using a 4-point average.

(3) Excludes sales for online brands, Franchise and Wholesale.

(4) Excludes inventory for Gap Inc. Direct, Franchise, and Wholesale. Also excludes Athleta stores.

(5) Calculation: net income / average annual total stockholders' equity (2-point average).

(6) Calculation: net income / average annual total assets (2-point average).