

Gap Inc.

Quarterly Financial Summary  
Q3 2009

# Gap Inc.

## Gap Inc. Quarterly Financial Summary Q3 2009

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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 and per square footage data.
- Beginning with the second quarter of fiscal year 2007, 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.

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

	Fiscal Year (number of weeks)				Fiscal Year 2008 (52)					Fiscal Year 2009 (52)		
	2004 (52)	2005 (52)	2006 (53)	2007 (52)	Q1 (13)	Q2 (13)	Q3 (13)	Q4 (13)	Full Year	Q1 (13)	Q2 (13)	Q3 (13)
Net sales	\$ 16,267	\$ 16,019	\$ 15,923	\$ 15,763	\$ 3,384	\$ 3,499	\$ 3,561	\$ 4,082	\$ 14,526	\$ 3,127	\$ 3,245	\$ 3,589
Cost of goods sold and occupancy expenses	9,886	10,145	10,266	10,071	2,042	2,161	2,183	2,693	9,079	1,888	1,957	2,065
Gross profit	6,381	5,874	5,657	5,692	1,342	1,338	1,378	1,389	5,447	1,239	1,288	1,524
Operating expenses	4,296	4,099	4,432	4,377	959	965	984	991	3,899	886	913	1,024
Loss on early retirement of debt	105	-	-	-	-	-	-	-	-	-	-	-
Operating income	1,980	1,775	1,225	1,315	383	373	394	398	1,548	353	375	500
Interest expense	167	45	41	26	(12)	6	5	2	1	2	1	1
Interest income	(59)	(93)	(131)	(117)	(13)	(10)	(9)	(5)	(37)	(2)	(2)	(1)
Income from continuing operations before income taxes	1,872	1,823	1,315	1,406	408	377	398	401	1,584	353	376	500
Income taxes	722	692	506	539	159	148	152	158	617	138	148	193
Income from continuing operations, net of income taxes	1,150	1,131	809	867	249	229	246	243	967	215	228	307
Loss from discontinued operation, net of income tax benefit	-	(18)	(31)	(34)	-	-	-	-	-	-	-	-
Net Income	\$ 1,150	\$ 1,113	\$ 778	\$ 833	\$ 249	\$ 229	\$ 246	\$ 243	\$ 967	\$ 215	\$ 228	\$ 307
Weighted average number of shares - basic	893	881	831	791	733	717	709	705	716	695	697	698
Weighted average number of shares - diluted	991	902	836	794	736	719	712	706	719	697	700	704
Basic earnings per share:												
Income from continuing operations	\$ 1.29	\$ 1.28	\$ 0.97	\$ 1.10	\$ 0.34	\$ 0.32	\$ 0.35	\$ 0.34	\$ 1.35	\$ 0.31	\$ 0.33	\$ 0.44
Loss from discontinued operation	-	(0.02)	(0.03)	(0.05)	-	-	-	-	-	-	-	-
Net income	\$ 1.29	\$ 1.26	\$ 0.94	\$ 1.05	\$ 0.34	\$ 0.32	\$ 0.35	\$ 0.34	\$ 1.35	\$ 0.31	\$ 0.33	\$ 0.44
Diluted earnings per share:												
Income from continuing operations	\$ 1.21	\$ 1.26	\$ 0.97	\$ 1.09	\$ 0.34	\$ 0.32	\$ 0.35	\$ 0.34	\$ 1.34	\$ 0.31	\$ 0.33	\$ 0.44
Loss from discontinued operation	-	(0.02)	(0.04)	(0.04)	-	-	-	-	-	-	-	-
Net income	\$ 1.21	\$ 1.24	\$ 0.93	\$ 1.05	\$ 0.34	\$ 0.32	\$ 0.35	\$ 0.34	\$ 1.34	\$ 0.31	\$ 0.33	\$ 0.44
Gross margin (% of sales)	39.2%	36.7%	35.5%	36.1%	39.7%	38.2%	38.7%	34.0%	37.5%	39.6%	39.7%	42.5%
Operating expenses (% of sales)	26.4%	25.6%	27.8%	27.8%	28.3%	27.6%	27.6%	24.3%	26.8%	28.3%	28.1%	28.5%
Operating income (% of sales)	12.2%	11.1%	7.7%	8.3%	11.3%	10.7%	11.1%	9.8%	10.7%	11.3%	11.6%	13.9%

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

	Year End Balance				Fiscal Year 2008				Fiscal Year 2009		
	2004	2005	2006	2007	Q1	Q2	Q3	Q4	Q1	Q2	Q3
<b>Assets</b>											
Cash, cash equivalents and short-term investments	\$ 3,062	\$ 2,987	\$ 2,600	\$ 1,901	\$ 1,744	\$ 1,680	\$ 1,555	\$ 1,715	\$ 1,708	\$ 2,131	\$ 2,398
Restricted cash	1,015	55	44	38	36	33	38	41	21	21	21
Merchandise inventory	1,814	1,696	1,796	1,575	1,555	1,700	2,224	1,506	1,393	1,473	1,999
Other current assets	413	501	589	572	635	693	740	743	647	651	636
Total current assets.....	6,304	5,239	5,029	4,086	3,970	4,106	4,557	4,005	3,769	4,276	5,054
Property and equipment, net	3,376	3,246	3,197	3,267	3,207	3,129	3,016	2,933	2,820	2,775	2,717
Other long-term assets	368	336	318	485	471	467	613	626	632	654	659
Total assets.....	\$ 10,048	\$ 8,821	\$ 8,544	\$ 7,838	\$ 7,648	\$ 7,702	\$ 8,186	\$ 7,564	\$ 7,221	\$ 7,705	\$ 8,430
<b>Liabilities and stockholders' equity</b>											
Current maturities of long-term debt	\$ -	\$ -	\$ 325	\$ 138	\$ 188	\$ 188	\$ 188	\$ 50	\$ -	\$ -	\$ -
Accounts payable	877	776	772	1,006	960	1,227	1,578	975	812	1,038	1,418
Accrued expense and other current liabilities	1,287	1,081	1,159	1,259	1,032	1,012	1,052	1,076	864	923	1,050
Income taxes payable	78	85	16	30	98	10	25	57	9	10	6
Total current liabilities.....	2,242	1,942	2,272	2,433	2,278	2,437	2,843	2,158	1,685	1,971	2,474
Long-term debt	1,886	513	188	50	-	-	-	-	-	-	-
Lease incentives and other long-term liabilities	984	941	910	1,081	1,057	1,041	1,018	1,019	996	989	975
Total long-term liabilities.....	2,870	1,454	1,098	1,131	1,057	1,041	1,018	1,019	996	989	975
Common stock	49	54	55	55	55	55	55	55	55	55	55
Additional paid-in capital	904	2,402	2,631	2,783	2,832	2,849	2,884	2,895	2,893	2,901	2,921
Retained earnings	7,181	8,133	8,646	9,223	9,410	9,578	9,765	9,947	10,103	10,272	10,520
Accumulated other comprehensive income	48	51	77	125	138	142	116	123	116	130	153
Deferred compensation	(8)	(5)	-	-	-	-	-	-	-	-	-
Treasury stock, at cost	(3,238)	(5,210)	(6,235)	(7,912)	(8,122)	(8,400)	(8,495)	(8,633)	(8,627)	(8,613)	(8,668)
Total stockholders' equity.....	4,936	5,425	5,174	4,274	4,313	4,224	4,325	4,387	4,540	4,745	4,981
Total liabilities and stockholders' equity.....	\$ 10,048	\$ 8,821	\$ 8,544	\$ 7,838	\$ 7,648	\$ 7,702	\$ 8,186	\$ 7,564	\$ 7,221	\$ 7,705	\$ 8,430

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

	Fiscal Year (number of weeks)				Fiscal Year 2008 (52)					Fiscal Year 2009 (52)		
	2004 (52)	2005 (52)	2006 (53)	2007 (52)	Q1 (13)	Q2 (13)	Q3 (13)	Q4 (13)	Full Year	Q1 (13)	Q2 (13)	Q3 (13)
Cash flows from operating activities:												
Net income	\$ 1,150	\$ 1,113	\$ 778	\$ 833	\$ 249	\$ 229	\$ 246	\$ 243	\$ 967	\$ 215	\$ 228	\$ 307
Depreciation and amortization <sup>(1)</sup>	615	625	530	547	139	142	141	146	568	143	141	147
Change in merchandise inventory	(90)	114	(97)	252	19	(147)	(539)	718	51	110	(65)	(523)
Other cash flows from operating activities	(78)	(301)	39	449	(231)	162	424	(529)	(174)	(266)	214	501
Net cash provided by operating activities.....	<u>1,597</u>	<u>1,551</u>	<u>1,250</u>	<u>2,081</u>	<u>176</u>	<u>386</u>	<u>272</u>	<u>578</u>	<u>1,412</u>	<u>202</u>	<u>518</u>	<u>432</u>
Cash flows from investing activities:												
Purchases of property and equipment	(419)	(600)	(572)	(682)	(114)	(94)	(107)	(116)	(431)	(63)	(68)	(90)
Proceeds from sale of property and equipment	-	27	22	11	-	-	-	1	1	-	-	-
Purchases of short-term investments	(1,813)	(1,768)	(1,460)	(894)	-	(75)	-	-	(75)	-	(100)	(150)
Maturities of short-term investments	2,072	1,645	1,841	1,287	177	-	-	74	251	-	-	25
Acquisition of business, net of cash acquired	-	-	-	-	-	-	(141)	(1)	(142)	-	-	-
Purchases of long-term investments	-	(100)	-	-	-	-	-	-	-	-	-	-
Maturities of long-term investments	-	100	-	-	-	-	-	-	-	-	-	-
Change in restricted cash	337	959	11	7	2	3	(4)	(2)	(1)	18	-	1
Change in other long-term assets	6	23	8	(3)	-	-	-	(1)	(1)	-	-	-
Net cash provided by (used for) investing activities.....	<u>183</u>	<u>286</u>	<u>(150)</u>	<u>(274)</u>	<u>65</u>	<u>(166)</u>	<u>(252)</u>	<u>(45)</u>	<u>(398)</u>	<u>(45)</u>	<u>(168)</u>	<u>(214)</u>
Cash flows from financing activities:												
Payments of long-term debt	(871)	-	-	(326)	-	-	-	(138)	(138)	(50)	-	-
Proceeds from share-based compensation, net	154	139	190	125	36	8	25	6	75	-	10	37
Repurchases of common stock	(1,000)	(2,000)	(1,050)	(1,700)	(196)	(304)	(93)	(112)	(705)	(45)	-	(61)
Excess tax benefit from exercise of stock options and vesting of stock units	-	-	23	7	3	-	3	-	6	-	-	3
Cash dividends paid	(79)	(179)	(265)	(252)	(62)	(61)	(60)	(60)	(243)	(59)	(59)	(60)
Net cash used for financing activities.....	<u>(1,796)</u>	<u>(2,040)</u>	<u>(1,102)</u>	<u>(2,146)</u>	<u>(219)</u>	<u>(357)</u>	<u>(125)</u>	<u>(304)</u>	<u>(1,005)</u>	<u>(154)</u>	<u>(49)</u>	<u>(81)</u>
Effect of exchange rate fluctuations on cash.....	-	(7)	(3)	33	(2)	(1)	(21)	6	(18)	(10)	22	5
Net increase (decrease) in cash and cash equivalents.....	<u>\$ (16)</u>	<u>\$ (210)</u>	<u>\$ (5)</u>	<u>\$ (306)</u>	<u>\$ 20</u>	<u>\$ (138)</u>	<u>\$ (126)</u>	<u>\$ 235</u>	<u>\$ (9)</u>	<u>\$ (7)</u>	<u>\$ 323</u>	<u>\$ 142</u>
Net cash provided by operating activities	\$ 1,597	\$ 1,551	\$ 1,250	\$ 2,081	\$ 176	\$ 386	\$ 272	\$ 578	\$ 1,412	\$ 202	\$ 518	\$ 432
Less: purchases of property and equipment	(419)	(600)	(572)	(682)	(114)	(94)	(107)	(116)	(431)	(63)	(68)	(90)
Free cash flow <sup>(2)</sup> .....	<u>\$ 1,178</u>	<u>\$ 951</u>	<u>\$ 678</u>	<u>\$ 1,399</u>	<u>\$ 62</u>	<u>\$ 292</u>	<u>\$ 165</u>	<u>\$ 462</u>	<u>\$ 981</u>	<u>\$ 139</u>	<u>\$ 450</u>	<u>\$ 342</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 as it represents a measure of how much cash a company has available 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 increase 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.

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Section IV: Selected Metrics

	Fiscal Year				Fiscal Year 2008					Fiscal Year 2009		
	2004	2005	2006 <sup>(6)</sup>	2007	Q1	Q2	Q3	Q4	Full Year	Q1	Q2	Q3
Total rent (\$)	967	1,005	1,045	1,095	277	279	279	279	1,114	270	272	278
Advertising (\$)	528	510	573	476	93	82	121	139	435	96	94	141
Dividends per share (\$)	0.09	0.18	0.32	0.32	0.085	0.085	0.085	0.085	0.34	0.085	0.085	0.085
Square footage	36.6	37.7	38.7	39.6	39.7	39.6	39.9	39.5	39.5	39.4	39.4	39.4
Square footage - growth/(decline) (%) <sup>(1)</sup>	0.3	3.0	2.7	2.3	2.1	1.0	0.5	(0.3)	(0.3)	(0.8)	(0.5)	(1.3)
Average square footage <sup>(2)</sup>	37	37	38	39	40	40	40	40	40	39	39	39
Sales per average square foot (\$) <sup>(3)</sup>	428	412	395	376	79	82	81	94	336	72	76	82
Store locations	2,994	3,048	3,112	3,167	3,177	3,170	3,190	3,149	3,149	3,149	3,145	3,143
Openings - locations	130	193	180	214	33	22	37	9	101	11	12	13
Closings - locations	158	139	116	159	23	29	17	50	119	11	16	15
Working capital (\$)	4,062	3,297	2,757	1,653	1,692	1,669	1,714	1,847	1,847	2,084	2,305	2,582
Current ratio	2.81	2.70	2.21	1.68	1.74	1.68	1.60	1.86	1.86	2.24	2.17	2.04
Long-term debt to equity ratio	0.38	0.09	0.04	0.01	-	-	-	-	-	-	-	-
Shares outstanding	861	857	814	734	725	710	706	694	694	696	697	695
Treasury shares repurchased	48	99	58	89	11	16	6	12	46	0.4	-	4
Average acquisition cost per share (\$)	21	20	18	19	19	17	18	12	16	11	-	22
Inventory (\$)	1,814	1,696	1,796	1,575	1,555	1,700	2,224	1,506	1,506	1,393	1,473	1,999
Inventory per square foot - increase/(decrease) (%)	6	(11)	3	(15)	(17)	(17)	(13)	(6)	(6)	(12)	(14)	(9)
Return on equity <sup>(4)</sup>	24.0	21.5	14.7	17.6					22.4			
Return on average assets <sup>(5)</sup>	11.1	11.8	9.0	10.2					12.6			

(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 Gap Inc. Direct, Franchise and Wholesale.

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

(5) Calculation: net earnings / average annual total assets (2-point average).

(6) Fiscal 2006 consisted of 53 weeks.