

Gap Inc.

Quarterly Financial Summary
Q4 2009

Gap Inc.

Gap Inc. Quarterly Financial Summary Q4 2009

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) | Q4 (13) | Full Year |
| 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 | \$ 4,236 | \$ 14,197 |
| 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 | 2,563 | 8,473 |
| 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 | 1,673 | 5,724 |
| Operating expenses | 4,296 | 4,099 | 4,432 | 4,377 | 959 | 965 | 984 | 991 | 3,899 | 886 | 913 | 1,024 | 1,086 | 3,909 |
| 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 | 587 | 1,815 |
| Interest expense | 167 | 45 | 41 | 26 | (12) | 6 | 5 | 2 | 1 | 2 | 1 | 1 | 2 | 6 |
| Interest income | (59) | (93) | (131) | (117) | (13) | (10) | (9) | (5) | (37) | (2) | (2) | (1) | (2) | (7) |
| Income from continuing operations before income taxes | 1,872 | 1,823 | 1,315 | 1,406 | 408 | 377 | 398 | 401 | 1,584 | 353 | 376 | 500 | 587 | 1,816 |
| Income taxes | 722 | 692 | 506 | 539 | 159 | 148 | 152 | 158 | 617 | 138 | 148 | 193 | 235 | 714 |
| Income from continuing operations, net of income taxes | 1,150 | 1,131 | 809 | 867 | 249 | 229 | 246 | 243 | 967 | 215 | 228 | 307 | 352 | 1,102 |
| 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 | \$ 352 | \$ 1,102 |
| Weighted average number of shares - basic | 893 | 881 | 831 | 791 | 733 | 717 | 709 | 705 | 716 | 695 | 697 | 698 | 686 | 694 |
| Weighted average number of shares - diluted | 991 | 902 | 836 | 794 | 736 | 719 | 712 | 706 | 719 | 697 | 700 | 704 | 693 | 699 |
| 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 | \$ 0.51 | 1.59 |
| 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 | \$ 0.51 | \$ 1.59 |
| 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 | \$ 0.51 | \$ 1.58 |
| 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 | \$ 0.51 | \$ 1.58 |
| 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% | 39.5% | 40.3% |
| 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% | 25.6% | 27.5% |
| 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% | 13.9% | 12.8% |

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 | Q4 |
| Assets | | | | | | | | | | | | |
| 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 | \$ 2,573 |
| Restricted cash | 1,015 | 55 | 44 | 38 | 36 | 33 | 38 | 41 | 21 | 21 | 21 | 18 |
| Merchandise inventory | 1,814 | 1,696 | 1,796 | 1,575 | 1,555 | 1,700 | 2,224 | 1,506 | 1,393 | 1,473 | 1,999 | 1,477 |
| Other current assets | 413 | 501 | 589 | 572 | 635 | 693 | 740 | 743 | 647 | 651 | 636 | 596 |
| 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 | 4,664 |
| 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 | 2,628 |
| Other long-term assets | 368 | 336 | 318 | 485 | 471 | 467 | 613 | 626 | 632 | 654 | 659 | 693 |
| Total assets..... | \$ 10,048 | \$ 8,821 | \$ 8,544 | \$ 7,838 | \$ 7,648 | \$ 7,702 | \$ 8,186 | \$ 7,564 | \$ 7,221 | \$ 7,705 | \$ 8,430 | \$ 7,985 |
| Liabilities and stockholders' equity | | | | | | | | | | | | |
| 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 | 1,027 |
| 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 | 1,063 |
| Income taxes payable | 78 | 85 | 16 | 30 | 98 | 10 | 25 | 57 | 9 | 10 | 6 | 41 |
| 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 | 2,131 |
| 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 | 963 |
| Total long-term liabilities..... | 2,870 | 1,454 | 1,098 | 1,131 | 1,057 | 1,041 | 1,018 | 1,019 | 996 | 989 | 975 | 963 |
| Common stock | 49 | 54 | 55 | 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 | 2,935 |
| Retained earnings | 7,181 | 8,133 | 8,646 | 9,223 | 9,410 | 9,578 | 9,765 | 9,947 | 10,103 | 10,272 | 10,520 | 10,815 |
| Accumulated other comprehensive income | 48 | 51 | 77 | 125 | 138 | 142 | 116 | 123 | 116 | 130 | 153 | 155 |
| 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) | (9,069) |
| 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 | 4,891 |
| 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 | \$ 7,985 |

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) | Q4 (13) | Full Year |
| Cash flows from operating activities: | | | | | | | | | | | | | | |
| Net income | \$ 1,150 | \$ 1,113 | \$ 778 | \$ 833 | \$ 249 | \$ 229 | \$ 246 | \$ 243 | \$ 967 | \$ 215 | \$ 228 | \$ 307 | \$ 352 | \$ 1,102 |
| Depreciation and amortization ⁽¹⁾ | 615 | 625 | 530 | 547 | 139 | 142 | 141 | 146 | 568 | 143 | 141 | 147 | 142 | 573 |
| Change in merchandise inventory | (90) | 114 | (97) | 252 | 19 | (147) | (539) | 718 | 51 | 110 | (65) | (523) | 521 | 43 |
| Other cash flows from operating activities, net | (78) | (301) | 39 | 449 | (231) | 162 | 424 | (529) | (174) | (266) | 214 | 501 | (238) | 210 |
| Net cash provided by operating activities..... | 1,597 | 1,551 | 1,250 | 2,081 | 176 | 386 | 272 | 578 | 1,412 | 202 | 518 | 432 | 777 | 1,928 |
| Cash flows from investing activities: | | | | | | | | | | | | | | |
| Purchases of property and equipment | (419) | (600) | (572) | (682) | (114) | (94) | (107) | (116) | (431) | (63) | (68) | (90) | (113) | (334) |
| Proceeds from sale of property and equipment | - | 27 | 22 | 11 | - | - | - | 1 | 1 | - | - | - | 1 | 1 |
| Purchases of short-term investments | (1,813) | (1,768) | (1,460) | (894) | - | (75) | - | - | (75) | - | (100) | (150) | (100) | (350) |
| Maturities of short-term investments | 2,072 | 1,645 | 1,841 | 1,287 | 177 | - | - | 74 | 251 | - | - | 25 | 100 | 125 |
| 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 | 2 | 21 |
| Change in other long-term assets | 6 | 23 | 8 | (3) | - | - | - | (1) | (1) | - | - | - | - | - |
| Net cash provided by (used for) investing activities..... | 183 | 286 | (150) | (274) | 65 | (166) | (252) | (45) | (398) | (45) | (168) | (214) | (110) | (537) |
| Cash flows from financing activities: | | | | | | | | | | | | | | |
| Payments of long-term debt | (871) | - | - | (326) | - | - | - | (138) | (138) | (50) | - | - | - | (50) |
| Proceeds from share-based compensation, net | 154 | 139 | 190 | 125 | 36 | 8 | 25 | 6 | 75 | - | 10 | 37 | 8 | 56 |
| Repurchases of common stock | (1,000) | (2,000) | (1,050) | (1,700) | (196) | (304) | (93) | (112) | (705) | (45) | - | (61) | (441) | (547) |
| Excess tax benefit from exercise of stock options and vesting of stock units | - | - | 23 | 7 | 3 | - | 3 | - | 6 | - | - | 3 | 1 | 4 |
| Cash dividends paid | (79) | (179) | (265) | (252) | (62) | (61) | (60) | (60) | (243) | (59) | (59) | (60) | (56) | (234) |
| Net cash used for financing activities..... | (1,796) | (2,040) | (1,102) | (2,146) | (219) | (357) | (125) | (304) | (1,005) | (154) | (49) | (81) | (488) | (771) |
| Effect of exchange rate fluctuations on cash..... | - | (7) | (3) | 33 | (2) | (1) | (21) | 6 | (18) | (10) | 22 | 5 | (4) | 13 |
| Net increase (decrease) in cash and cash equivalents..... | \$ (16) | \$ (210) | \$ (5) | \$ (306) | \$ 20 | \$ (138) | \$ (126) | \$ 235 | \$ (9) | \$ (7) | \$ 323 | \$ 142 | \$ 175 | \$ 633 |
| Net cash provided by operating activities | \$ 1,597 | \$ 1,551 | \$ 1,250 | \$ 2,081 | \$ 176 | \$ 386 | \$ 272 | \$ 578 | \$ 1,412 | \$ 202 | \$ 518 | \$ 432 | \$ 777 | \$ 1,928 |
| Less: purchases of property and equipment | (419) | (600) | (572) | (682) | (114) | (94) | (107) | (116) | (431) | (63) | (68) | (90) | (113) | (334) |
| Free cash flow ⁽²⁾ | \$ 1,178 | \$ 951 | \$ 678 | \$ 1,399 | \$ 62 | \$ 292 | \$ 165 | \$ 462 | \$ 981 | \$ 139 | \$ 450 | \$ 342 | \$ 664 | \$ 1,594 |

(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 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 | | | | Fiscal Year 2008 | | | | | Fiscal Year 2009 | | | | |
|--|-------------|-------|---------------------|-------|------------------|-------|-------|-------|-----------|------------------|-------|-------|-------|-----------|
| | 2004 | 2005 | 2006 ⁽⁶⁾ | 2007 | Q1 | Q2 | Q3 | Q4 | Full Year | Q1 | Q2 | Q3 | Q4 | Full Year |
| Total rent (\$) | 967 | 1,005 | 1,045 | 1,095 | 277 | 279 | 279 | 279 | 1,114 | 270 | 272 | 278 | 285 | 1,105 |
| Advertising (\$) | 528 | 510 | 573 | 476 | 93 | 82 | 121 | 139 | 435 | 96 | 94 | 141 | 182 | 513 |
| 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 | 0.085 | 0.34 |
| 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 | 38.8 | 38.8 |
| Square footage - growth/(decline) (%) ⁽¹⁾ | 0.3 | 3.0 | 2.7 | 2.3 | 2.1 | 1.0 | 0.5 | (0.3) | (0.3) | (0.8) | (0.5) | (1.3) | (1.8) | (1.8) |
| Average square footage ⁽²⁾ | 37 | 37 | 38 | 39 | 40 | 40 | 40 | 40 | 40 | 39 | 39 | 39 | 39 | 39 |
| Sales per average square foot (\$) ⁽³⁾ | 428 | 412 | 395 | 376 | 79 | 82 | 81 | 94 | 336 | 72 | 76 | 82 | 99 | 329 |
| 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 | 3,095 | 3,095 |
| Openings - locations | 130 | 193 | 180 | 214 | 33 | 22 | 37 | 9 | 101 | 11 | 12 | 13 | 11 | 47 |
| Closings - locations | 158 | 139 | 116 | 159 | 23 | 29 | 17 | 50 | 119 | 11 | 16 | 15 | 59 | 101 |
| 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 | 2,534 | 2,534 |
| 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 | 2.19 | 2.19 |
| 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 | 676 | 676 |
| Treasury shares repurchased | 48 | 99 | 58 | 89 | 11 | 16 | 6 | 12 | 46 | 0.4 | - | 4 | 19 | 24 |
| Average acquisition cost per share (\$) | 21 | 20 | 18 | 19 | 19 | 17 | 18 | 12 | 16 | 11 | - | 22 | 21 | 21 |
| 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 | 1,477 | 1,477 |
| Inventory per square foot - increase/(decrease) (%) | 6 | (11) | 3 | (15) | (17) | (17) | (13) | (6) | (6) | (12) | (14) | (9) | (1) | (1) |
| Return on equity ⁽⁴⁾ | 24.0 | 21.5 | 14.7 | 17.6 | | | | | 22.4 | | | | | 23.8 |
| Return on average assets ⁽⁵⁾ | 11.1 | 11.8 | 9.0 | 10.2 | | | | | 12.6 | | | | | 14.2 |

(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.