

Gap Inc.

Quarterly Financial Summary
Q2 2010

Gap Inc.

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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.
- 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 2009 (52)					Fiscal Year 2010 (52)	
	2005 (52)	2006 (53)	2007 (52)	2008 (52)	Q1 (13)	Q2 (13)	Q3 (13)	Q4 (13)	Full Year	Q1 (13)	Q2 (13)
Net sales	\$ 16,019	\$ 15,923	\$ 15,763	\$ 14,526	\$ 3,127	\$ 3,245	\$ 3,589	\$ 4,236	\$ 14,197	\$ 3,329	\$ 3,317
Cost of goods sold and occupancy expenses	10,145	10,266	10,071	9,079	1,888	1,957	2,065	2,563	8,473	1,928	2,003
Gross profit	5,874	5,657	5,692	5,447	1,239	1,288	1,524	1,673	5,724	1,401	1,314
Operating expenses	4,099	4,432	4,377	3,899	886	913	1,024	1,086	3,909	927	917
Operating income	1,775	1,225	1,315	1,548	353	375	500	587	1,815	474	397
Interest expense	45	41	26	1	2	1	1	2	6	(10)	1
Interest income	(93)	(131)	(117)	(37)	(2)	(2)	(1)	(2)	(7)	(1)	(2)
Income from continuing operations before income taxes	1,823	1,315	1,406	1,584	353	376	500	587	1,816	485	398
Income taxes	692	506	539	617	138	148	193	235	714	183	164
Income from continuing operations, net of income taxes	1,131	809	867	967	215	228	307	352	1,102	302	234
Loss from discontinued operation, net of income tax benefit	(18)	(31)	(34)	-	-	-	-	-	-	-	-
Net Income	<u>\$ 1,113</u>	<u>\$ 778</u>	<u>\$ 833</u>	<u>\$ 967</u>	<u>\$ 215</u>	<u>\$ 228</u>	<u>\$ 307</u>	<u>\$ 352</u>	<u>\$ 1,102</u>	<u>\$ 302</u>	<u>\$ 234</u>
Weighted average number of shares - basic	881	831	791	716	695	697	698	686	694	668	646
Weighted average number of shares - diluted	902	836	794	719	697	700	704	693	699	676	651
Basic earnings per share:											
Income from continuing operations	\$ 1.28	\$ 0.97	\$ 1.10	\$ 1.35	\$ 0.31	\$ 0.33	\$ 0.44	\$ 0.51	1.59	\$ 0.45	\$ 0.36
Loss from discontinued operation	(0.02)	(0.03)	(0.05)	-	-	-	-	-	-	-	-
Net income	<u>\$ 1.26</u>	<u>\$ 0.94</u>	<u>\$ 1.05</u>	<u>\$ 1.35</u>	<u>\$ 0.31</u>	<u>\$ 0.33</u>	<u>\$ 0.44</u>	<u>\$ 0.51</u>	<u>\$ 1.59</u>	<u>\$ 0.45</u>	<u>\$ 0.36</u>
Diluted earnings per share:											
Income from continuing operations	\$ 1.26	\$ 0.97	\$ 1.09	\$ 1.34	\$ 0.31	\$ 0.33	\$ 0.44	\$ 0.51	\$ 1.58	\$ 0.45	\$ 0.36
Loss from discontinued operation	(0.02)	(0.04)	(0.04)	-	-	-	-	-	-	-	-
Net income	<u>\$ 1.24</u>	<u>\$ 0.93</u>	<u>\$ 1.05</u>	<u>\$ 1.34</u>	<u>\$ 0.31</u>	<u>\$ 0.33</u>	<u>\$ 0.44</u>	<u>\$ 0.51</u>	<u>\$ 1.58</u>	<u>\$ 0.45</u>	<u>\$ 0.36</u>
Gross margin (% of sales)	36.7%	35.5%	36.1%	37.5%	39.6%	39.7%	42.5%	39.5%	40.3%	42.1%	39.6%
Operating expenses (% of sales)	25.6%	27.8%	27.8%	26.8%	28.3%	28.1%	28.5%	25.6%	27.5%	27.8%	27.6%
Operating income (% of sales)	11.1%	7.7%	8.3%	10.7%	11.3%	11.6%	13.9%	13.9%	12.8%	14.2%	12.0%

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

	Year End Balance				Fiscal Year 2009				Fiscal Year 2010	
	2005	2006	2007	2008	Q1	Q2	Q3	Q4	Q1	Q2
Assets										
Cash, cash equivalents and short-term investments	\$ 2,987	\$ 2,600	\$ 1,901	\$ 1,715	\$ 1,708	\$ 2,131	\$ 2,398	\$ 2,573	\$ 2,481	\$ 1,703
Restricted cash ⁽¹⁾	55	44	38	41	21	21	21	18	17	-
Merchandise inventory	1,696	1,796	1,575	1,506	1,393	1,473	1,999	1,477	1,534	1,632
Other current assets	501	589	572	743	647	651	636	596	632	718
Total current assets.....	5,239	5,029	4,086	4,005	3,769	4,276	5,054	4,664	4,664	4,053
Property and equipment, net	3,246	3,197	3,267	2,933	2,820	2,775	2,717	2,628	2,585	2,565
Other long-term assets	336	318	485	626	632	654	659	693	696	690
Total assets.....	\$ 8,821	\$ 8,544	\$ 7,838	\$ 7,564	\$ 7,221	\$ 7,705	\$ 8,430	\$ 7,985	\$ 7,945	\$ 7,308
Liabilities and stockholders' equity										
Current maturities of long-term debt	\$ -	\$ 325	\$ 138	\$ 50	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts payable	776	772	1,006	975	812	1,038	1,418	1,027	1,052	1,141
Accrued expense and other current liabilities	1,081	1,159	1,259	1,076	864	923	1,050	1,063	894	872
Income taxes payable	85	16	30	57	9	10	6	41	145	16
Total current liabilities.....	1,942	2,272	2,433	2,158	1,685	1,971	2,474	2,131	2,091	2,029
Long-term debt	513	188	50	-	-	-	-	-	-	-
Lease incentives and other long-term liabilities	941	910	1,081	1,019	996	989	975	963	947	952
Total long-term liabilities.....	1,454	1,098	1,131	1,019	996	989	975	963	947	952
Common stock	54	55	55	55	55	55	55	55	55	55
Additional paid-in capital	2,402	2,631	2,783	2,895	2,893	2,901	2,922	2,935	2,920	2,932
Retained earnings	8,133	8,646	9,223	9,947	10,103	10,272	10,519	10,815	11,050	11,221
Accumulated other comprehensive income	51	77	125	123	116	130	153	155	146	167
Deferred compensation	(5)	-	-	-	-	-	-	-	-	-
Treasury stock, at cost	(5,210)	(6,235)	(7,912)	(8,633)	(8,627)	(8,613)	(8,668)	(9,069)	(9,264)	(10,048)
Total stockholders' equity.....	5,425	5,174	4,274	4,387	4,540	4,745	4,981	4,891	4,907	4,327
Total liabilities and stockholders' equity.....	\$ 8,821	\$ 8,544	\$ 7,838	\$ 7,564	\$ 7,221	\$ 7,705	\$ 8,430	\$ 7,985	\$ 7,945	\$ 7,308

(1) As of July 31, 2010, we began classifying Restricted cash as Other current assets in the Consolidated Balance Sheets.

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

	Fiscal Year (number of weeks)				Fiscal Year 2009 (52)					Fiscal Year 2010 (52)	
	2005 (52)	2006 (53)	2007 (52)	2008 (52)	Q1 (13)	Q2 (13)	Q3 (13)	Q4 (13)	Full Year	Q1 (13)	Q2 (13)
Cash flows from operating activities:											
Net income	\$ 1,113	\$ 778	\$ 833	\$ 967	\$ 215	\$ 228	\$ 307	\$ 352	\$ 1,102	\$ 302	\$ 234
Depreciation and amortization ⁽¹⁾	625	530	547	568	143	141	147	142	573	147	142
Change in merchandise inventory	114	(97)	252	51	110	(65)	(523)	521	43	(58)	(92)
Other, net	(301)	39	449	(174)	(266)	214	501	(239)	210	(62)	(73)
Net cash provided by operating activities.....	<u>1,551</u>	<u>1,250</u>	<u>2,081</u>	<u>1,412</u>	<u>202</u>	<u>518</u>	<u>432</u>	<u>776</u>	<u>1,928</u>	<u>329</u>	<u>211</u>
Cash flows from investing activities:											
Purchases of property and equipment	(600)	(572)	(682)	(431)	(63)	(68)	(90)	(113)	(334)	(107)	(141)
Proceeds from sale of property and equipment	27	22	11	1	-	-	-	1	1	-	-
Purchases of short-term investments	(1,768)	(1,460)	(894)	(75)	-	(100)	(150)	(100)	(350)	(325)	(75)
Maturities of short-term investments	1,645	1,841	1,287	251	-	-	25	100	125	125	150
Acquisition of business, net of cash acquired	-	-	-	(142)	-	-	-	-	-	-	-
Purchases of long-term investments	(100)	-	-	-	-	-	-	-	-	-	-
Maturities of long-term investments	100	-	-	-	-	-	-	-	-	-	-
Change in restricted cash	959	11	7	(1)	18	-	1	2	21	2	(6)
Change in other long-term assets	23	8	(3)	(1)	-	-	-	-	-	-	(1)
Net cash provided by (used for) investing activities.....	<u>286</u>	<u>(150)</u>	<u>(274)</u>	<u>(398)</u>	<u>(45)</u>	<u>(168)</u>	<u>(214)</u>	<u>(110)</u>	<u>(537)</u>	<u>(305)</u>	<u>(73)</u>
Cash flows from financing activities:											
Payments of long-term debt	-	-	(326)	(138)	(50)	-	-	-	(50)	-	-
Proceeds from share-based compensation, net	139	190	125	75	-	10	37	9	56	45	9
Repurchases of common stock	(2,000)	(1,050)	(1,700)	(705)	(45)	-	(61)	(441)	(547)	(299)	(799)
Excess tax benefit from exercise of stock options and vesting of stock units	-	23	7	6	-	-	3	1	4	8	1
Cash dividends paid	(179)	(265)	(252)	(243)	(59)	(59)	(60)	(56)	(234)	(67)	(63)
Net cash used for financing activities.....	<u>(2,040)</u>	<u>(1,102)</u>	<u>(2,146)</u>	<u>(1,005)</u>	<u>(154)</u>	<u>(49)</u>	<u>(81)</u>	<u>(487)</u>	<u>(771)</u>	<u>(313)</u>	<u>(852)</u>
Effect of exchange rate fluctuations on cash.....	(7)	(3)	33	(18)	(10)	22	5	(4)	13	(3)	11
Net increase (decrease) in cash and cash equivalents.....	<u>\$ (210)</u>	<u>\$ (5)</u>	<u>\$ (306)</u>	<u>\$ (9)</u>	<u>\$ (7)</u>	<u>\$ 323</u>	<u>\$ 142</u>	<u>\$ 175</u>	<u>\$ 633</u>	<u>\$ (292)</u>	<u>\$ (703)</u>
Net cash provided by operating activities	\$ 1,551	\$ 1,250	\$ 2,081	\$ 1,412	\$ 202	\$ 518	\$ 432	\$ 776	\$ 1,928	\$ 329	\$ 211
Less: purchases of property and equipment	(600)	(572)	(682)	(431)	(63)	(68)	(90)	(113)	(334)	(107)	(141)
Free cash flow ⁽²⁾	<u>\$ 951</u>	<u>\$ 678</u>	<u>\$ 1,399</u>	<u>\$ 981</u>	<u>\$ 139</u>	<u>\$ 450</u>	<u>\$ 342</u>	<u>\$ 663</u>	<u>\$ 1,594</u>	<u>\$ 222</u>	<u>\$ 70</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				Fiscal Year 2009					Fiscal Year 2010	
	2005 (52)	2006 (53)	2007 (52)	2008 (52)	Q1	Q2	Q3	Q4	Full Year	Q1	Q2
Total rent (\$)	1,004	1,045	1,095	1,114	270	272	278	286	1,106	278	267
Advertising (\$)	510	573	476	435	96	94	141	182	513	113	101
Dividends per share (\$)	0.18	0.32	0.32	0.34	0.085	0.085	0.085	0.085	0.34	0.10	0.10
Square footage	37.7	38.7	39.6	39.5	39.4	39.4	39.4	38.8	38.8	38.7	38.5
Square footage - growth/(decline) (%) ⁽¹⁾	3.0	2.7	2.3	(0.3)	(0.8)	(0.5)	(1.3)	(1.8)	(1.8)	(1.8)	(2.3)
Average square footage ⁽²⁾	37	38	39	40	39	39	39	39	39	39	39
Sales per average square foot (\$) ⁽³⁾	412	395	376	336	72	76	82	99	329	77	78
Store locations	3,053	3,131	3,167	3,149	3,149	3,145	3,143	3,095	3,095	3,085	3,076
Openings - locations	198	194	214	101	11	12	13	11	47	9	10
Closings - locations	139	116	178	119	11	16	15	59	101	19	19
Working capital (\$)	3,297	2,757	1,653	1,847	2,084	2,305	2,580	2,533	2,533	2,573	2,024
Current ratio	2.70	2.21	1.68	1.86	2.24	2.17	2.04	2.19	2.19	2.23	2.00
Long-term debt to equity ratio	0.09	0.04	0.01	-	-	-	-	-	-	-	-
Shares outstanding	857	814	734	694	696	697	695	676	676	667	630
Treasury shares repurchased	99	58	89	46	0.4	-	4	19	24	14	38
Average acquisition cost per share (\$)	20	18	19	16	11	-	22	21	21	21	21
Inventory (\$) ⁽⁴⁾	1,696	1,796	1,575	1,506	1,393	1,473	1,999	1,477	1,477	1,534	1,632
Inventory per square foot (\$) ⁽⁴⁾	42.6	43.7	37.0	34.7	32.2	33.9	46.6	34.2	34.2	36.1	37.8
Inventory per square foot - increase/(decrease) (%)	(11)	2	(15)	(6)	(12)	(14)	(9)	(1)	(1)	12	12
Return on equity ⁽⁵⁾	21.5	14.7	17.6	22.4					23.8		
Return on average assets ⁽⁶⁾	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) Inventory and inventory per square foot at the end of the second quarter were reduced by about 2 percentage points due to a shift in shipping terms with certain vendors. The company shifted terms in response to market conditions that were causing an increase in inventory in transit.

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

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