

GAP INC  
Form 10-Q  
December 08, 2010  
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**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 30, 2010

**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 1-7562

**THE GAP, INC.**

(Exact name of registrant as specified in its charter)

<b>Delaware</b> (State or other jurisdiction of incorporation or organization)	<b>94-1697231</b> (I.R.S. Employer Identification No.)
<b>Two Folsom Street, San Francisco, California</b> (Address of principal executive offices)	<b>94105</b> (Zip code)
<b>Registrant's telephone number, including area code: (650) 952-4400</b>	

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

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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 the registrant's common stock outstanding as of November 30, 2010 was 614,360,393.

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**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements.****THE GAP, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(Unaudited)**

(\$ and shares in millions except par value)	October 30, 2010	January 30, 2010	October 31, 2009
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 1,403	\$ 2,348	\$ 2,173
Short-term investments	251	225	225
Merchandise inventory	2,160	1,477	1,999
Other current assets	663	614	657
<b>Total current assets</b>	<b>4,477</b>	<b>4,664</b>	<b>5,054</b>
Property and equipment, net of accumulated depreciation of \$5,021, \$4,799, and \$4,733	2,587	2,628	2,717
Other long-term assets	664	693	659
<b>Total assets</b>	<b>\$ 7,728</b>	<b>\$ 7,985</b>	<b>\$ 8,430</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Current liabilities:			
Accounts payable	\$ 1,438	\$ 1,027	\$ 1,418
Accrued expenses and other current liabilities	963	1,063	1,050
Income taxes payable	11	41	6
<b>Total current liabilities</b>	<b>2,412</b>	<b>2,131</b>	<b>2,474</b>
Lease incentives and other long-term liabilities	972	963	975
Commitments and contingencies (see Note 11)			
Stockholders' equity:			
Common stock \$0.05 par value			
Authorized 2,300 shares; Issued 1,106 shares for all periods presented; Outstanding 616, 676, and 695 shares	55	55	55
Additional paid-in capital	2,939	2,935	2,922
Retained earnings	11,462	10,815	10,519
Accumulated other comprehensive income	183	155	153
Treasury stock, at cost (490, 430, and 411 shares)	(10,295)	(9,069)	(8,668)
<b>Total stockholders' equity</b>	<b>4,344</b>	<b>4,891</b>	<b>4,981</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 7,728</b>	<b>\$ 7,985</b>	<b>\$ 8,430</b>

See Accompanying Notes to Condensed Consolidated Financial Statements



**Table of Contents****THE GAP, INC.****CONDENSED CONSOLIDATED STATEMENTS OF INCOME****(Unaudited)**

(\$ and shares in millions except per share amounts)	13 Weeks Ended		39 Weeks Ended	
	October 30, 2010	October 31, 2009	October 30, 2010	October 31, 2009
Net sales	\$ 3,654	\$ 3,589	\$ 10,300	\$ 9,961
Cost of goods sold and occupancy expenses	2,149	2,065	6,080	5,910
Gross profit	1,505	1,524	4,220	4,051
Operating expenses	1,001	1,024	2,845	2,823
Operating income	504	500	1,375	1,228
Interest expense (reversal)	3	1	(6)	4
Interest income	(1)	(1)	(4)	(5)
Income before income taxes	502	500	1,385	1,229
Income taxes	199	193	546	479
Net income	\$ 303	\$ 307	\$ 839	\$ 750
Weighted-average number of shares - basic	622	698	646	697
Weighted-average number of shares - diluted	626	704	651	701
Earnings per share - basic	\$ 0.49	\$ 0.44	\$ 1.30	\$ 1.08
Earnings per share - diluted	\$ 0.48	\$ 0.44	\$ 1.29	\$ 1.07
Cash dividends declared and paid per share	\$ 0.100	\$ 0.085	\$ 0.300	\$ 0.255

See Accompanying Notes to Condensed Consolidated Financial Statements

**Table of Contents****THE GAP, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

(\$ in millions)	39 Weeks Ended	
	October 30, 2010	October 31, 2009
<b>Cash flows from operating activities:</b>		
Net income	\$ 839	\$ 750
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	492	491
Amortization of lease incentives	(63)	(60)
Share-based compensation	61	48
Tax benefit from exercise of stock options and vesting of stock units	8	(5)
Excess tax benefit from exercise of stock options and vesting of stock units	(9)	(3)
Non-cash and other items	36	(61)
Deferred income taxes	(2)	1
Changes in operating assets and liabilities:		
Merchandise inventory	(666)	(478)
Other current assets and other long-term assets	(31)	116
Accounts payable	383	419
Accrued expenses and other current liabilities	(178)	(66)
Income taxes payable, net of prepaid and other tax-related items	17	(3)
Lease incentives and other long-term liabilities	49	3
Net cash provided by operating activities	936	1,152
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(413)	(221)
Purchases of short-term investments	(450)	(250)
Maturities of short-term investments	425	25
Change in restricted cash	4	19
Change in other long-term assets	(1)	
Net cash used for investing activities	(435)	(427)
<b>Cash flows from financing activities:</b>		
Payment of long-term debt		(50)
Proceeds from issuance of short-term debt	3	
Proceeds from share-based compensation, net of withholding tax payments	62	47
Repurchases of common stock	(1,352)	(106)
Excess tax benefit from exercise of stock options and vesting of stock units	9	3
Cash dividends paid	(192)	(178)
Net cash used for financing activities	(1,470)	(284)
Effect of foreign exchange rate fluctuations on cash	24	17
Net increase (decrease) in cash and cash equivalents	(945)	458
Cash and cash equivalents at beginning of period	2,348	1,715

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Cash and cash equivalents at end of period	\$ 1,403	\$ 2,173
Non-cash investing activities:		
Purchases of property and equipment, not yet paid at end of period	\$ 54	\$ 52
Supplemental disclosure of cash flow information:		
Cash paid for interest during the period	\$ 1	\$ 2
Cash paid for income taxes during the period		