GAP INC
Form 10-K
March 27, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

x Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the fiscal year ended January 31, 2009
or

¨ 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)

Delaware	**94-1697231**
(State of Incorporation)	(I.R.S. Employer Identification No.)

Two Folsom Street, San Francisco, California	**94105**
(Address of principal executive offices)	(Zip code)

Registrant s telephone number, including area code: **(650) 952-4400**

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, $0.05 par value	**New York Stock Exchange, Inc.**
(Title of class)	(Name of each exchange where registered)

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

Indicate by check mark whether 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 x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act:

Large accelerated filer x 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 Act). Yes ¨ No x

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of August 1, 2008 was approximately $8 billion based upon the last price reported for such date in the NYSE-Composite transactions.

The number of shares of the registrant s common stock outstanding as of March 23, 2009 was 695,718,239.

Documents Incorporated by Reference

Portions of the registrant s Proxy Statement for the Annual Meeting of Shareholders to be held on May 19, 2009 (hereinafter referred to as the 2009 Proxy Statement) are incorporated into Part III.

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Special Note on Forward-looking Statements

This Annual Report on Form 10-K contains forward-looking statements within the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. All statements other than those that are purely historical are forward-looking statements. Words such as expect, anticipate, believe, estimate, intend, plan, project, and similar expressions also identify forward-looking stateme Forward-looking statements include, but are not limited to, statements regarding: (i) our plans to expand internationally through franchising and similar arrangements; (ii) the outcome of proceedings, lawsuits, disputes and claims; (iii) cash balances and cash flows being sufficient for the foreseeable future; (iv) improvement in return on invested capital; (v) managing inventory to support a healthy merchandise margin; (vi) maintaining a focus on cost management; (vii) generating strong free cash flow; (viii) current cash balances and cash flows being adequate to support our business operations, capital expenditures, and the payment of dividends and share repurchases; (ix) being able to supplement near-term liquidity with our existing credit facility; (x) capital expenditures in fiscal 2009; (xi) the number of new store openings and store closings in fiscal 2009; (xii) net square footage change in fiscal 2009; (xiii) our plan to maintain our dividend in fiscal 2009; (xiv) future share repurchases, including repurchases from members of the Fisher family; (xv) the expected payments and the expected benefits, including cost savings, resulting from our services agreement with IBM; (xvi) the maximum potential amount of future lease payments; (xvii) the impact of losses due to indemnification obligations; (xviii) the maximum exposure and cash collateralized balance for the reinsurance pool in future periods; (xix) the estimates and assumptions we use in our accounting policies, including those used to calculate our lower of cost or market and inventory shortage reserves, our impairment of long-lived assets, goodwill, and intangible assets, our insurance liabilities, our future sales returns, and our settlement of foreign and domestic tax audits; (xx) future lease payments related to the closure of Forth & Towne; (xxi) the assumptions used to value share-based compensation expense; (xxii) future lease payments and sublease income; (xxiii) our intent to use earnings in foreign operations for an indefinite period or repatriate them only when tax-effective to do so; (xxiv) total gross unrecognized tax benefits; (xxv) driving traffic, improving product, and creating new store prototypes; (xxvi) growing our international, online, and outlet businesses; (xxvii) maximizing earnings potential; and (xxviii) performing better than the competition and gaining back market share.

Because these forward-looking statements involve risks and uncertainties, there are important factors that could cause our actual results to differ materially from those in the forward-looking statements. These factors include, without limitation, the following: the risk that the adoption of new accounting pronouncements will impact future results; the risk that we will be unsuccessful in gauging fashion trends and changing consumer preferences; the risk that changes in general economic conditions, consumer confidence, or consumer spending patterns will have a negative impact on our financial performance or strategies; the highly competitive nature of our business in the United States and internationally and our dependence on consumer spending patterns, which are influenced by numerous other factors; the risk that we will be unsuccessful in identifying and negotiating new store locations and renewing leases for existing store locations effectively; the risk that comparable store sales and margins will experience fluctuations; the risk that we will be unsuccessful in implementing our strategic, operating and people initiatives; the risk that adverse changes in our credit ratings may have a negative impact on our financing costs, structure and access to capital in future periods; the risk that changes to our information technology (IT) systems may disrupt our operations; the risk that trade matters, events causing disruptions in product shipments from China and other foreign countries, or an inability to secure sufficient manufacturing capacity may disrupt our supply chain or operations; the risk that our efforts to expand internationally through franchising and similar arrangements may not be successful and could impair the value of our brands; the risk that acts or omissions by our third party vendors, including a failure to comply with our code of vendor conduct, could have a negative impact on our reputation or operations; the risk that changes in the regulatory or administrative landscape could adversely affect our financial condition and results of operations; the risk that we do not repurchase some or all of the shares we anticipate purchasing pursuant to our repurchase program; and the risk that we will not be successful in defending various proceedings, lawsuits, disputes, claims, and audits; any of which could impact net sales, expenses, and/or planned strategies. Additional information regarding factors that could cause results to differ can be found in this Annual Report on Form 10-K and our other filings with the U.S. Securities and Exchange Commission.

Future economic and industry trends that could potentially impact net sales and profitability are difficult to predict. These forward-looking statements are based on information as of March 27, 2009 and we assume no obligation to publicly update or revise our forward-looking statements even if experience or future changes make it clear that any projected results expressed or implied therein will not be realized.

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THE GAP, INC.

2008 ANNUAL REPORT ON FORM 10-K

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Part I

Item 1. Business.

General

The Gap, Inc. (the Company, we, and our) was incorporated in the State of California in July 1969 and was reincorporated under the laws of the State of Delaware in May 1988.

We are a global specialty retailer offering clothing, accessories, and personal care products for men, women, children, and babies under the Gap, Old Navy, Banana Republic, Piperlime, and Athleta brands. We operate stores in the United States, Canada, the United Kingdom, France, Ireland, and Japan. We also have franchise agreements with unaffiliated franchisees to operate Gap and Banana Republic stores in many other countries around the world. Under these agreements, third parties operate or will operate stores that sell apparel, purchased from us, under our brand names.

We design most of our products, which are manufactured by independent sources, and sell them under our brands:

Gap. Founded in 1969, Gap stores offer an extensive selection of classically styled, high quality, casual apparel at moderate price points. Products range from wardrobe basics such as denim, khakis, and T-shirts to fashion apparel, accessories, and personal care products for men and women. We entered the children s apparel market with the introduction of GapKids in 1986 and babyGap in 1989. These stores offer casual apparel and accessories in the tradition of Gap style and quality for children, ages newborn through pre-teen. We also offer maternity apparel. We launched GapBody in 1998 offering women s underwear, sleepwear, loungewear, and sports and active apparel. We also operate Gap Outlet stores, which carry similar categories of products.

Old Navy. We launched Old Navy in 1994 to address the market for value-priced family apparel. Old Navy offers broad selections of apparel, shoes, and accessories for adults, children, and infants as well as other items, including personal care products. Old Navy also offers a line of maternity wear.

Banana Republic. Acquired in 1983 with two stores, Banana Republic offers sophisticated, fashionable collections of casual and tailored apparel, shoes, accessories, and personal care products for men and women at higher price points than Gap. We also operate Banana Republic Factory Stores, which carry similar categories of products.

As of January 31, 2009, we operated a total of 3,149 store locations. For more information on the number of stores by brand and region, see the table in Management s Discussion and Analysis of Financial Condition and Results of Operations included as Part II, Item 7 of this Form 10-K.

In 1997, we introduced Gap Online, a web-based store located at www.gap.com. Gap Online offers products comparable to those carried in Gap, GapKids, babyGap, and GapBody stores, as well as extended sizes not found in stores. We introduced Banana Republic Online, a web-based store located at www.bananarepublic.com, in 1999 which offers products comparable to those carried in the store collections, as well as extended sizes not found in stores. In 2000, we established Old Navy Online, a web-based store located at www.oldnavy.com. Old Navy Online offers apparel and accessories comparable to those carried in the store collections, as well as a plus size line not found in stores.

We also have two online only brands, Piperlime, located at www.piperlime.com, and our online and catalog store, Athleta, located at www.athleta.com:

Piperlime. We launched Piperlime in October 2006. Piperlime offers customers an assortment of the leading brands in footwear and handbags for women, men, and kids, as well as tips, trends, and advice from leading style authorities.

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Athleta. Acquired in September 2008, Athleta offers customers high quality and performance-driven women s sports and active apparel and footwear that is stylish and functional for a variety of activities, including golf, running, skiing/snowboarding, tennis, and yoga. Customers can purchase Athleta product, as well as an assortment of products from leading brands in women s active wear, online or through the catalog.

Certain financial information about international operations is set forth under the heading Segment Information in Note 16 of Notes to Consolidated Financial Statements included in Part II, Item 8 of this Form 10-K.

Our stores offer a shopper-friendly environment with an assortment of casual apparel and accessories that emphasize style, quality, and good value. The range of merchandise displayed in each store varies depending on the selling season and the size and location of the store.

Our stores generally are open seven days per week (where permitted by law) and most holidays. All sales are tendered for cash, personal checks, debit cards, or credit cards. We also issue and redeem gift cards through our brands. Gap, Banana Republic, and Old Navy each has a private label credit card program and a co-branded credit card program through which frequent customers receive benefits. Private label and co-branded credit cards are underwritten by a third-party financing company.

Merchandise Vendors

We purchase private label merchandise from approximately 600 vendors and non-private label merchandise from approximately 300 vendors. Our vendors have facilities in approximately 60 countries. No vendor accounted for more than 3 percent of the dollar amount of our total fiscal 2008 purchases. Of our merchandise sold during fiscal 2008, approximately 3 percent of all units (representing approximately 3 percent of total cost) were produced domestically while the remaining 97 percent of all units (representing approximately 97 percent of total cost) were produced outside the United States. Approximately 23 percent of our total merchandise units (representing approximately 27 percent of total cost) were produced in China. Events causing disruption of imports from China or other foreign countries, including the imposition of additional import restrictions, or vendors potentially failing due to the current economic downturn or an inability to maintain an acceptable level of operating capital, could have an adverse effect on our operations. Substantially all of our foreign purchases of merchandise are negotiated and paid for in U.S. dollars. Also see the section entitled Risk Factors Trade matters may disrupt our supply chain in Item 1A of this Form 10-K.

Seasonal Business

Our business follows a seasonal pattern, with sales peaking over a total of about eight weeks during the holiday (November through December) period. During fiscal 2008, the period accounted for approximately 21 percent of our net sales.

Brand Building

Our ability to develop and evolve our existing brands is a key to our success. We believe our distinct brands are among our most important assets. With the exception of Piperlime, virtually all aspects of brand development from product design and distribution, to marketing, merchandising and shopping environments are controlled by us. With respect to Piperlime, we control all aspects of brand development except for product design. We continue to invest in our brands and enhance the customer experience through the remodeling of existing stores, the opening of new stores, the closure of under-performing stores, and a focus on customer service.

Trademarks and Service Marks

Gap, GapKids, babyGap, GapBody, Banana Republic, Old Navy, Piperlime, and Athleta trademarks and service marks, and certain other trademarks, have been registered, or are the subject of pending trademark applications with the United States Patent and Trademark Office and with the registries of many foreign countries and/or are protected by common law.

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Franchising

We have franchise agreements with unaffiliated franchisees to operate Gap and Banana Republic stores in Bahrain, Bulgaria, Croatia, Cyprus, Egypt, Greece, Indonesia, Israel, Jordan, Kuwait, Malaysia, Mexico, Oman, Philippines, Qatar, Romania, Russia, Saudi Arabia, Singapore, South Korea, Turkey, and United Arab Emirates. Under these agreements, third parties operate or will operate stores that sell apparel, purchased from us, under our brand names. While we expect that this will be a small part of our business in the near future, we plan to continue to increase the number of countries in which we enter into these types of arrangements over time as part of our efforts to expand internationally. For additional information on risks related to our franchise business, see the section entitled Risk Factors Our efforts to expand internationally through franchising and similar arrangements may not be successful and could impair the value of our brands in Item 1A of this Form 10-K.

Inventory

The cyclical nature of the retail business requires us to carry a significant amount of inventory, especially prior to peak selling seasons when we and other retailers generally build up our inventory levels. We review our inventory levels in order to identify slow-moving merchandise and broken assortments (items no longer in stock in a sufficient range of sizes) and use markdowns to clear merchandise. Because we do not carry much replenishment inventory in our stores, much of our inventory is maintained in distribution centers. Also see the section entitled Risk Factors We must successfully gauge fashion trends and changing consumer preferences to succeed in Item 1A of this Form 10-K.

Competitors

The global specialty apparel industry is highly competitive. We compete with national and local department stores, specialty and discount store chains, independent retail stores and online businesses that market similar lines of merchandise. We are also faced with competition in European, Japanese, and Canadian markets from established regional and national chains, and our franchisees face significant competition in the markets in which they operate. Also see the section entitled Risk Factors Our business is highly competitive and depends on consumer spending patterns in Item 1A of this Form 10-K.

Employees

As of January 31, 2009, we had a work force of approximately 134,000 employees, which includes a combination of part- and full-time employees. We hire temporary employees primarily during the peak holiday period. The reduction in the number of employees by 7,000 compared to fiscal 2007 reflects our ongoing commitment to cost management.

To remain competitive in the apparel retail industry we must attract, develop and retain skilled employees, including executives. Competition for such personnel is intense. Our success is dependent to a significant degree on the continued contributions of key employees. Also see the section entitled Risk Factors We must successfully gauge fashion trends and changing consumer preferences to succeed in Item 1A of this Form 10-K.

Available Information

We make available on our website, www.gapinc.com, under Investors, Financials, SEC Filings, free of charge, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports as soon as reasonably practicable after we electronically file or furnish them to the U.S. Securities and Exchange Commission (SEC).

Our Code of Business Conduct, Board of Directors Committee Charters (Audit and Finance, Compensation and Management Development, Governance, Nominating and Social Responsibility Committees), and Corporate Governance Guidelines are also available on our website. The Code of Business Conduct can be found at www.gapinc.com, under Investors, Corporate Compliance, Code of Business Conduct. Any amendments and waivers to the code will also be available on the website. The Committee Charters and Governance Guidelines can be found on our website under Investors, Governance. All of these documents are also available in print to any stockholder who requests them.

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Executive Officers of the Registrant

The following are our executive officers:

Name, Age, Position and Principal Occupation During Past Five Years:

Michelle Banks, 45, Senior Vice President, General Counsel, Corporate Secretary, and Chief Compliance Officer since March 2008; Senior Vice President and General Counsel from November 2006 to March 2008; Vice President from March 2005 to November 2006; Associate General Counsel from February 2003 to March 2005; Senior Corporate Counsel from January 1999 to February 2003.

Donald Fisher, 80, Founder; Chairman Emeritus since 2004; Chairman of the Company from 1969 to 2004; Chief Executive Officer of the Company from 1969 to 1995.

Marka Hansen, 54, President, Gap North America since February 2007; President of Banana Republic from June 2003 to February 2007; Executive Vice President of Gap Adult Merchandising from February 2002 until June 2003; Senior Vice President of Human Resources from March 2000 until February 2002; Senior Vice President of Merchandising, International Division, from April 1995 to March 2000; Vice President of Merchandising from April 1990 to April 1995.

Glenn Murphy, 47, Chairman and Chief Executive Officer since August 2007; Chief Executive Officer of Shoppers Drug Mart Corporation, a drug store chain, from 2001 to 2007.

Art Peck, 53, Executive Vice President of Strategy and Operations since May 2005; President, Gap Inc. Outlet since October 2008; Acting President, Gap Inc. Outlet from February 2008 to October 2008; Senior Vice President of The Boston Consulting Group, a business consulting firm, from 1982 to May 2005; Director of The Boston Consulting Group from 1988 to 2005.

Eva Sage-Gavin, 50, Executive Vice President, Human Resources, Communications and Global Responsibility since April 2008; Executive Vice President, Human Resources and Communications from February 2007 to April 2008; Executive Vice President, Human Resources from March 2003 to February 2007; Senior Vice President, Human Resources of Sun Microsystems, Inc., a software and system technology company, from 2000 to 2003.

Sabrina Simmons, 45, Executive Vice President and Chief Financial Officer since January 2008; Executive Vice President, Corporate Finance from September 2007 to January 2008; Senior Vice President, Corporate Finance and Treasurer from March 2003 to September 2007; Vice President and Treasurer from September 2001 to March 2003.

J. Tom Wyatt, 53, President, Old Navy since August 2008; Acting President, Old Navy from February 2008 to August 2008; President, Gap Inc. Outlet from February 2007 to February 2008; President, GapBody from March 2006 to February 2007; President and Chief Executive Officer of Cutter & Buck Inc., an apparel company, from December 2004 to March 2006; Corporate Officer and President, Intimate Apparel and Sportswear of Warnaco Group, Inc., an apparel company, from 2002 to 2004.

Item 1A. Risk Factors.

Our past performance may not be a reliable indicator of future performance because actual future results and trends may differ materially depending on a variety of factors, including, but not limited to, the risks and uncertainties discussed below. In addition, historical trends should not be used to anticipate results or trends in future periods.

The recent changes in general economic conditions, and the impact on consumer confidence and consumer spending, could adversely impact our results of operations.

The Company s performance is subject to general economic conditions and their impact on levels of consumer confidence and consumer spending. Recently, consumer confidence and consumer spending have deteriorated

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significantly, and could remain depressed for an extended period. Some of the factors influencing this deterioration include fluctuating interest rates and credit availability, fluctuating fuel and other energy costs, fluctuating commodity prices, higher levels of unemployment, higher consumer debt levels, reductions in net worth based on market declines, home foreclosures and reductions in home values, and general uncertainty regarding the overall future economic environment. Consumer purchases of discretionary items, including our merchandise, generally decline during periods when disposable income is adversely affected or there is economic uncertainty, and this has recently adversely impacted, and could in the future adversely impact, our results of operations.

Our business is highly competitive and depends on consumer spending patterns.

The global specialty apparel retail industry is highly competitive. We compete with national and local department stores, specialty and discount store chains, independent retail stores and online businesses that market similar lines of merchandise. We face a variety of competitive challenges including:

- attracting consumer traffic;
- sourcing merchandise efficiently;
- competitively pricing our products and achieving customer perception of value;
- anticipating and quickly responding to changing consumer demands;
- maintaining favorable brand recognition and effectively marketing our products to consumers in several diverse market segments;
- developing innovative, high-quality products in sizes, colors and styles that appeal to consumers of varying age groups and tastes; and
- providing strong and effective marketing support.

Our business is sensitive to a number of factors that influence the levels of consumer spending, including political and economic conditions such as recessionary environments, levels of employment, levels of disposable consumer income, consumer debt, interest rates, and consumer confidence. Declines in consumer confidence and spending on apparel and accessories could have a material adverse effect on our operating results.

We are also faced with competition in European, Japanese, and Canadian markets from established regional and national chains, and our franchisees face significant competition in the markets in which they operate. If our international business is not successful or if we cannot effectively take advantage of international growth opportunities, our results of operations could be adversely affected.

The market for prime real estate is competitive.

Our ability to effectively obtain real estate to open new stores depends upon the availability of real estate that meets our criteria for traffic, square footage, co-tenancies, lease economics, demographics, and other factors, including our ability to negotiate terms that meet our financial targets. In addition, we must be able to effectively renew our existing store leases. Failure to secure real estate locations adequate to meet annual targets, as well as effectively managing the profitability of our existing fleet of stores, could have a material adverse effect on our results of operations.

Additionally, the current economic environment may make it difficult to determine the fair market rent of retail real estate properties within the United States and internationally. This could impact the quality of our decisions to exercise lease options at previously negotiated rents, and the quality of our decisions to renew expiring leases at negotiated rents. Any adverse effect on the quality of these decisions could impact our ability to retain real estate locations adequate to meet annual targets or efficiently manage the profitability of our existing fleet of stores, and could have a material adverse effect on our results of operations.

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We must successfully gauge fashion trends and changing consumer preferences to succeed.

Our success is largely dependent upon our ability to gauge the fashion tastes of our customers and to provide merchandise that satisfies customer demand in a timely manner. The global specialty retail business fluctuates according to changes in consumer preferences dictated, in part, by fashion and season. To the extent we misjudge the market for our merchandise or the products suitable for local markets, our sales will be adversely affected and the markdowns required to move the resulting excess inventory will adversely affect our operating results. Some of our past product offerings have not been well received by our broad and diverse customer base. Merchandise misjudgments could have a material adverse effect on our operating results.

Our ability to anticipate and effectively respond to changing fashion trends depends in part on our ability to attract and retain key personnel in our design, merchandising, marketing, and other functions. Competition for this personnel is intense, and we cannot be sure that we will be able to attract and retain a sufficient number of qualified personnel in future periods.

Fluctuations in the global specialty retail business especially affect the inventory owned by apparel retailers, since merchandise usually must be ordered well in advance of the season and frequently before fashion trends are evidenced by customer purchases. In addition, the cyclical nature of the global specialty retail business requires us to carry a significant amount of inventory, especially prior to the peak holiday selling season when we build up our inventory levels. We must enter into contracts for the purchase and manufacture of merchandise well in advance of the applicable selling season. As a result, we are vulnerable to demand and pricing shifts and to suboptimal selection and timing of merchandise purchases. In the past, we have not always predicted our customers preferences and acceptance levels of our fashion items with accuracy. In addition, lead times for many of our purchases are long, which may make it more difficult for us to respond rapidly to new or changing fashion trends or consumer acceptance for our products. If sales do not meet expectations, too much inventory may cause excessive markdowns and, therefore, lower than planned margins.

We experience fluctuations in our comparable store sales and margins.

Our success depends, in part, upon our ability to improve sales. A variety of factors affect comparable store sales, including fashion trends, competition, current economic conditions, the timing of release of new merchandise and promotional events, changes in our merchandise mix, the success of marketing programs, and weather conditions. These factors may cause our comparable store sales results to differ materially from prior periods and from expectations. Our comparable store sales have fluctuated significantly in the past on an annual, quarterly and monthly basis. More recently, over the past three years, our comparable store sales figures have been negative year over year as demonstrated by a decrease of seven percent in fiscal 2006, a decrease of four percent in fiscal 2007, and a decrease of twelve percent in fiscal 2008. Over the past five years, our reported gross margins have ranged from a high of 39 percent in fiscal 2004 to a low of 36 percent in fiscal 2006. In addition, over the past five years, our reported operating margins have ranged from a high of twelve percent in fiscal 2004 to a low of eight percent in fiscal 2006.

Our ability to deliver strong comparable store sales results and margins depends, in large part, on accurately forecasting demand and fashion trends, selecting effective marketing techniques, providing an appropriate mix of merchandise for our broad and diverse customer base, managing inventory effectively, using effective pricing strategies, and optimizing store performance. Failure to meet the expectations of investors, security analysts, or credit rating agencies in one or more future periods could reduce the market price of our common stock and cause our credit ratings to decline.

Changes in our credit profile or further deterioration in market conditions may limit our access to the capital markets.

Although we believe that our existing cash and cash equivalents combined with future cash flow from our operations will be adequate to satisfy our capital needs for the foreseeable future, we may require additional cash for unexpected contingencies.

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The current unfavorable financial market conditions have resulted in diminished availability of external funding and increased the related costs. There can be no assurance that our current levels of liquidity will continue or that our ability to access the credit or capital markets will not be adversely affected by changes in the financial markets and the global economy.

Due to our long-term credit ratings, we do not have meaningful access to the commercial paper market. Any future reduction in our long-term senior unsecured credit rating could result in reduced access to the credit and capital markets and higher interest costs on future financings.

We repaid our $50 million, 6.25 percent notes payable in March 2009. The Company now has no debt. As a result, Moody s has withdrawn its credit ratings. As of January 31, 2009, the Company had $1.8 billion in cash, cash equivalents, and restricted cash.

For further information on our debt and credit facilities see the sections entitled Debt and Credit Facilities in our Management s Discussion and Analysis of Financial Condition and Results of Operations included as Part II, Item 7 of this Form 10-K.

Trade matters may disrupt our supply chain.

Trade restrictions, including increased tariffs or quotas, embargoes, safeguards, and customs restrictions against apparel items, as well as U.S. or foreign labor strikes, work stoppages or boycotts, could increase the cost or reduce the supply of apparel available to us and adversely affect our business, financial condition, and results of operations. We cannot predict whether any of the countries in which our merchandise currently is manufactured or may be manufactured in the future will be subject to additional trade restrictions imposed by the U.S. and other foreign governments, including the likelihood, type or effect of any such restrictions. For example, the quota system established by the Agreement on Textiles and Clothing was phased out for World Trade Organization countries and the U.S.-China textile and apparel agreement expired on December 31, 2008, but there are no assurances that additional restrictions will not be reestablished for certain categories in specific countries. Moreover, with the disappearance of quotas, the possibility of anti-dumping or countervailing duties lawsuits from U.S. domestic producers against importers increases. We are unable to determine the impact of the changes to the quota system or the impact that potential tariff lawsuits could have on our global sourcing operations. Our sourcing operations may be adversely affected by trade limits or political and financial instability resulting in the disruption of trade from exporting countries, significant fluctuation in the value of the U.S. dollar against foreign currencies, restrictions on the transfer of funds, and/or other trade disruptions.

Updates or changes to our IT systems may disrupt operations.

We continue to evaluate and implement upgrades to our IT systems. Upgrades involve replacing existing systems with successor systems, making changes to existing systems or cost-effectively acquiring new systems with new functionality. We are aware of inherent risks associated with replacing these systems, including accurately capturing data and system disruptions, and believe we are taking appropriate action to mitigate the risks through testing, training, and staging implementation as well as ensuring appropriate commercial contracts with third-party vendors supplying such replacement technologies are in place. Although we are on track with the replacement or upgrade of our systems, there can be no assurances that we will successfully launch these systems as planned or that they will occur without disruptions to our operations. IT system disruptions, if not anticipated and appropriately mitigated, could have a material adverse effect on our results of operations.

Our IT services agreement with IBM could cause disruptions in our operations and have an adverse effect on our financial results.

We have entered into the fourth year of a ten-year non-exclusive services agreement with IBM under which IBM operates certain significant aspects of our information technology infrastructure. Under the original agreement, this included supporting our mainframe, server, network and data center, and store operations, as well as help desk, end user support, and some disaster recovery. The agreement was amended effective March 2, 2009 to return to us certain services originally performed by IBM under the agreement. These returned services include services related to management of our server and data center environment, along with disaster recovery. All other services remain with IBM per the original agreement. Our ability to realize the expected benefits of this arrangement is subject to various risks, some of which are not within our complete control. These risks include, but are not limited to, disruption in services, and the failure to protect the security and integrity of the Company s data under the terms of the agreement. We are unable to provide assurances that some or all of these risks will not occur. Failure to effectively mitigate these risks if they occur could have a material adverse effect on our operations and financial results.

Our efforts to expand internationally through franchising and similar arrangements may not be successful and could impair the value of our brands.

We have entered into franchise agreements with unaffiliated franchisees to operate stores in many countries around the world. Under these agreements, third parties operate, or will operate, stores that sell apparel, purchased from us, under our brand names. Prior to fiscal 2006, we had no experience operating through these types of third-party arrangements, and we can provide no assurance that these arrangements will be successful. While we expect that this will be a small part of our business in the near future, we plan to continue to increase these types of arrangements over time as part of our efforts to expand internationally. The effect of these arrangements on our business and results of operations is uncertain and will depend upon various factors, including the demand for our products in new markets internationally and our ability to successfully identify appropriate third parties to act as franchisees, distributors, or in a similar capacity. In addition, certain aspects of these arrangements are not directly within our control, such as the ability of these third parties to meet their projections regarding store openings and sales. Other risks that may affect these third parties include general economic conditions in specific countries or markets, changes in diplomatic and trade relationships, and political instability. Moreover, while the agreements we have entered into and plan to enter into in the future provide us with certain termination rights, to the extent that these third parties do not operate their stores in a manner consistent with our requirements regarding our brand identities and customer experience standards, the value of our brands could be impaired. A failure to protect the value of our brands or any other harmful acts or omissions by a franchisee, could have an adverse effect on our results of operations and our reputation.

Our products are subject to risks associated with overseas sourcing and manufacturing.

The current unfavorable economic conditions, including the reduced ability to access credit, is having an adverse impact on businesses around the world, and its impact on our vendors cannot be predicted. Vendors reduced ability to access sources of capital could lead to their failure to deliver merchandise and could reduce the supply of apparel available to us, which could adversely affect our business, financial condition, and results of operations.

Independent third parties manufacture nearly all of our products for us. If we experience significant increases in demand, or need to replace an existing vendor, there can be no assurance that additional manufacturing capacity will be available when required on terms that are acceptable to us, or at all, or that any vendor would allocate sufficient capacity to us in order to meet our requirements. In addition, even if we are able to expand existing or find new manufacturing sources, we may encounter delays in production and added costs as a result of the time it takes to train our vendors in our methods, products, quality control standards, and environmental, labor, health, and safety standards. Moreover, in the event of a significant disruption in the supply of the fabrics or raw materials used by our vendors in the manufacture of our products, our vendors might not be able to locate alternative suppliers of materials of comparable quality at an acceptable price, or at all. Any delays, interruption, or increased costs in the manufacture of our products could have an adverse effect on our ability to meet consumer demand for our products and result in lower sales and net earnings.

Because independent vendors manufacture nearly all of our products outside of our principal sales markets, our products must be transported by third parties over large geographic distances. Delays in the shipment or delivery of our products due to the availability of transportation, work stoppages, port strikes, infrastructure congestion, or other factors, and costs and delays associated with transitioning between vendors, could adversely impact our financial performance. Manufacturing delays or unexpected demand for our products may require us to use faster, but more expensive, transportation methods such as aircraft, which could adversely affect our profit margins. In addition, the cost of fuel is a significant component in transportation costs, so increases in the price of petroleum products can adversely affect our profit margins.

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Failure of our vendors to adhere to our code of vendor conduct could harm our business.

We purchase nearly all merchandise from third-party vendors outside of the United States and require those vendors to adhere to a code of vendor conduct and other environmental, labor, health, and safety standards for the benefit of workers. From time to time, contractors may not be in compliance with these standards or applicable local laws. Significant or continuing noncompliance with such standards and laws by one or more contractors could have a negative impact on our reputation and an adverse effect on our results of operations.

Changes in the regulatory or administrative landscape could adversely affect our financial condition and results of operations.

Laws and regulations at both the state and federal levels frequently change and the ultimate cost of compliance cannot be precisely estimated. In addition, we cannot predict the impact that may result from the changes in the federal regulatory or administrative landscape under the Obama administration. Any changes in regulations, the imposition of additional regulations, or the enactment of any new legislation under the Obama administration that impacts employment/labor, trade, product safety, transportation/logistics, health care, tax, privacy, or environmental issues could have an adverse impact on our financial condition and results of operations.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

We operate stores in the United States, Canada, the United Kingdom, France, Ireland, and Japan. The stores operated as of January 31, 2009 aggregated approximately 39.5 million square feet. Almost all of our stores are leased with one or more renewal options after our initial term, or slightly longer terms with negotiated sales termination clauses at predetermined sales thresholds. Economic terms vary by type of location.

We own approximately 1.2 million square feet of corporate office space located in San Francisco, San Bruno, and Rocklin, California, of which approximately 184,000 square feet is leased to another company. We lease approximately 1.2 million square feet of corporate office space located in San Francisco, San Bruno, Rocklin, and Petaluma, California; New York, New York; Albuquerque, New Mexico; and Toronto, Ontario, Canada. Of the 1.2 million square feet of leased office space, approximately 160,000 square feet is under sublease to others and approximately 33,000 square feet is being marketed for sublease to others. We also lease 19 regional offices in North America and 36 international offices. We own approximately 8.6 million square feet of distribution space located in Fresno, California; Fishkill, New York; Groveport, Ohio; Gallatin, Tennessee; Brampton, Ontario, Canada; and Rugby, England. We lease approximately 1.7 million square feet of distribution space located in Grove City, Ohio, and in Northern Kentucky. A third-party logistics company provides logistics services to us through a 444,000 square foot distribution warehouse in Chiba, Japan.

Item 3. Legal Proceedings.

As a multinational company, we are subject to various proceedings, lawsuits, disputes, and claims (Actions) arising in the ordinary course of our business. Many of these Actions raise complex factual and legal issues and are subject to uncertainties. Actions filed against us from time to time include commercial, intellectual property, customer, employment, data privacy, and securities related claims, including class action lawsuits in which plaintiffs allege that we violated federal and state wage and hour and other laws. The plaintiffs in some Actions seek unspecified damages or injunctive relief, or both. Actions are in various procedural stages, and some are covered in part by insurance.

We cannot predict with assurance the outcome of Actions brought against us. Accordingly, adverse developments, settlements, or resolutions may occur and negatively impact earnings in the quarter of such development, settlement, or resolution. However, we do not believe that the outcome of any current Action would have a material adverse effect on our results of operations, cash flows, or financial position taken as a whole.

Item 4. Submission of Matters to a Vote of Security Holders.

Not applicable.

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Part II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

The principal market on which our stock is traded is the New York Stock Exchange. The number of holders of record of our stock as of March 23, 2009 was 9,236. The table below sets forth the market prices and dividends declared and paid for each of the fiscal quarters in fiscal 2008 and 2007.

	Market Prices				Dividends Declared and Paid	
	Fiscal Year 2008		Fiscal Year 2007		Fiscal Year	
	High	Low	High	Low	2008	2007
1st Quarter	$ 21.89	$ 17.77	$ 20.26	$ 17.11	$ 0.085	$ 0.08
2nd Quarter	$ 19.26	$ 14.77	$ 19.66	$ 16.44	0.085	0.08
3rd Quarter	$ 20.80	$ 11.01	$ 19.73	$ 15.20	0.085	0.08
4th Quarter	$ 14.57	$ 9.41	$ 22.02	$ 16.36	0.085	0.08
					$ 0.34	$ 0.32

Stock Performance Graph

The graph below compares the percentage changes in our cumulative total stockholder return on our common stock for the five-year period ended January 31, 2009, with (i) the cumulative total return of the Dow Jones (DJ) U.S. Retail, Apparel Index and (ii) the S&P 500 Index. The total stockholder return for our common stock assumes quarterly reinvestment of dividends.

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Total Return Analysis

	1/31/2004	1/29/2005	1/28/2006	2/3/2007	2/2/2008	1/31/2009
The Gap, Inc.	$ 100.00	$ 117.87	$ 94.93	$ 108.18	$ 109.29	$ 65.15
S&P 500	$ 100.00	$ 106.23	$ 117.26	$ 134.28	$ 131.17	$ 80.50
Dow Jones U.S. Apparel Retailers	$ 100.00	$ 123.41	$ 139.81	$ 164.21	$ 129.64	$ 69.42

Source: Research Data Group, Inc. (415) 643-6000 (www.researchdatagroup.com/S&P.htm)

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The following table presents information with respect to purchases of common stock of the Company made during the thirteen weeks ended January 31, 2009, by The Gap, Inc. or any affiliated purchaser, as defined in Exchange Act Rule 10b-18(a)(3).

	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or approximate dollar amount) of Shares that May yet be Purchased Under the Plans or Programs (1)
Month #1 (Nov. 2 - Nov. 29)				$ 400 million
Month #2 (Nov. 30 - Jan. 3)	715,359	$ 12.89	715,359	$ 391 million
Month #3 (Jan. 4 - Jan. 31)	11,482,715	$ 11.88	11,482,715	$ 255 million
Total	12,198,074		12,198,074	

(1) On February 27, 2008 our Board of Directors approved $1 billion for share repurchases, which we announced on February 28, 2008. This authorization has no expiration date.

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Item 6. Selected Financial Data.

The following selected financial data are derived from the Consolidated Financial Statements of the Company. We have also included certain non-financial data to enhance your understanding of our business. In fiscal 2007, we closed our Forth & Towne stores and, accordingly, the results of Forth & Towne have been presented as a discontinued operation in the table below. The data set forth below should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations in Item 7 and the Company s Consolidated Financial Statements and related notes herein.

	Fiscal Year (number of weeks)				
	2008 (52)	2007 (52)	2006 (53)	2005 (52)	2004 (52)
Operating Results ($ in millions)					
Net sales	$ 14,526	$ 15,763	$ 15,923	$ 16,019	$ 16,267
Gross margin	37.5%	36.1%	35.5%	36.7%	39.2%
Operating margin (a)	10.7%	8.3%	7.7%	11.1%	12.2%
Earnings from continuing operations, net of income taxes	$ 967	$ 867	$ 809	$ 1,131	$ 1,150
Net earnings	$ 967	$ 833	$ 778	$ 1,113	$ 1,150
Cash dividends paid	$ 243	$ 252	$ 265	$ 179	$ 79
Per Share Data (number of shares in millions)					
Basic earnings per share:					
Earnings from continuing operations	$ 1.35	$ 1.10	$ 0.97	$ 1.28	$ 1.29
Loss from discontinued operation	$	$ (0.05)	$ (0.03)	$ (0.02)	$
Net earnings	$ 1.35	$ 1.05	$ 0.94	$ 1.26	$ 1.29
Diluted earnings per share:					
Earnings from continuing operations	$ 1.34	$ 1.09	$ 0.97	$ 1.26	$ 1.21
Loss from discontinued operation	$	$ (0.04)	$ (0.04)	$ (0.02)	$
Net earnings	$ 1.34	$ 1.05	$ 0.93	$ 1.24	$ 1.21
Weighted-average number of shares basic	716	791	831	881	893
Weighted-average number of shares diluted	719	794	836	902	991
Cash dividend declared and paid (b)	$ 0.34	$ 0.32	$ 0.32	$ 0.18	$ 0.09
Balance Sheet Information ($ in millions except inventory per square foot)					
Merchandise inventory	$ 1,506	$ 1,575	$ 1,796	$ 1,696	$ 1,814
Total assets	$ 7,564	$ 7,838	$ 8,544	$ 8,821	$ 10,048
Inventory per square foot (c)	$ 34.7	$ 37.0	$ 43.7	$ 42.6	$ 47.8
Percentage increase (decrease) in inventory per square foot	(6)%	(15)%	3%	(11)%	6%
Working capital	$ 1,847	$ 1,653	$ 2,757	$ 3,297	$ 4,062
Total long-term debt and senior convertible notes, less current maturities (d)	$	$ 50	$ 188	$ 513	$ 1,886
Stockholders equity	$ 4,387	$ 4,274	$ 5,174	$ 5,425	$ 4,936
Other Data ($ and square footage in millions)					
Purchases of property and equipment	$ 431	$ 682	$ 572	$ 600	$ 419
Acquisition of business, net of cash acquired (e)	$ 142	$	$	$	$
Number of store locations opened	101	214	194	198	130
Number of store locations closed	119	178	116	139	158
Number of store locations open at year-end	3,149	3,167	3,131	3,053	2,994
Percentage decrease in comparable store sales (52-week basis)	(12)%	(4)%	(7)%	(5)%	

Square footage of store space at year-end (f)	39.5	39.6	38.7	37.7	36.6
Percentage increase (decrease) in square feet (f)	(0.3)%	2.3%	2.7%	3.0%	0.3%
Number of employees at year-end	134,000	141,000	154,000	153,000	152,000

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(a) Operating margin includes the loss on early retirement of debt of $105 million for fiscal 2004.

(b) A dividend of $0.0222 per share declared in the fourth quarter of fiscal 2004 was paid in the first quarter of fiscal 2005.

(c) Based on year-end inventory balance and store square footage. Excludes inventory related to our Direct segment and wholesale and franchise businesses. Also excludes inventory and square footage related to the discontinued operation of Forth & Towne.

(d) For fiscal 2008, 2007, and 2006, reduction due to repayment of long-term debt and reclassification into current maturities of long-term debt. Fiscal 2005 reduction due primarily to the March 2005 redemption of our Senior Convertible Notes of $1.4 billion.

(e) In September 2008, we acquired all of the outstanding capital stock of Athleta, Inc., a women s sports and active apparel company, for an aggregate purchase price of $148 million.

(f) Excludes square footage related to the discontinued operation of Forth & Towne.

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

Overview

We are a global specialty retailer offering clothing, accessories, and personal care products for men, women, children, and babies under the Gap, Old Navy, Banana Republic, Piperlime, and Athleta brands. We operate stores in the United States, Canada, the United Kingdom, France, Ireland, and Japan. We also have franchise agreements with unaffiliated franchisees to operate Gap and Banana Republic stores in many other countries around the world. Under these agreements, third parties operate or will operate stores that sell apparel, purchased from us, under our brand names. In addition, our U.S. customers can shop online at www.gap.com, www.oldnavy.com, www.bananarepublic.com, www.piperlime.com, and www.athleta.com. Most of the products sold under our brand names are designed by us and manufactured by independent sources. We also sell products that are designed and manufactured by branded third parties.

In September 2008, we acquired all of the outstanding capital stock of Athleta, Inc. (Athleta), a women s sports and active apparel company based in Petaluma, California, for an aggregate purchase price of $148 million. The acquisition will allow us to enhance our presence in the growing women s active apparel sector in the United States. We believe this acquisition complements our brands and allows us to leverage our online platform to expand into this significant retail sector. See Note 3 of Notes to the Consolidated Financial Statements.

We identify our operating segments according to how our business activities are managed and evaluated. Beginning in the fourth quarter of fiscal 2008, we have two reportable segments: Stores and Direct.

Fiscal 2008 and 2007 had 52 weeks versus 53 weeks in fiscal 2006. Net sales numbers for the fourth quarter and year for fiscal 2006 include this additional week; however, comparable store sales calculations exclude the 53rd week.

Financial highlights include:

- Net sales for fiscal 2008 were $14.5 billion compared with $15.8 billion for fiscal 2007, and comparable store sales decreased 12 percent compared with a decrease of 4 percent last year.

- Net earnings for fiscal 2008 increased 16 percent to $967 million, or $1.34 per share on a diluted basis, compared with $833 million, or $1.05 per share on a diluted basis for fiscal 2007.

- Net earnings from continuing operations for fiscal 2008 increased 12 percent to $967 million, or $1.34 per share on a diluted basis, compared with $867 million, or $1.09 per share on a diluted basis for fiscal 2007.

- Our Direct sales for fiscal 2008 increased 14 percent to $1.0 billion, compared with $903 million for fiscal 2007. Our Direct segment includes our online business and, beginning in September 2008 with the acquisition of Athleta, our catalog business.

- We generated cash flows from operating activities of $1.4 billion during fiscal 2008. Our capital expenditures in fiscal 2008 were $431 million.

- In fiscal 2008, we generated free cash flow of $981 million compared with free cash flow of $1.4 billion in fiscal 2007. Free cash flow is defined as net cash provided by operating activities less purchases of property and equipment. For a reconciliation of free cash flow, a non-GAAP financial measure, from a GAAP financial measure, see the Liquidity and Capital Resources section.

We repurchased approximately 46 million shares of our common stock for a total of $745 million under our share repurchase program in fiscal 2008. We also declared and paid a cash dividend of $0.34 per share in fiscal 2008.

We opened 101 new stores and closed 119 stores in fiscal 2008.

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Macroeconomic conditions deteriorated in the third quarter of fiscal 2008 and continued in the fourth quarter. Net sales for the fourth quarter of fiscal 2008 were down 13 percent from the prior year comparable period. Despite this, our cash flow generation remains healthy and we have a strong balance sheet. As of January 31, 2009, cash, cash equivalents, and restricted cash were $1.8 billion and long-term debt of $50 million, classified as current, was repaid in March 2009. We believe our cash balances and cash flows from operations will be sufficient for the foreseeable future. During this challenging economic environment we are focused on the following priorities:

- consistently delivering product that aligns with our target customers;
- improving customer experience and continuing to invest in the store fleet in a manner that supports improvement in return on invested capital;
- managing inventory to support a healthy merchandise margin;
- maintaining a focus on cost management; and
- generating strong free cash flow.

Results of Operations

Net Sales

Net Sales by Brand, Region, and Reportable Segment

Net sales primarily consist of retail sales, online sales, and shipping fees received from customers for delivery of merchandise. Outlet retail sales are reflected within the respective results of each brand. Fiscal years ended January 31, 2009 (fiscal 2008) and February 2, 2008 (fiscal 2007) had 52 weeks. Fiscal year ended February 3, 2007 (fiscal 2006) had 53 weeks. Net sales numbers for the fourth quarter and year for fiscal 2006 include this additional week; however, comparable store sales calculations exclude the 53rd week. Net sales for the additional week in fiscal 2006 were approximately $200 million.

We identify our operating segments according to how our business activities are managed and evaluated. Beginning in the fourth quarter of fiscal 2008, we have two reportable segments: Stores and Direct.

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Net sales by brand, region, and reportable segment are as follows:

($ in millions)

Fiscal Year 2008	**Gap**	**Old Navy**	**Banana Republic**	**Other (3)**	**Total**
U.S. (1)	$ 3,840	$ 4,840	$ 2,221	$	$ 10,901
Canada	329	392	146		867
Europe	724		23	33	780
Asia	732		101	47	880
Other Regions				68	68
Total Stores reportable segment	5,625	5,232	2,491	148	13,496
Direct reportable segment (2)	333	475	145	77	1,030
Total	$ 5,958	$ 5,707	$ 2,636	$ 225	$ 14,526
Sales Growth (Decline)	(5)%	(14)%	(3)%	84%	(8)%

Fiscal Year 2007	**Gap**	**Old Navy**	**Banana Republic**	**Other (3)**	**Total**
U.S. (1)	$ 4,146	$ 5,776	$ 2,351	$	$ 12,273
Canada	364	461	147		972
Europe	822			5	827
Asia	613		89	36	738
Other Regions				50	50
Total Stores reportable segment	5,945	6,237	2,587	91	14,860
Direct reportable segment (2)	308	428	136	31	903
Total	$ 6,253	$ 6,665	$ 2,723	$ 122	$ 15,763
Sales Growth (Decline)	(4)%	(2)%	7%	213%	(1)%

Fiscal Year 2006	**Gap**	**Old Navy**	**Banana Republic**	**Other (3)**	**Total**
U.S. (1)	$ 4,494	$ 6,042	$ 2,251	$	$ 12,787
Canada	379	442	119		940
Europe	792			1	793
Asia	581		61	7	649
Other Regions				24	24
Total Stores reportable segment	6,246	6,484	2,431	32	15,193
Direct reportable segment (2)	261	345	117	7	730
Total	$ 6,507	$ 6,829	$ 2,548	$ 39	$ 15,923
Sales Growth (Decline)	(5)%		11%	56%	(1)%

(1) U.S. includes the United States and Puerto Rico.

(2) U.S. only. Direct includes Athleta beginning September 2008.

(3) Other includes our wholesale business, franchise business, Piperlime, and, beginning September 2008, Athleta.

Comparable Store Sales

The percentage change in comparable store sales by brand and region and for total Company for fiscal 2008 and 2007 are as follows:

	Fiscal Year	
	2008	**2007**
Gap North America	(8)%	(5)%
Old Navy North America	(17)%	(7)%
Banana Republic North America	(10)%	1%
International	(4)%	(1)%
The Gap, Inc.	(12)%	(4)%

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The comparable store sales calculation excludes sales from our Direct reportable segment and our wholesale and franchise businesses. Outlet comparable store sales are reflected within the respective results of each brand.

A store is included in comparable store sales (Comp) when it has been open for at least 12 months and the square footage has not changed by 15 percent or more within the past year. A store is included in Comp on the first day it has comparable prior year sales. Stores in which square footage has changed by 15 percent or more as a result of a remodel, expansion, or reduction are excluded from Comp until the first day they have comparable prior year sales. Current year foreign exchange rates are applied to both current year and prior year Comp store sales to achieve a consistent basis for comparison.

A store is considered non-comparable (Non-comp) when it has been open for less than 12 months or it has changed its square footage by 15 percent or more within the past year. Non-store sales such as online and catalog revenues are also considered Non-comp.

A store is considered Closed if it is temporarily closed for three or more full consecutive days or is permanently closed. When a temporarily closed store reopens, the store will be placed in the Comp/Non-comp status it was in prior to its closure. If a store was in Closed status for three or more days in the prior year then the store will be in Non-comp status for the same days in the following year.

Store Count and Square Footage Information

Net sales per average square foot is as follows:

	Fiscal Year		
	2008	**2007**	**2006**
Net sales per average square foot (1)	$ 336	$ 376	$ 395

(1) Excludes net sales associated with the Direct segment and our wholesale and franchise businesses. Computation also excludes net sales and average square footage associated with the discontinued operation of Forth & Towne.

Store count, openings, closings, and square footage for our wholly owned stores are as follows:

	February 2, 2008	Fiscal 2008		January 31, 2009	
	Number of Store Locations	**Number of Stores Opened**	**Number of Stores Closed**	**Number of Store Locations**	**Square Footage (in millions)**
Gap North America	1,249	13	69	1,193	11.8
Gap Europe	173	9	9	173	