GAP INC
Form 10-Q
June 09, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended May 2, 2009

¨ **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 or other jurisdiction of incorporation or organization)	**(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

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 þ No ¨

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 þ 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 þ

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Common Stock, $0.05 par value, 696,819,282 shares as of June 5, 2009

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

THE GAP, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

($ and shares in millions except par value)	May 2, 2009	January 31, 2009	May 3, 2008
ASSETS			
Current assets:			
Cash and cash equivalents	$ 1,708	$ 1,715	$ 1,744
Restricted cash	21	41	36
Merchandise inventory	1,393	1,506	1,555
Other current assets	647	743	635
Total current assets	3,769	4,005	3,970
Property and equipment, net of accumulated depreciation of $4,441, $4,312, and $4,190	2,820	2,933	3,207
Other long-term assets	632	626	471
Total assets	$ 7,221	$ 7,564	$ 7,648
LIABILITIES AND STOCKHOLDERS EQUITY			
Current liabilities:			
Current maturities of long-term debt	$	$ 50	$ 188
Accounts payable	812	975	960
Accrued expenses and other current liabilities	864	1,076	1,032
Income taxes payable	9	57	98
Total current liabilities	1,685	2,158	2,278
Lease incentives and other long-term liabilities	996	1,019	1,057
Commitments and contingencies (see Note 11)			
Stockholders equity:			
Common stock $0.05 par value			
Authorized 2,300 shares; Issued 1,106, 1,105, and 1,103 shares; Outstanding 696, 694, and 725 shares	55	55	55
Additional paid-in capital	2,893	2,895	2,832
Retained earnings	10,103	9,947	9,410
Accumulated other comprehensive earnings	116	123	138
Treasury stock, at cost (410, 411, and 378 shares)	(8,627)	(8,633)	(8,122)
Total stockholders equity	4,540	4,387	4,313
Total liabilities and stockholders equity	$ 7,221	$ 7,564	$ 7,648

See Accompanying Notes to the Condensed Consolidated Financial Statements

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THE GAP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited)

	13 Weeks Ended	
($ and shares in millions except per share amounts)	**May 2, 2009**	**May 3, 2008**
Net sales	$ 3,127	$ 3,384
Cost of goods sold and occupancy expenses	1,888	2,042
Gross profit	1,239	1,342
Operating expenses	886	959
Operating income	353	383
Interest expense (reversal)	2	(12)
Interest income	(2)	(13)
Earnings before income taxes	353	408
Income taxes	138	159
Net earnings	$ 215	$ 249
Weighted-average number of shares - basic	695	733
Weighted-average number of shares - diluted	697	736
Earnings per share - basic	$ 0.31	$ 0.34
Earnings per share - diluted	$ 0.31	$ 0.34
Cash dividends declared and paid per share	$ 0.085	$ 0.085

See Accompanying Notes to the Condensed Consolidated Financial Statements

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THE GAP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

($ in millions)	13 Weeks Ended May 2, 2009	13 Weeks Ended May 3, 2008
Cash flows from operating activities:		
Net earnings	$ 215	$ 249
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization (a)	143	139
Share-based compensation	12	13
Tax benefit from exercise of stock options and vesting of stock units	(5)	3
Excess tax benefit from exercise of stock options and vesting of stock units		(3)
Non-cash and other items	(11)	19
Deferred income taxes	(2)	(18)
Changes in operating assets and liabilities:		
Merchandise inventory	110	19
Other current assets and other long-term assets	(31)	(81)
Accounts payable	(155)	(49)
Accrued expenses and other current liabilities	(144)	(233)
Income taxes payable, net of prepaid and other tax-related items	66	112
Lease incentives and other long-term liabilities	4	6
Net cash provided by operating activities	202	176
Cash flows from investing activities:		
Purchases of property and equipment	(63)	(114)
Maturities of short-term investments		177
Change in restricted cash	18	2
Net cash provided by (used for) investing activities	(45)	65
Cash flows from financing activities:		
Payments of long-term debt	(50)	
Proceeds from share-based compensation, net		36
Repurchases of common stock	(45)	(196)
Excess tax benefit from exercise of stock options and vesting of stock units		3
Cash dividends paid	(59)	(62)
Net cash used for financing activities	(154)	(219)
Effect of exchange rate fluctuations on cash	(10)	(2)
Net increase (decrease) in cash and cash equivalents	(7)	20
Cash and cash equivalents at beginning of period	1,715	1,724
Cash and cash equivalents at end of period	$ 1,708	$ 1,744

Supplemental disclosure of cash flow information:

Cash paid for interest during the period	$	1	$	1
Cash paid for income taxes during the period	$	77	$	59

(a) Depreciation and amortization is net of the amortization of lease incentives of $19 million and $21 million for the thirteen weeks ended May 2, 2009 and May 3, 2008, respectively.

See Accompanying Notes to the Condensed Consolidated Financial Statements

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THE GAP, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Basis of Presentation

The Condensed Consolidated Balance Sheets as of May 2, 2009 and May 3, 2008, the Condensed Consolidated Statements of Earnings for the thirteen weeks ended May 2, 2009 and May 3, 2008, and the Condensed Consolidated Statements of Cash Flows for the thirteen weeks ended May 2, 2009 and May 3, 2008 have been prepared by The Gap, Inc. (the Company, we, and our), without audit. In the opinion of management, such statements include all adjustments (which include only normal recurring adjustments) considered necessary to present fairly our financial position, statements of earnings, and cash flows at May 2, 2009 and May 3, 2008, and for all periods presented. The Condensed Consolidated Balance Sheet as of January 31, 2009 has been derived from our audited financial statements.

We identify our operating segments based on the way we manage and evaluate our business activities. Beginning in the fourth quarter of fiscal 2008, we have two reportable segments: Stores and Direct.

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission. Accordingly, certain information and disclosures normally included in the notes to the annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted from these interim financial statements. We suggest that you read these Condensed Consolidated Financial Statements in conjunction with the Consolidated Financial Statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended January 31, 2009.

The results of operations for the thirteen weeks ended May 2, 2009 are not necessarily indicative of the operating results that may be expected for the fifty-two week period ending January 30, 2010.

Note 2. Recent Accounting Pronouncements

In May 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. (SFAS) 165, Subsequent Events. SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. SFAS 165 will be effective in the second quarter of fiscal 2009. We do not expect the adoption of SFAS 165 to have a material effect on our financial position, cash flows, or results of operations.

Note 3. Goodwill and Intangible Assets

Goodwill and intangible assets consist of the following:

($ in millions)	May 2, 2009	January 31, 2009	May 3, 2008
Goodwill	$ 99	$ 99	$
Trade name	$ 54	$ 54	$
Intangible assets subject to amortization	$ 15	$ 15	$
Accumulated amortization	(4)	(2)	
Intangible assets subject to amortization, net	$ 11	$ 13	$

All of the assets above have been allocated to the Direct reportable segment.

During the thirteen weeks ended May 2, 2009, there were no changes in the carrying amount of goodwill or trade name. Intangible assets subject to amortization, consisting primarily of customer relationships, are being amortized over a weighted-average amortization period of four years. Amortization expense associated with intangible assets subject to amortization is classified in operating expenses in our Condensed Consolidated Statements of Earnings. For the thirteen weeks ended May 2, 2009, amortization expense for intangible assets subject to amortization was $2 million. For the remainder of fiscal 2009, we expect amortization expense to be $4 million.

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As of May 2, 2009, future amortization expense associated with intangible assets subject to amortization for each of the five succeeding fiscal years is as follows:

($ in millions)	
Fiscal Year	
2010	$ 4
2011	$ 2
2012	$ 1
2013	$
2014	$

Note 4. Fair Value Measurements

Effective February 3, 2008, we adopted the provisions of SFAS 157, Fair Value Measurements, except for certain nonfinancial assets and liabilities for which the effective date had been deferred by one year in accordance with FASB Staff Position No. 157-2, Effective Date of FASB Statement No. 157.

Financial assets and liabilities measured at fair value on a recurring basis in accordance with SFAS 157 are as follows:

		Fair Value Measurements at Reporting Date Using		
($ in millions)	**May 2, 2009**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets:				
Derivative financial instruments	$ 65	$	$ 65	$
Deferred compensation plan assets	21	21		
Total	$ 86	$ 21	$ 65	$
Liabilities:				
Derivative financial instruments	$ 9	$	$ 9	$