GAP INC
Form 10-Q/A
December 09, 2002
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

(Amendment No. 1)

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended May 4, 2002

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)

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.** **Pacific 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 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 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, 869,819,282 shares as of June 1, 2002

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GAP, INC.

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Explanatory Note

The purpose of this amendment to The Gap, Inc. s Quarterly Report on Form 10-Q is to correct an understatement of the company s merchandise inventory and accounts payable balances. The condensed consolidated balance sheets as of May 4, 2002 and May 5, 2001 and the condensed consolidated statements of cash flows for the thirteen weeks ended May 4, 2002 and May 5, 2001 have been restated as discussed in Note 10 to the accompanying condensed consolidated financial statements.

This amendment does not reflect events occurring after the original filing of the Quarterly Report on June 7, 2002 or modify or update those disclosures as presented in the original Form 10-Q, except to reflect the restatement as described above.

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GAP INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

($000 except share and par value)	May 4, 2002 (As Restated, See Note 10)	February 2, 2002	May 5, 2001 (As Restated, See Note 10)
ASSETS			
Current Assets:			
Cash and equivalents	$ 2,319,191	$ 1,035,749	$ 663,089
Merchandise inventory	1,792,713	1,768,613	2,119,967
Other current assets	345,423	331,685	350,144
Total Current Assets	4,457,327	3,136,047	3,133,200
Property and equipment, net	4,096,600	4,161,290	4,120,883
Lease rights and other assets	419,830	385,486	352,485
Total Assets	$ 8,973,757	$ 7,682,823	$ 7,606,568
LIABILITIES AND SHAREHOLDERS EQUITY			
Current Liabilities:			
Notes payable	$	$ 41,889	$ 781,224
Current maturities of long-term debt			250,000
Accounts payable	1,041,507	1,196,614	983,360
Accrued expenses and other current liabilities	793,092	827,119	697,507
Income taxes payable	120,813	82,108	18,050
Total Current Liabilities	1,955,412	2,147,730	2,730,141
Long-Term Liabilities:			
Long-term debt	3,355,337	1,961,397	1,270,289
Deferred lease credits and other liabilities	585,117	564,115	531,100
Total Long-Term Liabilities	3,940,454	2,525,512	1,801,389
Shareholders Equity:			
Common stock $.05 par value			
Authorized 2,300,000,000 shares; Issued 950,670,595; 948,597,949 and 941,407,614 shares; Outstanding 867,808,385; 865,726,890 and 856,199,748 shares	47,534	47,430	47,070
Additional paid-in capital	485,140	461,408	338,468
Retained earnings	4,927,129	4,890,375	5,090,262
Accumulated other comprehensive losses	(55,055)	(61,824)	(32,332)
Deferred compensation	(6,438)	(7,245)	(12,577)
Treasury stock, at cost	(2,320,419)	(2,320,563)	(2,355,853)
Total Shareholders Equity	3,077,891	3,009,581	3,075,038
Total Liabilities and Shareholders Equity	$ 8,973,757	$ 7,682,823	$ 7,606,568

See accompanying notes to condensed consolidated financial statements

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GAP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
(Unaudited)

	Thirteen Weeks Ended	
	May 4, 2002	May 5, 2001
($000 except share and per share amounts)		
Net sales	$ 2,890,840	$ 3,179,656
Costs and expenses		
Cost of goods sold and occupancy expenses	2,011,762	2,054,482
Operating expenses	766,417	920,412
Interest expense	48,117	24,038
Interest income	(7,373)	(1,135)
Earnings before income taxes	71,917	181,859
Income taxes	35,239	66,379
Net earnings	$ 36,678	$ 115,480
Weighted average number of shares basic	866,685,894	854,333,157
Weighted average number of shares diluted	874,012,082	875,873,227
Earnings per share basic	$ 0.04	$ 0.14
Earnings per share diluted	$ 0.04	$ 0.13
Cash dividends paid per share	$ 0.02 [(a)]	$ 0.02 [(b)]

See accompanying notes to condensed consolidated financial statements.

[(a)] Includes a dividend of $0.02 per share declared in fourth quarter of fiscal 2001 but paid in first quarter of fiscal 2002.
[(b)] Includes a dividend of $0.02 per share declared in fourth quarter of fiscal 2000 but paid in first quarter of fiscal 2001.

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GAP INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Thirteen Weeks Ended	
($000)	May 4, 2002 (As Restated, See Note 10)	May 5, 2001 (As Restated, See Note 10)
Cash Flows from Operating Activities:		
Net earnings	$ 36,678	$ 115,480
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	187,884	196,148
Tax benefit from exercise of stock options and vesting of restricted stock	6,331	16,537
Loss on disposal of property and equipment	5,860	1,063
Changes in operating assets and liabilities:		
Merchandise inventory	(18,553)	(221,567)
Other current assets	(9,410)	(16,154)
Accounts payable	(157,651)	(83,214)
Accrued expenses	(30,967)	36,888
Income taxes payable	37,729	1,400
Deferred lease credits and other liabilities	15,486	20,529
Net cash provided by operating activities	73,387	67,110
Cash Flows from Investing Activities:		
Purchase of property and equipment	(96,880)	(312,194)
Acquisition of lease rights and other assets	(322)	(4,958)
Net cash used for investing activities	(97,202)	(317,152)
Cash Flows from Financing Activities:		
Net increase (decrease) in notes payable	(41,942)	5,174
Issuance of long-term debt	1,345,500	495,886
Issuance of common stock	16,629	23,155
Cash dividends paid	(19,226)	(18,950)
Net cash provided by financing activities	1,300,961	505,265
Effect of exchange rate fluctuations on cash	6,296	(928)
Net increase in cash and equivalents	1,283,442	254,295
Cash and equivalents at beginning of period	1,035,749	408,794
Cash and equivalents at end of period	$ 2,319,191	$ 663,089

See accompanying notes to condensed consolidated financial statements.

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GAP INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. BASIS OF PRESENTATION

The condensed consolidated balance sheets as of May 4, 2002 and May 5, 2001 and the interim condensed consolidated statements of earnings for the thirteen weeks ended May 4, 2002 and May 5, 2001 and cash flows for the thirteen weeks ended May 4, 2002 and May 5, 2001 have been prepared by the Company, without audit. In the opinion of management, such statements include all adjustments (which include only normal recurring adjustments) considered necessary to present fairly the financial position, results of operations and cash flows of the Company at May 4, 2002 and May 5, 2001, and for all periods presented.

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. It is suggested that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K/A for the year ended February 2, 2002.

The condensed consolidated balance sheet as of February 2, 2002, was derived from the Company s February 2, 2002 balance sheet included in the Company s 2001 Annual Report on Form 10-K/A.

The results of operations for the thirteen weeks ended May 4, 2002 are not necessarily indicative of the operating results that may be expected for the year ending February 1, 2003.

2. COMPREHENSIVE EARNINGS

Comprehensive earnings include net earnings and other comprehensive earnings (losses). Other comprehensive earnings (losses) include foreign currency translation adjustments and fluctuations in the fair market value of certain financial instruments. Comprehensive earnings for the thirteen weeks ended May 4, 2002 and May 5, 2001 were as follows:

	Thirteen Weeks Ended	
	May 4, 2002	**May 5, 2001**
($000)		
Net earnings	$ 36,678	$ 115,480
	6,769	(12,159)
Comprehensive earnings	$ 43,447	$ 103,321

3. INTANGIBLE ASSETS

We adopted SFAS 142 Goodwill and Other Intangible Assets for the fiscal year beginning February 3, 2002. We concluded that our intangible assets have definite useful lives equivalent to their original useful lives. Intangible assets subject to amortization consist of temporary lease rights, which are amortized over the useful lives of the respective leases, not to exceed 20 years. The adoption of SFAS 142 did not have a significant impact on the financial statements. The gross carrying value and accumulated amortization of lease rights was $150 million and $52 million, respectively, as of May 4, 2002, $146 million and $49 million, respectively, as of February 2, 2002, and $148 million and $44 million, respectively, as of May 5, 2001.

Aggregate amortization of lease rights was $2.26 million and $2.28 million for the thirteen weeks end May 4, 2002 and May 5, 2001, respectively. Amortization expense is expected to be $6.1 million through the remainder of 2002, $8.0 million in 2003, $7.6 million in 2004, $6.5 million in 2005, and $5.9 million in 2006.

4. DEBT AND OTHER CREDIT ARRANGMENTS

In March 2002, we issued $1.38 billion aggregate principal amount of 5.75 percent senior convertible notes due March 15, 2009, and received the net proceeds in cash. Interest is payable semi-annually on March 15 and September 15 of each year, commencing on

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September 15, 2002. We have an option to call the notes on or after March 20, 2005. The notes are convertible, unless previously redeemed or repurchased, at the option of the holder at any time prior to maturity, into shares of our common stock at a conversion price of $16.12 per share, subject to adjustment in certain events, for a total of 85,607,940 shares. If converted, these additional shares would reduce our future earnings per share. Prior to conversion, the convertible notes are potentially dilutive at certain earnings levels. The effects of these dilutive securities are computed using the if-converted method.

In March 2002, we replaced our existing $1.45 billion bank facilities, $1.3 billion of which was scheduled to expire in June 2002, with a new $1.4 billion secured 2-year credit facility (the new Facility). The new Facility will be used for general corporate purposes, primarily for trade letters of credit issuance. The new Facility contains financial and other covenants, including limitations on capital expenditures, liens, cash dividends and investments, and maintenance of certain financial ratios, including a fixed charge coverage ratio and an asset coverage ratio. Violation of these covenants could result in a default under the new Facility which would permit the participating banks to restrict our ability to further access the new Facility for letters of credit or advances and to require the immediate repayment of any outstanding advances under the new Facility. In addition, such a default could, under certain circumstances, permit the holders of our outstanding unsecured debt to accelerate the payment of such obligations.

As of May 4, 2002, we had $764 million in trade letters of credit issued under the new Facility.

5. EARNINGS PER SHARE

Basic earnings per share is computed using the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share includes the dilutive effect of the Company s potentially dilutive securities, which include certain stock options, unvested shares of restricted stock and convertible notes. The following summarizes the incremental shares from the potentially dilutive securities, calculated using the treasury stock method.

	Thirteen Weeks Ended	
	May 4, 2002	**May 5, 2001**
Weighted-average number of shares basic	866,685,894	854,333,157
Incremental shares resulting from:		
Stock options	7,326,188	21,406,811
Restricted stock		133,259
Weighted-average number of shares diluted	874,012,082	875,873,227

The calculation above excludes options to purchase 77,667,536 and 27,066,303 shares of common stock during the thirteen weeks ended May 4, 2002 and May 5, 2001, respectively, and senior convertible notes which are convertible to 85,607,940 shares of common stock during the thirteen weeks ended May 4, 2002, because their inclusion would have an anti-dilutive effect on EPS.

6. EXCESS FACILITIES, SEVERANCE AND SUBLEASE LOSS RESERVE

In 2001, we announced plans to close four distribution facilities in Ventura, California, Basildon, England, Erlanger, Kentucky and Roosendaal, Holland.

The closure of the Ventura and Basildon facilities were completed by the first quarter of fiscal 2002, and the Erlanger and Roosendaal facilities are expected to be closed by the third and second quarter of fiscal 2002, respectively. As of May 4, 2002 the Erlanger and Roosendaal facilities remained in operation. These closures will impact approximately 300 employees.

Remaining severance and outplacement costs relate to approximately 300 employees. Employee separation expenses are comprised of severance pay, outplacement services, medical and other related benefits. Remaining cash expenditures of $3.5 million associated with employee separations are expected to be paid by the third quarter of fiscal 2002.

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Facilities-related charges associated with distribution center closures include costs associated with lease terminations, facilities restoration and equipment removal. Remaining cash expenditures of $5.7 million associated with facilities as of May 4, 2002 are expected to be paid by the third quarter of fiscal 2002.

The land and buildings of the distribution center in Ventura, California are classified as held for sale in accordance with Statement of Financial Accounting Standards No. 144 (SFAS 144), Accounting for the Impairment or Disposal of Long-Lived Assets . The total carrying value of the land and buildings as of May 4, 2002 was $8.7 million.

During 2001, we consolidated and downsized headquarters facilities in our San Francisco and San Bruno campuses as part of cost containment efforts. We recorded charges during fiscal 2001, which primarily related to the difference between our contract rent obligations and the rate at which we expect to be able to sublease the properties.

The remaining reserve balance related to the distribution center exit costs and sublease loss as of May 4, 2002 was as follows:

($000)	Severance and Outplacement	Facilities Charges	Sublease Loss Reserve	Total
Balance at February 2, 2002	$ 5,435	$ 7,040	$ 44,220	$ 56,695
Provisions				
Payments/Deductions	(1,931)	(1,350)	(1,670)	(4,951)
Balance at May 4, 2002	$ 3,504	$ 5,690	$ 42,550	$ 51,744

7. INCOME TAXES

The effective tax rate was 49 percent and 36.5 percent for the first quarter of fiscal 2002 and 2001, respectively. The increase in tax rate resulted primarily from the decline in earnings from historical levels. We expect the effective tax rate for fiscal 2002 to be sensitive to the level and mix of earnings.

Income tax payments for the full fiscal years 2001 and 2000 were approximately $151 million and $427 million, respectively.

8. NEW ACCOUNTING PRONOUNCEMENTS

In July 2001, the FASB issued Statement of Financial Accounting Standards No. 142 (SFAS 142), Goodwill and Other Intangible Assets , which is effective for all fiscal years beginning after December 15, 2001. SFAS 142 requires, among other things, the discontinuance of goodwill amortization. In addition, the standard includes provisions for the reclassification of certain existing recognized intangibles as goodwill, reassessment of the useful lives of existing recognized intangibles, reclassification of certain intangibles out of previously reported goodwill and the identification of reporting units for purposes of assessing potential future impairments of goodwill. We adopted SFAS 142 for the fiscal year beginning February 3, 2002. The adoption of SFAS 142 did not have a significant impact on the financial statements.

In June 2001, the FASB issued Statement of Financial Accounting Standards No. 143 (SFAS 143), Accounting for Asset Retirement Obligations, which is effective for fiscal years beginning after June 15, 2002. SFAS 143 addresses the financial accounting and reporting for obligations and retirement costs related to the retirement of tangible long-lived assets. We do not expect that the adoption of SFAS 143 will have a significant impact on our financial statements.

In August 2001, the FASB issued Statement of Financial Accounting Standards No. 144 (SFAS 144), Accounting for the Impairment or Disposal of Long-Lived Assets, which is effective for fiscal years beginning after December 15, 2001. SFAS 144 supersedes FASB Statement No 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, and the accounting and reporting provisions relating to the disposal of a segment of a business of Accounting Principles Board Opinion No. 30. The adoption of SFAS 144 did not have a significant impact on the financial statements.

9. SUBSEQUENT EVENTS

On May 9, 2002 and May 24, 2002, the outlook on our credit ratings was changed from stable to negative by Standard & Poor s and Moody s respectively.

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10. RESTATEMENT FOR MERCHANDISE INVENTORY AND ACCOUNTS PAYABLE

During the third quarter of 2002, we made changes in an accounting report used to record in-transit merchandise inventory. These changes corrected an understatement of the Company s in-transit inventory balances and the corresponding accounts payable balances.

While the in-transit inventory tracking system was accurately capturing data, a software upgrade in April 2002 inadvertently caused the system to begin generating accounting reports that understated in-transit inventory levels for financial reporting purposes. While addressing this issue, we also determined that the methodology for recording in-transit inventory required modifications to accurately report in-transit balances for financial reporting purposes for the quarters ended May 5, 2001 through August 3, 2002. These issues were identified in October 2002.

These adjustments will not impact previously reported net sales, net earnings, net cash flow, net working capital or financial covenant compliance. Additionally, there was no impact on the amount of inventory actually ordered from vendors or sold to customers in any affected reporting period.

As a result, the accompanying condensed consolidated balance sheets as of May 4, 2002 and May 5, 2001 and the condensed consolidated statements of cash flows for the thirteen weeks ended May 4, 2002 and May 5, 2001 have been restated from the amounts previously reported to reflect the adjustments discussed above. The following table summarizes the significant effects of the restatement:

	May 4, 2002	
($000)	As Previously Reported	As Restated
Merchandise inventory	$ 1,686,424	$ 1,792,713
Total Current Assets	$ 4,351,038	$ 4,457,327
Total Assets	$ 8,867,468	$ 8,973,757
Accounts payable	$ 935,218	$ 1,041,507
Total Current Liabilities	$ 1,849,123	1,955,412
Total Liabilities and Shareholders Equity	$ 8,867,468	$ 8,973,757

	May 5, 2001	
($000)	As Previously Reported	As Restated
Merchandise inventory	$ 2,048,822	$ 2,119,967
Total Current Assets	$ 3,062,055	$ 3,133,200
Total Assets	$ 7,535,423	$ 7,606,568
Accounts payable	$ 912,215	$ 983,360
Total Current Liabilities	$ 2,658,996	2,730,141
Total Liabilities and Shareholders Equity	$ 7,535,423	$ 7,606,568

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Deloitte & Touche LLP
50 Fremont Street
San Francisco, California 94105-2230
Tel: (415) 783 4000
Fax: (415) 783 4329
www.us.deloitte.com

Deloitte
& Touche

INDEPENDENT ACCOUNTANTS REPORT

To the Board of Directors and Shareholders of
The Gap, Inc.:

We have reviewed the accompanying condensed consolidated balance sheets of The Gap, Inc. and subsidiaries as of May 4, 2002 and May 5, 2001, and the related condensed consolidated statements of earnings and of cash flows for the thirteen week periods ended May 4, 2002 and May 5, 2001. These financial statements are the responsibility of the Company s management.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and of making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to such condensed consolidated financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of The Gap, Inc. and subsidiaries as of February 2, 2002, and the related consolidated statements of earnings, shareholders equity, and cash flows for the year then ended (not presented herein); and in our report dated March 12, 2002, November 18, 2002 as to Note L, we expressed an unqualified opinion and included an explanatory paragraph relating to the restatement described in Note L, on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of February 2, 2002 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

As discussed in Note 10, the condensed consolidated balance sheets as of May 4, 2002 and May 5, 2001, and the condensed consolidated statements of cash flows for the thirteen week periods ended May 4, 2002 and May 5, 2001, have been restated.

/s/ Deloitte & Touche LLP

San Francisco, California
May 15, 2002 (November 18, 2002 as to Note 10)

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GAP INC.
MANAGEMENT S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information below contains certain forward-looking statements which reflect the current view of Gap Inc. (the Company, we and our) with respect to future events and financial performance. Wherever used, the words expect, plan, anticipate, believe, may and similar expressions identify forward-looking statements.

Any such forward-looking statements are subject to risks and uncertainties and our future results of operations could differ materially from historical results or current expectations. Some of these risks include, without limitation, ongoing competitive pressures in the apparel industry, risks associated with challenging domestic and international retail environments, changes in the level of consumer spending or preferences in apparel, trade restrictions and political or financial instability in countries where our goods are manufactured, and/or other factors that may be described in our Annual Report on Form 10-K/A and/or other filings with the Securities and Exchange Commission. Future economic and industry trends that could potentially impact revenues and profitability are difficult to predict.

We suggest that this document be read in conjunction with the Management s Discussion and Analysis included in our Annual Report on Form 10-K/A for the year ended February 2, 2002.

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.

The Management s Discussion and Analysis of Financial Condition and Results of Operations presented below reflects the effects of the restatement of our condensed consolidated balance sheets as of May 4, 2002 and May 5, 2001 and our condensed consolidated statements of cash flows for the thirteen weeks ended May 4, 2002 and May 5, 2001. See Note 10 to the condensed consolidated financial statements for further discussion of this matter.

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RESULTS OF OPERATIONS

Net Sales

	Thirteen Weeks Ended	
	May 4, 2002	**May 5, 2001**
Net sales ($000)	$ 2,890,840	$ 3,179,656
Total net sales (decrease) increase percentage	(9)	16
Comparable store sales (decrease) percentage	(17)	(7)
Net sales per average square foot	$ 77	$ 96
Square footage of gross store space at end of period (000)	36,942	33,271
Number of Store Concepts:		
Beginning of Year	4,171	3,676
New store concepts	71	195
Expanded store concepts[1]	16	55
Closed store concepts	(14)	(21)
End of Period	4,228	3,850
Number of Store Locations:		
Beginning of Year	3,097	2,848
New store locations	41	110
Closed store locations	(13)	(11)
End of Period	3,125	2,947

Store count and square footage at quarter end for fiscal 2002 and 2001 were as follows:

	May 4, 2002			May 5, 2001		
	Number of Store Concepts	**Number of Store Locations**	**Sq. Ft. (millions)**	**Number of Store Concepts**	**Number of Store Locations**	**Sq. Ft. (millions)**
Gap Domestic	2,309	1,489	13.2	2,143	1,475	12.4
Gap International[2]	657	374	3.6	575	340	3.2
Banana Republic[3]	441	441	3.7	415	415	3.3
Old Navy[4]	821	821	16.4	717	717	14.4
Total	4,228	3,125	36.9	3,850	2,947	33.3

Since the beginning of fiscal 2000, Gap Brand stores have been reported based on concepts. Any Gap Adult, GapKids, babyGap or GapBody that meets a certain square footage threshold has been counted as a store, even when residing within a single physical location. In the table above we present the number of store concepts and the number of locations.

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(1) Expanded stores do not change store count.
(2) Includes store concepts and locations in the following countries:
United Kingdom: 235 and 196 store concepts and 147 and 128 store locations in 2002 and 2001, respectively.
Canada: 192 and 172 store concepts and 110 and 98 store locations in 2002 and 2001, respectively.
Japan: 156 and 126 store concepts and 72 and 63 store locations in 2002 and 2001, respectively.
France: 54 and 58 store concepts and 35 and 39 store locations in 2002 and 2001, respectively.
Germany: 20 and 23 stores concepts and 10 and 12 store locations in 2002 and 2001, respectively.
(3) Includes 16 and 13 stores in Canada in 2002 and 2001, respectively.
(4) Includes 23 and 12 stores in Canada for 2002 and 2001 respectively.

Net sales for the first quarter of fiscal 2002 decreased $289 million compared to the same period last year. Comparable store sales declined $507 million offset by a $218 million increase in non-comparable store sales. The non-comparable store sales increase was primarily due to the increase in retail selling space, both through the opening of new stores (net of stores closed) and the expansion of existing stores. The effects of heavy promotional activity drove the decrease in comparable store sales for the first quarter.

Comparable store sales by division for the first quarter were as follows:

Gap Domestic reported negative 20% versus a negative 5% last year
Gap International reported negative 19% versus a negative 7% last year
Banana Republic reported negative 9% versus a negative 8% last year
Old Navy reported negative 18% versus negative 9% last year

The decrease in net sales per average square foot for the first quarter was primarily attributable to negative comparable store sales.

Cost of Goods Sold and Occupancy Expenses

Cost of goods sold and occupancy expenses as a percentage of net sales increased 5.0 percentage points in the first quarter of fiscal 2002 from the same period in fiscal 2001. Lower merchandise margin and higher occupancy expenses of 2.6 and 2.4 percentage points drove the increase.

The decline in merchandise margin was primarily a result of heavier markdown selling and lower markdown margins.

The increase in occupancy expenses as a percentage of net sales for the first quarter was due to loss of sales leverage.

Operating Expenses

Operating expenses as a percentage of net sales decreased 2.4 percentage points for the first quarter of fiscal 2002 from the same period in fiscal 2001. The decrease in operating expenses as a percentage of net sales was attributable to timing or unusual items in the first quarter of fiscal 2001 and 2002 and cost reductions from expense management programs established at the end of the first quarter of fiscal 2001, which accounted for a total 5.5 percentage points decrease, partially offset by a 3.1 percentage points increase in operating expenses as a percentage of net sales due to loss of sales leverage. The timing or unusual items in the first quarter of fiscal 2001 and 2002 accounted for a 3.2 percentage points decrease in operating expenses as percentage of net sales, and included reserves for excess corporate office space in fiscal 2001, a shift in the timing of advertising from first quarter to second quarter this year, and lower bonus provisions in the first quarter of fiscal 2002. The cost reductions from expense management programs established at the end of the first quarter of 2001 accounted for a 2.3 percentage points decrease.

Interest Expense

The increase in interest expense in the first quarter of fiscal 2002 as compared to the same period in fiscal 2001 was primarily due to an increase in long-term borrowing and higher interest rates on new debt issuance, partially offset by lower average short-term borrowings.

Interest Income

The increase in interest income in the first quarter of fiscal 2002 as compared to the same period in fiscal 2001 was primarily due to increases in average cash available for investment offset by lower average investment rates.

Income Taxes

The effective tax rate was 49 percent and 36.5 percent for the first quarter of fiscal 2002 and 2001, respectively. The increase in tax rate resulted primarily from the decline in earnings from historical levels. We expect the effective tax rate for fiscal 2002 to be sensitive to the level and mix of earnings.

LIQUIDITY AND CAPITAL RESOURCES

The following sets forth certain measures of our liquidity:

	Thirteen Weeks Ended	
	May 4, 2002	**May 5, 2001**
Cash provided by operating activities ($000)	$ 73,387	$ 67,110
Working capital ($000)	$ 2,501,915	$ 403,059
Current ratio	2.28:1	1.15:1

For the thirteen weeks ended May 4, 2002, the increase in cash flows provided by operating activities, compared to the same period in the prior year, was primarily attributable to a decrease in the growth of merchandise inventory and changes in other operating assets and liabilities which were primarily driven by timing of certain payments. This increase was partially offset by a decrease in net earnings. The increase in working capital and the current ratio was primarily driven by an increase in cash due to the issuance of $1.38 billion senior convertible notes, and a decrease in short-term borrowings and current maturities of long-term debt.

The Company funds inventory expenditures during normal and peak periods through a combination of cash flows provided by operations as well as long-term financing arrangements. The Company s business follows a seasonal pattern, peaking over a total of about 13 weeks during the Back-to-School and Holiday periods.

In March 2002, we replaced our existing $1.45 billion bank facilities, $1.3 billion of which was scheduled to expire in June 2002, with a new $1.4 billion secured 2-year credit facility (the new Facility). The new Facility will be used for general corporate purposes, primarily for trade letters of credit issuance. The fees related to the new Facility will fluctuate based on our senior unsecured credit ratings.

The new Facility contains financial and other covenants, including limitations on capital expenditures, liens, cash dividends, and investments, and maintenance of certain financial ratios, including a fixed-charge coverage ratio and an asset coverage ratio. Violation of these covenants could result in a default under the new Facility which would permit the participating banks to restrict our ability to further access the new Facility for letters of credit or advances and to require the immediate repayment of any outstanding advances under the new Facility. In addition, such a default could, under certain circumstances, permit the holders of our outstanding unsecured debt to accelerate the payment of such obligations.

As of May 4, 2002, we had $764 million in trade letters of credit issued under the new Facility.

We also have standby letters of credit, surety bonds and guarantees outstanding at May 4, 2002, amounting to $29 million, $19.3 million and $6.3 million, respectively.

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On February 14, 2002, Moody s reduced our long and short-term senior unsecured credit ratings from Baa3 to Ba2 and from Prime-3 to Not Prime, respectively, with a negative outlook on our long-term ratings, and Standard & Poor s reduced our long and short-term credit ratings from BBB+ to BB+ and from A-2 to B, respectively, with a stable outlook on our long-term ratings. On February 27, 2002 Moody s reduced our long-term senior unsecured credit ratings from Ba2 to Ba3 and stated that its outlook on our long-term ratings was stable. In April 2002, Standard & Poor s assigned a BBB- rating to our new Facility. On May 9, 2002 and May 24, 2002, the outlook on our credit ratings was changed from stable to negative by Standard & Poor s and Moody s, respectively. As a result of the recent downgrades in our long-term credit ratings, the interest rates payable by us on $700 million of our outstanding notes are subject to increase by 175 basis points, effective June 15, 2002, to 9.90 percent per annum on the 2005 notes and 10.55 percent per annum on the 2008 notes. Any further downgrades of our long-term credit ratings by these rating agencies would result in further increases in the interest rates payable by us on the notes. As a result of the downgrades in our short-term credit ratings, we no longer have meaningful access to the commercial paper market. In addition, we expect both the recent, and any future, lowering of the ratings on our debt to result in reduced access to the capital markets and higher interest costs on future financings.

In March 2002, we issued $1.38 billion aggregate principal amount of 5.75 percent senior convertible notes due March 15, 2009, and received the net proceeds in cash. Interest is payable semi-annually on March 15 and September 15 of each year, commencing on September 15, 2002. We have an option to call the notes on or after March 20, 2005. The notes are convertible, unless previously redeemed or repurchased, at the option of the holder at any time prior to maturity, into shares of our common stock at a conversion price of $16.12 per share, subject to adjustment in certain events, for a total of 85,607,940 shares. If converted, these additional shares would reduce our future earnings per share. Prior to conversion, the convertible notes are potentially dilutive at certain earnings levels. The effects of these dilutive securities are computed using the if-converted method.

For the thirteen weeks ended May 4, 2002, capital expenditures, net of tenant allowance for construction and lease incentives, totaled approximately $91 million. The majority of these expenditures were used for expansion of the store base and information technology. During the first quarter of 2002, we increased retail square footage by 2% and ended the quarter with 4,228 store concepts which equates to 3,125 store locations.

Rent expense for all operating leases was $241 million and $231 million, for the thirteen weeks ended May 4, 2002 and May 5, 2001 respectively.

For the year, we continue to expect net square footage growth to be around 3% with about 75% of the growth occurring in the first and second quarters. New store concept openings remains approximately 170 to 190, which equates to 100 to 120 store locations. We anticipate store closures to be about the same as the 92 store concepts (51 store locations) we closed in 2001.

Our store growth plans for fiscal 2002 is as follows:

	Fiscal 2002		
	Number of Store Concepts	**Number of Store Locations**	**Net Sq. Ft. Range***
Gap Domestic	70-75	20-25	1-3%
Gap International	30-35	10-15	1-3%
Banana Republic	15-20	15-20	3-5%
Old Navy	55-60	55-60	4-6%
Total	170-190	100-120	About 3%

*Net of store closures.
Since the beginning of fiscal 2000, Gap Brand stores have been reported based on concepts. Any Gap Adult, GapKids, babyGap or GapBody that meets a certain square footage threshold has been counted as a store, even when residing within a single physical location. In the table above we present the number of store concepts and the number of store locations.

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NEW ACCOUNTING PRONOUNCEMENTS

In July 2001, the FASB issued Statement of Financial Accounting Standards No. 142 (SFAS 142), Goodwill and Other Intangible Assets , which is effective for all fiscal years beginning after December 15, 2001. SFAS 142 requires, among other things, the discontinuance of goodwill amortization. In addition, the standard includes provisions for the reclassification of certain existing recognized intangibles as goodwill, reassessment of the useful lives of existing recognized intangibles, reclassification of certain intangibles out of previously reported goodwill and the identification of reporting units for purposes of assessing potential future impairments of goodwill. We adopted SFAS 142 for the fiscal year beginning February 3, 2002. The adoption of SFAS 142 did not have a significant impact on the financial statements.

In June 2001, the FASB issued Statement of Financial Accounting Standards No. 143 (SFAS 143), Accounting for Asset Retirement Obligations, which is effective for fiscal years beginning after June 15, 2002. SFAS 143 addresses the financial accounting and reporting for obligations and retirement costs related to the retirement of tangible long-lived assets. We do not expect that the adoption of SFAS 143 will have a significant impact on our financial statements.

In August 2001, the FASB issued Statement of Financial Accounting Standards No. 144 (SFAS 144), Accounting for the Impairment or Disposal of Long-Lived Assets, which is effective for fiscal years beginning after December 15, 2001. SFAS 144 supersedes FASB Statement No 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, and the accounting and reporting provisions relating to the disposal of a segment of a business of Accounting Principles Board Opinion No. 30. The adoption of SFAS 144 did not have a significant impact on the financial statements.

RISKS OF MANAGEMENT SUCCESSION

On May 21, 2002, we announced that Millard S. Drexler, our Chief Executive Officer since 1995 and President since 1987, plans to retire as soon as our Board of Directors appoints his successor. We cannot provide assurance as to when Mr. Drexler s successor will join us or that there will not be disruptions arising from the transition.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We operate in foreign countries which exposes us to market risk associated with foreign currency exchange rate fluctuations. Our risk management policy is to hedge substantially all merchandise purchases for foreign operations as well as a portion of our Euro-denominated sales through the use of foreign exchange forward contracts to minimize this risk. We also use forward contracts to hedge our market risk exposure associated with foreign currency exchange rate fluctuations for certain loans denominated in currencies other than the functional currency of the entity holding or issuing the loan.

The outstanding mark-to-market net liability for all derivatives reflected in the condensed consolidated balance sheet as of May 4, 2002, was $17.9 million.

We have limited exposure to interest rate fluctuations on our borrowings. The interest on our long-term debt is set at a fixed coupon, with the exception of the interest rates payable by us on $700 million of our outstanding notes, which are subject to change based on our long-term credit ratings. The interest rates on our cash and equivalents could fluctuate in line with short-term interest rates.

In March 2002, we issued $1.38 billion aggregate principal amount of 5.75 percent senior convertible notes due March 15, 2009, and received the net proceeds in cash. Interest is payable semi-annually on March 15 and September 15 of each year, commencing on September 15, 2002. These debt securities are recorded in the balance sheet at their issuance amount net of unamortized discount.

The market risk of the Company s financial instruments as of May 4, 2002 has not significantly changed since February 2, 2002. The market risk profile of the Company on February 2, 2002 is disclosed on the Company s 2001 Annual Report on Form 10-K/A.

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PART II

OTHER INFORMATION

Item 1. Legal Proceedings

In 1999, the Company was named as a defendant in two lawsuits relating to sourcing of products from Saipan (Commonwealth of the Northern Mariana Islands). A complaint was filed on January 13, 1999 in California Superior Court in San Francisco by the Union of Needletrades Industrial and Textile Employees, AFL-CIO; Global Exchange; Sweatshop Watch; and Asian Law Caucus against the Company and 17 other parties. The plaintiffs allege violations of California s unlawful, fraudulent and unfair business practices and untrue and misleading advertising statutes in connection with labeling of product and labor practices regarding workers of factories that make product for the Company in Saipan. The plaintiffs seek injunctive relief, restitution, disgorgement of profits and other damages. Trial has not been set in the state case. On October 31, 2001, the Company filed a motion for summary judgment, or in the alternative, for summary adjudication. The hearing date for the motion originally set for March 1, 2002, has been continued by the Court to a date yet to be determined.

A second complaint was filed on January 13, 1999, in Federal District Court, Central District of California, by various unidentified worker plaintiffs against the Company and 27 other parties. Those unidentified worker plaintiffs seek class-action status and allege, among other things, that the Company (and other defendants) violated the Racketeer Influenced and Corrupt Organizations Act in connection with the labor practices and treatment of workers of factories in Saipan that make product for the Company. The plaintiffs seek injunctive relief as well as actual and punitive damages. On September 29, 1999, the action was transferred to the United States District Court, State of Hawaii. On April 28, 2000, plaintiffs filed a First Amended Complaint adding 22 new defendants. On June 23, 2000, the United States District Court, State of Hawaii, ordered the case transferred to the United States District Court, District of the Mariana Islands. On March 23, 2001, the Ninth Circuit Court of Appeals denied plaintiffs writ of mandamus requesting that the action either be transferred back to the District Court in Hawaii or to the Central District of California. On October 29, 2001, the District Court of the Mariana Islands issued an order granting in part and denying in part the motion to dismiss. On December 17, 2001, plaintiffs filed a Second Amended Complaint. On May 10, 2002, the Court granted in part and denied in part the defendants motion to dismiss the Second Amended Complaint, giving plaintiffs leave to amend some of the dismissed claims. Also on May 10, 2002, the Court granted plaintiffs motions for class certification and for preliminary settlement approval.

The Company continues to defend itself in both lawsuits and believes the claims against the Company are without merit.

Item 6. Exhibits and Reports on Form 8-K

a) Exhibits

(10.1)	Credit Agreement, dated as of March 7, 2002, among The Gap, Inc., the LC Subsidiaries, the Subsidiary Borrowers, the Lenders and the Issuing Banks (as such terms are defined in the Credit Agreement), Salomon Smith Barney Inc., (SSB) and Banc of America Securities, LLC (BAS) as Joint Book Managers, BAS, HSBC Bank USA and JP Morgan Securities, Inc. (JPM) as Co-Syndication Agents, ABN AMRO Bank N.V. as Documentation Agent, SSB, BAS, and JPM as Joint Lead Arrangers, and Citicorp USA, Inc. as Agent for the Lenders and the Issuing Banks thereunder, filed as Exhibit 99.1 to Registrant s Form 8-K, dated March 21, 2002, Commission File No. 1-7562
(10.2)	Indenture, dated March 5, 2002, between the Registrant and The Bank of New York filed as Exhibit 4.1 to Registrant s Form S-3, dated May 2, 2002, Commission File No. 333-87442
(15)	Letter re: Unaudited Interim Financial Information
(99.1)	Certifications of the Chief Executive Officer and Chief Financial Officer of The Gap, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 regarding facts and circumstances relating to the Exchange Act filings.

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b) Reports on Form 8-K

We filed the following reports on Form 8-K during the three months ended May 4, 2002:

1. On February 26, 2002 we announced our intent to offer $1,000,000,000 in principal amount of convertible notes of the Company pursuant to a private placement under rule 144A and Regulation S, filed on Form 8-K on February 27, 2002;

2. On February 27, 2002 we announced our agreement to sell $1,200,000,000 aggregate principal amount of 5.75% convertible notes due March 2009 of the Company pursuant to a private placement under Rule 144A and Regulation S, filed on Form 8-K on February 28, 2002;

3. On March 7, 2002 we announced the closing of the sale of $1,200,000,000 aggregate principal amount of 5.75% convertible notes due March 2009 of the Company, filed on Form 8-K on March 7, 2002;

4. On March 8, 2002 we announced the closing of an additional $180,000,000 aggregate principal amount of 5.75% convertible notes due March 2009 of the Company, filed on Form 8-K on March 11, 2002; and

5. On March 22, 2002, we filed a report on Form 8-K attaching as an exhibit the Company s 2-year $1,400,000,000 secured credit facility dated March 7, 2002.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE GAP, INC.

Date: December 9, 2002	By	/s/ PAUL S. PRESSLER
	Paul S. Pressler President and Chief Executive Officer	
Date: December 9, 2002	By	/s/ HEIDI KUNZ
	Heidi Kunz Executive Vice President and Chief Financial Officer	

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CERTIFICATIONS

I, Paul S. Pressler, certify that:

1. I have reviewed this quarterly report on Form 10-Q/A (Amendment No. 1) of The Gap, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report; and

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report.

Date: December 9, 2002

By: /s/ PAUL S. PRESSLER

Paul S. Pressler
President and Chief Executive Officer
(Principal Executive Officer)

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I, Heidi Kunz, certify that:

1. I have reviewed this quarterly report on Form 10-Q/A (Amendment No. 1) of The Gap, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report; and

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report.

Date: December 9, 2002

By: /s/ HEIDI KUNZ

Heidi Kunz
Executive Vice
President and Chief
Financial Officer
(Principal Financial Officer)

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EXHIBIT INDEX

(10.1) Credit Agreement, dated as of March 7, 2002, among The Gap, Inc., the LC Subsidiaries, the Subsidiary Borrowers, the Lenders and the Issuing Banks (as such terms are defined in the Credit Agreement), Salomon Smith Barney Inc., (SSB) and Banc of America Securities, LLC (BAS) as Joint Book Managers, BAS, HSBC Bank USA and JP Morgan Securities, Inc. (JPM) as Co-Syndication Agents, ABN AMRO Bank N.V. as Documentation Agent, SSB, BAS, and JPM as Joint Lead Arrangers, and Citicorp USA, Inc. as Agent for the Lenders and the Issuing Banks thereunder, filed as Exhibit 99.1 to Registrant s Form 8-K, dated March 21, 2002, Commission File No. 1-7562

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