GAP INC
Form 10-K
March 21, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
(Mark One)

þ Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended January 30, 2016

¨ 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: (415) 427-0100
Securities registered pursuant to Section 12(b) of the Act:

Common Stock, $0.05 par value	The New York Stock Exchange
(Title of class)	(Name of 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 þ 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 þ
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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes þ 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. ¨
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 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 Act). Yes ¨ No þ
The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of July 31, 2015 was approximately $10 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 15, 2016 was 397,140,119.
Documents Incorporated by Reference

Portions of the registrant's Proxy Statement for the Annual Meeting of Shareholders to be held on May 17, 2016 (hereinafter referred to as the "2016 Proxy Statement") are incorporated into Part III.

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 simila expressions also identify forward-looking statements. Forward-looking statements include, but are not limited to, statements regarding the following:

- target cash balance and ability to provide for our working capital needs and for unexpected business downturns;
- continuing to evolve our customer experience, with particular focus on the mobile and digital expressions of our brands;
- attracting, retaining, and training great talent in our businesses and functions;
- improving sales performance through a more consistent, on-trend product offering;
- continued focus on our responsive supply chain and inventory management initiatives;
- continuing our investment in mobile digital capabilities;
- enhancing our shopping experience for our customers;
- continuing growth through new stores with a focus on Asia, outlet, and Athleta;
- impact of foreign exchange rate fluctuations in fiscal 2016;
- net store openings in fiscal 2016;
- square footage for company-operated stores in fiscal 2016;
- operating margin in fiscal 2016;
- current cash balances and cash flows being sufficient to support our business operations, including growth initiatives, planned capital expenditures, and repayment of debt;
- ability to supplement near-term liquidity, if necessary, with our $500 million revolving credit facility or other available market instruments;
- the impact of the seasonality of our operations;
- cash spending for purchases of property and equipment in fiscal 2016;
- dividend payments in fiscal 2016;
- the estimates and assumptions we use in our accounting policies;
- the impact of accounting pronouncements;
- unrealized gains and losses from designated cash flow hedges;
- total gross unrecognized tax benefits;
- expected payments to International Business Machines Corporation (“IBM”);
- the impact of losses due to indemnification obligations;
- the outcome of proceedings, lawsuits, disputes, and claims; and
- the impact of changes in internal control over financial reporting.

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 or our franchisees will be unsuccessful in gauging apparel trends and changing consumer preferences;
- the risk that changes in global economic conditions or consumer spending patterns could adversely impact our results of operations;
- the highly competitive nature of our business in the United States and internationally;
- the risk that if we are unable to manage our inventory effectively, our gross margins will be adversely affected;
- the risk that the failure to attract and retain key personnel, or effectively manage succession, could have an adverse impact on our results of operations;
- the risk that we are subject to data or other security breaches that may result in increased costs, violations of law, significant legal and financial exposure, and a loss of confidence in our security measures, which could have an adverse effect on our results of operations and our reputation;
- the risks to our efforts to expand internationally, including our ability to operate under a global brand structure and operating in regions where we have less experience;
- the risk that foreign currency exchange rate fluctuations could adversely impact our financial results;
- the risks to our business, including our costs and supply chain, associated with global sourcing and manufacturing;
- the risks to our reputation or operations associated with importing merchandise from foreign countries, including failure of our vendors to adhere to our Code of Vendor Conduct;
- the risk that trade matters could increase the cost or reduce the supply of apparel available to us and adversely affect our business, financial condition, and results of operations;
- the risk that our franchisees' operation of franchise stores is not directly within our control and could impair the value of our brands;
- the risk that we or our franchisees will be unsuccessful in identifying, negotiating, and securing new store locations and renewing, modifying, or terminating leases for existing store locations effectively;
- the risk that our investments in omni-channel shopping initiatives may not deliver the results we anticipate;
- the risk that comparable sales and margins will experience fluctuations;
- the risk that changes in our credit profile or deterioration in market conditions may limit our access to the capital markets and adversely impact our financial results or our business initiatives;
- the risk that updates or changes to our information technology ("IT") systems may disrupt our operations;
- the risk that failure to maintain, enhance and protect our brand image could have an adverse effect on our results of operations;
- the risk that natural disasters, public health crises, political crises, or other catastrophic events could adversely affect our operations and financial results, or those of our franchisees or vendors;
- the risk that changes in the regulatory or administrative landscape could adversely affect our financial condition, strategies, 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.

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 ("SEC").

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 21, 2016, 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.

THE GAP, INC.
2015 ANNUAL REPORT ON FORM 10-K
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Part I
Item 1. Business.
General
The Gap, Inc. (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.
Gap Inc. is a leading global apparel retail company. We offer apparel, accessories, and personal care products for men, women, and children under the Gap, Banana Republic, Old Navy, Athleta, and Intermix brands. Our portfolio of distinct brands across multiple channels and geographies gives us a competitive advantage in the global retail marketplace.
Gap Inc. has Company-operated stores in the United States, Canada, the United Kingdom, France, Ireland, Japan, Italy, China, Hong Kong, Taiwan, and beginning in October 2015, Mexico. We also have franchise agreements with unaffiliated franchisees to operate Gap, Banana Republic, and Old Navy stores throughout Asia, Australia, Europe, Latin America, the Middle East, and Africa. Under these agreements, third parties operate, or will operate, stores that sell apparel and related products under our brand names. Our products are also available to customers online through Company-owned websites and through the use of third parties that provide logistics and fulfillment services. 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, especially at our Intermix brand.
In addition to operating in the specialty, outlet, online, and franchise channels, Gap Inc. is a leader among apparel retailers in using omni-channel capabilities to bridge the digital world and physical stores, creating world-class shopping experiences regardless of where or how customers shop. The Company's suite of omni-channel services, including order-in-store, reserve-in-store, find-in-store, and ship-from-store, as well as enhanced mobile experiences, are uniquely tailored across its portfolio of brands.
Gap. Gap is one of the world's most iconic apparel and accessories brands anchored in optimistic, casual, American style. Founded in San Francisco in 1969, our collections continue to build the foundation of modern wardrobes - all things denim, tees, button-downs, and khakis, along with must-have trends.
Gap is designed to build the foundation of modern wardrobes through every stage of life with apparel and accessories for adult men and women under the Gap name, in addition to GapKids, babyGap, GapMaternity, GapBody, and GapFit collections. Beginning in 1987 with the opening of our first store outside North America in London,
Gap continues to connect with customers around the world through specialty stores, online, and franchise stores. In addition, we bring the brand to our value-conscious customers, with exclusively designed collections for Gap Outlet and Gap Factory stores and websites.
Banana Republic. Acquired with two stores in 1983 as a travel and adventure outfitter, Banana Republic is now a global apparel and accessories brand focused on delivering versatile, contemporary classics, designed for today with style that endures. Banana Republic offers clothing, eyewear, jewelry, shoes, handbags, and fragrances with detailed craftsmanship and luxurious materials. Customers can purchase Banana Republic products globally in our specialty and outlet stores, online, and in franchise stores.
Old Navy. Old Navy is a global apparel and accessories brand that believes in the democracy of style, making current, on-trend American essentials accessible to every family. Old Navy opened its first store in 1994 in the United States, and expanded globally in 2012 with its first store outside North America in Japan. Since then, Old Navy has continued to expand its global presence, with its first Company-operated stores in China and franchise stores in the Philippines in 2014. Customers can purchase Old Navy products globally in stores, online, and in franchise stores.

Athleta. Acquired in September 2008, Athleta is Gap Inc.'s premier fitness and lifestyle brand in the rapidly growing women's active apparel market. Athleta creates versatile and fashionable performance and lifestyle apparel for the fitness-minded woman who lives life on the go. Athleta offers apparel and gear for a range of activities from yoga to strength training and running, as well as seasonal sports, including skiing and tennis. Customers can purchase Athleta products in stores, online, and through its catalogs.

Intermix. Acquired in December 2012, Intermix curates must-have styles from the most coveted emerging and established designers. Known for styling on-trend pieces in unexpected ways, Intermix delivers a unique point of view and an individualized approach to shopping and personal style. Customers can shop in stores in the United States and Canada, and online.

Piperlime. Launched in 2006, Piperlime offered a mix of private label and branded apparel and accessories. As previously announced in January 2015, the Company closed the Piperlime brand during the first half of fiscal 2015, including the Piperlime e-commerce site, social channels, and one store in New York City.

All sales to customers are tendered for cash, debit cards, credit cards, or personal checks. We also issue and redeem gift cards through our brands. Gap, Banana Republic, Old Navy, and Athleta each have 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 provided by a third-party financing company.

The range of merchandise displayed in each store varies depending on the selling season and the size and location of the store. Stores are generally open seven days per week (where permitted by law) and most holidays.

We ended fiscal 2015 with 3,721 Company-operated and franchise 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 in Part II, Item 7 of this Form 10-K.

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.

Merchandise Vendors

We purchase private label and non-private label merchandise from about 1,000 vendors. Our vendors have factories in about 40 countries. Our two largest vendors each accounted for about 5 percent of the dollar amount of our total fiscal 2015 purchases. Of our merchandise purchased during fiscal 2015, approximately 99 percent of purchases, by dollar value, were from factories outside the United States, while the remaining 1 percent of all purchases were from domestic factories. Approximately 24 percent of our fiscal 2015 purchases, by dollar value, were from factories in China. Product cost increases or events causing disruption of imports from China or other foreign countries, including the imposition of additional import restrictions or vendors potentially failing due to political, financial, or regulatory issues, 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 sections entitled "Risk Factors—Our business, including our costs and supply chain, is subject to risks associated with global sourcing and manufacturing," "Risk Factors—Risks associated with importing merchandise from foreign countries, including failure of our vendors to adhere to our Code of Vendor Conduct, could harm our business," and "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 during the end-of-year holiday period.

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 Intermix, virtually all aspects of brand development, from product design and distribution to marketing, merchandising and shopping environments, are controlled by Gap Inc. employees. With respect to Intermix, we control all aspects of brand development except for product design related to third-party products. We continue to invest in our business and enhance the customer experience through significant investments in marketing and our omni-channel capabilities, enhancement of our online shopping sites, international expansion, remodeling of existing stores, and investments in our supply chain.

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Trademarks and Service Marks
Gap, GapKids, babyGap, GapMaternity, GapBody, GapFit, Banana Republic, Old Navy, Athleta, and Intermix 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.

Franchising
We have franchise agreements with unaffiliated franchisees to operate Gap, Banana Republic, and Old Navy stores in a number of countries throughout Asia, Australia, Europe, Latin America, the Middle East, and Africa. Under these agreements, third parties operate, or will operate, stores that sell apparel and related products under our brand names. For additional information on risks related to our franchise business, see the sections entitled “Risk Factors—Our efforts to expand internationally may not be successful” and “Risk Factors—Our franchise business is subject to certain risks not directly within our control that could impair the value of our brands” in Item 1A of this Form 10-K.

Inventory
The nature of the retail business requires us to carry a significant amount of inventory, especially prior to peak holiday selling season when we, along with other retailers, generally build up inventory levels. We maintain a large part of our inventory in distribution centers. 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 or colors) and we primarily use promotions and markdowns to clear merchandise. Also see the sections entitled “Risk Factors—We must successfully gauge apparel trends and changing consumer preferences to succeed” and "Risk Factors—If we are unable to manage our inventory effectively, our gross margins could be adversely affected" in Item 1A of this Form 10-K.

Competitors
The global apparel retail industry is highly competitive. We compete with local, national, and global apparel retailers. We are also faced with competition in European, Japanese, Chinese, 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” in Item 1A of this Form 10-K.

Employees
As of January 30, 2016, we had a workforce of approximately 141,000 employees, which includes a combination of part-time and full-time employees. We also hire seasonal employees, primarily during the peak end-of-year holiday period.
To remain competitive in the apparel retail industry, we must attract, develop, and retain skilled employees in our design, merchandising, marketing, and other functions. 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—The failure to attract and retain key personnel, or effectively manage succession, could have an adverse impact on our results of operations” in Item 1A of this Form 10-K.

Available Information
We make available on our website, www.gapinc.com, under “Investors, Financial Information, 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 SEC. Our Board of Directors Committee Charters (Audit and Finance, Compensation and Management Development, and Governance and Sustainability Committees) and Corporate Governance Guidelines are also available on our website under “Investors, Governance.” Our Code of Business Conduct can be found on our website under “Investors, Corporate Compliance, Code of Business Conduct.” Any amendments and waivers to the Code will also be available on the website.

Executive Officers of the Registrant
The following are our executive officers:
Name, Age, Position, and Principal Occupation:
Arthur Peck, 60, Director and Chief Executive Officer since February 2015; President, Growth, Innovation, and Digital division from November 2012 to January 2015; President, Gap North America from February 2011 to November 2012; Executive Vice President of Strategy and Operations from May 2005 to February 2011; President, Gap Inc. Outlet from October 2008 to February 2011; Acting President, Gap Inc. Outlet from February 2008 to October 2008.
Paul Chapman, 58, Executive Vice President, Chief Information Officer since December 2015; Senior Vice President and Chief Information Officer from January 2014 to December 2015; Senior Vice President, Information Technology, from 2010 to 2015; Vice President, Information Technology from 2004 to 2010.
Solomon Goldfarb, 51, Executive Vice President, Digital and Customer Experience since February 2015; Senior Vice President, Digital Platform Strategy and Product Management from February 2013 to January 2015; Senior Vice President, Enterprise Product Management from March 2012 to February 2013; Vice President, International E-Commerce and Product Management from March 2009 to March 2012; Vice President, Growth, Innovation, and Digital Product Management from March 2006 to March 2009.
Julie Gruber, 50, Executive Vice President, Global General Counsel, Corporate Secretary, and Chief Compliance Officer since February 2016; Senior Vice President and General Counsel from March 2015 to February 2016; Vice President and Deputy General Counsel from 2007 to 2015; Associate General Counsel from 2003 to 2007.
Jeff Kirwan, 49, Global President, Gap since December 2014; Executive Vice President and President, Gap China from February 2013 to December 2014; Senior Vice President, Managing Director and Chief Operating Officer, Gap China from May 2011 to February 2013; Senior Vice President, Stores and Operations, Old Navy from August 2008 to May 2011; Senior Vice President and General Manager, Old Navy Canada from March 2008 to August 2008; Vice President and General Manager, Old Navy Canada from April 2007 to March 2008.
Andi Owen, 50, Global President, Banana Republic since January 2015; Executive Vice President and General Manager, Global Gap Outlet from January 2013 to January 2015; Senior Vice President and General Manager, Gap Outlet / Shared Services from January 2008 to January 2013; Vice President, Merchandising - Outlet from July 2006 to January 2008.
Bobbi Silten, 55, Executive Vice President, Global Talent and Sustainability since May 2015; Senior Vice President, Global Responsibility & President, Gap Foundation, 2010 to 2015; Chief Foundation Officer, Gap Foundation, 2005 to 2010.
Sabrina Simmons, 52, 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.
Sonia Syngal, 46, Executive Vice President, Global Supply Chain and Product Operations since February 2015; Executive Vice President, Global Supply Chain from November 2013 to January 2015; Senior Vice President, Old Navy International from February 2013 to November 2013; Senior Vice President and Managing Director, Europe from May 2011 to February 2013; Senior Vice President and General Manager, International Outlets from January 2010 to May 2011; Vice President of Global Production, Supply Chain - Outlet from July 2006 to January 2010; Vice President, Corporate Sourcing from July 2004 to July 2006.
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.

We must successfully gauge apparel trends and changing consumer preferences to succeed.
Our success is largely dependent upon our ability to gauge the tastes of our customers and to provide merchandise that satisfies customer demand in a timely manner. However, lead times for many of our design and purchasing decisions may make it more difficult for us to respond rapidly to new or changing apparel trends or consumer acceptance of our products. The global apparel retail business fluctuates according to changes in consumer preferences, dictated in part by apparel trends and season. To the extent we misjudge the market for our merchandise or the products suitable for local markets or fail to execute trends and deliver product to market as timely as our competitors, our sales will be adversely affected, and the markdowns required to move the resulting excess inventory will adversely affect our operating results. For example, during fiscal 2015, product acceptance at Banana Republic and Gap brand, in particular, was below expectations, and as a result, our financial results were negatively impacted.

Global economic conditions and the impact on consumer spending patterns could adversely impact our results of operations.
The Company’s performance is subject to global economic conditions and their impact on levels of consumer spending worldwide. Some of the factors that may influence consumer spending include high levels of unemployment, higher consumer debt levels, reductions in net worth based on market declines and uncertainty, home foreclosures and reductions in home values, fluctuating interest rates and credit availability, government austerity measures, fluctuating fuel and other energy costs, fluctuating commodity prices, 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.
Adverse economic changes in any of the regions in which we and our franchisees sell our products could reduce consumer confidence, and thereby could negatively affect earnings and have a material adverse effect on our results of operations. In challenging and uncertain economic environments, we cannot predict whether or when such circumstances may improve or worsen, or what impact, if any, such circumstances could have on our business, results of operations, cash flows, and financial position.

Our business is highly competitive.
The global apparel retail industry is highly competitive. We and our franchisees compete with local, national, and global 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:

- anticipating and quickly responding to changing apparel trends and customer demands;
- attracting customer traffic both in stores and online;
- competitively pricing our products and achieving customer perception of value;
- maintaining favorable brand recognition and effectively marketing our products to customers in several diverse market segments and geographic locations;
- anticipating and responding to changing customer shopping preferences and practices, including the increasing shift to digital brand engagement, social media communication, and online shopping;
- developing innovative, high-quality products in sizes, colors, and styles that appeal to customers of varying age groups and tastes;
- purchasing and stocking merchandise to match seasonal weather patterns, and our ability to react to shifts in weather that impact consumer demand; and
- sourcing merchandise efficiently.

If we or our franchisees are not able to compete successfully in the United States or internationally, our results of operations would be adversely affected.

If we are unable to manage our inventory effectively, our gross margins could be adversely affected.
Fluctuations in the global apparel retail markets impact the levels of inventory owned by apparel retailers. The nature of the global apparel 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. Merchandise usually must be ordered well in advance of the season and frequently before apparel trends are confirmed by customer purchases. 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 trend items with accuracy. If sales do not meet expectations, too much inventory may cause excessive markdowns and, therefore, lower than planned margins.
We have key strategic initiatives designed to optimize our inventory levels and increase the efficiency and responsiveness of our supply chain, including vendor fabric platforming, product demand testing, and in-season rapid response to demand. These initiatives involve significant systems and operational changes and we have limited experience operating in this manner. If we are unable to implement these initiatives successfully, we may not realize the return on our investments that we anticipate, and our operating results could be adversely affected.

The failure to attract and retain key personnel, or effectively manage succession, could have an adverse impact on our results of operations.
Our ability to anticipate and effectively respond to changing apparel trends depends in part on our ability to attract and retain key personnel in our design, merchandising, marketing, and other functions. In addition, several of our strategic initiatives, including our technology initiatives and supply chain initiatives require that we hire and/or develop employees with appropriate experience. 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. If we are unable to retain, attract, and motivate talented employees with the appropriate skill sets, or if changes to our organizational structure, operating results, or business model adversely affect morale or retention, we may not achieve our objectives and our results of operations could be adversely impacted. In addition, the loss of one or more of our key personnel or the inability to effectively identify a suitable successor to a key role could have a material adverse effect on our business. At the end of fiscal 2014 and beginning of fiscal 2015, there were several changes made to our senior leadership team, including our Chief Executive Officer; Global President, Gap; and Global President, Banana Republic. In October 2015, our Global President, Old Navy left the Company, and a search for a new global brand president is underway. The effectiveness of the new leaders in these roles, and any further transition as a result of these changes, could have a significant impact on our results of operations.

We are subject to data security risks, which could have an adverse effect on our results of operations and consumer confidence in our security measures.
As part of our normal operations, we receive and maintain confidential, proprietary, and personally identifiable information, including credit card information, about our customers, our employees, job applicants, and other third parties. Our business employs systems and websites that allow for the secure storage and transmission of this information. However, despite our safeguards and security processes and protections, security breaches could expose us to a risk of loss or misuse of this information, litigation, and potential liability. The retail industry, in particular, has been the target of many recent cyber-attacks. We may not have the resources to anticipate or prevent rapidly evolving types of cyber-attacks. Attacks may be targeted at us, our customers, or others who have entrusted us with information. In addition, even if we take appropriate measures to safeguard our information security and privacy environment from security breaches, we could still expose our customers and our business to risk. Actual or anticipated attacks may disrupt or impair our technology capabilities, and may cause us to incur increasing costs, including costs to deploy additional personnel and protection technologies, train employees, and engage third-party experts and consultants. Advances in computer capabilities, new technological discoveries, or other developments may result in the technology used by us to protect transaction or other data being breached or compromised. Measures we implement to protect against cyber-attacks may also have the potential to impact our customers' shopping experience or decrease activity on our websites by making them more difficult to use. Data and security breaches can

also occur as a result of non-technical issues, including intentional or inadvertent breach by our employees or by persons with whom we have commercial relationships that result in the

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unauthorized release of personal or confidential information. In addition, the regulatory environment surrounding information security, cybersecurity, and privacy is increasingly demanding, with new and changing requirements, and customers have a high expectation that the Company will adequately protect their personal information from cyber-attack or other security breaches. Security breaches and cyber incidents could result in a violation of applicable privacy and other laws, significant legal and financial exposure, and a loss of consumer confidence in our security measures, which could have an adverse effect on our results of operations and our reputation.

Our efforts to expand internationally may not be successful.
Our current strategies include pursuing continued international expansion in a number of countries around the world through a number of channels. We currently plan to open additional Old Navy stores outside of the United States, including in Mexico, Japan, and China, open additional Gap stores in China, open additional international outlet stores, and continue to grow online sales internationally. Our franchisees plan to open additional stores internationally. We have limited experience operating or franchising in some of these locations. In many of these locations, we face major, established competitors. In addition, in many of these locations, the real estate, employment and labor, transportation and logistics, regulatory, and other operating requirements differ dramatically from those in the places where we have more experience. Consumer tastes and trends may differ in many of these locations and, as a result, the sales of our products may not be successful or result in the margins we anticipate. If our international expansion plans are unsuccessful or do not deliver an appropriate return on our investments, our operations and financial results could be materially, adversely affected.

Our business is exposed to the risks of foreign currency exchange rate fluctuations and our hedging strategies may not be effective in mitigating those risks.
We are exposed to foreign currency exchange rate risk with respect to our sales, inventory purchases, operating expenses, profits, assets, and liabilities generated or incurred outside the U.S. Although we use financial instruments to hedge certain foreign currency risks, these measures may not succeed in fully offsetting the negative impact of foreign currency rate movements and generally only delay the impact of adverse foreign currency rate movements on our business and financial results. For example, in fiscal year 2015, foreign exchange fluctuations, in particular the depreciation of the currencies in Canada and Japan where we have significant retail operations, had a significant impact on our financial results. We expect this impact to continue in fiscal year 2016.

Our business, including our costs and supply chain, is subject to risks associated with global sourcing and manufacturing.
Independent third parties manufacture all of our products for us. As a result, we are directly impacted by increases in the cost of those products.
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 that any vendor would allocate sufficient capacity to us in order to meet our requirements. In addition, for any new manufacturing source, 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. Any delays, interruption, or increased costs in the manufacture of our products could result in lower sales and net income. In addition, certain countries represent a larger portion of our global sourcing. For example, approximately 24 percent of our merchandise, by dollar value, is purchased from factories in China. Accordingly, any delays in production and added costs in China could have a more significant impact on our results of operations.
Because independent vendors manufacture virtually all of our products outside of our principal sales markets, third parties must transport our products 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

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financial performance. For example, the work slowdowns and stoppages at U.S. West Coast ports at the end of fiscal 2014 and beginning of fiscal 2015 created product delivery delays that impacted our ability to effectively manage our inventory and deliver seasonally correct product in a timely manner, which impacted our financial results for fiscal 2015. Manufacturing delays, transportation 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 gross 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 gross margins.

Risks associated with importing merchandise from foreign countries, including 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 in many different countries and we require those vendors to adhere to a Code of Vendor Conduct, which includes environmental, labor, health, and safety standards. From time to time, contractors or their subcontractors may not be in compliance with these standards or applicable local laws. Although we have implemented policies and procedures to facilitate our compliance with laws and regulations relating to doing business in foreign markets and importing merchandise into various countries, there can be no assurance that suppliers and other third parties with whom we do business will not violate such laws and regulations or our policies. Significant or continuing noncompliance with such standards and laws by one or more vendors could have a negative impact on our reputation, could subject us to liability, and could have an adverse effect on our results of operations.

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 United States or other foreign governments, including the likelihood, type, or effect of any such restrictions. In addition, we face the possibility of anti-dumping or countervailing duties lawsuits from U.S. domestic producers. 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.

Our franchise business is subject to certain risks not directly within our control that could impair the value of our brands.
We enter into franchise agreements with unaffiliated franchisees to operate stores and, in limited circumstances, websites, in many countries around the world. Under these agreements, third parties operate, or will operate, stores and websites that sell apparel and related products under our brand names. 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 franchisee financial stability and the ability of these third parties to meet their projections regarding store locations, store openings, and sales. Other risks that may affect these third parties include general economic conditions in specific countries or markets, foreign exchange rates, changes in diplomatic and trade relationships, restrictions on the transfer of funds, 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, the value of our brands could be impaired 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. 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.

The market for prime real estate is competitive.
Our ability to effectively obtain real estate - to open new stores, distribution centers, and corporate offices nationally and internationally - depends on the availability of real estate that meets our criteria for traffic, square footage, co-tenancies, lease economics, demographics, and other factors. We also must be able to effectively renew our existing store leases. In addition, from time to time, we may seek to downsize, consolidate, reposition, relocate, or close some of our real estate locations, which in most cases requires a modification of an existing store lease. Failure to secure adequate new locations or successfully modify existing locations, or failure to effectively manage the profitability of our existing fleet of stores, could have a material adverse effect on our results of operations.
Additionally, the economic environment may at times make it difficult to determine the fair market rent of 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 our targets or efficiently manage the profitability of our existing fleet of stores and could have a material adverse effect on our results of operations.

Our investments in omni-channel shopping initiatives may not deliver the results we anticipate.
One of our strategic priorities is to further develop an omni-channel shopping experience for our customers through the integration of our store and digital shopping channels. Examples of our recent omni-channel initiatives include our ship-from-store, reserve-in-store, and order-in-store programs. We continue to explore additional ways to develop an omni-channel shopping experience, including further digital integration and customer personalization. These initiatives involve significant investments in IT systems and significant operational changes. In addition, our competitors are also investing in omni-channel initiatives, some of which may be more successful than our initiatives. If the implementation of our omni-channel initiatives is not successful, or we do not realize the return on our omni-channel investments that we anticipate, our operating results would be adversely affected.

We experience fluctuations in our comparable sales and margins.
Our success depends in part on our ability to improve sales, in particular at our largest brands. A variety of factors affect comparable sales or margins, including apparel trends, competition, current economic conditions, the timing of new merchandise releases and promotional events, changes in our merchandise mix, the success of marketing programs, foreign currency fluctuations, and weather conditions. These factors may cause our comparable sales results to differ materially from prior periods and from expectations. Our comparable sales, including the associated comparable online sales, have fluctuated significantly in the past on an annual, quarterly, and monthly basis. Over the past fiscal year, our reported quarterly comparable sales have ranged from a high of negative 2 percent in the second and third quarters of fiscal 2015 to a low of negative 7 percent in the fourth quarter of fiscal 2015. Over the past five years, our reported gross margins have ranged from a high of 39.4 percent in fiscal 2012 to a low of 36.2 percent in fiscal 2015 and fiscal 2011. In addition, over the past five years, our reported operating margins have ranged from a high of 13.3 percent in fiscal 2013 to a low of 9.6 percent in fiscal 2015.
Our ability to deliver strong comparable sales results and margins depends in large part on accurately forecasting demand and apparel 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, securities 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 deterioration in market conditions may limit our access to the capital markets and adversely impact our financial results or our business initiatives.

In April 2011, we issued $1.25 billion aggregate principal amount of 5.95 percent notes due April 2021. As a result, we have additional costs that include interest payable semiannually on the notes. In January 2014, we also entered into a 15 billion Japanese yen, four-year, unsecured term loan due January 2018. In October 2015, we entered into a $400 million unsecured term loan due October 2016, but that may be extended until October 2017.

Our cash flows from operations are the primary source of funds for these debt service payments. In this regard, we have generated annual cash flow from operating activities in excess of $1 billion per year for well over a decade and ended fiscal 2015 with $1.4 billion of cash and cash equivalents on our balance sheet. We are also able to supplement near-term liquidity, if necessary, with our $500 million revolving credit facility. We continue to target a cash balance between $1.0 billion to $1.2 billion, which provides not only for our working capital needs, but also a reserve for unexpected business downturns. However, if our cash flows from operating activities decline significantly, we may be required to reprioritize our business initiatives to ensure that we can continue to service or refinance our debt with favorable rates and terms. In addition, any future reduction in our long-term senior unsecured credit ratings could result in reduced access to the credit and capital markets and higher interest costs, and potentially increased lease or hedging costs.

For further information on our debt and credit facilities, see Part II, Item 8, Financial Statements and Supplementary Data, Notes 4 and 5 of Notes to Consolidated Financial Statements of this Form 10-K.

Updates or changes to our IT systems may disrupt operations.

We continue to evaluate and implement upgrades and changes to our IT systems, some of which are significant. 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 are in place with third-party vendors supplying or supporting our IT initiatives. However, there can be no assurances that we will successfully launch these systems as planned or that they will be implemented without disruptions to our operations. IT system disruptions, if not anticipated and appropriately mitigated, or failure to successfully implement new or upgraded systems, could have a material adverse effect on our results of operations.

Failure to maintain our reputation and brand image could negatively impact our results of operations.

Our brands have wide recognition, and our success has been due in large part to our ability to maintain, enhance and protect our brand image and reputation, and our customers’ connection to our brands. Our continued success depends in part on our ability to adapt to a rapidly changing media environment, including our increasing reliance on social media and online dissemination of advertising campaigns. Even if we react appropriately to negative posts or comments about us and/or our brands on social media and online, our customers’ perception of our brand image and our reputation could be negatively impacted. Failure to maintain, enhance and protect our brand image could have a material adverse effect on our results of operations.

Our results could be adversely affected by natural disasters, public health crises, political crises, or other catastrophic events.

Natural disasters, such as hurricanes, tornadoes, floods, earthquakes, and other adverse weather and climate conditions; unforeseen public health crises, such as pandemics and epidemics; political crises, such as terrorist attacks, war, labor unrest, and other political instability; or other catastrophic events, such as disasters occurring at our vendors' manufacturing facilities, whether occurring in the United States or internationally, could disrupt our operations, the operations of our franchisees, or the operations of one or more of our vendors. In particular, these types of events could impact our product supply chain from or to the impacted region and could impact our ability or the ability of our franchisees or other third parties to operate our stores or websites. In addition, these types of events could negatively impact consumer spending in the impacted regions or depending upon the severity, globally. Disasters occurring at our vendors' manufacturing facilities could impact our reputation and our customers' perception of our brands. To the extent any of these events occur, our operations and financial results could be adversely affected.

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

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

We are subject to various proceedings, lawsuits, disputes, and claims from time to time, which could adversely affect our business, financial condition and results of operations.

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, and data privacy claims, including class action lawsuits. 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, developments, settlements, or resolutions may occur and impact income in the quarter of such development, settlement, or resolution. An unfavorable outcome could have an adverse impact on our business, financial condition and results of operations.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

We have Company-operated stores in the United States, Canada, the United Kingdom, France, Ireland, Japan, Italy, China, Hong Kong, Taiwan, and beginning in October 2015, Mexico. As of January 30, 2016, we had 3,275 Company-operated stores, which aggregated to approximately 37.9 million square feet. Almost all of these stores are leased, typically with one or more renewal options after our initial term. Economic terms vary by type and location of store.

We own approximately 1.1 million square feet of corporate office space located in San Francisco, San Bruno, Pleasanton, and Rocklin, California, of which approximately 184,000 square feet is leased to and occupied by others. We lease approximately 925,000 square feet of corporate office space located in San Francisco, Rocklin, Petaluma, and Pleasanton, California; New York, New York; Albuquerque, New Mexico; and Toronto, Ontario, Canada. We also lease regional offices in North America and in various international locations. 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. Of the 8.6 million square feet of owned distribution space, approximately 117,000 square feet is leased to and occupied by others. We lease approximately 1.2 million square feet of distribution space located in Phoenix, Arizona; Grove City, Ohio; Erlanger and Hebron, Kentucky; and Bolton and Mississauga, Ontario, Canada. Third-party logistics companies provide logistics services to us through distribution warehouses in Chiba, Japan; and Shanghai and Hong Kong, China.

Item 3. Legal Proceedings.

We do not believe that the outcome of any current Action would have a material effect on our Consolidated Financial Statements.

Item 4. Mine Safety Disclosures.

Not applicable.

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 15, 2016 was 7,016. The table below sets forth the market prices and dividends declared and paid for each of the fiscal quarters in fiscal 2015 and 2014.

	Market Prices				Dividends Declared and Paid	
	Fiscal 2015		Fiscal 2014		Fiscal Year	
	High	Low	High	Low	2015	2014
1st Quarter	$43.90	$39.37	$44.59	$37.00	$0.23	$0.22
2nd Quarter	$40.64	$35.58	$42.37	$38.38	0.23	0.22
3rd Quarter	$36.50	$25.97	$46.85	$35.46	0.23	0.22
4th Quarter	$28.65	$21.57	$43.85	$37.10	0.23	0.22
					$0.92	$0.88

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 30, 2016, with (i) the cumulative total return of the Dow Jones 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.

TOTAL RETURN TO STOCKHOLDERS

(Assumes $100 investment on 1/29/2011)

Total Return Analysis

	1/29/2011	1/28/2012	2/2/2013	2/1/2014	1/31/2015	1/30/2016
The Gap, Inc.	$100.00	$100.95	$178.81	$210.28	$232.33	$143.41
S&P 500	$100.00	$104.22	$121.71	$147.89	$168.93	$167.81
Dow Jones U.S. Apparel Retailers	$100.00	$119.05	$149.07	$169.51	$205.28	$202.64

Source: Research Data Group, Inc. (415) 643-6000 (www.researchdatagroup.com)

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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 30, 2016 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 Including Commissions	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 (November 1 - November 28)	2,075,029	$26.84	2,075,029	$439 million
Month #2 (November 29 - January 2)	3,672,952	$25.66	3,672,952	$345 million
Month #3 (January 3 - January 30)	1,894,349	$22.70	1,894,349	$302 million
Total	7,642,330	$25.25	7,642,330	

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(1) On February 26, 2015, we announced that the Board of Directors approved a $1 billion share repurchase authorization (the "February 2015 repurchase program"). On February 25, 2016, we announced that the Board of Directors approved a new $1 billion share repurchase authorization (the "February 2016 repurchase program"). The February 2015 repurchase program, which had $302 million remaining, was superseded and replaced by the February 2016 repurchase program, which has no expiration date.

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. 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 in Item 8.

	Fiscal Year (number of weeks)				
	2015 (52)	2014 (52)	2013 (52)	2012 (53)	2011 (52)
Operating Results ($ in millions)					
Net sales	$15,797	$16,435	$16,148	$15,651	$14,549
Gross margin	36.2 %	38.3 %	39.0 %	39.4 %	36.2 %
Operating margin	9.6 %	12.7 %	13.3 %	12.4 %	9.9 %
Net income	$920	$1,262	$1,280	$1,135	$833
Cash dividends paid	$377	$383	$321	$240	$236
Per Share Data (number of shares in millions)					
Basic earnings per share	$2.24	$2.90	$2.78	$2.35	$1.57
Diluted earnings per share	$2.23	$2.87	$2.74	$2.33	$1.56
Weighted-average number of shares—basic	411	435	461	482	529
Weighted-average number of shares—diluted	413	440	467	488	533
Cash dividends declared and paid per share	$0.92	$0.88	$0.70	$0.50	$0.45
Balance Sheet Information ($ in millions)					
Merchandise inventory	$1,873	$1,889	$1,928	$1,758	$1,615
Total assets	$7,473	$7,690	$7,849	$7,470	$7,422
Working capital (1)	$1,450	$2,083	$1,985	$1,788	$2,181
Total long-term debt, less current maturities (2)	$1,310	$1,332	$1,369	$1,246	$1,606
Stockholders’ equity	$2,545	$2,983	$3,062	$2,894	$2,755
Other Data ($ and square footage in millions)					
Cash used for purchases of property and equipment	$726	$714	$670	$659	$548
Acquisition of business, net of cash acquired (3)	$—	$—	$—	$129	$—
Percentage increase (decrease) in comparable sales (4)	(4)%	— %	2 %	5 %	(4)%
Number of Company-operated store locations open at year-end	3,275	3,280	3,164	3,095	3,036
Number of franchise store locations open at year-end	446	429	375	312	227
Number of store locations open at year-end (5)	3,721	3,709	3,539	3,407	3,263
Square footage of Company-operated store space at year-end	37.9	38.1	37.2	36.9	37.2
Percentage increase (decrease) in square footage of Company-operated store space at year-end	(0.5)%	2.4 %	0.8 %	(0.8)%	(2.6)%
Number of employees at year-end	141,000	141,000	137,000	136,000	132,000

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(1) In fiscal year 2015, we adopted the Financial Accounting Standards Board, Accounting Standard Update No. 2015-17, Income Taxes. The adoption reduced current portion of deferred tax assets as a result of classifying all net deferred tax assets as noncurrent as of January 30, 2016.

(2) In April 2012, we made the first scheduled payment of $40 million related to our $400 million term loan and in August 2012, we repaid the remaining $360 million balance in full.
(3) On December 31, 2012, we acquired all of the outstanding capital stock of Intermix, a multi-brand specialty retailer of luxury and contemporary apparel and accessories, for an aggregate purchase price of $129 million.
(4) Includes the associated comparable online sales.
(5) Includes Company-operated and franchise store locations.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.
Overview
We are a global retailer offering apparel, accessories, and personal care products for men, women, and children under the Gap, Banana Republic, Old Navy, Athleta, and Intermix brands. We have Company-operated stores in the United States, Canada, the United Kingdom, France, Ireland, Japan, Italy, China, Hong Kong, Taiwan, and beginning in October 2015, Mexico. We have franchise agreements with unaffiliated franchisees to operate Gap, Banana Republic, and Old Navy stores throughout Asia, Australia, Europe, Latin America, the Middle East, and Africa. Under these agreements, third parties operate, or will operate, stores that sell apparel and related products under our brand names. Our products are also available to customers online through Company-owned websites and through the use of third parties that provide logistics and fulfillment services. In addition to operating in the specialty, outlet, online, and franchise channels, we also use our omni-channel capabilities to bridge the digital world and physical stores to further enhance our shopping experience for our customers. Our omni-channel services, including order-in-store, reserve-in-store, find-in-store, and ship-from-store, as well as enhanced mobile experiences, are tailored uniquely across our portfolio of brands. 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, primarily at our Intermix brand.
We identify our operating segments according to how our business activities are managed and evaluated. As of January 30, 2016, our operating segments included Gap Global, Old Navy Global, Banana Republic Global, Athleta, and Intermix. We have determined that each of our operating segments share similar economic and other qualitative characteristics, and therefore the results of our operating segments are aggregated into one reportable segment.
As previously announced in January 2015, we closed the Piperlime brand during the first half of fiscal 2015, including its online platform and the store in New York.
Financial results for fiscal 2015 are as follows:

- Net sales for fiscal 2015 decreased 4 percent to $15.8 billion compared with $16.4 billion for fiscal 2014. Excluding the impact of foreign exchange, our net sales decreased 2 percent for fiscal 2015 compared with fiscal 2014. See Net Sales discussion for impact of foreign exchange.
- Comparable ("Comp") sales for fiscal 2015 decreased 4 percent compared with flat for last year.
- Gross profit for fiscal 2015 was $5.7 billion compared with $6.3 billion for fiscal 2014. Gross margin for fiscal 2015 was 36.2 percent compared with 38.3 percent for fiscal 2014.
- Operating margin for fiscal 2015 was 9.6 percent compared with 12.7 percent for fiscal 2014. Operating margin is defined as operating income as a percentage of net sales.
- Net income for fiscal 2015 was $920 million compared with $1.3 billion for fiscal 2014. Diluted earnings per share was $2.23 for fiscal 2015 compared with $2.87 for fiscal 2014.
- During fiscal 2015, we distributed $1.4 billion to shareholders through share repurchases and dividends.

In June 2015, we announced a series of strategic actions to position Gap brand for improved business performance in the future, including right-sizing the Gap brand store fleet, streamlining the brand's headquarter workforce, and developing a clear, on-brand product aesthetic framework that will help strengthen the Gap brand to compete more successfully on the global stage. During fiscal 2015, the Company completed the closure of about 150 global specialty stores related to the strategic actions. The Company also incurred certain charges during fiscal 2015 in connection with the strategic actions, primarily consisting of impairment of store assets, lease termination fees and lease losses, employee related expenses, and impairment of inventory that did not meet brand standards.

The charges incurred related to the Company's strategic actions primarily related to Gap brand are as follows:

($ in millions) Fiscal 2015	Cost of Goods Sold and Occupancy Expenses	Operating Expenses	Total Charges
Store closures and workforce reduction:			
Lease termination fees and lease losses	$—	$33	$33
Employee related expenses	7	17	24
Store asset impairment	5	5	10
Other	2	5	7
Total	14	60	74
Other charges:			
Store asset impairment related to underperforming stores	—	33	33
Inventory impairment	20	—	20
Other intangible asset impairment	—	5	5
Total	20	38	58
Total charges related to strategic actions	$34	$98	$132

Our business priorities in 2016 include:

- offering product that is consistently brand-appropriate and on-trend with high customer acceptance;
- continuing to evolve our customer experience, with particular focus on the mobile and digital expressions of our brands; and
- attracting and retaining great talent in our businesses and functions.

For fiscal 2016, our top objective is to improve sales performance through a more consistent, on-trend, product offering. To enable this, we have several product initiatives underway, and in addition, we plan to continue focus on our responsive supply chain and inventory management. Further, we expect to continue our investment in our mobile digital capabilities and to enhance our shopping experience for our customers. We also plan to continue growth through new stores with a focus on Asia, outlet, and Athleta.

In fiscal 2016, we expect that foreign exchange rate fluctuations will continue to have a meaningful negative impact on our results, particularly in our largest foreign subsidiaries in Canada and Japan. With the depreciation of the Canadian dollar, Japanese yen, and other foreign currencies, we expect net sales translated into U.S. dollars will negatively impact our total Company net sales growth. In addition, we expect gross margins for our foreign subsidiaries to be negatively impacted as our merchandise purchases are primarily in U.S. dollars. We expect this negative impact of foreign exchange rate fluctuations to be partially offset by the favorable impact of translation of expenses in foreign currencies into U.S. dollars.

Results of Operations

Net Sales

See Item 8, Financial Statements and Supplementary Data, Note 16 of Notes to Consolidated Financial Statements for net sales by brand and region.

Comparable Sales

The percentage change in Comp sales by global brand and for total Company, as compared with the preceding year, is as follows:

	Fiscal Year		
	2015	2014	2013
Gap Global	(6)%	(5)%	3 %
Old Navy Global	— %	5 %	2 %
Banana Republic Global	(10)%	— %	(1)%
The Gap, Inc.	(4)%	— %	2 %

Comparable online sales favorably impacted total Company Comp sales by 2 percent, 2 percent, and 3 percent in fiscal 2015, 2014, and 2013, respectively.

Only Company-operated stores are included in the calculations of Comp sales. The calculation of total Company Comp sales includes the results of Athleta and Intermix but excludes the results of our franchise business.

A store is included in the Comp sales calculations when it has been open and operated by the Company for at least one year and the selling square footage has not changed by 15 percent or more within the past year. A store is included in the Comp sales calculations on the first day it has comparable prior year sales. Stores in which the selling square footage has changed by 15 percent or more as a result of a remodel, expansion, or reduction are excluded from the Comp sales calculations until the first day they have comparable prior year sales.

A store is considered non-comparable (“Non-comp”) when it has been open and operated by the Company for less than one year or has changed its selling square footage by 15 percent or more within the past year.

A store is considered “Closed” if it is temporarily closed for three or more full consecutive days or it 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, the store will be in Non-comp status for the same days the following year.

Online Comp sales are defined as sales through online channels in those countries where we have existing Comp store sales.

Current year foreign exchange rates are applied to both current year and prior year Comp sales to achieve a consistent basis for comparison.

Store Count and Square Footage Information

Net sales per average square foot is as follows:

	Fiscal Year		
	2015	2014	2013
Net sales per average square foot (1)	$337	$361	$365

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(1) Excludes net sales associated with our online and franchise businesses.

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

	January 31, 2015	Fiscal 2015		January 30, 2016	
	Number of Store Locations	Number of Stores Opened	Number of Stores Closed	Number of Store Locations	Square Footage (in millions)
Gap North America	960	34	128	866	9.1
Gap Asia	266	48	9	305	3.0
Gap Europe	189	4	18	175	1.5
Old Navy North America	1,013	36	19	1,030	17.3
Old Navy Asia	43	22	—	65	1.0
Banana Republic North America	610	24	22	612	5.1
Banana Republic Asia	44	7	—	51	0.2
Banana Republic Europe	11	1	2	10	0.1
Athleta North America	101	19	—	120	0.5
Piperlime North America	1	—	1	—	—
Intermix North America	42	2	3	41	0.1
Company-operated stores total	3,280	197	202	3,275	37.9
Franchise	429	52	35	446	N/A
Total	3,709	249	237	3,721	37.9
Increase (decrease) over prior year				0.3 %	(0.5)%

	February 1, 2014	Fiscal 2014		January 31, 2015	
	Number of Store Locations	Number of Stores Opened	Number of Stores Closed	Number of Store Locations	Square Footage (in millions)
Gap North America	968	38	46	960	10.0
Gap Asia	228	42	4	266	2.7
Gap Europe	193	2	6	189	1.6
Old Navy North America	1,004	33	24	1,013	17.2
Old Navy Asia	18	25	—	43	0.7
Banana Republic North America	596	29	15	610	5.1
Banana Republic Asia	43	5	4	44	0.2
Banana Republic Europe	11	—	—	11	0.1
Athleta North America	65	37	1	101	0.4
Piperlime North America	1	—	—	1	—
Intermix North America	37	5	—	42	0.1
Company-operated stores total	3,164	216	100	3,280	38.1
Franchise	375	67	13	429	N/A
Total	3,539	283	113	3,709	38.1
Increase over prior year				4.8 %	2.4 %

Gap and Banana Republic outlet and factory stores are reflected in each of the respective brands.

In fiscal 2016, we expect net openings of about 40 Company-operated store locations. We expect square footage for Company-operated stores to be about flat in fiscal 2016 compared with fiscal 2015.

Net Sales Discussion

Our net sales for fiscal 2015 decreased $638 million, or 4 percent, compared with fiscal 2014 primarily due to the unfavorable impact of foreign exchange of about $363 million and a decrease in net sales primarily at Gap and Banana Republic; partially offset by an increase in net sales at Old Navy. The unfavorable impact of foreign exchange was primarily driven by the weakening of the Canadian dollar and Japanese yen against the U.S. dollar. The foreign exchange impact is the translation impact if net sales for fiscal 2014 were translated at exchange rates applicable during fiscal 2015. On this basis, our net sales for fiscal 2015 decreased 2 percent compared with fiscal 2014. We believe this metric enhances the visibility of underlying sales trends by excluding the impact of foreign currency exchange rate fluctuations.

Our net sales for fiscal 2014 increased $287 million, or 2 percent, compared with fiscal 2013 primarily due to an increase in net sales at Old Navy and Athleta; partially offset by the unfavorable impact of foreign exchange of about $130 million and a decrease in net sales at Gap. The unfavorable impact of foreign exchange was primarily due to the weakening of the Canadian dollar and Japanese yen against the U.S. dollar. The foreign exchange impact is the translation impact if net sales for fiscal 2013 were translated at exchange rates applicable during fiscal 2014. On this basis, our net sales for fiscal 2014 increased 3 percent compared with fiscal 2013. We believe this metric enhances the visibility of underlying sales trends by excluding the impact of foreign currency exchange rate fluctuations.

Cost of Goods Sold and Occupancy Expenses

($ in millions)	Fiscal Year 2015		2014		2013	
Cost of goods sold and occupancy expenses	$10,077		$10,146		$9,855	
Gross profit	$5,720		$6,289		$6,293	
Cost of goods sold and occupancy expenses as a percentage of net sales	63.8	%	61.7	%	61.0	%
Gross margin	36.2	%	38.3	%	39.0	%

Cost of goods sold and occupancy expenses increased 2.1 percentage points in fiscal 2015 compared with fiscal 2014.

- Cost of goods sold increased 1.3 percent as a percentage of net sales in fiscal 2015 compared with fiscal 2014, primarily driven by increased markdown activities, the charges incurred related to the strategic actions, and incremental shipping costs partially due to the U.S. West Coast port congestion. Cost of goods sold as a percentage of net sales in fiscal 2015 for our foreign subsidiaries was also negatively impacted by foreign exchange as our merchandise purchases are primarily in U.S. dollars.
- Occupancy expenses increased 0.8 percentage points in fiscal 2015 compared with fiscal 2014, primarily driven by the decrease in net sales without a corresponding decrease in occupancy expenses.

Cost of goods sold and occupancy expenses increased 0.7 percentage points in fiscal 2014 compared with fiscal 2013.

- Cost of goods sold increased 0.4 percent as a percentage of net sales in fiscal 2014 compared with fiscal 2013, primarily driven by increased promotional activities and markdowns; partially offset by the reclassification of a portion of income related to our credit card program from operating expenses to cost of goods sold. Cost of goods sold as a percentage of net sales in fiscal 2014 for our foreign subsidiaries was also negatively impacted by foreign exchange as our merchandise purchases are primarily in U.S. dollars.
- Occupancy expenses increased 0.3 percentage points in fiscal 2014 compared with fiscal 2013, primarily driven by the incremental cost related to new stores without a corresponding increase in total net sales.

In fiscal 2016, we expect that gross margins will continue to be negatively impacted by the continuing depreciation of the Canadian dollar, Japanese yen, and other foreign currencies as our merchandise purchases are primarily in U.S. dollars.

Operating Expenses and Operating Margin

($ in millions)	Fiscal Year 2015		2014		2013	
Operating expenses	$4,196		$4,206		$4,144	
Operating expenses as a percentage of net sales	26.6	%	25.6	%	25.7	%
Operating margin	9.6	%	12.7	%	13.3	%

Operating expenses decreased $10 million, but increased 1.0 percent as a percentage of net sales, in fiscal 2015 compared with fiscal 2014. The decrease in operating expenses was primarily due to a decrease in marketing expenses mainly at Gap and Banana Republic, lower bonus expense, and a favorable translation impact as a result of foreign exchange rate fluctuations; partially offset by charges incurred related to the strategic actions, as well as the gain on sale of a building recognized in fiscal 2014.

Operating expenses increased $62 million, but decreased 0.1 percent as a percentage of net sales, in fiscal 2014 compared with fiscal 2013. The increase in operating expenses was primarily due to the reclassification of a portion of income related to our credit card program from operating expenses to cost of goods sold and an increase in store payroll; partially offset by the gain on sale of a building owned but no longer occupied by the Company and lower bonus expense.

Interest Expense

($ in millions)	Fiscal Year 2015	2014	2013
Interest expense	$59	$75	$61

Interest expense for fiscal 2015 includes $74 million of interest on overall borrowings and obligations mainly related to our $1.25 billion long-term debt, offset by a reversal of approximately $15 million of interest expense primarily resulting from a favorable foreign tax ruling and actions of foreign tax authorities related to transfer pricing matters in fiscal 2015.

Interest expense for fiscal 2014 includes interest on overall borrowings and obligations mainly related to our $1.25 billion long-term debt.

Interest expense for fiscal 2013 includes $75 million of interest on overall borrowings and obligations mainly related to our $1.25 billion long-term debt, offset by a net reversal of $14 million of interest expense resulting from the favorable resolution of tax matters in fiscal 2013.

Income Taxes

($ in millions)	Fiscal Year 2015		2014		2013	
Income taxes	$551		$751		$813	
Effective tax rate	37.5	%	37.3	%	38.8	%

The increase in the effective tax rate for fiscal 2015 compared with fiscal 2014 was primarily due to the recognition of foreign tax credits upon a distribution of certain foreign earnings that occurred during the third quarter of fiscal 2014, partially offset by the impact of the indefinite reinvestment of certain fiscal 2015 foreign earnings, which will be used to fund our international businesses and their growth.

The decrease in the effective tax rate for fiscal 2014 compared with fiscal 2013 was primarily due to the recognition of foreign tax credits upon a distribution of certain foreign earnings that occurred during the third quarter of fiscal 2014.

Liquidity and Capital Resources

Our largest source of cash flows is cash collections from the sale of our merchandise. Our primary uses of cash include merchandise inventory purchases, occupancy costs, personnel-related expenses, share repurchases, purchases of property and equipment, and payment of taxes.

We consider the following to be measures of our liquidity and capital resources:

($ in millions)	January 30, 2016	January 31, 2015	February 1, 2014
Cash and cash equivalents	$1,370	$1,515	$1,510
Debt	$1,731	$1,353	$1,394
Working capital	$1,450	$2,083	$1,985
Current ratio	1.57:1	1.93:1	1.81:1

As of January 30, 2016, over half of our cash and cash equivalents were held in the United States and are generally accessible without any limitations.

In October 2015, the Company entered into a $400 million unsecured term loan (the "Term Loan"). The Term Loan matures and is payable in full on October 15, 2016, but may be extended until October 15, 2017.

In January 2014, the Company entered into a 15 billion Japanese yen, four-year, unsecured term loan ("Japan Term Loan") due January 2018. A repayment of 2.5 billion Japanese yen ($21 million as of January 30, 2016) is payable on January 15, 2017.

Working capital as of January 30, 2016 is impacted by the decrease in the operating cash flows discussed below and the adoption of the Financial Accounting Standards Board ("FASB"), accounting standard update ("ASU") No. 2015-17, Income Taxes. The adoption of the ASU was applied prospectively and reduced the current portion of deferred tax assets as a result of classifying all net deferred tax assets as noncurrent as of January 30, 2016.

We believe that current cash balances and cash flows from our operations will be sufficient to support our business operations, including growth initiatives, planned capital expenditures, and repayment of debt, for the next 12 months and beyond. We are also able to supplement near-term liquidity, if necessary, with our $500 million revolving credit facility or other available market instruments.

Cash Flows from Operating Activities

Net cash provided by operating activities during fiscal 2015 decreased $535 million compared with fiscal 2014, primarily due to the following:

- a decrease of $342 million in net income;
- a decrease of $107 million related to other current assets and other long-term assets primarily due to the change in timing of payments received related to our credit card program, which resulted in increased cash inflow in fiscal 2014; and
- a decrease of $150 million related to lease incentives and other long-term liabilities primarily due to the receipt of an upfront payment in fiscal 2014 related to the amendment of our credit card program agreement with the third-party financing company, which is being amortized into income over the term of the contract; partially offset by
- an increase of $63 million related to income taxes payable, net of prepaid and other tax-related items, primarily due to timing of payments.

Net cash provided by operating activities during fiscal 2014 increased $424 million compared with fiscal 2013, primarily due to the following:

- an increase of $284 million related to other current assets and other long-term assets primarily due to the change in timing of payments received related to our credit card program, which resulted in increased cash inflow in fiscal 2014;

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- an increase of $132 million related to lease incentives and other long-term liabilities primarily due to the receipt of an upfront payment in fiscal 2014 related to the amendment of our credit card program agreement with the third-party financing company, which is being amortized into income over the term of the contract; and
- an increase of $184 million related to merchandise inventory primarily due to timing of receipts; partially offset by
- a decrease of $146 million related to accounts payable primarily due to timing of payments;
- a decrease of $28 million related to accrued expenses and other current liabilities primarily due to timing of payments; and
- a decrease of $18 million in net income.

We fund inventory expenditures during normal and peak periods through cash flows from operating activities and available cash. Our business follows a seasonal pattern, with sales peaking during the end-of-year holiday period. The seasonality of our operations may lead to significant fluctuations in certain asset and liability accounts between fiscal year-end and subsequent interim periods.

Cash Flows from Investing Activities

Net cash used for investing activities during fiscal 2015 increased $134 million compared with fiscal 2014, primarily due to the following:

- $121 million of proceeds from the sale of a building owned but no longer occupied by the Company in fiscal 2014; and
- $12 million more property and equipment purchases.

Net cash used for investing activities during fiscal 2014 decreased $28 million compared with fiscal 2013, primarily due to the following:

- $121 million of proceeds from the sale of a building owned but no longer occupied by the Company in fiscal 2014; partially offset by
- $50 million less maturities of short-term investments; and
- $44 million more property and equipment purchases.

In fiscal 2015, cash used for purchases of property and equipment was $726 million. In fiscal 2016, we expect cash spending for purchases of property and equipment to be about $650 million.

Cash Flows from Financing Activities

Net cash used for financing activities during fiscal 2015 decreased $517 million compared with fiscal 2014, primarily due to the following:

- $400 million proceeds from the issuance of short-term debt in fiscal 2015; and
- $164 million less repurchases of common stock; partially offset by
- $4 million net cash out flows for fiscal 2015 compared with $38 million net cash inflows for fiscal 2014 related to issuance under share-based compensation plans and withholding tax payments related to vesting of stock units.

Net cash used for financing activities during fiscal 2014 increased $503 million compared with fiscal 2013, primarily due to the following:

- $200 million more repurchases of common stock;
- $144 million proceeds from issuance of long-term debt in fiscal 2013;
- $62 million more cash dividends paid; and
- $59 million less net cash inflows for fiscal 2014 related to issuances under share-based compensation plans and withholding tax payments related to vesting of stock units.

Free Cash Flow

Free cash flow is a non-GAAP financial measure. We believe free cash flow is an important metric because it represents a measure of how much cash a company has available for discretionary and non-discretionary items after the deduction of capital expenditures, as we require regular capital expenditures to build and maintain stores and purchase new equipment to improve our business. We use this metric internally, as we believe our sustained ability to generate free cash flow is an important driver of value creation. However, this non-GAAP financial measure is not intended to supersede or replace our GAAP result.

The following table reconciles free cash flow, a non-GAAP financial measure, from a GAAP financial measure.

	Fiscal Year		
($ in millions)	2015	2014	2013
Net cash provided by operating activities	$1,594	$2,129	$1,705
Less: Purchases of property and equipment	(726)	(714)	(670)
Free cash flow	$868	$1,415	$1,035

Debt and Credit Facilities

Certain financial information about the Company's debt and credit facilities is set forth under the headings "Debt" and "Credit Facilities" in Notes 4 and 5, respectively, of Notes to Consolidated Financial Statements included in Part II, Item 8 of this Form 10-K.

Dividend Policy

In determining whether and at what level to declare a dividend, we consider a number of factors including sustainability, operating performance, liquidity, and market conditions.

We increased our annual dividend from $0.88 per share for fiscal 2014 to $0.92 per share for fiscal 2015. We plan to pay an annual dividend of $0.92 per share in fiscal 2016.

Share Repurchases

Certain financial information about the Company's share repurchases is set forth under the heading "Share Repurchases" in Note 8 of Notes to Consolidated Financial Statements included in Part II, Item 8 of this Form 10-K.

Contractual Cash Obligations

We are party to many contractual obligations involving commitments to make payments to third parties. The following table provides summary information concerning our future contractual obligations as of January 30, 2016. These obligations impact our short-term and long-term liquidity and capital resource needs. Certain of these contractual obligations are reflected in the Consolidated Balance Sheet as of January 30, 2016, while others are disclosed as future obligations.

	Payments Due by Period				
($ in millions)	Less than 1 Year	1-3 Years	3-5 Years	More Than 5 Years	Total
Debt (1)	$421	$62	$—	$1,250	$1,733
Interest payments on debt	80	150	149	37	416
Operating leases (2)	1,135	2,044	1,503	2,118	6,800
Purchase obligations and commitments (3)	3,882	75	8	8	3,973
Total contractual cash obligations	$5,518	$2,331	$1,660	$3,413	$12,922

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(1) Represents principal maturities, excluding interest. See Note 4 of Notes to Consolidated Financial Statements.

(2) Excludes maintenance, insurance, taxes, and contingent rent obligations. See Note 11 of Notes to Consolidated Financial Statements for discussion of our operating leases.

(3) Represents estimated open purchase orders to purchase inventory as well as commitments for products and services used in the normal course of business.

There is $82 million of long-term liabilities recorded in lease incentives and other long-term liabilities in the Consolidated Balance Sheet as of January 30, 2016 that is being excluded from the table above as the amount relates to uncertain tax positions and deferred compensation and we are not able to reasonably estimate the timing of the payments or the amount by which the liability will increase or decrease over time.

Commercial Commitments

We have commercial commitments, not reflected in the table above, that were incurred in the normal course of business to support our operations, including standby letters of credit of $18 million, surety bonds of $39 million, and bank guarantees of $17 million outstanding (of which $12 million was issued under the unsecured revolving credit facilities for our operations in foreign locations) as of January 30, 2016.

Other Cash Obligations Not Reflected in the Consolidated Balance Sheet (Off-Balance Sheet Arrangements)

The majority of our contractual obligations relate to operating leases for our stores. Future minimum lease payments represent commitments under non-cancelable operating leases and are disclosed in the table above with additional information provided under the heading "Leases" in Note 11 of Notes to Consolidated Financial Statements included in Part II, Item 8 of this Form 10-K.

Our other off-balance sheet arrangements are disclosed under the heading "Commitments and Contingencies" in Note 15 of Notes to Consolidated Financial Statements included in Part II, Item 8 of this Form 10-K.

Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with GAAP requires management to adopt accounting policies and make significant judgments and estimates to develop amounts reflected and disclosed in the financial statements. In many cases, there are alternative policies or estimation techniques that could be used. We maintain a thorough process to review the application of our accounting policies and to evaluate the appropriateness of the many estimates that are required to prepare the financial statements of a large, global corporation. However, even under optimal circumstances, estimates routinely require adjustment based on changing circumstances and the receipt of new or better information.

Our significant accounting policies can be found under the heading "Organization and Summary of Significant Accounting Policies" in Note 1 of Notes to Consolidated Financial Statements included in Part II, Item 8 of this Form 10-K. The policies and estimates discussed below include the financial statement elements that are either judgmental or involve the selection or application of alternative accounting policies and are material to our financial statements. Management has discussed the development and selection of these critical accounting policies and estimates with the Audit and Finance Committee of our Board of Directors, which has reviewed our disclosure relating to critical accounting policies and estimates in this annual report on Form 10-K.

Merchandise Inventory

We value inventory at the lower of cost or market (“LCM”), with cost determined using the weighted-average cost method. 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 or colors) and we primarily use promotions and markdowns to clear merchandise. We record an adjustment to inventory when future estimated selling price is less than cost. Our LCM adjustment calculation requires management to make assumptions to estimate the selling price and amount of slow-moving merchandise and broken assortments subject to markdowns, which is dependent upon factors such as historical trends with similar merchandise, inventory aging, forecasted consumer demand, and the promotional environment. In addition, we estimate and accrue shortage for the period between the last physical count and the balance sheet date. Our shortage estimate can be affected by changes in merchandise mix and changes in actual shortage trends. Historically, actual shortage has not differed materially from our estimates.

We do not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions we use to calculate our LCM or inventory shortage adjustments. However, if estimates regarding consumer demand are inaccurate or actual physical inventory shortage differs significantly from our estimate, our operating results could be affected. We have not made any material changes in the accounting methodology used to calculate our LCM or inventory shortage adjustments in the past three fiscal years.

Impairment of Long-Lived Assets, Goodwill, and Intangible Assets

We review the carrying amount of long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. Events that result in an impairment review include the decision to close a store, corporate facility, or distribution center, or a significant decrease in the operating performance of the long-lived asset. Long-lived assets are considered impaired if the carrying amount exceeds the estimated undiscounted future cash flows of the asset or asset group. For impaired assets, we recognize a loss equal to the difference between the carrying amount of the asset or asset group and its estimated fair value. The estimated fair value of the asset or asset group is based on estimated discounted future cash flows of the asset or asset group using a discount rate commensurate with the related risk. The asset group is defined as the lowest level for which identifiable cash flows are available and largely independent of the cash flows of other groups of assets. The asset group for our retail stores is reviewed for impairment primarily at the store level. Our estimate of future cash flows requires management to make assumptions and to apply judgment, including forecasting future sales and expenses and estimating useful lives of the assets. These estimates can be affected by factors such as future store results, real estate demand, and economic conditions that can be difficult to predict. We have not made any material changes in the methodology to assess and calculate impairment of long-lived assets in the past three fiscal years. We recorded a charge for the impairment of long-lived assets of $54 million, $10 million, and $1 million for fiscal 2015, 2014, and 2013, respectively.

We also review the carrying amount of goodwill and other indefinite-lived intangible assets for impairment annually and whenever events or changes in circumstances indicate that it is more likely than not that the carrying amount may not be recoverable. Events that result in an impairment review include significant changes in the business climate, declines in our operating results, or an expectation that the carrying amount may not be recoverable.

In connection with the acquisitions of Athleta in September 2008 and Intermix in December 2012, we allocated $99 million and $81 million of the respective purchase prices to goodwill. The aggregate carrying amount of goodwill was $180 million as of January 30, 2016. We review goodwill for impairment by first assessing qualitative factors to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount, including goodwill, as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. If it is determined that it is more likely than not that the fair value of the reporting unit is less than its carrying amount, the two-step test is performed to identify potential goodwill impairment. If it is determined that it is not more likely than not that the fair value of the reporting unit is less than its carrying amount, it is unnecessary to perform the two-step goodwill impairment test. Based on certain circumstances, we may elect to bypass the qualitative assessment and proceed directly to performing the first step of the two-step goodwill impairment test. The first step of the two-step goodwill impairment test compares the fair value of the reporting unit to its carrying amount, including goodwill. The second step includes hypothetically valuing all the tangible and intangible assets of the reporting unit as if the reporting unit had been acquired in a business combination. Then, the implied fair value of the reporting unit's goodwill is compared to the carrying amount of that goodwill. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of the goodwill, we recognize an impairment loss in an amount equal to the excess, not to exceed the carrying amount.

A reporting unit is an operating segment or a business unit one level below that operating segment, for which discrete financial information is prepared and regularly reviewed by segment management. We have deemed Athleta and Intermix to be the reporting units at which goodwill is tested for Athleta and Intermix, respectively. During the fourth quarter of fiscal 2015, we completed our annual impairment testing of goodwill and we did not recognize any impairment charges. We determined that the fair value of goodwill attributed to Athleta significantly exceeded its carrying amount as of the date of our annual impairment review. The fair value of goodwill attributed to Intermix exceeded its carrying amount by approximately 15 percent as of the date of our annual impairment review.

In connection with the acquisitions of Athleta in September 2008 and Intermix in December 2012, we allocated $54 million and $38 million of the respective purchase prices to trade names. The aggregate carrying amount of the trade names was $92 million as of January 30, 2016. A trade name is considered impaired if the carrying amount exceeds its estimated fair value. If a trade name is considered impaired, we recognize a loss equal to the difference between the carrying amount and the estimated fair value of the trade name. The fair value of the trade names is determined using the relief from royalty method. During the fourth quarter of fiscal 2015, we completed our annual impairment review of the trade names and we did not recognize any impairment charges. We determined that the fair value of the Athleta trade name significantly exceeded its carrying amount as of the date of our annual impairment review. The fair value of the Intermix trade name exceeded its carrying amount by approximately 30 percent as of the date of our annual impairment review.

These analyses require management to make assumptions and to apply judgment, including forecasting future sales and expenses, and selecting appropriate discount rates and royalty rates, which can be affected by economic conditions and other factors that can be difficult to predict.

We do not believe there is a reasonable likelihood that there will be a material change in the estimates or assumptions we use to calculate impairment losses of long-lived assets, goodwill, and intangible assets. However, if actual results are not consistent with our estimates and assumptions used in the calculations, we may be exposed to impairment losses that could be material.

Revenue Recognition

While revenue recognition for the Company does not involve significant judgment, it represents an important accounting policy. We recognize revenue and the related cost of goods sold at the time the products are received by the customers. For sales transacted at stores, revenue is recognized when the customer receives and pays for the merchandise at the register. For sales where we ship the merchandise to the customer from a distribution center or store, revenue is recognized at the time we estimate the customer receives the merchandise.

We sell merchandise to franchisees under multi-year franchise agreements. We recognize revenue from sales to franchisees at the time merchandise ownership is transferred to the franchisee, which generally occurs when the merchandise reaches the franchisee's predesignated turnover point. We also receive royalties from franchisees primarily based on a percentage of the total merchandise purchased by the franchisee, net of any refunds or credits due them. Royalty revenue is recognized primarily when merchandise ownership is transferred to the franchisee.

We record an allowance for estimated returns based on our historical return patterns and various other assumptions that management believes to be reasonable. We do not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions we use to calculate our sales return allowance. However, if the actual rate of sales returns increases significantly, our operating results could be adversely affected. We have not made any material changes in the accounting methodology used to estimate future sales returns in the past three fiscal years.

Unredeemed Gift Cards, Gift Certificates, and Credit Vouchers

Upon issuance of a gift card, gift certificate, or credit voucher, a liability is established for its cash value. The liability is relieved and net sales are recorded upon redemption by the customer. Over time, some portion of these instruments is not redeemed ("breakage"). We determine breakage income for gift cards, gift certificates, and credit vouchers based on historical redemption patterns. Breakage income is recorded in other income, which is a component of operating expenses in the Consolidated Statements of Income, when we can determine the portion of the liability where redemption is remote, which is three years after the gift card, gift certificate, or credit voucher is issued. When breakage income is recorded, a liability is recognized for any legal obligation to remit the unredeemed portion to relevant jurisdictions. Substantially all of our gift cards, gift certificates, and credit vouchers have no expiration dates. We do not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions we use to calculate our breakage income. However, if the actual pattern of redemption for gift cards, gift certificates, and credit vouchers changes significantly, our operating results could be adversely affected. We have not made any material changes in the accounting methodology used to estimate breakage income in the past three fiscal years.

Income Taxes

We record a valuation allowance against our deferred tax assets when it is more likely than not that some portion or all of such deferred tax assets will not be realized. In determining the need for a valuation allowance, management is required to make assumptions and to apply judgment, including forecasting future income, taxable income, and the mix of income or losses in the jurisdictions in which we operate. Our effective tax rate in a given financial statement period may also be materially impacted by changes in the mix and level of income or losses, changes in the expected outcome of audits, or changes in the deferred tax valuation allowance.

At any point in time, many tax years are subject to or in the process of being audited by various taxing authorities. To the extent our estimates of settlements change or the final tax outcome of these matters is different from the amounts recorded, such differences will impact the income tax provision in the period in which such determinations are made. Our income tax expense includes changes in our estimated liability for exposures associated with our various tax filing positions. Determining the income tax expense for these potential assessments requires management to make assumptions that are subject to factors such as proposed assessments by tax authorities, changes in facts and circumstances, issuance of new regulations, and resolution of tax audits.

We believe the judgments and estimates discussed above are reasonable. However, if actual results are not consistent with our estimates or assumptions, we may be exposed to losses or gains that could be material.

Recent Accounting Pronouncements
See "Organization and Summary of Significant Accounting Policies" in Note 1 of Notes to Consolidated Financial Statements included in Part II, Item 8 of this Form 10-K for recent accounting pronouncements, including the expected dates of adoption and estimated effects on our Consolidated Financial Statements.
Item 7A. Quantitative and Qualitative Disclosures About Market Risk.
Derivative Financial Instruments
Certain financial information about the Company's derivative financial instruments is set forth under the heading "Derivative Financial Instruments" in Note 7 of Notes to Consolidated Financial Statements included in Part II, Item 8 of this Form 10-K.
We have performed a sensitivity analysis as of January 30, 2016 based on a model that measures the impact of a hypothetical 10 percent adverse change in foreign currency exchange rates to U.S. dollars (with all other variables held constant) on our underlying estimated major foreign currency exposures, net of derivative financial instruments. The foreign currency exchange rates used in the model were based on the spot rates in effect as of January 30, 2016. The sensitivity analysis indicated that a hypothetical 10 percent adverse movement in foreign currency exchange rates would have an unfavorable impact on the underlying cash flow exposure, net of our foreign exchange derivative financial instruments, of $43 million as of January 30, 2016.

Debt
Certain financial information about the Company's debt is set forth under the heading "Debt" in Note 4 of Notes to Consolidated Financial Statements included in Part II, Item 8 of this Form 10-K.
Our $1.25 billion aggregate principal amount of 5.95 percent notes due April 2021 are not subject to interest rate risk as they have a fixed interest rate.

The $400 million Term Loan matures and is payable in full on October 15, 2016, but may be extended until October 15, 2017. Interest is payable at least quarterly based on an interest rate equal to the London Interbank Offered Rate plus a fixed margin. The average interest rate for fiscal 2015 was 1 percent. Due to the short-term nature of the loan, we believe we have no material exposure to interest rate risk.
Our interest rate associated with a 15 billion Japanese yen, four-year, unsecured term loan as of January 30, 2016 is as follows:

	Expected Maturity Date (Fiscal Year)			
(¥ in billions)	2016	2017	Total	Fair Value (1)
Principal payments	¥2.5	¥7.5	¥10	¥10
Average interest rate (2)	1 %	1 %	1 %	

(1) The carrying amount of the Japan Term Loan approximates its fair value as the interest rate varies depending on market rates.
(2) The average interest rate for all periods presented was calculated based on the Tokyo Interbank Offered Rate plus a fixed margin as of January 30, 2016. As the interest rate for the term loan is variable, it is subject to change for all periods presented.

Cash Equivalents
We have highly liquid fixed and variable income investments classified as cash equivalents, which are placed primarily in time deposits and money market funds. These investments are classified as held-to-maturity based on our positive intent and ability to hold the securities to maturity. We value these investments at their original purchase prices plus interest that has accrued at the stated rate. The value of our investments is not subject to material interest rate risk. However, changes in interest rates would impact the interest income derived from our investments. We earned interest income of $6 million in fiscal 2015.

Item 8. Financial Statements and Supplementary Data.
THE GAP, INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of The Gap, Inc. and its subsidiaries (the "Company") as of January 30, 2016 and January 31, 2015, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows, for each of the three fiscal years in the period ended January 30, 2016. We also have audited the Company's internal control over financial reporting as of January 30, 2016 based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Gap, Inc. and its subsidiaries as of January 30, 2016 and January 31, 2015, and the results of their operations and their cash flows for each of the three fiscal years in the period ended January 30, 2016, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 30, 2016, based on the criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ Deloitte & Touche LLP

San Francisco, California

March 21, 2016

THE GAP, INC.
CONSOLIDATED BALANCE SHEETS

($ and shares in millions except par value)	January 30, 2016	January 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$1,370	$1,515
Merchandise inventory	1,873	1,889
Other current assets	742	913
Total current assets	3,985	4,317
Property and equipment, net	2,850	2,773
Other long-term assets	638	600
Total assets	$7,473	$7,690
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of debt	$421	$21
Accounts payable	1,112	1,173
Accrued expenses and other current liabilities	979	1,020
Income taxes payable	23	20
Total current liabilities	2,535	2,234
Long-term liabilities:		
Long-term debt	1,310	1,332
Lease incentives and other long-term liabilities	1,083	1,141
Total long-term liabilities	2,393	2,473
Commitments and contingencies (see Notes 11 and 15)		
Stockholders' equity:		
Common stock $0.05 par value		
Authorized 2,300 shares for all periods presented; Issued and Outstanding 397 and 421 shares	20	21
Retained earnings	2,440	2,797
Accumulated other comprehensive income	85	165
Total stockholders' equity	2,545	2,983
Total liabilities and stockholders' equity	$7,473	$7,690

See Accompanying Notes to Consolidated Financial Statements

THE GAP, INC.
CONSOLIDATED STATEMENTS OF INCOME

($ and shares in millions except per share amounts)	Fiscal Year 2015	2014	2013
Net sales	$15,797	$16,435	$16,148
Cost of goods sold and occupancy expenses	10,077	10,146	9,855
Gross profit	5,720	6,289	6,293
Operating expenses	4,196	4,206	4,144
Operating income	1,524	2,083	2,149
Interest expense	59	75	61
Interest income	(6)	(5)	(5)
Income before income taxes	1,471	2,013	2,093
Income taxes	551	751	813
Net income	$920	$1,262	$1,280
Weighted-average number of shares—basic	411	435	461
Weighted-average number of shares—diluted	413	440	467
Earnings per share—basic	$2.24	$2.90	$2.78
Earnings per share—diluted	$2.23	$2.87	$2.74

See Accompanying Notes to Consolidated Financial Statements

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THE GAP, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Fiscal Year		
($ in millions)	2015	2014	2013
Net income	$920	$1,262	$1,280
Other comprehensive income (loss), net of tax:			
Foreign currency translation, net of tax (tax benefit) of $(1), $(2), and $5	(38)	(47)	(51)
Change in fair value of derivative financial instruments, net of tax of $21, $48, and $30	60	118	48
Reclassification adjustment for realized gains on derivative financial instruments, net of tax of $(42), $(20), and $(27)	(102)	(41)	(43)
Other comprehensive income (loss), net of tax	(80)	30	(46)
Comprehensive income	$840	$1,292	$1,234

See Accompanying Notes to Consolidated Financial Statements

THE GAP, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

($ and shares in millions except per share amounts)	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock Shares	Treasury Stock Amount	Total
Balance as of February 2, 2013	1,106	$ 55	$ 2,864	$ 13,259	$ 181	(643)	$ (13,465)	$ 2,894
Net income				1,280				1,280
Other comprehensive loss, net of tax					(46)			(46)
Repurchases of common stock						(26)	(1,009)	(1,009)
Reissuance of treasury stock under share-based compensation plans, net of withholding tax payments related to vesting of stock units			(132)			9	229	97
Tax benefit from exercise of stock options and vesting of stock units			50					50
Share-based compensation, net of estimated forfeitures			117					117
Common stock dividends ($0.70 per share)				(321)				(321)
Balance as of February 1, 2014	1,106	55	2,899	14,218	135	(660)	(14,245)	3,062
Net income				1,262				1,262
Other comprehensive income, net of tax					30			30
Repurchases of common stock	(29)	(1)	(155)	(973)		(1)	(35)	(1,164)
Reissuance of treasury stock under share-based compensation plans, net of shares withheld for employee taxes			(2)			1	23	21
Retirement of treasury stock	(660)	(33)	(2,897)	(11,327)		660	14,257	—
Issuance of common stock under share-based compensation plans, net of withholding tax payments related to vesting of stock units	4	—	17					17
Tax benefit from exercise of stock options and vesting of stock units			37					37
Share-based compensation, net of estimated forfeitures			101					101
Common stock dividends ($0.88 per share)				(383)				(383)
Balance as of January 31, 2015	421	21	—	2,797	165	—	—	2,983
Net income				920				920
Other comprehensive loss, net of tax					(80)			(80)
Repurchases of common stock	(30)	(1)	(99)	(900)				(1,000)
Issuance of common stock under share-based compensation plans, net of withholding tax payments related to vesting of stock units	6	—	(4)					(4)
Tax benefit from exercise of stock options and vesting of stock units			26					26

Share-based compensation, net of estimated forfeitures			77					77
Common stock dividends ($0.92 per share)				(377)				(377)
Balance as of January 30, 2016	397	$ 20	$ —	$2,440	$ 85	—	$—	$2,545

See Accompanying Notes to Consolidated Financial Statements

THE GAP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Fiscal Year		
($ in millions)	2015	2014	2013
Cash flows from operating activities:			
Net income	$920	$1,262	$1,280
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	592	564	536
Amortization of lease incentives	(65)	(64)	(66)
Share-based compensation	76	100	116
Tax benefit from exercise of stock options and vesting of stock units	26	37	50
Excess tax benefit from exercise of stock options and vesting of stock units	(28)	(38)	(56)
Non-cash and other items	(72)	(56)	(60)
Deferred income taxes	101	75	69
Changes in operating assets and liabilities:			
Merchandise inventory	(6)	(9)	(193)
Other current assets and other long-term assets	133	240	(44)
Accounts payable	(47)	(41)	105
Accrued expenses and other current liabilities	(41)	(33)	(5)
Income taxes payable, net of prepaid and other tax-related items	(24)	(87)	(74)
Lease incentives and other long-term liabilities	29	179	47
Net cash provided by operating activities	1,594	2,129	1,705
Cash flows from investing activities:			
Purchases of property and equipment	(726)	(714)	(670)
Proceeds from sale of property and equipment	—	121	—
Maturities of short-term investments	—	—	50
Other	(4)	(3)	(4)
Net cash used for investing activities	(730)	(596)	(624)
Cash flows from financing activities:			
Proceeds from issuance of short-term debt	400	—	—
Proceeds from issuance of long-term debt	—	—	144
Payments of long-term debt	(21)	(21)	—
Proceeds from issuances under share-based compensation plans	65	90	142
Withholding tax payments related to vesting of stock units	(69)	(52)	(45)
Repurchases of common stock	(1,015)	(1,179)	(979)
Excess tax benefit from exercise of stock options and vesting of stock units	28	38	56
Cash dividends paid	(377)	(383)	(321)
Other	(1)	—	(1)
Net cash used for financing activities	(990)	(1,507)	(1,004)
Effect of foreign exchange rate fluctuations on cash and cash equivalents	(19)	(21)	(27)
Net increase (decrease) in cash and cash equivalents	(145)	5	50
Cash and cash equivalents at beginning of period	1,515	1,510	1,460
Cash and cash equivalents at end of period	$1,370	$1,515	$1,510
Non-cash investing activities:			
Purchases of property and equipment not yet paid at end of period	$81	$73	$90
Supplemental disclosure of cash flow information:			
Cash paid for interest during the period	$78	$77	$77
Cash paid for income taxes during the period, net of refunds	$452	$714	$805

See Accompanying Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements
For the Fiscal Years Ended January 30, 2016, January 31, 2015, and February 1, 2014
Note 1. Organization and Summary of Significant Accounting Policies
Organization
The Gap, Inc., a Delaware Corporation, is a global retailer offering apparel, accessories, and personal care products for men, women, and children under the Gap, Banana Republic, Old Navy, Athleta, and Intermix brands. We have Company-operated stores in the United States, Canada, the United Kingdom, France, Ireland, Japan, Italy, China, Hong Kong, Taiwan, and beginning in October 2015, Mexico. We also have franchise agreements with unaffiliated franchisees to operate Gap, Banana Republic, and Old Navy stores in many other countries around the world. In addition, our products are available to customers online through Company-owned websites and through the use of third parties that provide logistics and fulfillment services.

Principles of Consolidation
The Consolidated Financial Statements include the accounts of The Gap, Inc. and its subsidiaries. All intercompany transactions and balances have been eliminated.

Fiscal Year and Presentation
Our fiscal year is a 52-week or 53-week period ending on the Saturday closest to January 31. The fiscal years ended January 30, 2016 (fiscal 2015), January 31, 2015 (fiscal 2014), and February 1, 2014 (fiscal 2013) consisted of 52 weeks.

Use of Estimates
The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents and Short-Term Investments
Cash includes funds deposited in banks and amounts in transit from banks for customer credit card and debit card transactions that process in less than seven days.
All highly liquid investments with original maturities of 91 days or less are classified as cash equivalents. Highly liquid investments with original maturities of greater than 91 days that will mature less than one year from the balance sheet date are classified as short-term investments. Our cash equivalents are placed primarily in time deposits and money market funds and are classified as held-to-maturity based on our positive intent and ability to hold the securities to maturity. We value these investments at their original purchase prices plus interest that has accrued at the stated rate. Income related to these securities is recorded in interest income in the Consolidated Statements of Income.

Merchandise Inventory
We value inventory at the lower of cost or market, with cost determined using the weighted-average cost method. We record an adjustment when future estimated selling price is less than cost. 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 or colors) and use promotions and markdowns to clear merchandise. In addition, we estimate and accrue shortage for the period between the last physical count and the balance sheet date.

Derivative Financial Instruments
Derivative financial instruments are recorded at fair value in the Consolidated Balance Sheets as other current assets, other long-term assets, accrued expenses and other current liabilities, or lease incentives and other long-term liabilities.

For derivative financial instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative financial instruments is reported as a component of other comprehensive income ("OCI") and is recognized in income in the period in which the underlying transaction impacts the income statement. For derivative financial instruments that are designated and qualify as net investment hedges, the effective portion of the gain or loss on the derivative financial instruments is reported as a component of OCI and is reclassified into income in the period or periods during which the hedged subsidiary is either sold or liquidated (or substantially liquidated). Gains and losses on the derivative financial instruments representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness, if any, are recognized in current income. For derivative financial instruments not designated as hedging instruments, the gain or loss on the derivative financial instruments is recorded in operating expenses in the Consolidated Statements of Income. Cash flows from derivative financial instruments are classified as cash flows from operating activities in the Consolidated Statements of Cash Flows.

Property and Equipment

Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Estimated useful lives are as follows:

Category	Term
Leasehold improvements	Shorter of remaining lease term or economic life, up to 15 years
Furniture and equipment	Up to 15 years
Buildings and building improvements	Up to 39 years
Software	3 to 7 years

When assets are sold or retired, the cost and related accumulated depreciation are removed from the accounts, with any resulting gain or loss recorded in operating expenses in the Consolidated Statements of Income. Costs of maintenance and repairs are expensed as incurred.

Insurance and Self-Insurance

We retain a portion of the risk for certain losses related to employee health and welfare, workers' compensation, general, and other liability claims. Undiscounted liabilities associated with these programs are estimated based primarily on actuarially-determined amounts and are accrued in part by considering historical claims experience, demographic factors, severity factors, and other actuarial assumptions. These insurance liabilities are recorded in accrued expenses and other current liabilities and lease incentives and other long-term liabilities in the Consolidated Balance Sheets.

Asset Retirement Obligations

An asset retirement obligation represents a legal obligation associated with the retirement of a tangible long-lived asset that is incurred upon the acquisition, construction, development, or normal operation of that long-lived asset. The Company's asset retirement obligations are primarily associated with leasehold improvements that we are contractually obligated to remove at the end of a lease to comply with the lease agreement. We recognize asset retirement obligations at the inception of a lease with such conditions if a reasonable estimate of fair value can be made. The asset retirement obligation is recorded in accrued expenses and other current liabilities and lease incentives and other long-term liabilities in the Consolidated Balance Sheets and is subsequently adjusted for changes in estimated asset retirement obligations. The associated estimated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and depreciated over its useful life.

Revenue Recognition

Revenue is recognized for sales transacted at stores when the customer receives and pays for the merchandise at the register. For sales where we ship the merchandise to the customer from a distribution center or store, revenue is recognized at the time we estimate the customer receives the product. Amounts related to shipping and handling that are billed to customers are recorded in net sales, and the related costs are recorded in cost of goods sold and occupancy expenses in the Consolidated Statements of Income. Revenues are presented net of estimated returns and any taxes collected from customers and remitted to governmental authorities. Allowances for estimated returns are recorded based on estimated margin using our historical return patterns.

We sell merchandise to franchisees under multi-year franchise agreements. We recognize revenue from sales to franchisees at the time merchandise ownership is transferred to the franchisee, which generally occurs when the merchandise reaches the franchisee's predesignated turnover point. These sales are recorded in net sales, and the related cost of goods sold is recorded in cost of goods sold and occupancy expenses in the Consolidated Statements of Income. We also receive royalties from franchisees primarily based on a percentage of the total merchandise purchased by the franchisee, net of any refunds or credits due them. Royalty revenue is recognized primarily when merchandise ownership is transferred to the franchisee and is recorded in net sales in the Consolidated Statements of Income.

Classification of Expenses

Cost of goods sold and occupancy expenses include the following:

- the cost of merchandise;
- inventory shortage and valuation adjustments;
- freight charges;
- shipping and handling costs;
- costs associated with our sourcing operations, including payroll and related benefits;
- production costs;
- insurance costs related to merchandise; and
- rent, occupancy, depreciation, and amortization related to our store operations, distribution centers, and certain corporate functions.

Operating expenses include the following:

- payroll and related benefits (for our store operations, field management, distribution centers, and corporate functions);
- marketing;
- general and administrative expenses;
- costs to design and develop our products;
- merchandise handling and receiving in distribution centers;
- distribution center general and administrative expenses;
- rent, occupancy, depreciation, and amortization for our corporate facilities; and
- other expenses (income).

Merchandise handling and receiving expenses and distribution center general and administrative expenses recorded in operating expenses were $254 million, $255 million, and $243 million in fiscal 2015, 2014, and 2013, respectively.

We receive payments from third parties that provide our customers with private label credit cards and/or co-branded credit cards. The majority of such cash receipts are recorded in other income, which is a component of operating expenses, and the remaining portion of income is recognized as a reduction to cost of goods sold and occupancy expenses.

The classification of expenses varies across the apparel retail industry. Accordingly, our cost of goods sold and occupancy expenses and operating expenses may not be comparable to those of other companies.

Rent Expense
Minimum rent expense is recognized over the term of the lease, starting when possession of the property is taken from the landlord, which normally includes a construction period prior to the store opening. When a lease contains a predetermined fixed escalation of the minimum rent, we recognize the related rent expense on a straight-line basis and record the difference between the recognized rent expense and the amounts payable under the lease as a short-term or long-term deferred rent liability. We also receive tenant allowances upon entering into certain leases, which are recorded as a short-term or long-term tenant allowance liability and amortized using the straight-line method as a reduction to rent expense over the term of the lease. A co-tenancy failure by our landlord during the lease term may result in a reduction of the required cash payments made to the landlord for the duration of the co-tenancy failure and is recorded as a reduction to rent expense as the reduced cash payments are made. Costs related to common area maintenance, insurance, real estate taxes, and other occupancy costs the Company is obligated to pay are excluded from minimum rent expense.
Certain leases provide for contingent rents that are not measurable at inception. These contingent rents are primarily based on a percentage of sales that are in excess of a predetermined level and/or rent increase based on a change in the consumer price index or fair market value. These amounts are excluded from minimum rent and are included in the determination of rent expense when it is probable that the expense has been incurred and the amount can be reasonably estimated.

Impairment of Long-Lived Assets
We review the carrying amount of long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Events that result in an impairment review include the decision to close a store, corporate facility, or distribution center, or a significant decrease in the operating performance of the long-lived asset. Long-lived assets are considered impaired if the carrying amount exceeds the estimated undiscounted future cash flows of the asset or asset group. For impaired assets, we recognize a loss equal to the difference between the carrying amount of the asset or asset group and its estimated fair value, which is recorded in operating expenses in the Consolidated Statements of Income. The estimated fair value of the asset or asset group is based on discounted future cash flows of the asset or asset group using a discount rate commensurate with the related risk. The asset group is defined as the lowest level for which identifiable cash flows are available and largely independent of the cash flows of other groups of assets, which for our retail stores is primarily at the store level.

Goodwill and Intangible Assets
We review the carrying amount of goodwill and other indefinite-lived intangible assets for impairment annually and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Events that result in an impairment review include significant changes in the business climate, declines in our operating results, or an expectation that the carrying amount may not be recoverable. We assess potential impairment by considering present economic conditions as well as future expectations.

We review goodwill for impairment by first assessing qualitative factors to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount, including goodwill, as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. If it is determined that it is more likely than not that the fair value of the reporting unit is less than its carrying amount, the two-step test is performed to identify potential goodwill impairment. If it is determined that it is not more likely than not that the fair value of the reporting unit is less than its carrying amount, it is unnecessary to perform the two-step goodwill impairment test. Based on certain circumstances, we may elect to bypass the qualitative assessment and proceed directly to performing the first step of the two-step goodwill impairment test. The first step of the two-step goodwill impairment test compares the fair value of the reporting unit to its carrying amount, including goodwill. The second step includes hypothetically valuing all the tangible and intangible assets of the reporting unit as if the reporting unit had been acquired in a business combination. Then, the implied fair value of the reporting unit's goodwill is compared to the carrying amount of that goodwill. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of the goodwill, we recognize an impairment loss in an amount equal to the excess, not to exceed the carrying amount.

A reporting unit is an operating segment or a business unit one level below that operating segment, for which discrete financial information is prepared and regularly reviewed by segment management. We have deemed Athleta and Intermix to be the reporting units at which goodwill is tested for Athleta and Intermix, respectively.

A trade name is considered impaired if the carrying amount exceeds its estimated fair value. If a trade name is considered impaired, we recognize a loss equal to the difference between the carrying amount and the estimated fair value of the trade name. The fair value of a trade name is determined using the relief from royalty method, which requires management to make assumptions and to apply judgment, including forecasting future sales and expenses, and selecting appropriate discount rates and royalty rates.

Goodwill and other indefinite-lived intangible assets, including the trade names, are recorded in other long-term assets in the Consolidated Balance Sheets.

Pre-Opening Costs

Pre-opening and start-up activity costs, which include rent and occupancy, supplies, advertising, and payroll expenses incurred prior to the opening of a new store or other facility, are expensed in the period in which they occur.

Advertising

Costs associated with the production of advertising, such as writing, copy, printing, and other costs, are expensed as incurred. Costs associated with communicating advertising that has been produced, such as television and magazine costs, are expensed when the advertising event takes place. Advertising expense was $578 million, $639 million, and $637 million in fiscal 2015, 2014, and 2013, respectively, and is recorded in operating expenses in the Consolidated Statements of Income.

Prepaid catalog expense consists of the cost to prepare, print, and distribute catalogs. Such costs are recorded in other current assets in the Consolidated Balance Sheets and amortized over their expected period of future benefit, which is approximately one to eight months.

Share-Based Compensation
Share-based compensation expense for stock options and other stock awards is determined based on the grant-date fair value. We use the Black-Scholes-Merton option-pricing model to determine the fair value of stock options, which requires the input of subjective assumptions regarding the expected term, expected volatility, dividend yield, and risk-free interest rate. For units granted whereby one share of common stock is issued for each unit as the unit vests (“Stock Units”), the fair value is determined based on the Company’s stock price on the date of grant less future expected dividends during the vesting period. For stock options and Stock Units, we recognize share-based compensation cost net of estimated forfeitures and revise the estimates in subsequent periods if actual forfeitures differ from the estimates. We estimate the forfeiture rate based on historical data as well as expected future behavior. Share-based compensation expense is recorded primarily in operating expenses in the Consolidated Statements of Income over the period during which the employee is required to provide service in exchange for stock options and Stock Units.

Unredeemed Gift Cards, Gift Certificates, and Credit Vouchers
Upon issuance of a gift card, gift certificate, or credit voucher, a liability is established for its cash value. The liability is relieved and net sales are recorded upon redemption by the customer. Over time, some portion of these instruments is not redeemed. We determine breakage income for gift cards, gift certificates, and credit vouchers based on historical redemption patterns. Breakage income is recorded in other income, which is a component of operating expenses in the Consolidated Statements of Income, when we can determine the portion of the liability where redemption is remote. Based on our historical information, three years after the gift card, gift certificate, or credit voucher is issued, we can determine the portion of the liability where redemption is remote. When breakage income is recorded, a liability is recognized for any legal obligation to remit the unredeemed portion to relevant jurisdictions. Substantially all of our gift cards, gift certificates, and credit vouchers have no expiration dates.

Credit Cards
We have credit card agreements (the “Agreements”) with third parties to provide our customers with private label credit cards and/or co-branded credit cards (collectively, the “Credit Cards”). Each private label credit card bears the logo of Gap, Banana Republic, Old Navy, or Athleta and can be used at any of our U.S. or Canadian store locations and online. The co-branded credit card is a VISA credit card bearing the logo of Gap, Banana Republic, Old Navy, or Athleta and can be used everywhere VISA credit cards are accepted. A third-party financing company is the sole owner of the accounts and underwrites the credit issued under the Credit Card programs. We receive cash in accordance with the Agreements based on usage of the Credit Cards or specified transactional fees. We recognize income for such cash receipts when the amounts are fixed or determinable and collectibility is reasonably assured, which is generally the time at which the actual usage of the Credit Cards or specified transaction occurs. The majority of the income is recorded in other income, which is a component of operating expenses in our Consolidated Statements of Income, and the remaining portion of income is recognized as a reduction to cost of goods sold and occupancy expenses in our Consolidated Statements of Income.
The Credit Card programs offer incentives to cardholders in the form of reward certificates upon the cumulative purchase of an established amount. The cost associated with reward points and certificates is accrued as the rewards are earned by the cardholder and is recorded in accrued expenses and other current liabilities in the Consolidated Balance Sheets and in cost of goods sold and occupancy expenses in the Consolidated Statements of Income. Other administrative costs related to the Credit Card programs, including payroll, marketing expenses, and other direct costs, are recorded in operating expenses in the Consolidated Statements of Income.

Earnings per Share

Basic earnings per share is computed as net income divided by the weighted-average number of common shares outstanding for the period. Diluted earnings per share is computed as net income divided by the weighted-average number of common shares outstanding for the period including common stock equivalents. Common stock equivalents consist of shares subject to share-based awards with exercise prices less than the average market price of our common stock for the period, to the extent their inclusion would be dilutive. Stock options and other stock awards that contain performance conditions are not included in the calculation of common stock equivalents until such performance conditions have been achieved.

Foreign Currency

Our international subsidiaries primarily use local currencies as their functional currency and translate their assets and liabilities at the current rate of exchange in effect at the balance sheet date. Revenue and expenses from their operations are translated using rates that approximate those in effect during the period in which the transactions occur. The resulting gains and losses from translation are recorded in the Consolidated Statements of Comprehensive Income and in accumulated OCI in the Consolidated Statements of Stockholders' Equity. Transaction gains and losses resulting from intercompany balances of a long-term investment nature are also classified as accumulated OCI. Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the local functional currency are included in the Consolidated Statements of Income.

The aggregate transaction gains and losses recorded in operating expenses in the Consolidated Statements of Income are as follows:

	Fiscal Year		
($ in millions)	2015	2014	2013
Foreign currency transaction gain (loss)	$(6)	$(34)	$1
Realized and unrealized gain from certain derivative financial instruments	25	28	16
Net foreign exchange gain (loss)	$19	$(6)	$17

Income Taxes

Deferred income taxes are recorded for temporary differences between the tax basis of assets and liabilities and their reported amounts in the Consolidated Financial Statements. A valuation allowance is established against deferred tax assets when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Our income tax expense includes changes in our estimated liability for exposures associated with our various tax filing positions. At any point in time, many tax years are subject to or in the process of being audited by various taxing authorities. To the extent our estimates of settlements change or the final tax outcome of these matters is different from the amounts recorded, such differences will impact the income tax provision in the period in which such determinations are made.

The Company recognizes interest related to unrecognized tax benefits in interest expense and penalties related to unrecognized tax benefits in operating expenses in the Consolidated Statements of Income.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, to clarify the principles of recognizing revenue and create common revenue recognition guidance between U.S. GAAP and International Financial Reporting Standards. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers, Deferral of the Effective Date, which defers the effective date of the new revenue recognition standard by one year. As a result, the ASU No. 2014-09 is effective retrospectively for fiscal years and interim periods within those years beginning after December 15, 2017. We are currently assessing the potential impact of this ASU on our Consolidated Financial Statements.

In April 2015, the FASB issued ASU No. 2015-03, Interest - Imputation of Interest, Simplifying the Presentation of Debt Issuance Costs, which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The ASU is effective retrospectively for fiscal years and interim periods within those years beginning after December 15, 2015. We do not expect the adoption of this ASU to have a material impact on our Consolidated Financial Statements.

In July 2015, the FASB issued ASU No. 2015-11, Inventory, Simplifying the Measurement of Inventory, which requires an entity to measure in scope inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The ASU is effective for fiscal years and interim periods within those years beginning after December 15, 2016. We do not expect the adoption of this ASU to have a material impact on our Consolidated Financial Statements.

In November 2015, the FASB issued ASU No. 2015-17, Income Taxes, which changes how deferred taxes are classified on the balance sheet. The ASU eliminates the requirement for organizations to present deferred tax liabilities and assets as current and noncurrent in a classified balance sheet. Instead, organizations will be required to classify all deferred tax assets and liabilities as noncurrent. The ASU is effective for fiscal years and interim periods within those years beginning after December 15, 2016. Early adoption is permitted under this ASU. We adopted ASU No. 2015-17 prospectively effective January 30, 2016. Adoption of this ASU resulted in a reclassification of our net current deferred tax assets to the net noncurrent deferred tax assets in our Consolidated Balance Sheet as of January 30, 2016. No prior periods were retrospectively adjusted.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities. The new guidance is intended to improve the recognition and measurement of financial instruments. The ASU is effective for fiscal years and interim periods within those years beginning after December 15, 2017. We are currently assessing the potential impact of this ASU on our Consolidated Financial Statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases. Under the new guidance, lessees will be required to recognize a lease liability and a right-of-use asset for all leases (with the exception of short-term leases) at the commencement date. The ASU is effective for fiscal years and interim periods within those years beginning after December 15, 2018. We are currently assessing the impact of this ASU on our Consolidated Financial Statements, but expect that it will result in a significant increase in our long-term assets and liabilities.

In March 2016, the FASB issued ASU No. 2016-06, Derivatives and Hedging: Contingent Put and Call Options in Debt Instruments. The amendments clarify the steps required to assess whether a call or put option meets the criteria for bifurcation as an embedded derivative. The ASU is effective for fiscal years and interim periods within those years beginning after December 15, 2016. We do not expect the adoption of this ASU to have a material impact on our Consolidated Financial Statements.

In March 2016, the FASB issued ASU No. 2016-08, Revenue from Contracts with Customers: Principal versus Agent Considerations. The amendments are intended to improve the operability and understandability of the implementation guidance on principal versus agent considerations. The effective date for this ASU is the same as the effective date for ASU 2014-09, Revenue from Contracts with Customers. We are currently assessing the potential impact of this ASU on our Consolidated Financial Statements.

Note 2. Additional Financial Statement Information

Cash and Cash Equivalents

Cash and cash equivalents consist of the following:

($ in millions)	January 30, 2016	January 31, 2015
Cash (1)	$853	$1,086
Bank certificates of deposit and time deposits	313	341
Money market funds	204	88
Cash equivalents	517	429
Cash and cash equivalents	$1,370	$1,515

(1) Cash includes $64 million and $77 million of amounts in transit from banks for customer credit card and debit card transactions as of January 30, 2016 and January 31, 2015, respectively.

We did not record any impairment charges on our cash equivalents in fiscal 2015, 2014, or 2013.

Other Current Assets

Other current assets consist of the following:

($ in millions)	January 30, 2016	January 31, 2015
Accounts receivable	$282	$275
Prepaid minimum rent and occupancy expenses	155	149
Prepaid income taxes	142	148
Current portion of deferred tax assets (1)	—	142
Derivative financial instruments	85	134
Other	78	65
Other current assets	$742	$913

(1) We adopted ASU No. 2015-17, Income Taxes, effective January 30, 2016 on a prospective basis. Adoption of this ASU resulted in a reclassification of our net current deferred tax assets to the net noncurrent deferred tax assets recorded in other long-term assets in our Consolidated Balance Sheet as of January 30, 2016.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and consist of the following:

($ in millions)	January 30, 2016	January 31, 2015
Leasehold improvements	$3,252	$3,220
Furniture and equipment	2,603	2,560
Software	1,433	1,349
Land, buildings, and building improvements	1,019	1,009
Construction-in-progress	187	167
Property and equipment, at cost	8,494	8,305
Less: Accumulated depreciation	(5,644)	(5,532)
Property and equipment, net of accumulated depreciation	$2,850	$2,773

Depreciation expense for property and equipment was $588 million, $560 million, and $530 million for fiscal 2015, 2014, and 2013, respectively.

Interest of $8 million, $7 million, and $8 million related to assets under construction was capitalized in fiscal 2015, 2014, and 2013, respectively.
We recorded a charge for the impairment of long-lived assets of $54 million, $10 million, and $1 million for fiscal 2015, 2014, and 2013, respectively, primarily related to store assets, which is recorded in operating expenses in the Consolidated Statements of Income.

Other Long-Term Assets
Other long-term assets consist of the following:

($ in millions)	January 30, 2016	January 31, 2015
Long-term income tax-related assets (1)	$189	$124
Goodwill	180	180
Trade names	92	92
Other	177	204
Other long-term assets	$638	$600

(1) We adopted ASU No. 2015-17, Income Taxes, effective January 30, 2016 on a prospective basis. Adoption of this ASU resulted in a reclassification of our net current deferred tax assets to the net noncurrent deferred tax assets recorded in other long-term assets in our Consolidated Balance Sheet as of January 30, 2016.

Accrued Expenses and Other Current Liabilities
Accrued expenses and other current liabilities consist of the following:

($ in millions)	January 30, 2016	January 31, 2015
Unredeemed gift cards, gift certificates, and credit vouchers, net of breakage	$254	$251
Accrued compensation and benefits	230	278
Short-term deferred rent and tenant allowances	100	102
Other	395	389
Accrued expenses and other current liabilities	$979	$1,020

No other individual items accounted for greater than five percent of total current liabilities as of January 30, 2016 or January 31, 2015.

Lease Incentives and Other Long-Term Liabilities
Lease incentives and other long-term liabilities consist of the following:

($ in millions)	January 30, 2016	January 31, 2015
Long-term deferred rent and tenant allowances	$776	$773
Long-term asset retirement obligations	70	63
Long-term income tax-related liabilities	49	93
Other	188	212
Lease incentives and other long-term liabilities	$1,083	$1,141

The activity related to asset retirement obligations includes adjustments to the asset retirement obligation balance and fluctuations in foreign currency exchange rates. The activity was not material for fiscal 2015 or 2014.

Sales Return Allowance

A summary of activity in the sales return allowance account is as follows:

($ in millions)	January 30, 2016	January 31, 2015	February 1, 2014
Balance at beginning of fiscal year	$29	$26	$27
Additions	865	896	896
Returns	(867)	(893)	(897)
Balance at end of fiscal year	$27	$29	$26

Sales return allowances are recorded in accrued expenses and other current liabilities in the Consolidated Balance Sheets.

Note 3. Goodwill and Other Intangible Assets

Goodwill and other intangible assets consist of the following and are included in other long-term assets in the Consolidated Balance Sheets:

($ in millions)	January 30, 2016	January 31, 2015
Goodwill	$180	$180
Trade names	$92	$92
Other indefinite-lived intangible assets	$4	$6
Intangible assets subject to amortization	$18	$18
Less: Accumulated amortization	(17)	(17)
Intangible assets subject to amortization, net	$1	$1

Goodwill

Goodwill consists of $99 million and $81 million related to Athleta and Intermix, respectively, as of January 30, 2016 and January 31, 2015. During the fourth quarter of fiscal 2015, we completed our annual impairment test of goodwill and we did not recognize any impairment charges.

Other Intangible Assets

Trade names consist of $54 million and $38 million related to Athleta and Intermix, respectively, as of January 30, 2016 and January 31, 2015. During the fourth quarter of fiscal 2015, we completed our annual impairment test of trade names and we did not recognize any impairment charges.

The intangible assets subject to amortization consist of customer relationships and non-compete agreements related to Athleta and Intermix of $15 million and $3 million, respectively. Athleta's intangible assets subject to amortization were fully amortized by the end of fiscal 2012. Intermix's non-compete agreements were fully amortized by the end of fiscal 2013 and its customer relationships will be fully amortized by the end of fiscal 2016.

There was no material amortization expense for intangible assets subject to amortization recorded in operating expenses in the Consolidated Statements of Income for fiscal 2015 and 2014.

Note 4. Debt

Long-term debt consists of the following:

($ in millions)	January 30, 2016	January 31, 2015
Notes	$1,248	$1,247
Japan Term Loan	83	106
Total long-term debt	1,331	1,353
Less: Current portion	(21)	(21)
Total long-term debt, less current portion	$1,310	$1,332

We have $1.25 billion aggregate principal amount of 5.95 percent notes (the "Notes") due April 2021. Interest is payable semi-annually on April 12 and October 12 of each year, and we have an option to call the Notes in whole or in part at any time, subject to a make-whole premium. The Notes agreement is unsecured and does not contain any financial covenants. The amount recorded in long-term debt in the Consolidated Balance Sheets for the Notes is equal to the aggregate principal amount of the Notes, net of the unamortized discount. As of January 30, 2016 and January 31, 2015, the estimated fair value of the Notes was $1.29 billion and $1.44 billion, respectively, and was based on the quoted market price of the Notes (level 1 inputs) as of the last business day of the respective fiscal year.

In January 2014, we entered into a 15 billion Japanese yen, four-year, unsecured term loan due January 2018. Repayments of 2.5 billion Japanese yen ($21 million as of January 30, 2016) are payable on January 15 of each year, and commenced on January 15, 2015, with a final repayment of 7.5 billion Japanese yen ($62 million as of January 30, 2016) due on January 15, 2018. In addition, interest is payable at least quarterly based on an interest rate equal to the Tokyo Interbank Offered Rate plus a fixed margin. The average interest rate for fiscal 2015 was 1 percent. The carrying amount of the Japan Term Loan as of January 30, 2016 approximated its fair value, as the interest rate varies depending on quoted market rates (level 1 inputs). The Japan Term Loan agreement contains certain requirements, including that the covenants in our $500 million, five-year, unsecured revolving credit facility are upheld. As of January 30, 2016, we were in compliance with all such covenants. Violation of these covenants would result in a default under the Japan Term Loan agreement, which, at the bank's discretion, could require the immediate repayment of outstanding amounts.

In October 2015, we entered into a $400 million unsecured Term Loan. The Term Loan matures and is payable in full on October 15, 2016, but may be extended until October 15, 2017. As of January 30, 2016, the carrying amount of our $400 million Term Loan approximated its fair value due to the short-term nature of the loan. Interest is payable at least quarterly based on an interest rate equal to the London Interbank Offered Rate ("LIBOR") plus a fixed margin. The average interest rate for fiscal 2015 was 1 percent. The Term Loan is included in current maturities of debt in the Consolidated Balance Sheet.

Note 5. Credit Facilities

We have a $500 million, five-year, unsecured revolving credit facility (the "Facility"), which was set to expire in May 2018. On May 20, 2015, the Facility was amended under substantially similar terms to extend the expiration date to May 2020 and improve the pricing structure. The Facility is available for general corporate purposes including working capital, trade letters of credit, and standby letters of credit. The Facility fees fluctuate based on our long-term senior unsecured credit ratings and our leverage ratio. If we were to draw on the Facility, interest would be a base rate (typically LIBOR) plus a margin based on our long-term senior unsecured credit ratings and our leverage ratio on the unpaid principal amount. To maintain availability of funds under the Facility, we pay a facility fee on the full facility amount, regardless of usage. As of January 30, 2016, there were no borrowings and no material outstanding standby letters of credit under the Facility.

As of January 30, 2016, Standard & Poor's, Moody’s, and Fitch rate us at BBB-, Baa2, and BBB-, respectively. Any future change in the Standard & Poor’s or Moody’s ratings could change any future interest expense if we were to draw on the Facility.

We maintain multiple agreements with third parties that make unsecured revolving credit facilities available for our operations in foreign locations (the "Foreign Facilities"). These Foreign Facilities are uncommitted and are generally available for borrowings, overdraft borrowings, and the issuance of bank guarantees. The total capacity of the Foreign Facilities was $47 million as of January 30, 2016