



2009 Annual Report



Dear Shareholders,

In 2009, Gap Inc. turned a corner—delivering double-digit earnings per share increases for the third year in a row and securing a foundation for growth.

It wasn't easy. Because of the difficult economic climate, customers started to approach their typical buying decisions with more caution and we had to compete that much harder across our portfolio of brands.

To help us succeed, we renewed our long-standing commitment of always connecting with our customers—a passion that started with our founders, Doris and Don Fisher.

For me and our employees, 2009 was a bittersweet year. Gap Inc. turned around sadly just as we lost Don. He passed away in September, a mere month after we happily celebrated our 40th anniversary.

I had a chance to visit Don just a few weeks before he died. He was incredibly proud because he felt that, as a company, we had our confidence back. And he was right yet again—I know our employees are determined to win.

Delivering Results

Our formula of focusing on cost management, healthy merchandise margins and strong cash generation continued to serve us well. In 2009, we increased our earnings-per-share 18 percent. We ended the year with \$2.3 billion of cash on the balance sheet and no debt.

In 2010, we're continuing our practice of returning profits to shareholders, increasing our planned dividend 18 percent and authorizing a brand new \$1 billion share repurchase program.

This strong financial position allowed us to become more offensive-minded in the latter half of the year. We made new, targeted investments—in stores, product and marketing. This helped us improve comparable store sales in the fourth quarter.

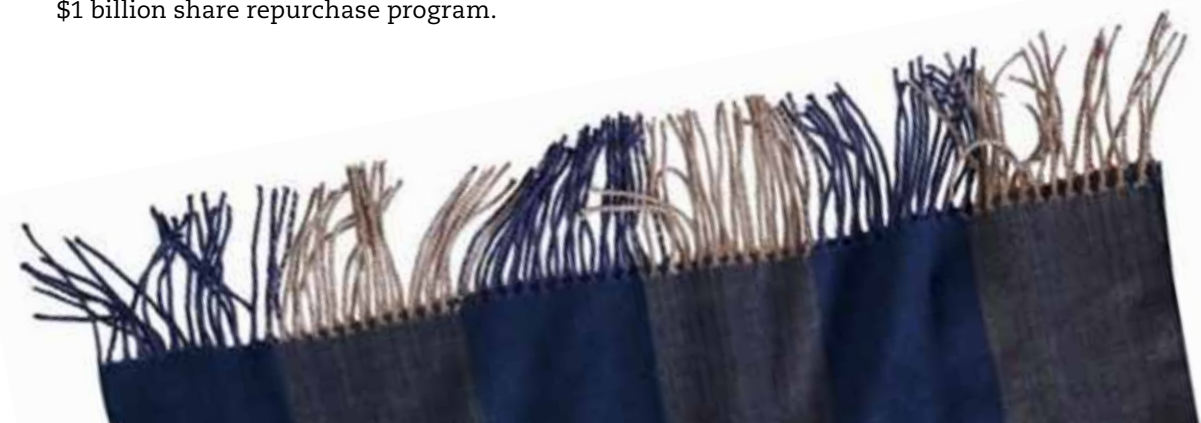
These financial accomplishments were only possible through the amazing dedicated and tireless efforts of our 135,000 employees. I was encouraged to see how many of our employees chose to stay with the company, as shown by our significantly reduced turnover rate at our stores and at Gap Inc. headquarters.

Customers First

All of our work in 2009 was aimed at connecting with our customers as they faced one of the most challenging times in recent memory.

Companies like ours had to compete differently as consumers looked for value from trusted brands that spoke to their individual needs. This annual report aims to tell our story through the eyes of our customers.

Old Navy led the way for us in sales growth. The team kept a keen focus on its target customers, whom we refer to as Jennie, Mike and the kids. As a result, Old Navy was able to proudly deliver fashion at a great value for the entire family. The strategy is greatly paying off; the business delivered six months of positive comps in the back half of 2009.





Due to our commitment to constant consumer research, Gap reinvented one of the product categories linked to our heritage: denim. This led to the brand's successful 1969 Premium Jeans collection. This led our customers to respond positively because of our perfect combination of style, fit, quality and price. We're now expanding the 1969 product line to kids and baby, and will continue to work this formula in refreshing other key product categories.

Bold, persuasive offers

Due to customers' shifting shopping habits, "value" became a key consideration and, to deliver on this, each brand challenged itself to bring a clear and specific value proposition.

Old Navy introduced its effective SuperModelquins as the voice behind its campaigns to talk energetically about value. The results have been tremendous. By getting closer to our customers, the brand gained market share and drove traffic through its irreverent marketing and aggressive, one-day promotions.

Another example is Gap's "accessible premium" platform. The brand generated momentum through its new way of integrating marketing and working to build buzz about the 1969 denim campaign. The social media campaign drove more than 52 million impressions online alone. Pop-up stores in Los Angeles and in London created a sense of urgency among influential celebrities and bloggers. At the same time, we dressed the New York Stock Exchange traders—for the first time in history—in denim to coincide with our 40th anniversary.

Banana Republic—with its focus on "affordable luxury"—adjusted the

marketing strategy after putting new product filters in place for the second half of 2009. One way to broaden the message is through collaborations with partners who have like-minded customers, including Virgin America, Kimpton Hotels, LinkedIn, and the popular TV series "Mad Men."

Do what's right

We know that customers make their purchasing decisions based upon a variety of factors, and one of the new, increasingly important considerations is the company's culture and values.

We operate according to a principle called "do what's right"—one of the pillars on which the company was founded. We've never wavered in our promise and commitment to run our business ethically and responsibly, and we're proud of our recent ranking as the top retailer on the *Corporate Responsibility Magazine's* list of best corporate citizens.

Last year, we also released our fourth social responsibility report, which detailed our intensified focus on the environment. We newly expanded our "friends and family" program so that we're able to help our non-profit partners, and, through this program alone, we have contributed nearly \$10 million since 2008.

Following the terrible earthquake in Haiti a few months ago, our company and our employees joined forces to support the recovery efforts through donations. We were pleased that

a factory that makes clothing for Gap Inc. was among the first to help employees get back to work. We're always committed to working with our government officials in both the United States and Haiti to support the long-term recovery.

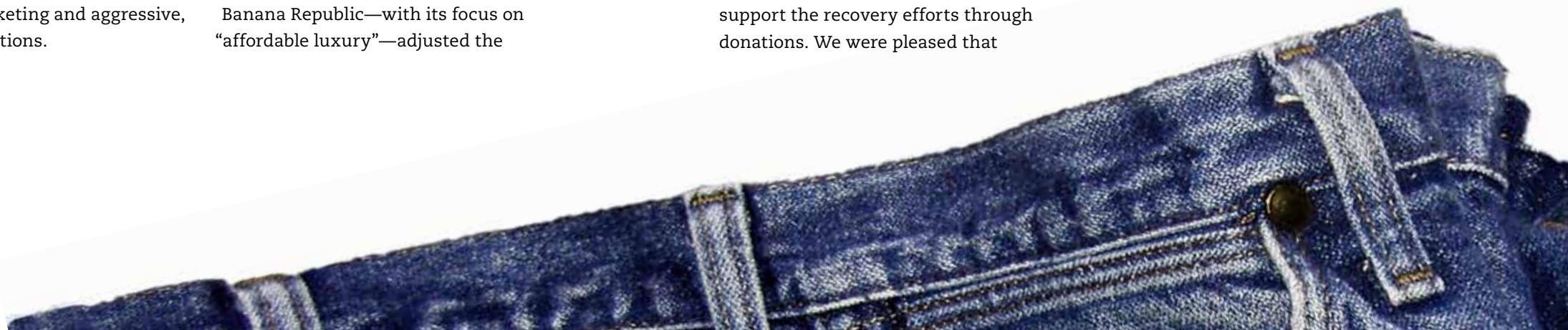
It's all a direct reflection of the unique company that passionately embraces the foundation on which it was built. In January 2009, Don spoke to about 1,000 Gap store managers, with Doris by his side. When asked what made him proudest of our company, Don didn't hesitate in his response: "The integrity of this company."

I like our odds. Our 135,000, friendly employees consistently "think customers first" as we make decisions, and that's showing up more and more through our improved business results. We're intent on maintaining our financial discipline—while also responding quickly to the needs of our customers as we invest and grow.

I look forward to reporting back to you on what we'll accomplish in the new year ahead.

Thank you.

Glenn Murphy
Chairman of the Board
and Chief Executive Officer





Don Fisher

1928–2009

In 1969, when Don Fisher co-founded Gap with his wife, Doris, he never expected to transform retail.

He never imagined a business, that would grow beyond a modest chain of casual apparel stores—“maybe,” as he once put it, “as many as 10.”

Humility was a part of Don’s legacy. He was always as competitive as he was compassionate. Last year, when he spoke to Gap Inc. employees about

his greatest achievement, he spoke not about financial success, but about the many lives he and Doris touched around the world, thanks to the company’s success.

These wonderful characteristics were remembered dearly by his employees and friends when, on September 27, 2009, Don sadly passed away after a long and heroic battle with cancer.

Today, Gap Inc., now with about 3,100 stores and 135,000 employees, still remains a company that takes pride in the values on which it was founded. In the process of revolutionizing retail, Don continued to lead with entrepreneurial spirit. He knew many store managers by name. His mantra was “change or fail.”

“Don always spoke passionately about building quality and value in absolutely everything we do,” said Marka Hansen, Gap Brand North America

president and 22-year veteran of Gap Inc. “These words still guide us today.”

Today, the Fisher legacy lives on. Doris has served for nearly 40 years on the Gap Inc. Board of Directors, and now sits as an honorary board member. She also serves as a board member of the Gap Foundation. Their sons Bob and Bill also serve on the Gap Inc. Board of Directors.

In 2009, employees honored Don with notes and memories. They wore blue bracelets inscribed with the simple phrase, “Do what you love,” a touching tribute to a man who did just that.

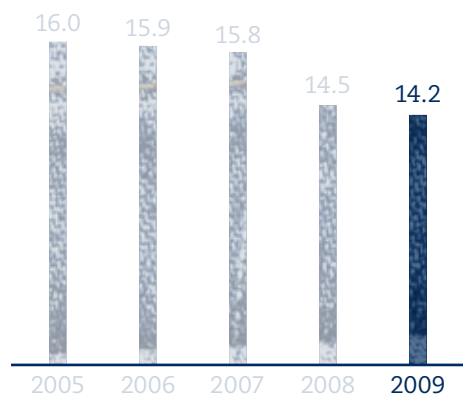
Remembered as a kind, consummate family man, renowned art collector, generous philanthropist and brilliant business man, Don’s influence is still alive today.

Don Fisher will be missed in many ways, but continues to inspire us all.

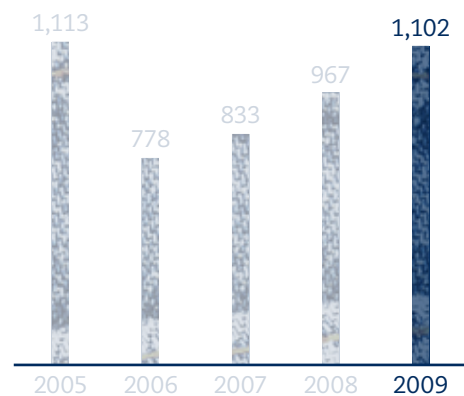
“Our company continues to demonstrate values that, from the beginning, set us apart—creativity, risk-taking, loyalty, integrity, doing what’s right and staying focused on our customers.”

Don Fisher, August 21, 2009

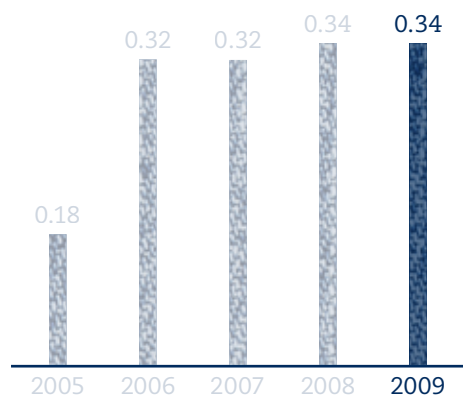




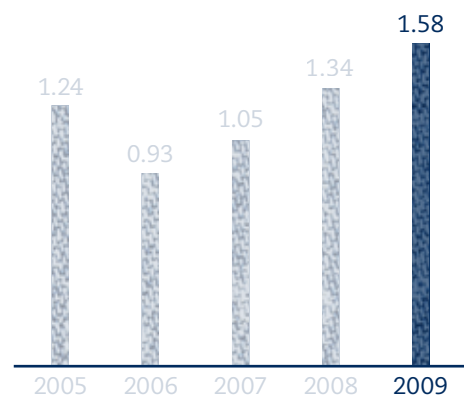
Net Sales
in billions



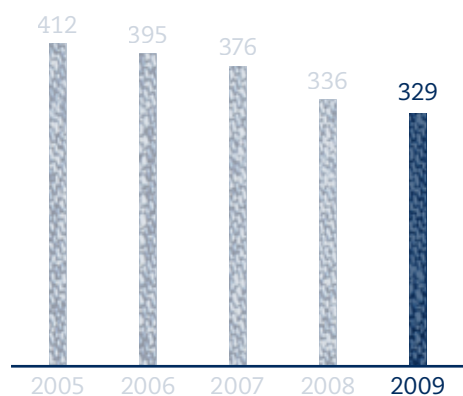
Net Income
in millions



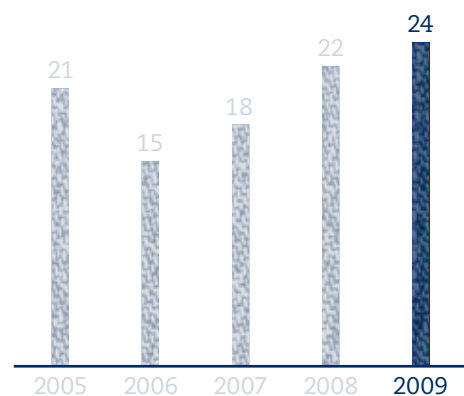
Dividends
per share, in dollars



Diluted Earnings
per share, in millions



Net Sales
per average square foot, in dollars



Return on Average
Stockholder's Equity, percent

Financial Highlights

Despite a challenging economic environment, Gap Inc. delivered its third consecutive year of double-digit earnings per share growth in fiscal year 2009. The earnings results were driven by improved sales in the fourth quarter and continued margin improvement. We ended the year with \$2.3 billion in cash and no debt.

Market for Registrant's Common Equity

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 22, 2010 was 8,903. The table below sets forth the market prices and dividends declared and paid for each of the fiscal quarters in fiscal 2009 and fiscal 2008.

	Market Prices				Dividends Declared and Paid	
	Fiscal Year 2009		Fiscal Year 2008		Fiscal Year	
	High	Low	High	Low	2008	2009
1 st Quarter.....	\$15.83	\$ 9.56	\$21.89	\$17.77	\$0.085	\$0.085
2 nd Quarter.....	18.76	14.65	19.26	14.77	0.085	0.085
3 rd Quarter.....	23.36	16.23	20.80	11.01	0.085	0.085
4 th Quarter.....	23.15	18.64	14.57	9.41	0.085	0.085
					\$0.340	\$0.340

Total Return Analysis

	1/29/2005	1/28/2006	2/3/2007	2/2/2008	1/31/2009	1/30/2010
The Gap, Inc.	\$100.00	\$ 80.54	\$ 91.78	\$ 92.72	\$55.27	\$ 95.32
S&P 500	100.00	110.38	126.40	123.48	75.78	100.89
Dow Jones U.S.						
Apparel Retailers.....	\$100.00	\$113.29	\$133.06	\$105.05	\$56.25	\$106.53

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

Operating Expenses

	Fiscal Year		
	2009	2008	2007
Operating Expenses	\$3,909	\$3,899	\$4,377
Operating Expenses as a percentage of net sales	27.5%	26.8%	27.8%
Operating Margin.....	12.8%	10.7%	8.3%

