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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended April 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**  
(State or other jurisdiction  
of incorporation or organization)

**94-1697231**  
(I.R.S. Employer  
Identification No.)

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

**94105**  
(Zip code)

**Registrant's telephone number, including area code: (415) 427-0100**

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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files) Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

The number of shares of the registrant's common stock outstanding as of May 27, 2016 was 397,964,335.

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## FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995. All statements other than those that are purely historical are forward-looking statements. Words such as “expect,” “anticipate,” “believe,” “estimate,” “intend,” “plan,” “project,” and similar expressions also identify forward-looking statements. Forward-looking statements include, but are not limited to, statements regarding the following:

- the impact of the adoption of new accounting standards;
- recognition of unrealized gains and losses from designated cash flow hedges into net income;
- the impact of the potential settlement of outstanding tax matters and the closing of audits;
- the impact of losses due to indemnification obligations;
- the outcome of proceedings, lawsuits, disputes, and claims;
- continuing investment in our mobile digital capabilities;
- further enhancing our shopping experience for our customers;
- total store closures in fiscal 2016, including winding down Old Navy operations in Japan and closure of select Banana Republic stores, primarily internationally;
- impact of store closures and streamlining measures, including annualized savings, lost sales, and restructuring costs;
- the impact of foreign exchange rate fluctuations on our financial results;
- current cash balances and cash flows being sufficient to support our business operations, including growth initiatives and planned capital expenditures;
- 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;
- dividend payments in fiscal 2016; 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 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;
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- 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 our Annual Report on Form 10-K for the fiscal year ended January 30, 2016 and our other filings with the U.S. Securities and Exchange Commission.

Future economic and industry trends that could potentially impact net sales and profitability are difficult to predict. These forward-looking statements are based on information as of June 3, 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.

We suggest that this document be read in conjunction with Management’s Discussion and Analysis included in our Annual Report on Form 10-K for the fiscal year ended January 30, 2016.

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**PART I – FINANCIAL INFORMATION**  
**Item 1. Financial Statements.**

**THE GAP, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(Unaudited)

(\$ and shares in millions except par value)	April 30, 2016	January 30, 2016	May 2, 2015
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 1,313	\$ 1,370	\$ 1,234
Merchandise inventory	1,958	1,873	2,010
Other current assets	674	742	874
Total current assets	3,945	3,985	4,118
Property and equipment, net of accumulated depreciation of \$5,763, \$5,644, and \$5,599	2,864	2,850	2,790
Other long-term assets	698	638	587
Total assets	<u>\$ 7,507</u>	<u>\$ 7,473</u>	<u>\$ 7,495</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Current liabilities:			
Current maturities of debt	\$ 424	\$ 421	\$ 21
Accounts payable	1,108	1,112	1,156
Accrued expenses and other current liabilities	974	979	960
Income taxes payable	49	23	37
Total current liabilities	2,555	2,535	2,174
Long-term liabilities:			
Long-term debt	1,318	1,310	1,331
Lease incentives and other long-term liabilities	1,112	1,083	1,111
Total long-term liabilities	2,430	2,393	2,442
Commitments and contingencies (see Note 11)			
Stockholders' equity:			
Common stock \$0.05 par value			
Authorized 2,300 shares for all periods presented; Issued and Outstanding 398, 397, and 419 shares	20	20	21
Additional paid-in capital	6	—	—
Retained earnings	2,476	2,440	2,718
Accumulated other comprehensive income	20	85	140
Total stockholders' equity	2,522	2,545	2,879
Total liabilities and stockholders' equity	<u>\$ 7,507</u>	<u>\$ 7,473</u>	<u>\$ 7,495</u>

See Accompanying Notes to Condensed Consolidated Financial Statements

**THE GAP, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**  
(Unaudited)

(\$ and shares in millions except per share amounts)	13 Weeks Ended	
	April 30, 2016	May 2, 2015
Net sales	\$ 3,438	\$ 3,657
Cost of goods sold and occupancy expenses	2,229	2,275
Gross profit	1,209	1,382
Operating expenses	987	996
Operating income	222	386
Interest expense	19	5
Interest income	(1)	(1)
Income before income taxes	204	382
Income taxes	77	143
Net income	\$ 127	\$ 239
Weighted-average number of shares - basic	398	421
Weighted-average number of shares - diluted	399	424
Earnings per share - basic	\$ 0.32	\$ 0.57
Earnings per share - diluted	\$ 0.32	\$ 0.56
Cash dividends declared and paid per share	\$ 0.23	\$ 0.23

See Accompanying Notes to Condensed Consolidated Financial Statements

**THE GAP, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**(Unaudited)**

(\$ in millions)	13 Weeks Ended	
	April 30, 2016	May 2, 2015
Net income	\$ 127	\$ 239
Other comprehensive income (loss), net of tax:		
Foreign currency translation	31	6
Change in fair value of derivative financial instruments, net of tax benefit of \$(36) and \$(4)	(89)	(10)
Reclassification adjustment for realized gains on derivative financial instruments, net of tax of \$(4) and \$(9)	(7)	(21)
Other comprehensive loss, net of tax	(65)	(25)
Comprehensive income	\$ 62	\$ 214

See Accompanying Notes to Condensed Consolidated Financial Statements

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

(\$ in millions)	13 Weeks Ended	
	April 30, 2016	May 2, 2015
<b>Cash flows from operating activities:</b>		
Net income	\$ 127	\$ 239
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation and amortization	148	148
Amortization of lease incentives	(16)	(15)
Share-based compensation	15	22
Tax benefit from exercise of stock options and vesting of stock units	(3)	15
Excess tax benefit from exercise of stock options and vesting of stock units	(1)	(17)
Non-cash and other items	(6)	(20)
Deferred income taxes	(9)	2
<b>Changes in operating assets and liabilities:</b>		
Merchandise inventory	(53)	(117)
Other current assets and other long-term assets	9	(8)
Accounts payable	(20)	(20)
Accrued expenses and other current liabilities	(67)	(81)
Income taxes payable, net of prepaid and other tax-related items	46	61
Lease incentives and other long-term liabilities	(2)	2
Net cash provided by operating activities	<u>168</u>	<u>211</u>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(139)	(150)
Other	(1)	—
Net cash used for investing activities	<u>(140)</u>	<u>(150)</u>
<b>Cash flows from financing activities:</b>		
Proceeds from issuances under share-based compensation plans	10	35
Withholding tax payments related to vesting of stock units	(17)	(66)
Repurchases of common stock	—	(232)
Excess tax benefit from exercise of stock options and vesting of stock units	1	17
Cash dividends paid	(91)	(97)
Net cash used for financing activities	<u>(97)</u>	<u>(343)</u>
Effect of foreign exchange rate fluctuations on cash and cash equivalents	12	1
Net decrease in cash and cash equivalents	<u>(57)</u>	<u>(281)</u>
Cash and cash equivalents at beginning of period	1,370	1,515
Cash and cash equivalents at end of period	<u>\$ 1,313</u>	<u>\$ 1,234</u>
<b>Non-cash investing activities:</b>		
Purchases of property and equipment not yet paid at end of period	\$ 61	\$ 85
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for interest during the period	\$ 39	\$ 38
Cash paid for income taxes during the period, net of refunds	\$ 43	\$ 63

See Accompanying Notes to Condensed Consolidated Financial Statements



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

**Note 1. Basis of Presentation**

The Condensed Consolidated Balance Sheets as of April 30, 2016 and May 2, 2015, the Condensed Consolidated Statements of Income, the Condensed Consolidated Statements of Comprehensive Income, and the Condensed Consolidated Statements of Cash Flows for the thirteen weeks ended April 30, 2016 and May 2, 2015 have been prepared by The Gap, Inc. (the “Company,” “we,” and “our”). In the opinion of management, such statements include all adjustments (which include normal recurring adjustments) considered necessary to present fairly our financial position, results of operations, and cash flows as of April 30, 2016 and May 2, 2015 and for all periods presented. The Condensed Consolidated Balance Sheet as of January 30, 2016 has been derived from our audited financial statements.

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission. Accordingly, certain information and disclosures normally included in the notes to the annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been omitted from these interim financial statements, although the Company believes that the disclosures made are adequate to make the information not misleading. We suggest that you read these Condensed Consolidated Financial Statements in conjunction with the Consolidated Financial Statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended January 30, 2016.

The results of operations for the thirteen weeks ended April 30, 2016 are not necessarily indicative of the operating results that may be expected for the 52-week period ending January 28, 2017.

**Subsequent Event**

On May 19, 2016, the Company announced measures to better align talent and financial resources against its most important priorities; these measures are (i) a focus on geographies with the greatest potential and (ii) a streamlining of the Company’s operating model. The measures will result in the closure of its fleet of 53 Old Navy stores in Japan, the closure of select Banana Republic stores, primarily internationally, and the creation of a more efficient global brand structure. Including the Old Navy closures in Japan, the Company expects to close about 75 stores in total related to these measures in fiscal 2016.

The Company expects to recognize pre-tax restructuring costs in fiscal 2016 of about \$300 million, about \$100 million of which is non-cash, from these measures. The Company expects that the charges will include long-term asset and lease-related costs, as well as employee-related costs and inventory impairment.

**Note 2. Recent Accounting Pronouncements**

In May 2014, the Financial Accounting Standards Board (“FASB”) issued an accounting standards update (“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.

In March 2016, the FASB issued ASU No. 2016-08, Revenue from Contracts with Customers: Principal versus Agent Considerations, which is intended to improve the operability and understandability of the implementation guidance on principal versus agent considerations. In April 2016, the FASB issued ASU No. 2016-10, Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing, which clarifies the identification of performance obligations and the licensing implementation guidance. In May 2016, the FASB issued ASU No. 2016-11, Revenue Recognition and Derivatives and Hedging: Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 Emerging Issues Task Force Meeting (“EITF”), which rescinds SEC paragraphs pursuant to SEC staff announcements. These rescissions include changes to topics pertaining to accounting for shipping and handling fees and costs and accounting for consideration given by a vendor to a customer. In May 2016, the FASB issued ASU No. 2016-12, Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedients, which provides clarifying guidance in certain narrow areas and add some practical expedients. The effective dates for these ASU’s are the same as the effective date for ASU No. 2014-09. We are currently assessing the potential impact of these ASU’s on our Condensed 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, which resulted in a reclassification of our net current deferred tax assets to the net noncurrent deferred tax assets in our Consolidated Balance Sheet. 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 Condensed 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 Condensed 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. 2016-09, Compensation - Stock Compensation: Improvements to Employee Share-Based Payment Accounting. The amendments are intended to improve the accounting for employee share-based payments and affect all organizations that issue share-based payment awards to their employees. The ASU is effective for fiscal years and interim periods within those years beginning after December 15, 2016. We are currently assessing the potential impact of this ASU on our Condensed Consolidated Financial Statements.

### Note 3. Debt and Credit Facilities

Long-term debt consists of the following:

(\$ in millions)	April 30, 2016	January 30, 2016	May 2, 2015
Notes	\$ 1,248	\$ 1,248	\$ 1,247
Japan Term Loan	94	83	105
Total long-term debt	1,342	1,331	1,352
Less: Current portion	(24)	(21)	(21)
Total long-term debt, less current portion	<u>\$ 1,318</u>	<u>\$ 1,310</u>	<u>\$ 1,331</u>

As of April 30, 2016, January 30, 2016, and May 2, 2015, the estimated fair value of our \$1.25 billion aggregate principal amount of 5.95 percent notes (the "Notes") due April 2021 was \$1.33 billion, \$1.29 billion, and \$1.43 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 quarter. The aggregate principal amount of the Notes is recorded in long-term debt in the Condensed Consolidated Balance Sheets, net of the unamortized discount.

As of April 30, 2016, January 30, 2016, and May 2, 2015, the carrying amount of our 15 billion Japanese yen, four-year, unsecured term loan ("Japan Term Loan") approximated its fair value, as the interest rate varies depending on quoted market rates (level 1 inputs). Repayments of 2.5 billion Japanese yen (\$24 million as of April 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 (\$70 million as of April 30, 2016) due on January 15, 2018. Interest is payable at least quarterly based on an interest rate equal to the Tokyo Interbank Offered Rate plus a fixed margin.

In October 2015, we 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. As of April 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 plus a fixed margin. The Term Loan is included in current maturities of debt in the Condensed Consolidated Balance Sheet.

We have a \$500 million, five-year, unsecured revolving credit facility (the "Facility"), which is scheduled to expire in May 2020. There were no borrowings and no material outstanding standby letters of credit under the Facility as of April 30, 2016.

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 \$48 million as of April 30, 2016. As of April 30, 2016, there were no borrowings under the Foreign Facilities. There were \$13 million in bank guarantees issued and outstanding primarily related to store leases under the Foreign Facilities as of April 30, 2016.

We have bilateral unsecured standby letter of credit agreements that are uncommitted and do not have expiration dates. As of April 30, 2016, we had \$18 million in standby letters of credit issued under these agreements. We also have a \$50 million, two-year, unsecured committed letter of credit agreement, which expires in September 2016. We had no trade letters of credit issued under this letter of credit agreement as of April 30, 2016.

#### Note 4. Fair Value Measurements

There were no purchases, sales, issuances, or settlements related to recurring level 3 measurements during the thirteen weeks ended April 30, 2016 or May 2, 2015. There were no transfers of financial assets or liabilities into or out of level 1 and level 2 during the thirteen weeks ended April 30, 2016 or May 2, 2015.

#### Financial Assets and Liabilities

Financial assets and liabilities measured at fair value on a recurring basis and cash equivalents are as follows:

		Fair Value Measurements at Reporting Date Using			
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
(\$ in millions)		April 30, 2016			
Assets:					
Cash equivalents	\$	589	\$ 131	\$ 458	\$ —
Derivative financial instruments		18	—	18	—
Deferred compensation plan assets		40	40	—	—
Total	\$	647	\$ 171	\$ 476	\$ —
Liabilities:					
Derivative financial instruments	\$	85	\$ —	\$ 85	\$ —
		Fair Value Measurements at Reporting Date Using			
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
(\$ in millions)		January 30, 2016			
Assets:					
Cash equivalents	\$	517	\$ 204	\$ 313	\$ —
Derivative financial instruments		93	—	93	—
Deferred compensation plan assets		37	37	—	—
Total	\$	647	\$ 241	\$ 406	\$ —
Liabilities:					
Derivative financial instruments	\$	3	\$ —	\$ 3	\$ —
		Fair Value Measurements at Reporting Date Using			
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
(\$ in millions)		May 2, 2015			
Assets:					
Cash equivalents	\$	201	\$ 72	\$ 129	\$ —
Derivative financial instruments		118	—	118	—
Deferred compensation plan assets		45	45	—	—
Total	\$	364	\$ 117	\$ 247	\$ —
Liabilities:					
Derivative financial instruments	\$	13	\$ —	\$ 13	\$ —

We have highly liquid investments classified as cash equivalents, which are placed primarily in time deposits, money market funds, and commercial paper. 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.

Derivative financial instruments primarily include foreign exchange forward contracts. The currencies hedged against changes in the U.S. dollar are Japanese yen, Canadian dollars, British pounds, Euro, Mexican pesos, Chinese yuan, and Taiwan dollars. The fair value of the Company's derivative financial instruments is determined using pricing models based on current market rates. Derivative financial instruments in an asset position are recorded in other current assets or other long-term assets in the Condensed Consolidated Balance Sheets. Derivative financial instruments in a liability position are recorded in accrued expenses and other current liabilities or lease incentives and other long-term liabilities in the Condensed Consolidated Balance Sheets.

We maintain the Gap Inc. Deferred Compensation Plan ("DCP"), which allows eligible employees and non-employee directors to defer compensation up to a maximum amount. Plan investments are recorded at market value and are designated for the DCP. The fair value of the Company's DCP assets is determined based on quoted market prices, and the assets are recorded in other long-term assets in the Condensed Consolidated Balance Sheets.

#### **Nonfinancial 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. 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 it is more likely than not that the carrying amount may not be recoverable.

There were no material impairment charges recorded for goodwill, other indefinite-lived intangible assets, or other long-lived assets for the thirteen weeks ended April 30, 2016 or May 2, 2015.

#### **Note 5. Derivative Financial Instruments**

We operate in foreign countries, which exposes us to market risk associated with foreign currency exchange rate fluctuations. We use derivative financial instruments to manage our exposure to foreign currency exchange rate risk and do not enter into derivative financial contracts for trading purposes. Consistent with our risk management guidelines, we hedge a portion of our transactions related to merchandise purchases for foreign operations and certain intercompany transactions using foreign exchange forward contracts. These contracts are entered into with large, reputable financial institutions that are monitored for counterparty risk. The currencies hedged against changes in the U.S. dollar are Japanese yen, Canadian dollars, British pounds, Euro, Mexican pesos, Chinese yuan, and Taiwan dollars. Cash flows from derivative financial instruments are classified as cash flows from operating activities in the Condensed Consolidated Statements of Cash Flows.

#### **Cash Flow Hedges**

We designate the following foreign exchange forward contracts as cash flow hedges: (1) forward contracts used to hedge forecasted merchandise purchases and related costs denominated in U.S. dollars made by our international subsidiaries whose functional currencies are their local currencies; (2) forward contracts used to hedge forecasted intercompany royalty payments denominated in foreign currencies received by entities whose functional currencies are U.S. dollars; and (3) forward contracts used to hedge forecasted intercompany revenue transactions related to merchandise sold from our regional purchasing entities, whose functional currency is the U.S. dollar, to certain international subsidiaries in their local currencies. The foreign exchange forward contracts entered into to hedge forecasted merchandise purchases and related costs, intercompany royalty payments, and intercompany revenue transactions generally have terms of up to 24 months.

There were no material amounts recorded in the Condensed Consolidated Statements of Income for the thirteen weeks ended April 30, 2016 or May 2, 2015 as a result of our analysis of hedge ineffectiveness, hedge components excluded from the assessment of effectiveness, or the discontinuance of cash flow hedges because the forecasted transactions were no longer probable.

#### **Net Investment Hedges**

We also use foreign exchange forward contracts to hedge the net assets of international subsidiaries to offset the foreign currency translation and economic exposures related to our investment in the subsidiaries.

There were no material amounts recorded in the Condensed Consolidated Statements of Income for the thirteen weeks ended April 30, 2016 or May 2, 2015 as a result of our analysis of hedge ineffectiveness, hedge components excluded from the assessment of effectiveness, or the discontinuance of net investment hedges.

### Other Derivatives Not Designated as Hedging Instruments

We enter into foreign exchange forward contracts to hedge our market risk exposure associated with foreign currency exchange rate fluctuations for certain intercompany balances denominated in currencies other than the functional currency of the entity with the intercompany balance. The gain or loss on the derivative financial instruments that represent economic hedges, as well as the remeasurement impact of the underlying intercompany balances, is recorded in operating expenses in the Condensed Consolidated Statements of Income in the same period and generally offset.

### Outstanding Notional Amounts

We had foreign exchange forward contracts outstanding in the following notional amounts:

(\$ in millions)	April 30, 2016	January 30, 2016	May 2, 2015
Derivatives designated as cash flow hedges	\$ 1,441	\$ 1,220	\$ 1,687
Derivatives designated as net investment hedges	32	30	33
Derivatives not designated as hedging instruments	422	324	293
Total	<u>\$ 1,895</u>	<u>\$ 1,574</u>	<u>\$ 2,013</u>

### Quantitative Disclosures about Derivative Financial Instruments

The fair values of foreign exchange forward contracts are as follows:

(\$ in millions)	April 30, 2016	January 30, 2016	May 2, 2015
Derivatives designated as cash flow hedges:			
Other current assets	\$ 15	\$ 71	\$ 89
Other long-term assets	\$ 2	\$ 8	\$ 19
Accrued expenses and other current liabilities	\$ 37	\$ 1	\$ 3
Lease incentives and other long-term liabilities	\$ 29	\$ 1	\$ 8
Derivatives designated as net investment hedges:			
Other current assets	\$ —	\$ 1	\$ —
Other long-term assets	\$ —	\$ —	\$ —
Accrued expenses and other current liabilities	\$ —	\$ —	\$ —
Lease incentives and other long-term liabilities	\$ —	\$ —	\$ —
Derivatives not designated as hedging instruments:			
Other current assets	\$ 1	\$ 13	\$ 10
Other long-term assets	\$ —	\$ —	\$ —
Accrued expenses and other current liabilities	\$ 19	\$ 1	\$ 2
Lease incentives and other long-term liabilities	\$ —	\$ —	\$ —
Total derivatives in an asset position	<u>\$ 18</u>	<u>\$ 93</u>	<u>\$ 118</u>
Total derivatives in a liability position	<u>\$ 85</u>	<u>\$ 3</u>	<u>\$ 13</u>

The majority of the unrealized gains and losses from designated cash flow hedges as of April 30, 2016 will be recognized in income within the next 12 months at the then-current values, which may differ from the fair values as of April 30, 2016 shown above.

Our foreign exchange forward contracts are subject to master netting arrangements with each of our counterparties and such arrangements are enforceable in the event of default or early termination of the contract. We do not elect to offset the fair values of our derivative financial instruments in the Condensed Consolidated Balance Sheets, and as such, the fair values shown above represent gross amounts. The amounts subject to enforceable master netting arrangements are \$9 million, \$2 million, and \$11 million as of April 30, 2016, January 30, 2016, and May 2, 2015, respectively. If we did elect to offset, the net amounts of our derivative financial instruments in an asset position would be \$9 million, \$91 million, and \$107 million and the net amounts of the derivative financial instruments in a liability position would be \$76 million, \$1 million, and \$2 million as of April 30, 2016, January 30, 2016 and May 2, 2015, respectively.

See Note 4 of Notes to Condensed Consolidated Financial Statements for disclosures on the fair value measurements of our derivative financial instruments.

The effective portion of gains and losses on foreign exchange forward contracts in cash flow hedging and net investment hedging relationships recorded in other comprehensive income and the Condensed Consolidated Statements of Income, on a pre-tax basis, are as follows:

(\$ in millions)	13 Weeks Ended	
	April 30, 2016	May 2, 2015
Derivatives in cash flow hedging relationships:		
Loss recognized in other comprehensive income	\$ (125)	\$ (14)
Gain reclassified into cost of goods sold and occupancy expenses	\$ 13	\$ 28
Gain (loss) reclassified into operating expenses	\$ (2)	\$ 2
Derivatives in net investment hedging relationships:		
Loss recognized in other comprehensive income	\$ (3)	\$ (1)

For the thirteen weeks ended April 30, 2016 and May 2, 2015, there were no amounts of gain or loss reclassified from accumulated other comprehensive income into net income for derivative financial instruments in net investment hedging relationships, as we did not sell or liquidate (or substantially liquidate) any of our hedged subsidiaries during the periods.

Gains and losses on foreign exchange forward contracts not designated as hedging instruments recorded in the Condensed Consolidated Statements of Income, on a pre-tax basis, are as follows:

(\$ in millions)	13 Weeks Ended	
	April 30, 2016	May 2, 2015
Loss recognized in operating expenses	\$ (27)	\$ —

#### Note 6. Share Repurchases

Share repurchase activity is as follows:

(\$ and shares in millions except average per share cost)	13 Weeks Ended	
	April 30, 2016	May 2, 2015
Number of shares repurchased	—	5.6
Total cost	\$ —	\$ 230
Average per share cost including commissions	\$ —	\$ 41.01

In October 2014, we announced that the Board of Directors approved a \$500 million share repurchase authorization, all of which was completed by the end of May 2015. In February 2015, we announced that the Board of Directors approved a \$1.0 billion share repurchase authorization (the "February 2015 repurchase program"). In February 2016, we announced that the Board of Directors approved a new \$1.0 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. The February 2016 repurchase program still had \$1.0 billion remaining as of April 30, 2016, as there were no shares repurchased during the thirteen weeks ended April 30, 2016.

All except \$13 million of the total share repurchases were paid for as of May 2, 2015. All of the share repurchases were paid for as of January 30, 2016. All common stock repurchased is immediately retired.

**Note 7. Share-Based Compensation**

Share-based compensation expense recognized in the Condensed Consolidated Statements of Income, primarily in operating expenses, is as follows:

(\$ in millions)	13 Weeks Ended	
	April 30, 2016	May 2, 2015
Stock units	\$ 12	\$ 18
Stock options	2	3
Employee stock purchase plan	1	1
Share-based compensation expense	15	22
Less: Income tax benefit	(6)	(8)
Share-based compensation expense, net of tax	<u>\$ 9</u>	<u>\$ 14</u>

**Note 8. Accumulated Other Comprehensive Income**

Changes in accumulated other comprehensive income by component, net of tax, are as follows:

(\$ in millions)	Foreign Currency Translation	Cash Flow Hedges	Total
Balance at January 30, 2016	\$ 22	\$ 63	\$ 85
Foreign currency translation	31	—	31
Change in fair value of derivative financial instruments	—	(89)	(89)
Amounts reclassified from accumulated other comprehensive income	—	(7)	(7)
Other comprehensive income (loss), net	31	(96)	(65)
Balance at April 30, 2016	<u>\$ 53</u>	<u>\$ (33)</u>	<u>\$ 20</u>

(\$ in millions)	Foreign Currency Translation	Cash Flow Hedges	Total
Balance at January 31, 2015	\$ 60	\$ 105	\$ 165
Foreign currency translation	6	—	6
Change in fair value of derivative financial instruments	—	(10)	(10)
Amounts reclassified from accumulated other comprehensive income	—	(21)	(21)
Other comprehensive income (loss), net	6	(31)	(25)
Balance at May 2, 2015	<u>\$ 66</u>	<u>\$ 74</u>	<u>\$ 140</u>

See Note 5 of Notes to Condensed Consolidated Financial Statements for additional disclosures about reclassifications out of accumulated other comprehensive income and their corresponding effects on the respective line items in the Condensed Consolidated Statements of Income.

**Note 9. Income Taxes**

The Company conducts business globally, and as a result, files income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. In the normal course of business, we are subject to examination by taxing authorities throughout the world, including such major jurisdictions as the United States, Canada, France, the United Kingdom, China, Hong Kong, Japan, and India. We are no longer subject to U.S. federal income tax examinations for fiscal years before 2009, and with few exceptions, we are also no longer subject to U.S. state, local, or non-U.S. income tax examinations for fiscal years before 2008.

The Company engages in continual discussions with taxing authorities regarding tax matters in the various U.S. and foreign jurisdictions in the normal course of business. As of April 30, 2016, it is reasonably possible that we will recognize a decrease in gross unrecognized tax benefits within the next 12 months of up to \$3 million, primarily due to the closing of audits. If we do recognize such a decrease, the net impact on the Condensed Consolidated Statement of Income would not be material.

**Note 10. Earnings Per Share**

Weighted-average number of shares used for earnings per share is as follows:

(shares in millions)	13 Weeks Ended	
	April 30, 2016	May 2, 2015
Weighted-average number of shares - basic	398	421
Common stock equivalents	1	3
Weighted-average number of shares - diluted	399	424

The above computations of weighted-average number of shares – diluted exclude 7 million and 2 million shares related to stock options and other stock awards for the thirteen weeks ended April 30, 2016 and May 2, 2015, respectively, as their inclusion would have an anti-dilutive effect on earnings per share.

**Note 11. Commitments and Contingencies**

We are a party to a variety of contractual agreements under which we may be obligated to indemnify the other party for certain matters. These contracts primarily relate to our commercial contracts, operating leases, trademarks, intellectual property, financial agreements, and various other agreements. Under these contracts, we may provide certain routine indemnifications relating to representations and warranties (e.g., ownership of assets, environmental or tax indemnifications) or personal injury matters. The terms of these indemnifications range in duration and may not be explicitly defined. Generally, the maximum obligation under such indemnifications is not explicitly stated, and as a result, the overall amount of these obligations cannot be reasonably estimated. Historically, we have not made significant payments for these indemnifications. We believe that if we were to incur a loss in any of these matters, the loss would not have a material effect on our Condensed Consolidated Financial Statements taken as a whole.

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. As of April 30, 2016, Actions filed against us included 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. As of April 30, 2016, January 30, 2016, and May 2, 2015, we recorded a liability for an estimated loss if the outcome of an Action is expected to result in a loss that is considered probable and reasonably estimable. The liability recorded as of April 30, 2016, January 30, 2016, and May 2, 2015 was not material for any individual Action or in total. Subsequent to April 30, 2016 and through the filing date of this Quarterly Report on Form 10-Q, no information has become available that indicates a change is required that would be material to our Condensed Consolidated Financial Statements taken as a whole.

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. However, we do not believe that the outcome of any current Action would have a material effect on our Condensed Consolidated Financial Statements taken as a whole.

**Note 12. Segment Information**

The Gap, Inc. is a global retailer that sells apparel, accessories, and personal care products under the Gap, Old Navy, Banana Republic, Athleta, and Intermix brands. We identify our operating segments according to how our business activities are managed and evaluated. As of April 30, 2016, our operating segments included Gap Global, Old Navy Global, Banana Republic Global, Athleta, and Intermix. The operating results for the thirteen weeks ended May 2, 2015 also include Piperlime, which was discontinued as of the first quarter of fiscal 2015. 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 of April 30, 2016.



Net sales by brand and region are as follows:

<b>(\$ in millions)</b>						
<b>13 Weeks Ended April 30, 2016</b>	<b>Gap Global</b>	<b>Old Navy Global</b>	<b>Banana Republic Global</b>	<b>Other (2)</b>	<b>Total</b>	<b>Percentage of Net Sales</b>
U.S. (1)	\$ 698	\$ 1,328	\$ 454	\$ 178	\$ 2,658	77%
Canada	70	98	47	1	216	6
Europe	144	—	14	—	158	5
Asia	280	50	26	—	356	11
Other regions	31	10	9	—	50	1
<b>Total</b>	<b>\$ 1,223</b>	<b>\$ 1,486</b>	<b>\$ 550</b>	<b>\$ 179</b>	<b>\$ 3,438</b>	<b>100%</b>
Sales growth (decline)	(6)%	(4)%	(11)%	2 %	(6)%	

<b>(\$ in millions)</b>						
<b>13 Weeks Ended May 2, 2015</b>	<b>Gap Global</b>	<b>Old Navy Global</b>	<b>Banana Republic Global</b>	<b>Other (3)</b>	<b>Total</b>	<b>Percentage of Net Sales</b>
U.S. (1)	\$ 735	\$ 1,403	\$ 515	\$ 175	\$ 2,828	77%
Canada	69	102	52	1	224	6
Europe	164	—	17	—	181	5
Asia	285	43	27	—	355	10
Other regions	55	4	10	—	69	2
<b>Total</b>	<b>\$ 1,308</b>	<b>\$ 1,552</b>	<b>\$ 621</b>	<b>\$ 176</b>	<b>\$ 3,657</b>	<b>100%</b>
Sales growth (decline)	(9)%	5 %	(7)%	(4)%	(3)%	

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

(2) Includes Athleta and Intermix.

(3) Includes Athleta, Intermix, and Piperlime.

Net sales by region are allocated based on the location in which the sale originated. This is determined based on the location of the store where the customer paid for and received the merchandise or the distribution center or store from which the products were shipped.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

### OUR BUSINESS

We are a global retailer offering apparel, accessories, and personal care products for men, women, and children under the Gap, Old Navy, Banana Republic, 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. 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. 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. 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.

### OVERVIEW

In fiscal 2016, our objective is to improve sales performance through a more consistent, on-trend product offering and a compelling customer experience in stores and online. To enable this, we have several product and supply chain initiatives underway. Further, we expect to continue our investment in our mobile digital capabilities to enhance our shopping experience for our customers.

Trends in the apparel retail environment have been challenging, and the change in our business trajectory is not happening at the desired pace. On May 19, 2016, we announced measures to better align talent and financial resources against our most important priorities to position the Company for improved business performance and long-term success.

Our aim is to recapture market share in North America, where we have our largest and home market structural advantages, and to focus on international regions with the greatest potential. As part of this effort, Old Navy will wind down its operations in Japan, resulting in the closure of its fleet of 53 stores. The brand's near-term growth ambitions will be anchored in North America, including its most recent debut of Company-operated stores in Mexico, as well as China and its global franchise operations. Japan remains an important market for the Company's portfolio, with a continued strong presence of more than 200 Gap and Banana Republic stores. Additionally, the Company expects to close select dilutive Banana Republic stores, primarily internationally. Including the Old Navy closures in Japan, the Company expects to close about 75 stores in total related to these measures in fiscal 2016.

We also intend to create a more efficient operating model, enabling us to more fully leverage our scale.

The Company estimates that the store closures and the changes to the operating model will result in annualized pre-tax savings of about \$275 million. The Company estimates an annualized sales loss of about \$250 million associated with the store closures and expects to recognize pre-tax restructuring costs in fiscal 2016 of about \$300 million, about \$100 million of which is non-cash, from the store closures and operating model changes. The Company expects that the charges will include long-term asset and lease-related costs, as well as employee-related costs and inventory impairment.

Financial results for the first quarter of fiscal 2016 are as follows:

- Net sales for the first quarter of fiscal 2016 decreased 6 percent compared with the first quarter of fiscal 2015.
- Comparable sales for the first quarter of fiscal 2016 decreased 5 percent compared with a 4 percent decrease for the first quarter of fiscal 2015.
- Operating margin for the first quarter of fiscal 2016 was 6.5 percent compared with 10.6 percent for the first quarter of fiscal 2015. Operating margin is defined as operating income as a percentage of net sales.
- Net income for the first quarter of fiscal 2016 was \$127 million compared with \$239 million for the first quarter of fiscal 2015, and diluted earnings per share was \$0.32 for the first quarter of fiscal 2016 compared with \$0.56 for the first quarter of fiscal 2015.
- During the first quarter of fiscal 2016, we distributed \$91 million to shareholders through dividends.

We expect that foreign exchange rate fluctuations will continue to have a meaningful negative impact on our results in fiscal 2016, primarily in gross margin. Our merchandise purchases are primarily in U.S. dollars, which can have a negative impact on gross margins for our largest foreign subsidiaries.

Fiscal 2015 results were impacted by a series of strategic actions to position Gap brand for improved business performance in the future, including right-sizing the Gap brand store fleet primarily in North America, streamlining the brand's headquarter workforce, and developing a clear, on-brand product aesthetic framework to strengthen the Gap brand to compete more successfully on the global stage. During fiscal 2015, the Company completed the closure of about 150 Gap global specialty stores related to the strategic actions.

The Company also incurred certain charges during fiscal 2015, primarily in the second quarter, 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.

## RESULTS OF OPERATIONS

### Net Sales

See Note 12 of Notes to Condensed Consolidated Financial Statements included in Part I, Item 1 in this Form 10-Q, for net sales by brand and region.

### Comparable Sales

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

	13 Weeks Ended	
	April 30, 2016	May 2, 2015
Gap Global	(3)%	(10)%
Old Navy Global	(6)%	3 %
Banana Republic Global	(11)%	(8)%
The Gap, Inc.	(5)%	(4)%

Comp sales include the results of Company-operated stores and sales through online channels in those countries where we have existing Comp store 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.

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:

	13 Weeks Ended	
	April 30, 2016	May 2, 2015
Net sales per average square foot (1)	\$ 74	\$ 78

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

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

	January 30, 2016	13 Weeks Ended April 30, 2016		April 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	866	2	6	862	9.0
Gap Asia	305	7	—	312	3.1
Gap Europe	175	1	3	173	1.4
Old Navy North America	1,030	2	3	1,029	17.3
Old Navy Asia	65	4	—	69	1.0
Banana Republic North America	612	—	5	607	5.1
Banana Republic Asia	51	—	—	51	0.2
Banana Republic Europe	10	—	—	10	0.1
Athleta North America	120	2	—	122	0.5
Intermix North America	41	—	—	41	0.1
Company-operated stores total	3,275	18	17	3,276	37.8
Franchise	446	21	16	451	N/A
Total	3,721	39	33	3,727	37.8
Decrease over prior year				(0.6)%	(1.3)%

  

	January 31, 2015	13 Weeks Ended May 2, 2015		May 2, 2015	
	Number of Store Locations	Number of Stores Opened	Number of Stores Closed	Number of Store Locations	Square Footage (in millions)
Gap North America	960	10	7	963	10.1
Gap Asia	266	15	—	281	2.8
Gap Europe	189	1	2	188	1.6
Old Navy North America	1,013	4	7	1,010	17.1
Old Navy Asia	43	7	—	50	0.8
Banana Republic North America	610	6	4	612	5.1
Banana Republic Asia	44	2	—	46	0.2
Banana Republic Europe	11	—	—	11	0.1
Athleta North America	101	4	—	105	0.4
Intermix North America	42	1	—	43	0.1
Piperlime North America	1	—	1	—	—
Company-operated stores total	3,280	50	21	3,309	38.3
Franchise	429	14	3	440	N/A
Total	3,709	64	24	3,749	38.3
Increase over prior year				5.2 %	3.0 %

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

#### Net Sales

Our net sales for the first quarter of fiscal 2016 decreased \$219 million, or 6 percent, compared with the first quarter of fiscal 2015 driven by a decrease in net sales at Gap, Old Navy, and Banana Republic, primarily in the United States, as well as an unfavorable impact of foreign exchange of \$21 million. The unfavorable impact of foreign exchange was primarily due to the weakening of the Canadian dollar and British pound against the U.S. dollar. The foreign exchange impact is the translation impact if net sales for the first quarter of fiscal 2015 were translated at exchange rates applicable during the first quarter of fiscal 2016.

## Cost of Goods Sold and Occupancy Expenses

(\$ in millions)	13 Weeks Ended	
	April 30, 2016	May 2, 2015
Cost of goods sold and occupancy expenses	\$ 2,229	\$ 2,275
Gross profit	\$ 1,209	\$ 1,382
Cost of goods sold and occupancy expenses as a percentage of net sales	64.8%	62.2%
Gross margin	35.2%	37.8%

Cost of goods sold and occupancy expenses increased 2.6 percentage points in the first quarter of fiscal 2016 compared with the first quarter of fiscal 2015.

- Cost of goods sold increased 1.7 percent as a percentage of net sales in the first quarter of fiscal 2016 compared with the first quarter of fiscal 2015 primarily driven by increased markdown activities at Old Navy and Banana Republic.
- Occupancy expenses increased 0.9 percentage points in the first quarter of fiscal 2016 compared with the first quarter of fiscal 2015, primarily driven by the decrease in net sales without a corresponding decrease in occupancy expenses.

## Operating Expenses

(\$ in millions)	13 Weeks Ended	
	April 30, 2016	May 2, 2015
Operating expenses	\$ 987	\$ 996
Operating expenses as a percentage of net sales	28.7%	27.2%
Operating margin	6.5%	10.6%

Operating expenses decreased \$9 million, but increased 1.5 percent as a percentage of net sales, in the first quarter of fiscal 2016 compared with the first quarter of fiscal 2015. The decrease in operating expenses was primarily due to an increase in income related to our credit card program agreement.

## Interest Expense

(\$ in millions)	13 Weeks Ended	
	April 30, 2016	May 2, 2015
Interest expense	\$ 19	\$ 5

Interest expense for the first quarter of fiscal 2016 primarily consists of interest on overall borrowings and obligations mainly related to our \$1.25 billion 5.95 percent Notes.

Interest expense for the first quarter of fiscal 2015 includes \$19 million of interest on overall borrowings and other obligations mainly related to our \$1.25 billion 5.95 percent Notes, partially offset by a reversal of approximately \$14 million of tax-related interest expense primarily resulting from a favorable foreign tax ruling and actions of foreign tax authorities related to transfer pricing matters.

## Income Taxes

(\$ in millions)	13 Weeks Ended	
	April 30, 2016	May 2, 2015
Income taxes	\$ 77	\$ 143
Effective tax rate	37.7%	37.4%

The increase in the effective tax rate for the first quarter of fiscal 2016 compared with the first quarter of fiscal 2015 was primarily due to changes in the mix of pre-tax income between our domestic and international operations.

## 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, purchases of property and equipment, payment of taxes, dividends, and share repurchases. As of April 30, 2016, cash and cash equivalents were \$1.3 billion. As of April 30, 2016, over half of our cash and cash equivalents were held in the United States and are generally accessible without any limitations.

We believe that current cash balances and cash flows from our operations will be sufficient to support our business operations, including growth initiatives and planned capital expenditures, 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 the first quarter of fiscal 2016 decreased \$43 million compared with the first quarter of fiscal 2015, primarily due to the following:

- a decrease of \$112 million in net income; partially offset by
- an increase of \$64 million related to merchandise inventory, primarily due to the volume and timing of receipts.

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 the first quarter of fiscal 2016 decreased \$10 million compared with the first quarter of fiscal 2015, primarily due to \$11 million less property and equipment purchases.

#### Cash Flows from Financing Activities

Net cash used for financing activities during the first quarter of fiscal 2016 decreased \$246 million compared with the first quarter of fiscal 2015, primarily due to the following:

- No repurchases of common stock in the first quarter of fiscal 2016 compared with \$232 million cash outflows related to repurchases of common stock in the first quarter of fiscal 2015; and
- \$24 million less net cash outflows 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 results.

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

(\$ in millions)	13 Weeks Ended	
	April 30, 2016	May 2, 2015
Net cash provided by operating activities	\$ 168	\$ 211
Less: Purchases of property and equipment	(139)	(150)
Free cash flow	\$ 29	\$ 61

#### Debt and Credit Facilities

Certain financial information about the Company's debt and credit facilities is set forth under the heading "Debt and Credit Facilities" in Note 3 of Notes to Condensed Consolidated Financial Statements included in Part I, Item 1 of this Form 10-Q.

#### 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 paid a dividend of \$0.23 per share during both the first quarters of fiscal 2016 and fiscal 2015. Including the dividend paid during the first quarter of fiscal 2016, we intend to pay an annual dividend of \$0.92 per share for fiscal 2016, consistent with the annual dividend for fiscal 2015.

#### Share Repurchases

Certain financial information about the Company's share repurchases is set forth under the heading "Share Repurchases" in Note 6 of Notes to Condensed Consolidated Financial Statements included in Part I, Item 1 of this Form 10-Q.

**Summary Disclosures about Contractual Cash Obligations and Commercial Commitments**

There have been no material changes to our contractual obligations and commercial commitments as disclosed in our Annual Report on Form 10-K as of January 30, 2016, other than those which occur in the normal course of business. See Note 11 of Notes to Condensed Consolidated Financial Statements included in Part I, Item 1 of this Form 10-Q, for disclosures on commitments and contingencies.

**Critical Accounting Policies and Estimates**

There have been no significant changes to our critical accounting policies and estimates as discussed in our Annual Report on Form 10-K for the fiscal year ended January 30, 2016.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

Our market risk profile as of April 30, 2016 has not significantly changed since January 30, 2016. Our market risk profile as of January 30, 2016 is disclosed in our Annual Report on Form 10-K. See Notes 3, 4, and 5 of Notes to Condensed Consolidated Financial Statements included in Part I, Item 1, of this Form 10-Q, for disclosures on our debt, investments, and derivative financial instruments.

**Item 4. Controls and Procedures.****Evaluation of Disclosure Controls and Procedures**

We carried out an evaluation, under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective.

**Changes in Internal Control over Financial Reporting**

There was no change in the Company's internal control over financial reporting that occurred during the Company's first quarter of fiscal 2016 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II – OTHER INFORMATION

### Item 1. Legal Proceedings.

As a multinational company, we are subject to various proceedings, lawsuits, disputes, and claims 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. However, we do not believe that the outcome of any current Action would have a material effect on our financial results.

### Item 1A. Risk Factors.

There have been no material changes in our risk factors from those disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended January 30, 2016 except as follows:

#### 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 the first quarter of fiscal 2016 with \$1.3 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.

On May 11, 2016, Fitch Ratings downgraded their credit rating of us from BBB- negative outlook to BB+ stable outlook. On May 19, 2016, Standard & Poor's Rating Services downgraded their credit rating of us from BBB- negative outlook to BB+ stable outlook. These downgrades, and any future reduction in our long-term senior unsecured credit ratings, could result in reduced access to the credit and capital markets, more restrictive financial covenants in future financing documents 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 our Form 10-K for the fiscal year ended January 30, 2016, and "Debt and Credit Facilities" in Note 3 of Notes to Condensed Consolidated Financial Statements included in Part I, Item 1 of this Form 10-Q.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

The following table presents information with respect to purchases of common stock of the Company made during the thirteen weeks ended April 30, 2016 by The Gap, Inc. or any affiliated purchaser, as defined in Exchange Act Rule 10b-18(a)(3). There were no shares repurchased during the period.

	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 (January 31 - February 27)	—	\$ —	—	\$ 1,000 million
Month #2 (February 28 - April 2)	—	\$ —	—	\$ 1,000 million
Month #3 (April 3 - April 30)	—	\$ —	—	\$ 1,000 million
Total	—	\$ —	—	

(1) On February 26, 2015, we announced that the Board of Directors approved a \$1 billion share repurchase authorization. On February 25, 2016, we announced that the Board of Directors approved a new \$1 billion share repurchase authorization. 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. Exhibits.**

- 10.1 Fourth Amendment to Amended and Restated Consumer Credit Card Program Agreement by and among the Registrant, Gap (Puerto Rico), Inc., GPS Consumer Direct, Inc., Gap (Apparel), LLC, Gap (ITM) Inc., Synchrony Bank (f/k/a GE Capital Retail Bank) and Synchrony Financial, dated as of April 29, 2016. (1) (2)
- 10.2 Deferred Compensation Plan, amended and restated effective March 24, 2016. (2)
- 10.3 Agreement with Julie Gruber dated February 1, 2016 and confirmed on February 4, 2016. (2)
- 10.4 Agreement with Sonia Syngal dated April 11, 2016 and confirmed on April 11, 2016, filed as Exhibit 10.1 to Registrant's Form 8-K on April 13, 2016.
- 10.5 Form of Non-Qualified Stock Option Agreement under the 2011 Long-Term Incentive Plan, filed as Exhibit 10.60 to Registrant's Form 10-K for the year ended January 30, 2016.
- 10.6 Form of Performance Share Agreement under the 2011 Long-Term Incentive Plan, filed as Exhibit 10.69 to Registrant's Form 10-K for the year ended January 30, 2016.
- 10.7 Form of Restricted Stock Unit Award Agreement under the 2011 Long-Term Incentive Plan, filed as Exhibit 10.75 to Registrant's Form 10-K for the year ended January 30, 2016.
- 10.8 Form of Director Stock Unit Agreement and Stock Unit Deferral Election Form under the 2011 Long-Term Incentive Plan, filed as Exhibit 10.79 to Registrant's Form 10-K for the year ended January 30, 2016.
- 31.1 Rule 13a-14(a)/15d-14(a) Certification of the Chief Executive Officer of The Gap, Inc. (Section 302 of the Sarbanes-Oxley Act of 2002). (2)
- 31.2 Rule 13a-14(a)/15d-14(a) Certification of the Chief Financial Officer of The Gap, Inc. (Section 302 of the Sarbanes-Oxley Act of 2002). (2)
- 32.1 Certification of the Chief Executive Officer of The Gap, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (3)
- 32.2 Certification of the Chief Financial Officer of The Gap, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (3)
- 101 The following materials from The Gap, Inc.'s Quarterly Report on Form 10-Q for the quarter ended April 30, 2016, formatted in XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Income, (iii) the Condensed Consolidated Statements of Comprehensive Income, (iv) the Condensed Consolidated Statements of Cash Flows, and (v) Notes to Condensed Consolidated Financial Statements. (2)

(1) Pursuant to a request for confidential treatment, confidential portions of this Exhibit have been redacted and have been filed separately with the Securities and Exchange Commission.

(2) Filed herewith.

(3) Furnished herewith.

**SIGNATURES**

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

THE GAP, INC.

Date: June 3, 2016

By /s/ Arthur Peck

Arthur Peck  
Chief Executive Officer

Date: June 3, 2016

By /s/ Sabrina L. Simmons

Sabrina L. Simmons  
Executive Vice President and Chief Financial Officer

## Exhibit Index

- 10.1 Fourth Amendment to Amended and Restated Consumer Credit Card Program Agreement by and among the Registrant, Gap (Puerto Rico), Inc., GPS Consumer Direct, Inc., Gap (Apparel), LLC, Gap (ITM) Inc., Synchrony Bank (f/k/a GE Capital Retail Bank) and Synchrony Financial, dated as of April 29, 2016. (1) (2)
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(1) Pursuant to a request for confidential treatment, confidential portions of this Exhibit have been redacted and have been filed separately with the Securities and Exchange Commission.

(2) Filed herewith.

(3) Furnished herewith.

**EXPLANATORY NOTE**

ON APRIL 29, 2016, SYNCHRONY BANK (F/K/A GE CAPITAL RETAIL BANK) AND SYNCHRONY FINANCIAL (“SYNCHRONY ENTITIES”) ENTERED INTO THE FOURTH AMENDMENT TO THE AMENDED AND RESTATED CONSUMER CREDIT CARD PROGRAM AGREEMENT BY AND AMONG THE GAP, INC. (THE “COMPANY”), GAP (PUERTO RICO), INC., GPS CONSUMER DIRECT, INC., GAP (APPAREL), LLC, GAP (ITM) INC., AND THE SYNCHRONY ENTITIES, WHICH IS ATTACHED HERETO. THE SYNCHRONY ENTITIES ALSO ENTERED INTO THREE OTHER AGREEMENTS WITH CERTAIN OF THE COMPANY’S WHOLLY-OWNED SUBSIDIARIES ON THE SAME DAY:

1. THE FOURTH AMENDMENT TO THE AMENDED AND RESTATED CONSUMER CREDIT CARD PROGRAM AGREEMENT BY AND AMONG THE GAP, INC., OLD NAVY, LLC, GAP (PUERTO RICO), INC., GPS CONSUMER DIRECT, INC., OLD NAVY (APPAREL), LLC, AND OLD NAVY (ITM) INC. AND THE SYNCHRONY ENTITIES (THE “OLD NAVY CONTRACT”);
2. THE FOURTH AMENDMENT AMENDED AND RESTATED CONSUMER CREDIT CARD PROGRAM AGREEMENT BY AND AMONG THE GAP, INC., BANANA REPUBLIC, LLC, GAP (PUERTO RICO), INC., GPS CONSUMER DIRECT, INC., BANANA REPUBLIC (APPAREL), LLC, BANANA REPUBLIC (ITM) INC., AND THE SYNCHRONY ENTITIES (THE “BANANA REPUBLIC CONTRACT”); AND
3. THE FOURTH AMENDMENT AMENDED AND RESTATED CONSUMER CREDIT CARD PROGRAM AGREEMENT BY AND AMONG THE GAP, INC., ATHLETA INC., ATHLETA LLC, ATHLETA (ITM) INC. AND GPS CONSUMER DIRECT, INC. AND THE SYNCHRONY ENTITIES (THE “ATHLETA CONTRACT”).

IN ACCORDANCE WITH INSTRUCTION 2 TO ITEM 601 OF REGULATION S-K, ONLY THE FOURTH AMENDMENT TO THE AMENDED AND RESTATED CONSUMER CREDIT CARD PROGRAM AGREEMENT BY AND BETWEEN THE COMPANY AND THE SYNCHRONY ENTITIES IS BEING FILED. THE ONLY MATERIAL DIFFERENCE BETWEEN THE ATTACHED AGREEMENT, THE OLD NAVY CONTRACT, THE BANANA REPUBLIC CONTRACT AND THE ATHLETA CONTRACT IS THE PARTIES THERETO.

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**FOURTH AMENDMENT TO  
AMENDED AND RESTATED CONSUMER CREDIT CARD  
PROGRAM AGREEMENT**

This Fourth Amendment to the Amended and Restated Consumer Credit Card Program Agreement, dated as of April 29, 2016 (the "Amendment") amends that certain Amended and Restated Consumer Credit Card Program Agreement dated as of February 28, 2014 (as amended, modified and supplemented from time to time, the "Agreement") by and among Synchrony Bank (f/k/a GE Capital Retail Bank), a federal savings bank ("Bank"), Synchrony Financial, a Delaware corporation ("Bank Parent"), The Gap, Inc., a Delaware corporation ("The Gap, Inc."), Gap (Puerto Rico), Inc., a Puerto Rico corporation, GPS Consumer Direct, Inc., a California corporation, Gap (Apparel), LLC, a California limited liability company, and Gap (ITM) Inc., a California corporation (jointly and severally, the "Retailers"). Capitalized terms used herein and not otherwise defined have the meaning given in the Agreement.

WHEREAS, Bank and Retailers are parties to the Agreement, pursuant to which Bank provides consumer credit to qualified customers of Retailers for the purchase of goods and services from Retailers through the use of a private label credit card and from Retailers and other retailers through the use of a co-branded bankcard;

WHEREAS, the parties hereto desire to amend the Agreement as set forth herein;

NOW, THEREFORE, in consideration of the mutual promises and subject to the terms and conditions hereinafter set forth, the parties hereby agree as follows:

**I. AMENDMENT TO THE AGREEMENT**

**1.1 Amendment to Section 3.01(b).** Section 3.01(b) is deleted and replaced with the following:  
**(b)** Bank shall be responsible for: (i) the costs of [\*\*\*].

**1.2 Amendment to Section 3.07(k).** Section 3.07(k) is deleted and replaced with the following:  
**(k)** [\*\*\*]

**1.3 Addition of new Section 4.07.** A new Section 4.07 will be added to the agreement as follows:

**Section 4.07 eQuickscreen.**

(a) In addition to the new Cardholder account establishment procedures outlined in [\*\*\*] of the Agreement, for customers of Retailers shopping on an Internet Site the parties agree to the following "eQuickscreen" process: (i) when a customer of Retailers [\*\*\*] is recognized on the Internet Site, based on [\*\*\*] to

**In this document, "[\*\*\*]" indicates that confidential materials have been redacted from this document and filed separately with the Securities and Exchange Commission.**

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by the parties, Retailers will send [\*\*\*] to Bank, including at a minimum, [\*\*\*], (ii) Bank will obtain [\*\*\*] such information as Bank deems necessary to determine if the [\*\*\*], (iii) if Bank notifies Retailers that the [\*\*\*], (iv) Retailers will host the [\*\*\*] and, in such case, Retailers will provide a real-time notification to the [\*\*\*] of such [\*\*\*], and (v) [\*\*\*]. Retailers will present [\*\*\*] for [\*\*\*] through the Internet Site in a clear and visible manner to [\*\*\*] Bank's then current policies, unless otherwise agreed to by the parties in writing, but in any event within any time frame required by Applicable Law.

(b) Retailers and Bank will develop, implement and maintain web service interfaces according to mutually agreed specifications to enable the eQuickscreen process (and any changes or modifications to such specifications must be mutually agreed to as well; provided that Bank will have the right to direct such changes, after consultation with Retailers, as are necessary to comply with Applicable Law). The parties agree at a minimum to the following:

(i) Disclosures. Bank will be solely responsible for providing all terms, conditions, disclosures and notices required by Applicable Law to be included in the eQuickscreen process ("Disclosures"). As the [\*\*\*], Retailers will make the Disclosures available to each Retailer Customer on the eQuickscreen acceptance page in the order and as directed by Bank by pulling the Disclosures from a Bank maintained site. Bank will (1) ensure all Disclosures comply with Applicable Law, (2) maintain such Disclosures on a Bank-maintained site, and (3) make them available to Retailers to pull into the eQuickscreen user experience presented on the applicable page of the Internet Site. [\*\*\*].

(ii) eQuickscreen Content. Bank and Retailers will jointly approve the initial eQuickscreen user experience prior to making it available through an Internet Site, and will jointly agree on the pages of the Internet Site on which such eQuickscreen user experience will be presented. [\*\*\*].

Bank may, from time to time, provide Retailers with a written request for Retailers to change or supplement the eQuickscreen Content. Retailers will implement any change or addition to the eQuickscreen Content requested by Bank as follows:

- A. During [\*\*\*], no changes will be made unless the parties otherwise agree;
- B. During [\*\*\*], if required by Applicable Law, then as soon as reasonably practicable taking into account the effective date of changes required by Applicable Law, [\*\*\*] (unless the parties otherwise agree);
- C. During [\*\*\*], if necessary to conform with Bank's policies or consumer-facing templates (as implemented or utilized by Bank in all material respects consistently across substantially all of the Retail Card consumer credit card portfolios), then as soon as reasonably practicable, [\*\*\*] (unless the parties otherwise agree); and

D. For all other requested changes or additions to the eQuickscreen Content, the parties will work together in good faith to discuss and implement changes or additions that contribute to the success of the Program.

(c) Unless otherwise prohibited by Applicable Law, Retailers [\*\*\*] in a manner that permits them to provide Bank with [\*\*\*] to permit the [\*\*\*] of the eQuickscreen process described above.

**1.4 Amendment to Schedule 3.07(k).** Schedule 3.07(k) is deleted and replaced with the new Schedule 3.07(k) attached hereto as Attachment 1.

## II. GENERAL

**2.1 Authority for Amendment.** The execution, delivery and performance of this Amendment has been duly authorized by all requisite corporate action on the part of Retailers and Bank and upon execution by all parties, will constitute a legal, binding obligation thereof.

**2.2 Effect of Amendment.** Except as specifically amended hereby, the Agreement, and all terms contained therein, remains in full force and effect. The Agreement, as amended by this Amendment, constitutes the entire understanding of the parties with respect to the subject matter hereof.

**2.3 Binding Effect; Severability.** Each reference herein to a party hereto will be deemed to include its successors and assigns, all of whom will be bound by this Amendment and in whose favor the provisions of this Amendment will inure. In case any one or more of the provisions contained in this Amendment will be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein will not in any way be affected or impaired thereby.

**2.4 Further Assurances.** The parties hereto agree to execute such other documents and instruments and to do such other and further things as may be necessary or desirable for the execution and implementation of this Amendment and the consummation of the transactions contemplated hereby and thereby.

**2.5 Governing Law.** This Amendment will be governed by and construed in accordance with the laws of the State of Utah.

**2.6 Counterparts.** This Amendment may be executed in counterparts, each of which will constitute an original, but all of which, when taken together, will constitute but one agreement.

[The remainder of page intentionally left blank]

IN WITNESS WHEREOF, Bank, Bank Parent and Retailers have caused this Agreement to be executed by their respective officers thereunto duly authorized as the date first above written.

**BANK:**

SYNCHRONY BANK

By: /s/ Thomas M. Quindlen  
Name: Thomas M. Quindlen  
Title: EVP Retail Card

**BANK PARENT:**

SYNCHRONY FINANCIAL

By: /s/ Thomas M. Quindlen  
Name: Thomas M. Quindlen  
Title: EVP Retail Card

**RETAILERS:**

THE GAP, INC.

By: /s/ Sabrina Simmons  
Name: Sabrina Simmons  
Title: EVP & CFO

GAP (PUERTO RICO), INC.

By: /s/ Sabrina Simmons  
Name: Sabrina Simmons  
Title: EVP & CFO

GPS CONSUMER DIRECT, INC.

By: /s/ Sabrina Simmons  
Name: Sabrina Simmons  
Title: EVP & CFO

GAP (APPAREL), LLC

By: /s/ Sabrina Simmons  
Name: Sabrina Simmons  
Title: EVP & CFO

GAP (ITM) INC.

By: /s/ Sabrina Simmons  
Name: Sabrina Simmons  
Title: EVP & CFO





**GAP, INC.**

**DEFERRED COMPENSATION PLAN**

(Originally Effective January 1, 2006)

(As Amended and Restated Effective March 24, 2016)

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**GAP, INC.**  
**DEFERRED COMPENSATION PLAN**

(Originally Effective January 1, 2006)

(As Amended and Restated Effective March 24, 2016)

**SECTION 1 INTRODUCTION**

**1.1 Purpose**

The Gap, Inc. (the “Company”) has established the Gap, Inc. Deferred Compensation Plan (the “Plan”), to provide certain supplemental benefits to a select group of management employees of the Employers under the Plan, and to non-employee members of the Board of Directors of the Company, who contribute materially to the continued growth, development, and future success of the Employers.

The Plan is intended to comply with the American Jobs Creation Act of 2004, Code Section 409A, and related guidance. Accordingly, the provisions of the Plan shall be applied, construed and administered in compliance with the applicable requirements of Code Section 409A and the Treasury Regulations thereunder. In addition, should there arise any ambiguity as to whether any provisions of this Plan would contravene one or more applicable requirements or limitations of Code Section 409A, such provisions shall be interpreted, administered and applied in a manner that complies with the applicable requirements of Code Section 409A and the Treasury Regulations thereunder. For purposes of Code Section 409A, all payments to be made on account of termination of employment shall only be made upon of a “separation from service” under Code Section 409A and the Treasury Regulations thereunder. Payments under the Plan shall be paid on a permissible payment event in a manner that complies with Code Section 409A and the Treasury Regulations thereunder. In no event shall a Participant, directly or indirectly, designate the calendar year of payment.

The Plan is intended to constitute an account balance plan (as defined in IRS Notice 2005-1, Q&A-9).

**1.2 Effective Date; Plan Year**

The Plan is hereby effective January 1, 2006, except as otherwise set forth herein. The Plan is administered on the basis of a Plan Year, as defined in subsection 2.24.

**1.3 Plan Administration**

The Company shall be the administrator (as that term is defined in Section 3(16)(A) of ERISA) of the Plan and shall be responsible for the administration of the Plan; provided, however, the Company may delegate all or any part of its powers, rights and duties under the Plan to such person or persons as it may deem advisable. Any notice or document relating to the Plan which is to be filed with the Company may be delivered, or mailed by registered or certified

mail, postage pre-paid, to the Company, or to any designated Company representative, in care of the Company, at its principal office.

**1.4 Unfunded Nature of Plan**

The Plan is an unfunded, nonqualified deferred compensation plan that is intended to qualify for the exemptions provided in Sections 201, 301, and 401 of ERISA. Participants (and their Beneficiaries) shall have only those rights to payments as set forth in the Plan and shall be considered general, unsecured creditors of the Employers with respect to any such rights.



## SECTION 2 DEFINITIONS

### 2.1 Account

“Account” means all notional accounts and subaccounts maintained for a Participant in order to reflect his interest under the Plan, as described in Section 6.

### 2.2 Accounting Date

“Accounting Date” means each day designated by the Company as of which the value of an Investment Fund is adjusted for notional deferrals, contributions, distributions, gains, losses, or expenses. To the extent not otherwise designated by the Committee, each Investment Fund will be valued as of each day on which the New York Stock Exchange is open for trading.

### 2.3 Beneficiary

“Beneficiary” means the person or persons to whom a deceased Participant’s benefits are payable under subsection 9.5.

### 2.4 Board

“Board” means the Board of Directors of the Company, as from time to time constituted.

### 2.5 Bonus

“Bonus” means an award of cash contingent upon the achievement of specified performance goals and payable to an Employee in a given year, with respect to the immediately preceding bonus performance period. “Sign-on Bonus” means an award of cash payable to the Employee upon or within a short period of time after date of hire, as determined in accordance with the Company’s compensation policies.

### 2.6 Bonus Deferrals

“Bonus Deferrals” means the amounts credited to a Participant’s Bonus Deferral Account pursuant to the Participant’s election made in accordance with subsection 4.2.

### 2.7 Code

“Code” means the Internal Revenue Code of 1986, as amended. Reference to a specific section of the Code shall include such section, any valid regulation promulgated thereunder, and any comparable provision of any future legislation amending, supplementing, or superseding such section.

### 2.8 Committee

“Committee” means the US Savings Plan Investment Committee of the Company, as described in Section 11.

## **2.9 Company**

“Company” means The Gap, Inc. or any successor organization or entity that assumes the Plan.

### **2.10 Compensation**

With respect to any Participant who is an Employee, “Compensation” means the Participant’s total remuneration from the Employer while the Participant is an Eligible Individual which, absent a deferral election under the Plan, would have otherwise been received by the Employee in the taxable year (excluding bonuses and taxable and nontaxable fringe benefits, and excluding overtime and commission payments; provided, however, that Compensation shall include vacation pay and vacation payouts, and all amounts contributed by an Employer pursuant to a salary reduction agreement which are not includable in the Employee's gross income under sections 125, 132(f), or 402(e)(3) of the Code) payable for pay periods commencing on or after the Effective Date; provided, however, that Compensation shall be determined for these purposes without regard to the dollar limitations in effect for qualified plans under Section 401(a)(17) of the Code. With respect to any Participant who is a non-employee member of the Board, “Compensation” means all cash remuneration which, absent a deferral election under the Plan, would have otherwise been received by the Board member in the taxable year, payable (for Fiscal Year quarters commencing after the Effective Date) to the Board member for service on the Board and on Board committees, including any cash payable for attendance at Board meetings and Board committee meetings, but not including any amounts constituting reimbursements of expenses to Board members.

### **2.11 Compensation Committee**

“Compensation Committee” means the Compensation and Management Development Committee of the Company.

### **2.12 Compensation Deferrals**

“Compensation Deferrals” means the amounts credited to a Participant’s Compensation Deferral Account pursuant to the Participant’s election made in accordance with subsection 4.1.

### **2.13 Continuous Service**

The term “Continuous Service” shall have the meaning assigned to such term in the GapShare 401(k) Plan.

### **2.14 Effective Date**

“Effective Date” means January 1, 2006.

## **2.15 Eligible Individual**

“Eligible Individual” means each non-employee member of the Board or Employee of an Employer who satisfies the requirements set forth in Section 3. With respect to Employees, “Eligible Individual” does not include any Employee who is employed in a country other than the United States of America (“U.S.”) unless he: (i) has been temporarily transferred to employment with the Employers in a non-U.S. country; (ii) is a citizen or resident alien of the U.S. at the time of the transfer; and (iii) remains on the U.S. payroll.

## **2.16 Employee**

“Employee” means a person who is employed by an Employer, is on the Employer’s regular payroll, and is treated and/or classified by the Employer as a common law employee for purposes of wage withholding for Federal income taxes. If a person is not considered to be an Employee of the Employer in accordance with the preceding sentence, a subsequent determination by the Employer, any governmental agency, or a court that the person is a common law employee of the Employer, even if such determination is applicable to prior years, will not have a retroactive effect for purposes of eligibility to participate in the Plan.

## **2.17 Employer**

“Employer” means The Gap, Inc. and any affiliate or subsidiary of the Company as defined in Subsections 414(b) and (c) of the Code that has adopted the Plan on behalf of its Eligible Individuals with the consent of the Company.

## **2.18 ERISA**

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended. Reference to a specific section of ERISA shall include such section, any valid regulation promulgated thereunder, and any comparable provision of any future legislation amending, supplementing, or superseding such section.

## **2.19 Investment Funds**

“Investment Funds” means the notional funds or other investment vehicles designated pursuant to subsection 5.1.

## **2.20 Matching Contributions**

“Matching Contributions” means the amounts credited to a Participant’s Matching Contribution Account under the Plan by the Employer, in accordance with subsection 4.3.

## **2.21 Participant**

“Participant” means an Eligible Individual who meets the requirements of Section 3 and elects to make Compensation Deferrals pursuant to Section 4. By becoming a Participant and

making deferrals under this Plan, each Participant agrees to be bound by the provisions of the Plan and the determinations of the Company and the Committee hereunder.

## **2.22 Plan**

“Plan” means the Gap Inc. Deferred Compensation Plan, as set forth in this instrument and as hereafter amended from time to time.

## **2.23 Plan Year/Plan Year Quarter/Fiscal Year**

“Plan Year” means each 12-month period beginning January 1 and ending the following December 31. “Plan Year Quarter” means each three-month period ending March 31, June 30, September 30 and December 31. “Fiscal Year” means the fiscal year of the Company.

## **2.24 Qualified Domestic Relations Order**

“Qualified Domestic Relations Order” for purposes of this Plan, shall have the meaning assigned to such term in subsection 9.7.

## **2.25 Retirement**

“Retirement” for purposes of this Plan means, with respect to an Employee Participant, the Participant’s separation from service (within the meaning of Section 409A of the Code and the regulations, notices and other guidance thereunder) with the Employers, the Company and any subsidiary or affiliate of the Company as defined in Sections 414(b) and (c) of the Code after attaining age 50, and, with respect to a non-employee Board member Participant, the Participant’s resignation or removal from the Board after attaining age 50.

## **2.26 Social Security Taxable Wage Base**

“Social Security Taxable Wage Base” means the maximum amount of earnings subject to payroll taxes in a given year, as announced annually by the Social Security Administration.

## **2.27 Spouse**

“Spouse” means the person to whom a Participant is legally married under applicable state law at the earlier of the date of the Participant’s death or the date payment of the Participant’s benefits commenced and who is living on the date of the Participant’s death.

## **2.28 Termination Date**

“Termination Date” means, with respect to an Employee Participant, the date on which the Participant has a separation from service (within the meaning of Section 409A of the Code and the regulations, notices and other guidance thereunder, including death) with the Employers, the Company and any subsidiary or affiliate of the Company, and, with respect to a non-employee Board member Participant, the date on which the Board member resigns, is removed or otherwise terminates service on the Board (including death). The date that an Employee’s

performance of services for all the Employers is reduced to a level of less than 20% of the average level of services performed in the preceding 36-month period, shall be considered a Termination Date, and the performance of services at a level of 50% or more of the average level of services performed in the preceding 36-month period shall not be considered a Termination Date.

**2.29 Other Definitions**

Other defined terms used in the Plan shall have the meanings given such terms elsewhere in the Plan.

## SECTION 3 ELIGIBILITY AND PARTICIPATION

### 3.1 Initial Eligibility

For each Plan Year, each (a) Employee of an Employer who is employed at the level of “director” or higher (as determined by the Company) and who has Compensation greater than 150% of the Social Security Taxable Wage Base for the prior Plan Year, and (b) non-employee member of the Board shall be an Eligible Individual eligible to participate in the Plan while he is determined by the Company to satisfy the criteria described in (a) immediately preceding, who is eligible to participate in the Plan by making a deferral election pursuant to Section 4. An Eligible Individual’s eligibility for any Plan Year shall be determined as of November 1 of the preceding Plan Year, based on the Eligible Individual’s position and Compensation, and on the Social Security Taxable Wage Base in effect on that November 1 date.

With respect to an Employee who first becomes an Eligible Individual (by virtue of a promotion, Compensation increase, commencement of employment with the Employers, or any other reason), the determination of such eligibility shall be based on the Employee’s position and Compensation in effect on the date of such initial eligibility, but shall be based on the Social Security Taxable Wage Base in effect during the preceding Plan Year.

Each Eligible Individual’s decision to become a Participant shall be entirely voluntary. An Eligible Individual who makes a deferral election pursuant to Section 4 shall become a Participant in the Plan.

### 3.2 Cessation of Participation

If a Participant ceases to be an Eligible Individual, no further Compensation Deferrals, Bonus Deferrals (if applicable) or Matching Contributions (if applicable) shall be credited to the Participant’s Accounts after the end of the Plan Year following the date the Participant ceases to be eligible, unless he is again determined to be an Eligible Individual, but the balance credited to his Accounts shall continue to be adjusted for notional investment gains and losses under the terms of the Plan and shall be distributed to him at the time and manner set forth in Section 9. An Employee or Board member shall cease to be a Participant after his Termination Date or other loss of eligibility as soon as his entire Account balance has been distributed.

### 3.3 Eligibility for Matching Contributions

An Employee Participant who has satisfied the length-of-service requirements necessary to become an “Eligible Employee” under the GapShare 401(k) Plan, and who has made a Compensation Deferral election pursuant to subsection 4.1 herein, shall be eligible to receive Matching Contributions described in subsection 4.3.

## SECTION 4 DEFERRALS AND CONTRIBUTIONS

### 4.1 Compensation Deferrals

Each Plan Year, an Eligible Individual may elect to defer receipt (in increments of one percent) of up to 75 percent (with respect to Employee Eligible Individuals) or 100 percent (with respect to non-employee Board member Eligible Individuals) of his Compensation (or such other percentages as determined by the Company) earned with respect to pay periods beginning on and after the effective date of the election (or, in the case of non-employee Board member Eligible Individuals, Compensation earned with respect to Fiscal Year quarters beginning on and after the effective date of the election); provided, however, that Compensation earned prior to the date the Participant satisfies the eligibility requirements of Section 3 shall not be eligible for deferral under this Plan. In the case of an Employee, or non-employee Board member who is rehired (or who recommences Board Service) after having previously been an Eligible Individual, the phrase “first becomes an Eligible Individual” in the first sentence of the preceding paragraph shall be interpreted to apply only where the Eligible Individual is rehired (or recommences Board Service or recommences providing services to an Employer) at least 24 months after his last day as a previously Eligible Individual prior to again becoming such an Eligible Individual. In all other cases such rehired Employee or Board Member may not elect to make Compensation Deferrals until the next date determined by the Company with respect to Compensation earned after the following January 1. Similarly, in the case of an Employee who recommences status as an Eligible Individual for any other reason after having previously lost his status as an Eligible Individual (due to Compensation fluctuations, transfer from an ineligible location or job classification, or otherwise), the phrase “first becomes an Eligible Individual” shall be interpreted to apply only where the Eligible Individual regains his status as an Eligible Individual at least 24 months after his last day as a previously Eligible Individual prior to again becoming such an Eligible Individual. In all other cases such Re-Eligible Participant may not elect to make Compensation Deferrals until the next date determined by the Company with respect to Compensation earned after the following January 1. Except as otherwise provided in this subsection, a Participant’s deferral election for a Plan Year under this subsection must be made not later than December 31 of the preceding Plan year with respect to Compensation earned during the first payroll period of the next calendar year (considered for purposes of the Plan to be the payroll period containing December 31 of the prior year) or, in the case of Board Members, Compensation earned in fiscal year quarters beginning on and after January 1 of the following calendar year. An Employee or non-employee Board member who first becomes an Eligible Individual after the Effective Date (by virtue of a promotion, Compensation increase, commencement of employment with the Employers, commencement of Board service, or any other reason) shall be provided enrollment documents (including deferral election forms) with respect to his Compensation as soon as administratively feasible following such initial eligibility. Such Eligible Individual shall be permitted to defer his Compensation earned in the pay period (as soon as administratively practicable) (or, in the case of non-employee Board members, his Compensation earned in the Fiscal Year quarter) that begins following receipt of his properly completed election forms by the Company or its designee. Any such deferral election under this subsection must be made within 30 days of the date the Employee or Board Member first becomes an Eligible Individual; provided, however, that the date that an Employee or Board

Member first becomes Eligible for the Plan shall be determined based on proper notification of the Employee or Board Member by the Company in accordance with procedures determined by the Company. If an Eligible Individual does not elect to make Compensation Deferrals during that initial 30-day period, he may not elect to make Compensation Deferrals until the next date determined by the Company with respect to Compensation earned after the following January 1 (or, in the case of non-employee Board members, with respect to Compensation earned in the Fiscal Year quarter beginning after the following January 1).

An election to make Compensation Deferrals under this subsection 4.1 shall be irrevocable, and shall remain in effect for Compensation earned during the last payroll period ending on or before December 30 of the calendar year to which the election applies while the Participant is an Eligible Individual (or, in the case of non-Employee Board members, for Compensation earned through the Fiscal Year quarter that ends on or after December 31 of the calendar year to which the election applies). If a Participant fails to make a Compensation Deferral election for a given Plan Year, such Participant's Compensation Deferral election for that Plan Year shall be deemed to be zero.

#### **4.2 Bonus Deferrals**

Each Plan Year, an Eligible Individual who is an Employee may elect to defer receipt (in increments of one percent) of up to 90 percent (or such other percentage as determined by the Company) of his Bonus for the next following Bonus "performance period" (generally a period of six months or longer, in which the Employee performs the services forming the basis for the Bonus) that begins in the Plan Year following the Plan Year of the Employee's election. A Participant's Bonus deferral election with respect to a Plan Year must be made at a time and in a manner determined by the Company, in its sole discretion, but in no event shall the deferral election be made later than December 31 of the preceding Plan Year. Notwithstanding the foregoing, effective January 1, 2008, an Employee who first becomes an Eligible Individual during a Plan Year by virtue of commencement of employment with the Employers shall be permitted to make a Bonus Deferral election to defer receipt of up to 90 percent (or such other amount as determined by the Company) of his Bonus (other than his Sign-on Bonus) into the Plan, but only if he makes such election within 30 days of first becoming an Eligible Individual. In case such Bonus Deferral election in the first year of eligibility described in the preceding sentence is made after the beginning of the Bonus performance period, the Bonus Deferral election will apply only to the portion of the Bonus equal to the total amount of the Bonus for the performance period multiplied by the ratio of the number of days remaining in the performance period after the effective date of the Bonus Deferral election over the total number of days in the performance period. If an Eligible Individual does not elect to make a Bonus Deferral election during that initial 30-day period, he may not later elect to make an election for that performance period under this subsection. Notwithstanding the foregoing, an Employee who first becomes an Eligible Individual by virtue of commencement of employment with the Employers and who is eligible to receive a Sign-on Bonus shall be permitted to defer receipt of up to 90 percent (or such other amount as determined by the Company) of his Sign-on Bonus into the Plan, but only if he makes such election within 30 days of the date he first becomes an Eligible Individual. In the event that a Participant's Sign-on Bonus is revoked, rescinded or forfeited in accordance with



rules established by the Company, any amount of such Sign-on Bonus deferred into the Plan, adjusted for any notional earnings or losses thereon, shall be forfeited from such Participant's Account, and shall be applied to offset the Employers' Matching Contributions required in succeeding Plan Years or shall be returned to the applicable Employer, at the Company's discretion. The Company may establish procedures to limit the Investment Fund options available to a Participant with respect to Sign-on Bonus deferrals.

An election to make Bonus Deferrals under this subsection 4.2 shall be irrevocable and shall remain in effect through the end of the applicable Bonus performance period. If a Participant fails to make a Bonus Deferral election for a given Plan Year, such Participant's Bonus Deferral election for that Plan Year shall be deemed to be zero.

#### **4.3 Matching Contributions**

Matching Contributions shall be credited to the Matching Contribution Accounts of Employee Participants who have satisfied the requirements of subsection 3.3 and in accordance with the requirements of this subsection 4.3. The amount of any such Matching Contribution with respect to a Participant shall be equal to the Participant's Compensation Deferrals, but in no event greater than 4% of such amount of the Participant's Compensation (earned while the Participant satisfies the eligibility requirements under Section 3 of the Plan and under the GapShare 401(k) Plan) that exceeds the annual compensation limits provided under Code Section 401(a)(17) (\$265,000 in 2015).

Any Matching Contributions made on behalf of Employee Participants under this Plan shall be credited to such Employee Participants' Matching Contribution Accounts on an annual basis, as soon as administratively feasible after December 31 of the Plan Year, but only with respect to Employee Participants employed by an Employer on the last day of the applicable Plan Year. Notwithstanding the foregoing, effective September 1, 2011, Matching Contributions will also be payable as described in this subsection 4.3 to Participants not employed on the last day of the applicable Plan Year if, as of that date, the Participant is on an Employer's payroll pursuant to a severance pay arrangement, or the Participant retired from service from the Employers in the applicable Plan Year after attaining age sixty (60) with five (5) years of Continuous Service.

#### **4.4 No Election Changes During Plan Year**

A Participant shall not be permitted to change or revoke his deferral elections. If a Participant's status changes such that he becomes ineligible for the Plan during a Plan Year, the Participant's deferrals under the Plan shall continue through the end of such Plan Year, as described in subsection 3.2.

#### **4.5 Crediting of Deferrals**

The amount of deferrals pursuant to subsections 4.1 and 4.2 shall be credited to the Participant's Accounts as of a date not later than 15 business days after the date on which the amount (but for the deferral) otherwise would have been paid to the Participant.

#### **4.6 Reduction of Deferrals or Contributions**

Any deferrals or contributions to be credited to a Participant's Account under this Section may be reduced by an amount equal to the Federal or state income, payroll, or other taxes required to be withheld on such deferrals or contributions or to satisfy any necessary employee welfare plan contributions. A Participant shall be entitled only to the net amount of such deferral or contribution (as adjusted from time to time pursuant to the terms of the Plan).

## SECTION 5 NOTIONAL INVESTMENTS

### 5.1 Investment Funds

The Committee may designate, in its discretion, one or more Investment Funds for the notional investment of Participants' Accounts. The Committee, in its discretion, may from time to time establish new Investment Funds or eliminate existing Investment Funds. The Investment Funds are for recordkeeping purposes only and do not allow Participants to direct any Company assets (including, if applicable, the assets of any trust related to the Plan). Each Participant's Accounts shall be adjusted pursuant to the Participant's notional investment elections made in accordance with this Section 5, except as otherwise determined by the Committee in its sole discretion.

### 5.2 Investment Fund Elections

A Participant may elect from among the Investment Funds for the notional investment of his Accounts from time to time in accordance with procedures established by the Company. The Company, in its discretion, may adopt (and may modify from time to time) such rules and procedures as it deems necessary or appropriate to implement the notional investment of the Participant's Accounts. Such procedures may differ among Participants or classes of Participants, as determined by the Company in its discretion. The Company may limit, delay or restrict the notional investment of certain Participants' Accounts in accordance with Committee rules in order to comply with Company policy and applicable law or to minimize regulated filings and disclosures. Any deferred amounts subject to a Participant's investment election that must be so limited, delayed or restricted under such circumstances may be notionally invested in an Investment Fund designated by the Committee, or may be credited with earnings at a rate determined by the Committee, which rate may be zero. A Participant's notional investment election shall remain in effect until later changed in accordance with the rules of the Company. If a Participant does not make a notional investment election, all deferrals by the Participant and contributions on his behalf will be deemed to be notionally invested in the Investment Fund designated by the Committee for such purpose.

### 5.3 Investment Fund Transfers

A Participant may elect that all or a part of his notional interest in an Investment Fund shall be transferred to one or more of the other Investment Funds. A Participant may make such notional Investment Fund transfers in accordance with rules established from time to time by the Company, and in accordance with subsection 5.2.

## SECTION 6 ACCOUNTING

### 6.1 Individual Accounts

The Company will maintain in the name of each Participant, as applicable, the following Accounts, and any subaccounts under such Accounts deemed necessary or advisable by the Company from time to time:

- (a) Compensation Deferral Account. A Compensation Deferral Account to reflect the Participant's Compensation Deferrals and the notional gains, losses, expenses, appreciation and depreciation attributable thereto.
- (b) Bonus Deferral Account. A Bonus Deferral Account to reflect the Participant's Bonus Deferrals, if applicable, and the notional gains, losses, expenses, appreciation and depreciation attributable thereto.
- (c) Matching Contribution Account. A Matching Contribution Account to reflect the Matching Contributions credited on behalf of the Participant, if applicable, and the notional gains, losses, expenses, appreciation and depreciation attributable thereto.

The Company may establish such rules and procedures relating to the maintenance, adjustment, and liquidation of Participants' Accounts, the crediting of deferrals and contributions and the notional gains, losses, expenses, appreciation, and depreciation attributable thereto, as it considers necessary or advisable. In addition to the Accounts described above, the Company may maintain other Accounts or subaccounts in the names of Participants or otherwise, including, but not limited to, Accounts or subaccounts maintained in accordance with the requirements of a Qualified Domestic Relations Order, as the Company considers necessary or desirable.

### 6.2 Adjustment of Accounts

Pursuant to rules established by the Company and applied on a uniform basis, Participants' Accounts will be adjusted on each Accounting Date, except as provided in Section 9, to reflect the value of the various Investment Funds as of such date, including adjustments to reflect any deferrals and contributions, notional transfers between Investment Funds, and notional gains, losses, expenses, appreciation, or depreciation with respect to such Accounts since the previous Accounting Date. The "value" of an Investment Fund at any Accounting Date shall be based on the fair market value of the Investment Fund, as determined by the Company.

### 6.3 Accounting Methods

The accounting methods or formulae to be used under the Plan for purposes of monitoring Participants' Accounts, including the calculation and crediting of notional gains, losses, expenses, appreciation, or depreciation, shall be determined by the Company in its sole

discretion. The accounting methods or formulae selected by the Company may be revised from time to time.

#### **6.4 Statement of Account**

At such times and in such manner as determined by the Company, but at least annually, each Participant will be furnished with a statement reflecting the condition of his Accounts.

## **SECTION 7 VESTING**

A Participant shall be fully vested at all times in his Compensation Deferral Account, Bonus Deferral Account (if applicable) and Matching Contribution Account (if applicable), except as otherwise provided in subsection 4.2 with respect to Sign-on Bonuses, which are subject to a one-year vesting period.

Neither the Company nor the Employers in any way guarantee the Participant's Account balance from loss or depreciation. Notwithstanding any provision of the Plan to the contrary, the Participant's Account balance is subject to Section 8.

## **SECTION 8 FUNDING**

No Participant or other person shall acquire by reason of the Plan any right in or title to any assets, funds, or property of the Employers whatsoever, including, without limiting the generality of the foregoing, any specific funds, assets, or other property of the Employers. Benefits under the Plan are unfunded and unsecured. A Participant shall have only an unfunded, unsecured right to the amounts, if any, payable hereunder to that Participant. The Employers' obligations under this Plan are not secured or funded in any manner, even if the Company elects to establish a trust with respect to the Plan. Even though benefits provided under the Plan are not funded, the Company may establish a trust to assist in the payment of benefits. All investments under this Plan are notional and do not obligate the Employers (or their delegates) to invest the assets of the Employers or of any such trust in a similar manner.

## SECTION 9 DISTRIBUTION OF ACCOUNTS

### 9.1 Distribution of Accounts Prior to Retirement Date

With respect to any Participant who has a Termination Date that precedes his Retirement date, an amount equal to the Participant's Accounts (including the Compensation Deferral Account, the Bonus Deferral Account, the Matching Contribution Account, and all notional earnings thereon) shall be distributed to the Participant (or, in the case of the Participant's death, to the Participant's Beneficiary), in the form of a single lump sum payment. Subject to subsection 9.3 hereof, it is the Company's intention to distribute a Participant's Accounts payable in a lump sum under this subsection 9.1 on the first day of the fourth month following the Participant's Termination Date, or, if calculation of the amount of the payment is not administratively practicable due to events beyond the control of the Participant or his beneficiary, during the first calendar year in which the calculation of the amount is administratively practicable. Notwithstanding any provision of the Plan to the contrary, for purposes of this Subsection, a Participant's Accounts shall be valued as of an Accounting Date as soon as administratively feasible preceding the date such distribution is made, in accordance with rules established by the Company.

Notwithstanding the foregoing:

(a) In-Service Distribution Elections. A Participant who is an Employee may elect, in accordance with this Subsection, a distribution date for his Bonus Deferral and Compensation Deferral Accounts that is prior to his Termination Date (an "in-service distribution"). A Participant's election of an in-service distribution date must: (i) be made at the time of his Bonus and Compensation Deferral election for a Plan Year; (ii) apply only to amounts deferred pursuant to that election; and (iii) be irrevocable. Effective for each Plan Year commencing on or after January 1, 2016, a Participant may elect a separate in-service distribution date with respect to a particular Plan Year's Bonus Deferrals than with respect to a particular Plan Year's Compensation Deferrals. The applicable in service distribution date must not be earlier than five (5) years following the later of (i) the Plan Year in which the applicable Bonus would have been paid absent the deferral and (ii) the Plan Year in which the applicable Compensation would have been paid absent the deferral, or as further determined or limited in accordance with rules established by the Committee. In no event shall a Participant be permitted to elect an in-service distribution of his Matching Contribution Account.

(b) Board Compensation Deferrals. A Participant who is a non-employee Board member may elect, in accordance with Section 4, to elect a distribution date for his Compensation Deferral Account for any Plan Year that is prior to his Termination Date. A Participant's election of a date under this subsection (b) must: (i) be made at the time of his Compensation Deferral election for a Plan Year; (ii) apply only to amounts deferred pursuant to that election; and (iii) be irrevocable. Such in-service distribution date must not be earlier than five (5) years following the Plan Year in which such Compensation would have been paid to him absent the deferral, or as further determined or limited in accordance with rules established by the Company.



Subject to subsection 9.3 hereof, it is the intention of the company to make payments pursuant to an in-service distribution election under subparagraphs (a) or (b) of this subsection 9.1 by the end of the calendar year in which the payment was elected to be made, or, if calculation of the amount of the payment is not administratively practicable due to events beyond the control of the Participant or his beneficiary, during the first calendar year in which the calculation of the amount is administratively practicable. For purposes of such payment, the value of the Participant's Accounts for the applicable Plan Year shall be determined as of an Accounting Date preceding the date that such distribution is made, in accordance with rules established by the Company. In the event a Participant's Termination Date occurs prior to the date the Participant had previously elected to have an in-service distribution payment made to him, such amount shall be paid to the Participant in a single lump sum in accordance with this subsection 9.1.

## **9.2 Distribution of Accounts After Retirement Date**

A Participant may elect to receive payments from his Accounts in the form of a single lump sum, as described in Section 9.1, or in annual installments for 5, 10, or 15 years. Such election shall not be effective if the Participant's Termination Date occurs before he reaches his Retirement date (age 50). Subject to subsection 9.3 hereof, it is the Company's intention to distribute a Participant's Accounts payable in a lump sum under this subsection 9.2 on the first day of the fourth month following the Participant's Termination Date, or, if calculation of the amount of the payment is not administratively practicable due to events beyond the control of the Participant or his beneficiary, during the first calendar year in which the calculation of the amount is administratively practicable. To the extent a Participant fails to make an election, the Participant shall be deemed to have elected to receive his distribution for that Plan Year in the form of a single lump sum. Effective for each Plan Year commencing on or after January 1, 2016, a Participant may make a separate election with respect to his Bonus Deferrals for each Plan Year (as adjusted for gains and losses thereon) that provides for a different method of distribution from the method of distribution he elects with respect to his Compensation Deferrals (as adjusted for gains and losses thereon) for that Plan Year. The Participant's Matching Contributions Account attributable to such Plan Year, if any (as adjusted for gains and losses thereon), shall be distributed in the same manner as his Compensation Deferral Account for such Plan Year.

- (a) Installment Elections. A Participant will be required to make his distribution election prior to the commencement of each Plan Year.
- (b) Installment Payments. It is the intention of the Company to make the first installment payment by the end of the calendar year in which occurs the Participant's Retirement Date or death, or, if calculation of the amount of the payment is not administratively practicable due to events beyond the control of the Participant or his beneficiary, during the first calendar year in which the calculation of the amount is administratively practicable. Succeeding payments shall be made by the end of each succeeding calendar year, or as soon as administratively feasible for the Company to make such payment. The amount to

be distributed in each installment payment shall be determined by dividing the value of the Participant's Accounts as of an Accounting Date preceding the date of each distribution by the number of installment payments remaining to be made, in accordance with rules established by the Company. In the event of the death of the Participant prior to the full payment of his Accounts, payments will continue to be made to his Beneficiary in the same manner and at the same time as would have been payable to the Participant, but substituting the Participant's date of death for the Participant's Retirement Date.

### **9.3 Key Employees**

Notwithstanding anything herein to the contrary, and subject to Code Section 409A, payment shall not be made or commence as a result of the Participant's Termination Date to any Participant who is a key employee (defined below) before the date that is not less than six months after the Participant's Termination Date. For this purpose, a key employee includes a "specified employee" (as defined in Code Section 409A(a)(2)(B)) during the entire 12-month period determined by the Company ending with the annual date upon which key employees are identified by the Company, and also including any Employee identified by the Company in good faith with respect to any distribution as belonging to the group of identified key employees, to a maximum of 200 such key employees, regardless of whether such Employee is subsequently determined by the Employer, any governmental agency, or a court not to be a key employee. In the event amounts are payable to a key employee in installments in accordance with subsection 9.2, the first installment shall be delayed by six months, with all other installment payments payable as originally scheduled. The identification date for determining key employees shall be each December 31 (and the new key employee list shall be updated and effective each subsequent April 1).

### **9.4 Mandatory Cash-Outs of Small Amounts**

If the value of a Participant's total Accounts equals the applicable dollar amount under Section 402(g) of the Code, or less at his Termination Date (or his death), or at any time thereafter, the Accounts will be paid to the Participant (or, in the event of his death, his Beneficiary) in a single lump sum, notwithstanding any election by the Participant otherwise. Subject to subsection 9.3 hereof, it is the Company's intention to distribute a Participant's Accounts payable in a lump sum under this subsection 9.4 on the first day of the fourth month following the Participant's Termination Date, or, if calculation of the amount of the payment is not administratively practicable due to events beyond the control of the Participant or his beneficiary, during the first calendar year in which the calculation of the amount is administratively practicable.

### **9.5 Designation of Beneficiary**

Each Participant from time to time may designate any individual, trust, charity or other person or persons to whom the value of the Participant's Accounts will be paid in the event the Participant dies before receiving the value of all of his Accounts. A Beneficiary designation must be made in the manner required by the Company for this purpose. Primary and secondary

Beneficiaries are permitted. Payments to the Participant's Beneficiary(ies) shall be made in accordance with subsection 9.1, 9.2 or 9.4, as applicable, after the Company has received proper notification of the Participant's death.

A Beneficiary designation will be effective only when the Beneficiary designation is filed with the Company while the Participant is alive, and a subsequent Beneficiary designation will cancel all of the Participant's Beneficiary designations previously filed with the Company. Any designation or revocation of a Beneficiary shall be effective as only if it is received by the Company. Once received, such designation shall be effective as of the date the designation was executed, but without prejudice to the Company on account of any payment made before the change is recorded by the Company. If a Beneficiary dies before payment of the Participant's Accounts have been made, the Participant's Accounts shall be distributed in accordance with the Participant's Beneficiary designation and pursuant to rules established by the Company. If a deceased Participant failed to designate a Beneficiary, or if the designated Beneficiary predeceases the Participant, the value of the Participant's Accounts shall be payable to the Participant's Spouse or, if there is none, to the Participant's estate, or in accordance with such other equitable procedures as determined by the Company.

## **9.6 Reemployment**

If a former Participant is rehired by an Employer, the Company or any affiliate or subsidiary of the Company described in Section 414(b) and (c) of the Code, regardless of whether he is rehired as an Eligible Individual (with respect to an Employee Participant), or a former Participant returns to service as a Board member, any payments being made to such Participant hereunder by virtue of his previous Termination Date shall continue. If a former Participant is rehired by the Employer (with respect to an Employee Participant) or returns to service as a Board member, and in either case any payments to be made to the Participant by virtue of his previous Termination Date have not been made or commenced, such Participant shall no longer be entitled to such payments until his subsequent Termination Date.

## **9.7 Domestic Relations Orders**

If applicable and notwithstanding Sections 9.1 and 9.2, all or a portion of a Participant's Account balance in each Account may be paid to another person as specified in a domestic relations order that the Company determines is qualified (a "Qualified Domestic Relations Order"). For this purpose, a Qualified Domestic Relations Order means a judgment, decree, or order (including the approval of a settlement agreement) which:

- (a) is issued pursuant to a State's domestic relations law;
- (b) relates to the provision of child support, alimony payments or marital property rights to a spouse, former spouse, child or other dependent of the Participant;
- (c) creates or recognizes the right of a spouse, former spouse, child or other dependent of the Participant to receive all or a portion of the Participant's benefits under the Plan;

- (d) provides for an immediate lump sum payment as soon as administratively practicable after the later of (i) the date the Company determines that a Qualified Domestic Relations Order exists, and (ii) a date specified in the Qualified Domestic Relations Order; and
- (e) meets such other requirements established by the Company.

The Plan Administrator shall determine whether any document received by it is a Qualified Domestic Relations Order. In making this determination, the Plan Administrator may consider the rules applicable to “domestic relations orders” under Code section 414(p) and ERISA section 206(d), and such other rules and procedures as it deems relevant. If an order is determined by the Plan Administrator to be a Qualified Domestic Relations Order, the amount to which the other person is entitled under such order shall be paid in a lump sum payment as soon as administratively practicable after (but in no event later than 60 days following) the later of (i) the date the Plan Administrator makes such determination, and (ii) the date specified in the Qualified Domestic Relations Order.

In the event a lump sum payment is to be made to another person pursuant to a Qualified Domestic Relations Order, the Company shall have the authority to create an Account under the Plan for such other person. The Company shall establish such rules and procedures relating to the maintenance, adjustment, and liquidation of any such Account and the notional gains, losses, expenses, appreciation, and depreciation attributable thereto, as it considers necessary or advisable.

Any person who is to receive a payment from the Plan under the terms of a Qualified Domestic Relations Order shall be deemed to agree to be bound by the provisions of the Plan and the determinations of the Company, the Committee and the Plan Administrator hereunder.

### **9.8 Special Distribution Rules**

Except as otherwise provided herein, in Section 9.7 and in Section 12, Account balances of Participants in this Plan shall not be distributed earlier than the applicable date or dates described in this Section 9. Notwithstanding the foregoing, in the case of payments: (i) the deduction for which would be limited or eliminated by the application of Section 162(m) of the Code; (ii) that would violate securities or other applicable laws; or (iii) that would violate loan covenants or other contractual terms to which an Employer is a party, where such a violation would result in material harm to an Employer; the payment may be delayed in the discretion of the Company. In the case of a payment described in (i) above, the payment must be deferred either to a date in the first year in which the Company reasonably anticipates that a payment of such amount would not result in a limitation of a deduction with respect to the payment of such amount under Section 162(m), or the year in which the Participant’s Termination Date occurs. In the case of a payment described in (ii) or (iii) above, payment will be made in the first calendar year in which the Company reasonably anticipates that the payment would not violate loan or other similar contractual terms, the violation would not result in material harm to an

Employer, or the payment would not result in a violation of securities or other applicable laws. Payments intended to pay employment taxes or payments made as a result of income inclusion of an amount in a Participant's Accounts as a result of a failure to satisfy Section 409A of the Code shall be permitted at the Company's discretion at any time and to the extent provided in Proposed Treasury Regulations under Section 409A of the Code and IRS Notice 2005-1, Q&A-15, and any applicable subsequent guidance. "Employment taxes" shall include Federal Income Contributions Act (FICA) tax imposed under Sections 3101 and 3121(v)(2) of the Code on compensation deferred under the Plan (the "FICA Amount"), the income tax imposed under Section 3401 of the Code on the FICA Amount, and to pay the additional income tax under Section 3401 of the Code attributable to the pyramiding Section 3401 wages and taxes.

## SECTION 10 GENERAL PROVISIONS

### 10.1 Transferability of Plan Interests

The interests of persons entitled to benefits under the Plan are not subject to their debts or other obligations and, except as may be required by the tax withholding provisions of the Code or any state's income tax act, may not be voluntarily or involuntarily sold, transferred, alienated, assigned, or encumbered. Effective March 24, 2016, a Participant's interest in the Plan is transferable pursuant to a Qualified Domestic Relations Order, in accordance with Section 9.7.

### 10.2 Employment Rights

The Plan does not constitute a contract of employment, and participation in the Plan shall not give any Employee the right to be retained in the employ of an Employer, nor any right or claim to any benefit under the Plan, unless such right or claim has specifically accrued under the terms of the Plan. The Employers expressly reserve the right to discharge any Employee at any time.

### 10.3 Litigation by Participants or Other Persons

If a legal action begun against the Committee (or any member or former member thereof), an Employer, or any person or persons to whom an Employer or the Committee has delegated all or part of its duties hereunder, by or on behalf of any person results adversely to that person, or if a legal action arises because of conflicting claims to a Participant's or other person's benefits, the cost to the Committee (or any member or former member thereof), the Employers or any person or persons to whom the Employer or the Committee has delegated all or part of its duties hereunder of defending the action shall be charged to the extent permitted by law to the sums, if any, which were involved in the action or were payable to the Participant or other person concerned.

### 10.4 Evidence

Evidence required of anyone under the Plan may be by certificate, affidavit, document, or other information which the person acting on it considers pertinent and reliable, and signed, made, or presented by the proper party or parties.

### 10.5 Waiver of Notice

Any notice required under the Plan may be waived by the person entitled to such notice.

### 10.6 Controlling Law

Except to the extent superseded by laws of the United States, the laws of the State of California shall be controlling in all matters relating to the Plan.

## **10.7 Statutory References**

Any reference in the Plan to a Code section or a section of ERISA, or to a section of any other Federal law, shall include any comparable section or sections of any future legislation that amends, supplements, or supersedes that section.

## **10.8 Severability**

In case any provision of the Plan shall be held illegal or invalid for any reason, such illegality or invalidity shall not affect the remaining provisions of the Plan, and the Plan shall be construed and enforced as if such illegal and invalid provision had never been set forth in the Plan.

## **10.9 Action by the Company, the Employers or the Committee**

Any action required or permitted to be taken by the Company or any of the Employers under the Plan shall be by resolution of its board of directors, by resolution or other action of a duly authorized committee of its board of directors, or by action of a person or persons authorized by resolution of its board of directors or such committee. Any action required or permitted to be taken by the Committee under the Plan shall be by resolution or other action of the Committee or by a person or persons duly authorized by the Committee.

## **10.10 Headings and Captions**

The headings and captions contained in this Plan are inserted only as a matter of convenience and for reference, and in no way define, limit, enlarge, or describe the scope or intent of the Plan, nor in any way shall affect the construction of any provision of the Plan.

## **10.11 Gender and Number**

Where the context permits, words in the masculine gender shall include the feminine and neuter genders, the singular shall include the plural, and the plural shall include the singular.

## **10.12 Examination of Documents**

Copies of the Plan and any amendments thereto are on file at the office of the Company where they may be examined by any Participant or other person entitled to benefits under the Plan during normal business hours.

## **10.13 Elections**

Each election or request required or permitted to be made by a Participant (or a Participant's Spouse or Beneficiary) shall be made in accordance with the rules and procedures established by the Company and shall be effective as determined by the Company. The Company's rules and procedures may address, among other things, the method and timing of any elections or requests required or permitted to be made by a Participant (or a Participant's Spouse or Beneficiary).

#### **10.14 Manner of Delivery**

Each notice or statement provided to a Participant shall be delivered in any manner established by the Company and in accordance with applicable law, including, but not limited to, electronic delivery.

#### **10.15 Facility of Payment**

When a person entitled to benefits under the Plan is a minor, under legal disability, or, in the Company's opinion, is in any way incapacitated so as to be unable to manage his financial affairs, the Company may cause the benefits to be paid to such person's guardian or legal representative. If no guardian or legal representative has been appointed, or if the Company so determines in its sole discretion, payment may be made to any person as custodian for such individual under the California Uniform Transfers to Minors Act or other applicable state law, or to the legal representative of such person for such person's benefit, or the Company may direct the application of such benefits for the benefit of such person. Any payment made in accordance with the preceding sentence shall be a full and complete discharge of any liability for such payment under the Plan.

#### **10.16 Missing Persons**

The Employers and the Company shall not be required to search for or locate a Participant, Spouse, Beneficiary, or any other person entitled to a payment under the Plan. Each Participant, Spouse, Beneficiary, and any other person entitled to a payment under the Plan must file with the Company, from time to time, in writing, the Participant's, Spouse's, Beneficiary's or other person's post office address and each change of post office address. Any communication, statement, or notice addressed to a Participant, Spouse, Beneficiary or other person entitled to a payment under the Plan at the last post office address filed with the Company, or if no address is filed with the Company, then in the case of a Participant, at the Participant's last post office address as shown on the Employer's records, shall be considered a notification for purposes of the Plan and shall be binding on the Participant and the Participant's Spouse, Beneficiary for all purposes of the Plan.

If the Company is unable to locate the Participant, Spouse, Beneficiary or other person entitled to a payment under the Plan to whom a Participant's Accounts or an Account are/is payable, the Participant's Accounts or other Account shall be frozen as of the date on which distribution would have been completed under the terms of the Plan, and no further notional investment returns shall be credited thereto.

If a Participant, Spouse, Beneficiary or other person entitled to a payment under the Plan whose Accounts were frozen files a claim for distribution of the Accounts within 7 years after the date the Accounts are frozen, and if the Company determines that such claim is valid, then the frozen balance shall be paid by the Company to the Participant, Beneficiary or other person entitled to a payment under the Plan in a lump sum cash payment as soon as practicable thereafter. If the Company notifies a Participant, Spouse, Beneficiary or other person entitled to a payment under the Plan of the provisions of this Subsection, and the Participant, Spouse, Beneficiary or person entitled to a payment under the Plan fails to claim the Participant's, Spouse's,



Beneficiary's or person's benefits or make such person's whereabouts known to the Company within 7 years after the date the Accounts are frozen, the benefits of the Participant, Spouse, Beneficiary or other person entitled to a payment under the Plan may be disposed of, to the extent permitted by applicable law, by one or more of the following methods:

- (a) By retaining such benefits in the Plan.
- (b) By paying such benefits to a court of competent jurisdiction for judicial determination of the right thereto.
- (c) By forfeiting such benefits in accordance with procedures established by the Company. If a Participant, Spouse, Beneficiary or other person entitled to a payment under the Plan is subsequently located, such benefits shall be restored (without adjustment) to the Participant, Spouse, Beneficiary or other person under the Plan.
- (d) By any equitable manner permitted by law under rules adopted by the Company.

#### **10.17 Recovery of Benefits**

In the event a Participant, Spouse, Beneficiary or other person entitled to a payment under the Plan receives a benefit payment from the Plan that is in excess of the benefit payment that should have been made to such Participant, Spouse, Beneficiary or person, or in the event a person other than a Participant, Spouse, Beneficiary or person entitled to a payment under the Plan receives an erroneous payment from the Plan, the Company shall have the right, on behalf of the Plan, to recover the amount of the excess or erroneous payment from the recipient. To the extent permitted under applicable law, the Company may, at its option, deduct the amount of such excess or erroneous payment from any future benefits payable to the applicable Participant, Spouse, Beneficiary or person entitled to receive a payment from the Plan.

#### **10.18 Effect on Other Benefits**

Except as otherwise specifically provided under the terms of any other employee benefit plan of the Company, a Participant's participation in this Plan shall not affect the benefits provided under such other employee benefit plan.

#### **10.19 Tax and Legal Effects**

The Employers, the Committee, and their representatives and delegates do not in any way guarantee the tax treatment of benefits for any Participant, Spouse, Beneficiary or other person entitled to a payment under the Plan, and the Employers, the Committee, and their representatives and delegates do not in any way guarantee or assume any responsibility or liability for the legal, tax, or other implications or effects of the Plan. In the event of any legal, tax, or other change that may affect the Plan, the Company may, in its sole discretion, take any actions it deems necessary or desirable as a result of such change.

## SECTION 11 PLAN ADMINISTRATION

### 11.1 Establishment of Committee

The Plan shall be administered by the Company. A Committee established by the Company, which as of May 8, 2006 is the US Savings Plan Investment Committee, shall be responsible for the duties described in subsection 11.2 below.

### 11.2 Committee General Powers, Rights, and Duties

Except as otherwise specifically provided herein, and in addition to the powers, rights and duties specifically given to the Committee elsewhere in the Plan or otherwise delegated to the Committee by the Company or the Compensation and Management Development Committee, the Committee shall have the full power and authority for the establishment of an investment policy for the Plan, and the selection, monitoring, and termination of notional investment options for the Plan, and such other powers, rights and duties as may be described from time to time in the Committee's Charter. Except as otherwise specifically provided herein, and in addition to the powers, rights and duties specifically given to the Company elsewhere in the Plan, the Company shall have the following powers, rights and duties, which shall be exercisable in the sole discretion of the Company:

- (a) To adopt such rules, procedures, and regulations as in its opinion may be necessary for the proper and efficient administration of the Plan and as are consistent with the Plan and to change, alter, or amend such rules, procedures, and regulations;
- (b) To construe and interpret the provisions of the Plan and make factual determinations thereunder;
- (c) To determine all questions arising in the administration of the Plan, including the power to determine the rights or eligibility of Employees or Participants or any other persons, and the amounts of their benefits (if any) under the Plan, and to remedy ambiguities, inconsistencies, or omissions, and any such determination shall be binding on all parties;
- (d) To employ and suitably compensate such agents, attorneys, accountants, actuaries, recordkeepers, or other persons (who also may be employed by the Company) to render advice and perform other services as the Company may deem necessary to carry out its powers, rights, and duties;
- (e) To the extent applicable, to direct payments or distributions in accordance with the provisions of the Plan;
- (f) To furnish the Employers with such information as may be required by them for tax or other purposes in connection with the Plan;

- (g) To communicate the Plan and its requirements to Participants;
- (h) To take such actions as the Company may deem necessary or advisable to correct any errors in the operation of the Plan; and
- (i) To take such other actions as the Company may deem necessary for the proper administration and operation of the Plan in accordance with its terms.

### **11.3 Interested Committee Member**

No member of the Committee who is also an Employee of an Employer shall be excluded from participating in the Plan if otherwise eligible. If a member of the Committee (or one of its delegates or designees) also is a Participant in the Plan, he may not decide or determine any matter or question concerning distributions of any kind to be made to him or her or the nature or mode of settlement of his benefits unless such decision or determination could be made by him or her under the Plan if he were not serving on the Committee.

### **11.4 Compensation and Expenses**

Unless paid by an Employer, all reasonable costs, charges, and expenses incurred in the administration of this Plan, including expenses incurred by the Committee, compensation to an investment manager, and any compensation to agents, attorneys, actuaries, accountants, recordkeepers, and other persons performing services on behalf of this Plan or for the Committee, may be drawn from (a) Accounts, in the form of a flat fee or a percentage of the value of each Account, (b) notional earnings or gains in each Investment Fund, or (c) an account maintained under a trust related to the Plan (if any).

### **11.5 Information Required by Company**

Each person entitled to benefits under the Plan must file with the Company from time to time in writing such person's mailing address and each change of mailing address. Any communication, statement, or notice addressed to any person at the last mailing address filed with the Company will be binding upon such person for all purposes of the Plan. Each person entitled to benefits under the Plan also shall furnish the Company with such documents, evidence, data, or information as the Company considers necessary or desirable for the purposes of administering the Plan. The Employers shall furnish the Company with such data and information as the Company may deem necessary or desirable in order to administer the Plan. The records of the Employers as to an Employee's or Participant's period of employment or membership on the Board, termination of employment or membership and the reason therefor, leave of absence, reemployment, and Compensation will be conclusive on all persons unless determined to the Company's satisfaction to be incorrect.

## **11.6 Uniform Application of Rules**

The Company shall administer the Plan on a reasonable basis. Any rules, procedures, or regulations established by the Company shall be applied uniformly to all persons similarly situated.

## **11.7 Review of Benefit Determinations**

Claims for benefits under the Plan shall be administered in accordance with Section 503 of ERISA, the regulations thereunder, and such reasonable claims procedures as may be established by the Company. The Plan shall provide adequate notice to any Participant, Spouse, Beneficiary, or other claimant whose claim for benefits under the Plan has been denied, setting forth the reasons for such denial, and shall afford such claimant a reasonable opportunity for a full and fair review. After exhaustion of the Plan's claim procedures, any further legal action taken against the Plan or its fiduciaries by the Participant, Spouse, or Beneficiary (or other claimant) for benefits under the Plan must be filed in a court of law no later than 120 days after the Company's final decision regarding the claim. No action at law or in equity shall be brought to recover benefits under this Plan until the appeal rights herein provided have been exercised and the Plan benefits requested in such appeal have been denied in whole or in part. All decisions and communications to Participants, Spouses, Beneficiaries, or other persons regarding a claim for benefits under the Plan shall be held strictly confidential by the Participant, Spouse, or Beneficiary (or other claimant), and the Company, the Employers, and their agents.

## **11.8 Company's Decision Final**

Benefits under the Plan will be paid only if the Company decides in its sole discretion that a Participant or Beneficiary (or other claimant) is entitled to them. Subject to applicable law, any interpretation of the provisions of the Plan and any decisions on any matter within the discretion of the Company made by the Company or its delegate in good faith shall be binding on all persons. A misstatement or other mistake of fact shall be corrected when it becomes known and the Company shall make such adjustment on account thereof as it considers equitable and practicable.

## SECTION 12 AMENDMENT AND TERMINATION

While the Company expects and intends to continue the Plan, the Company reserves the right to amend the Plan at any time and for any reason, including the right to amend this Section 12 and the Plan termination rules herein; provided, however, that each Participant will be entitled to the amount credited to his Accounts immediately prior to such amendment . The Company's power to amend the Plan includes (without limitation) the power to change the Plan provisions regarding eligibility, contributions, notional investments, vesting, and distribution forms, and timing of payments, including changes applicable to benefits accrued prior to the effective date of any such amendment; provided, however, that amendments to the Plan (other than amendments relating to Plan termination) shall not cause the Plan to provide for acceleration of distributions in violation of Section 409A of the Code and applicable regulations thereunder

The Company reserves the right to terminate the Plan at any time and for any reason; provided, however, that each Participant will be entitled to the amount credited to his Accounts immediately prior to such termination (but such Accounts shall not be adjusted for future notional income, losses, expenses, appreciation and depreciation).

In the event that the Plan is terminated pursuant to this Section 12, the balances in affected Participants' Accounts shall be distributed at the time and in the manner set forth in Section 9. Notwithstanding the foregoing, the Company reserves the right to make all such distributions within the second twelve-month period commencing with the date of termination of the Plan; provided, however, that no such distribution will be made during the first twelve-month period following such date of Plan termination other than those that would otherwise be payable under Section 9 absent the termination of the Plan.

IN WITNESS WHEREOF, the Company has signed this Plan document, as amended and restated effective as of March 24, 2016

The GAP, Inc

By: /s/ Greg Holmes  
Greg Holmes

Title: Vice President, Global Human Resources

## APPENDIX A

### **Merger of The Gap, Inc. Executive Deferred Compensation Plan into Gap Inc. Deferred Compensation Plan (prior to June 30, 2009, known as the Gap Inc. Supplemental Deferred Compensation Plan)**

A-1. Introduction. The Gap, Inc. (the “Company”) maintains The Gap, Inc. Executive Deferred Compensation Plan (the “EDCP”) for the benefit of certain of its eligible employees. As of the close of business on June 30, 2009 (the “Merger Date”), the EDCP shall be merged into and continued in the form of this Plan.

A-2. Purpose. The purpose of this Appendix A is to set forth special provisions which will apply under the Plan on and after June 30, 2009 to reflect the merger and resulting transfer of notional accounts of participants in the EDCP into the Plan on the Merger Date. The Plan is designed to comply with the American Jobs Creation Act of 2004, as amended (the “Jobs Act”), and section 409A of the Code. The Plan is intended to conform to the requirements of the Jobs Act and section 409A of the Code, and final Treasury Regulations issued thereunder, with respect to Non-Grandfathered amounts under the Plan. It is intended that the provisions of the Plan relating to the amounts merged into the Plan from the EDCP be interpreted for periods prior to January 1, 2009 according to a good faith interpretation of the Jobs Act and section 409A of the Code, and consistent with published guidance thereunder, including, without limitation, IRS Notice 2005-1 and the proposed and final Treasury Regulations under section 409A of the Code. Treatment of amounts deferred under the Plan pursuant to and in accordance with any transition rules provided under all IRS published guidance and other applicable authorities in connection with the Jobs Act or section 409A of the Code, shall be expressly authorized hereunder and shall be administered in accordance with procedures established by the Company. In the event of any inconsistency between the terms of the Plan and the Jobs Act or section 409A of the Code with respect to Non-Grandfathered amounts, the terms of the Jobs Act and section 409A of the Code shall prevail and govern. “Grandfathered Amounts” shall mean the portion of the participant’s account balance under the EDCP as of December 31, 2004, the right to which was earned and vested (within the meaning of Treasury Regulation §1.409A-6(a)(2)) as of December 31, 2004, plus the right to future contributions to the account the right to which was earned and vested (within the meaning of Treasury Regulation. §1.409A-6(a)(2)) as of December 31, 2004, to the extent such contributions are actually made, each determined by reference to the terms of the EDCP in effect as of October 3, 2004, but only to the extent such EDCP terms have not been materially modified (within the meaning of Treasury Regulation §1.409A-6(a)(4)) after October 3, 2004. Grandfathered Amounts shall include any earnings (within the meaning of Treasury Regulation. §1.409A-1(o)) attributable thereto. “Non-Grandfathered Amounts” shall mean the Participant’s Account balance under the Plan less any portion of the Participant’s Account balance under the Plan constituting Grandfathered Amounts.

A-3. Participation in the Plan. Each employee of the Company who, immediately prior to the Merger Date, was a participant with an account under the EDCP (an “Appendix A Participant”) became a Participant with an Account under the Plan effective as of the Merger Date, in accordance with the provisions of the Plan, as described in paragraph A-4 below.

A-4. Prior Accounts. Notional amounts credited to the notional accounts maintained under the EDCP for Appendix A Participants, as adjusted as of the Merger Date in accordance with the terms of the EDCP ( the “Prior Accounts”), will be credited to this Plan as of the Merger Date, and shall be notionally invested in the corresponding Investment Funds under this Plan to the extent determined by the Investment Committee and, at the discretion of the Investment Committee, as directed by the Appendix A Participant. Notwithstanding the foregoing, “Grandfathered Amounts” shall be held in separate “Grandfathered Accounts” and subaccounts to the extent deemed necessary and desirable by the Company.

A-5. Termination Date. The Termination Date with respect to an Appendix A Participant applicable to an Appendix A Participant’s Grandfathered Amounts shall be the date on which the Appendix A Participant ceases to perform services with the Company and any affiliate.

A-6. Former Participants. Former participants in the EDCP who terminated employment prior to the Merger Date but have not received payment in full of their vested Prior Account balances by that date shall have their remaining Prior Account balances maintained under the Plan. Such former participants in the EDCP with Prior Account balances under the Plan (or, in case of their death, their beneficiaries) may direct the notional investment of their Accounts pursuant to the provisions of the Plan until such Accounts are paid out in full and only for this purpose shall be treated as a “Participant” or a “Beneficiary”, as the case may be, under the Plan. Until payment in full is made, the Prior Account balances shall be adjusted pursuant to the terms of the Plan.

A-7. Manner of Distribution. The elections made by participants under the EDCP with respect to the manner of distribution of their Prior Account balances, plus notional appreciation, income, and earnings and minus notional depreciation and losses thereon (“Adjusted Prior Account Balances”) shall continue to apply to Adjusted Prior Account Balances of Appendix A Participants under this Plan on and after the Merger Date. Upon the Participant’s Termination date, the unvested portion of such Account shall be permanently forfeited.

A-8. In-Service Withdrawals. With respect to Grandfathered Amounts, the Company, in its sole discretion and notwithstanding any contrary provision of the Plan, may determine that all or part of the Appendix A Participant’s vested Prior Account shall be paid to him or her immediately as an in-service withdrawal; provided, however, that an amount equal to ten percent of the total amount of the in-service withdrawal shall be withheld by the Company and permanently forfeited. Appendix A Participants shall be limited to one in-service withdrawal per Plan Year.

A-9. Timing of Distributions. Adjusted Prior Account Balances of Appendix A Participants shall be distributed pursuant to the terms of this Plan. Notwithstanding the

foregoing, with respect to Grandfathered Amounts, distributions shall be made as soon as practicable following an Appendix A Participant's Termination Date. Installment payments shall be made as soon as practicable following an Appendix A Participant's Retirement date (age 50) or death, with respect to Grandfathered Amounts. Payments made pursuant to an in-service distribution election with respect to Grandfathered Amounts shall be made on or before the last working day of April of the plan year in which such payment was elected to be made. Within the specific time periods described in this Appendix A, the Company shall have sole discretion to determine the specific timing of the payment of any Grandfathered Amounts under the Plan. The provisions of subsection 5.4 of the Plan shall apply only to Non-Grandfathered Amounts for Appendix A Participants.

A-10. Use of Terms. Terms used in this Appendix A with respect to the Plan shall, unless defined in this Appendix A, have the meanings of those terms as defined in the Plan. All of the terms and provisions of the Plan shall apply to this Appendix A.



[GAP INC. LETTERHEAD]

February 1, 2016

Julie Gruber

Dear Julie:

This letter is to confirm our offer to you as Executive Vice President, Global General Counsel, Corporate Secretary and Chief Compliance Officer, Gap Inc.

**Salary.** Effective on your Start Date, your annual salary will be \$575,000, payable every two weeks. You are scheduled to receive a compensation review in March 2017, based on your time in the position.

**Start Date.** Your first day in your new position will be February 29, 2016, reporting to Art Peck, Chief Executive Officer, Gap Inc.

**Annual Bonus.** Based on your position as Executive Vice President, you will be eligible for an annual bonus based on Gap Inc. and/or Division financial objectives (weighted at 75%) and individual performance (weighted at 25%). Effective on your Start Date, your annual target bonus will be 80% of your base salary. Depending on results, your actual bonus, if any, may be higher or lower and can reach a maximum of 160%. Bonus payments will be prorated based on active time in position, divisional or country assignment and changes in base salary or incentive target that may occur during the fiscal year including any changes related to your acceptance of this position. Bonuses for fiscal 2016 are scheduled for payment in March 2017 and you must be employed by Gap Inc. on the payment date. Gap Inc. has the right to modify the program at any time. Management discretion can be used to modify the final award amount. Bonus payments are subject to supplemental income tax withholding.

**Special Stock Award.** Subject to approval by the Compensation and Management Development Committee of the Board of Directors (the "Committee") and the provisions of Gap Inc.'s stock plan, you will be granted stock awards covering 20,000 shares of Gap Inc. common stock on the date the award is approved by the Committee (the "date of grant"). We anticipate the date of grant will occur in March 2016. Awards are in the form of units that are paid in Gap Inc. stock upon vesting. The award will become vested as shown in the schedule below, provided you are employed by Gap Inc. on the vesting date. Awards are subject to income tax withholding upon vesting.

Stock Award of 10,000 shares vesting two years from date of grant.

Stock Award of 10,000 shares vesting three years from date of grant.

**Long-Term Growth Program.** Based on your position as Executive Vice President, you will be eligible to participate in the Long-Term Growth Program that rewards achievement of Gap Inc. and/or Division financial objectives over a three year period. You are eligible to participate in the program for the fiscal 2016-2018 performance cycle. Your target opportunity to earn performance shares will be 120% of your base salary. Depending on results, your actual performance shares, if any, may be higher or lower and can reach a maximum of 300% of target shares. Awards are made in the form of performance shares that are paid in Gap Inc. stock upon vesting. The number of earned performance shares, if any, will be determined no later than March 2019. Payout is subject to certification by the Committee and the provisions of Gap Inc.'s stock plan. Earned shares will vest 50% on the date the Committee certifies attainment and 50% one year from the certification date provided you are employed by Gap Inc. on the vesting dates. Gap Inc. has the right to modify the program at any time. Committee discretion can be used to modify the final share amount. Shares are subject to income tax withholding upon vesting.

The Long-Term Growth Program replaces the annual Performance Stock Award Program, which you will no longer be eligible for as of the beginning of fiscal 2016. However, to the extent earned, you will receive a final award under the Performance Stock Award Program in March 2016 for fiscal 2015 performance. Your performance stock award target remains 50% of base salary for the balance of fiscal 2015.

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**Termination/Severance.** In the event that your employment is involuntarily terminated by the Company for reasons other than For Cause (as defined below) prior to February 13, 2018, the Company will provide you the following after your "separation from service" within the meaning of Section 409A of the Internal Revenue Code (the "Separation from Service"), provided you sign a general release of claims in the form requested by the Company and it becomes effective within 45 calendar days after such Separation from Service (such 45<sup>th</sup> day, the "Release Deadline"):

(1) Your then current salary, at regular pay cycle intervals, for eighteen months commencing in the first regular pay cycle following the Release Deadline (the "severance period"). Payments will cease if you accept other employment or professional relationship with a competitor of the Company (defined as another company primarily engaged in the apparel design or apparel retail business or any retailer with apparel sales in excess of \$500 million annually), or if you breach your remaining obligations to the Company (e.g., your duty to protect confidential information, agreement not to solicit Company employees). Payments will be reduced by any compensation you receive (as received) during the severance period from other employment or professional relationship with a non-competitor. Each payment will be treated as a separate payment for purposes of Section 409A of the Internal Revenue Code.

(2) Through the end of the period in which you are receiving payments under paragraph (1) above, if you properly elect and maintain COBRA coverage, payment of a portion of your COBRA premium in a method as determined by the Company. This payment may be taxable income to you and subject to tax withholding. Notwithstanding the foregoing, the Company's payment of the monthly COBRA premium shall cease immediately if the Company determines in its discretion that paying such monthly COBRA premium would result in the Company being in violation of, or incurring any fine, penalty, or excise tax under, applicable law (including, without limitation, any penalty imposed for violation of the nondiscrimination requirements under the Patient Protection and Affordable Care Act or guidance issued thereunder).

(3) Through the end of the period in which you are receiving payments under paragraph (1) above, reimbursement for your costs to maintain the same or comparable financial counseling program the Company provides to senior executives in effect at the time of your Separation from Service. The amount of expenses eligible for reimbursement during a calendar year shall not affect the expenses eligible for reimbursement in any other calendar year. Reimbursement shall be made on or before the last day of the calendar year following the calendar year in which the reimbursement is incurred but not later than the end of the second calendar year following the calendar year of your Separation from Service.

(4) Prorated Annual Bonus for the fiscal year in which the termination occurs, on the condition that you have worked at least 3 months of the fiscal year in which you are terminated, based on actual financial results and 100% standard for the individual component. Such bonus will be paid in March of the year following termination at the time Annual Bonuses for the year of termination are paid, but in no event later than the 15<sup>th</sup> day of the third month following the later of the end of the Company's taxable year or the end of the calendar year in which such termination occurs.

(5) Accelerated vesting (but not settlement) of restricted stock units ("RSUs") and performance shares that remain subject only to time vesting conditions (excluding any performance shares that remain subject to performance-based vesting conditions) scheduled to vest prior to April 1 following the fiscal year of termination. Shares of the Company stock in settlement of any vested RSUs and/or performance shares under this section will be delivered on the applicable regularly scheduled vesting dates subject to the terms and conditions of the applicable award agreement including, without limitation, the Internal Revenue Code Section 409A six-month delay language thereunder to the extent necessary to avoid taxation under Section 409A of the Internal Revenue Code.

The payments in (1), (3), (4) and (5) above are, and the payment described in (2) above may be, taxable income to you and are subject to tax withholding. If the aggregate amount that would be payable to you

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under paragraphs (1), (2), (3) and (4) above through the date which is six months after your Separation from Service (excluding amounts exempt from Section 409A of the Internal Revenue Code under the short-term deferral rule thereunder or Treas. Reg. Section 1.409A-1(b)(9)(v)) exceeds the limit under Treas. Reg. Section 1.409A-1(b)(9)(iii)(A) and you are a “specified employee” under Treas. Reg. Section 1.409A-1(i) on the date of your Separation from Service, then the excess will be paid to you no earlier than the date which is six months after the date of such separation (or such earlier time permitted under Section 409A(a)(2)(B)(i) of the Internal Revenue Code). This delay will only be imposed to the extent required to avoid the tax for which you would otherwise be liable under Section 409A(a)(1)(B) of the Internal Revenue Code. Any delayed payment instead will be made on the first business day following the expiration of the six month period, as applicable (or such earlier time permitted under Section 409A(a)(2)(B)(i) of the Internal Revenue Code). Payments that are not delayed will be paid in accordance with their terms determined without regard to such delay.

The term “For Cause” shall mean a good faith determination by the Company that your employment be terminated for any of the following reasons: (1) indictment, conviction or admission of any crimes involving theft, fraud or moral turpitude; (2) engaging in gross neglect of duties, including willfully failing or refusing to implement or follow direction of the Company; or (3) breaching Gap Inc.’s policies and procedures, including but not limited to the Code of Business Conduct.

At any time, if you voluntarily resign your employment from Gap Inc. or your employment is terminated For Cause, you will receive no compensation, payment or benefits after your last day of employment. If your employment terminates for any reason, you will not be entitled to any payments, benefits or compensation other than as provided in this letter.

**Recoupment Policy.** As an Executive Vice President, the Company’s recoupment policy will apply to you. Under the current policy, subject to the discretion and approval of the Board, Gap Inc. will, to the extent permitted by governing law, in all appropriate cases as determined by the Board, require reimbursement and/or cancellation of any bonus or other incentive compensation, including stock-based compensation, awarded to an executive officer or other member of the Gap Inc.’s executive leadership team where all of the following factors are present: (a) the award was predicated upon the achievement of certain financial results that were subsequently the subject of a restatement, (b) in the Board’s view, the executive engaged in fraud or intentional misconduct that was a substantial contributing cause to the need for the restatement, and (c) a lower award would have been made to the executive based upon the restated financial results. In each such instance, Gap Inc. will seek to recover the individual executive’s entire annual bonus or award for the relevant period, plus a reasonable rate of interest.

**Benefits/Indemnification.** You are eligible to participate in Gap Inc. health and welfare benefit programs offered to similarly situated Corporate Executive Vice Presidents. Gap Inc. reserves the right to change its health and welfare programs at any time. Gap Inc. provides you certain indemnification and insurance as more fully described in Article V. of the Gap Inc. By-laws.

**Abide by Gap Inc. Policies/Protection of Gap Inc. Information.** You agree to abide by all Gap Inc. policies including, but not limited to, policies contained in the Code of Business Conduct. As a Corporate Executive Vice President, you are subject to Stock Ownership Requirements for Gap Inc. Executives which can be found on Gapinc.com. You also agree to abide by the Confidentiality and Non-Solicitation terms below during and after your employment with Gap Inc.

**Insider Trading Policies.** Based on the level of your position, you will be subject to Gap Inc.’s Securities Law Compliance Manual, which among other things places restrictions on your ability to buy and sell Gap Inc. stock and requires you to pre-clear trades. This position will subject you to the requirements of Section 16 of the United States Securities and Exchange Act of 1934, as amended. If you do not already have a copy of the compliance manual, or have questions about it, you should contact Gap Inc. Global Equity Administration, at (415) 427-8478.

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**Confidentiality.** You acknowledge that you will be in a relationship of confidence and trust with Gap Inc. As a result, during your employment with Gap Inc., you will acquire “Confidential Information,” which is information (whether in electronic or any other format) that people outside Gap Inc. never see, such as unannounced product information or designs, business or strategic plans, financial information and organizational charts, and other materials.

You agree that you will keep the Confidential Information in strictest confidence and trust. You will not, without the prior written consent of Gap Inc.’s CEO, directly or indirectly use or disclose to any person or entity any Confidential Information, during or after your employment, except as is necessary in the ordinary course of performing your duties while employed by Gap Inc., or if required to be disclosed by order of a court of competent jurisdiction, administrative agency or governmental body, or by subpoena, summons or other legal process, provided that prior to such disclosure, Gap Inc. is given reasonable advance notice of such order and an opportunity to object to such disclosure.

You agree that in the event your employment terminates for any reason, you will immediately deliver to Gap Inc. all company property, including all documents, materials or property of any description, or any reproduction of such materials, containing or pertaining to any Confidential Information.

**Non-Solicitation of Employees.** In order to protect Confidential Information, you agree that so long as you are employed by Gap Inc., and for a period of one year thereafter, you will not directly or indirectly, on behalf of yourself, any other person or entity, solicit, call upon, recruit, or attempt to solicit any of Gap Inc.’s employees or in any way encourage any Gap Inc. employee to leave their employment with Gap Inc. You further agree that you will not directly or indirectly, on behalf of yourself, any other person or entity, interfere or attempt to interfere with Gap Inc.’s relationship with any person who at any time was an employee, consultant, customer or vendor or otherwise has or had a business relationship with Gap Inc.

**Non-disparagement.** You agree now, and after your employment with the Gap Inc. terminates not to, directly or indirectly, disparage Gap Inc. in any way or to make negative, derogatory or untrue statements about Gap Inc., its business activities, or any of its directors, managers, officers, employees, affiliates, agents or representatives to any person or entity.

**Employment Status.** You understand that your employment is “at-will”. This means that you do not have a contract of employment for any particular duration or limiting the grounds for your termination in any way. You are free to resign at any time. Similarly, Gap Inc. is free to terminate your employment at any time for any reason. The only way your at-will status can be changed is through a written agreement with Gap Inc., signed by an authorized officer of Gap Inc. In the event that there is any dispute over the terms, enforcement or obligations in this letter, the prevailing party shall be entitled to recover from the other party reasonable attorney fees and costs incurred to enforce any agreements.

Please note that except for those agreements or plans referenced in this letter and attachments, this letter contains the entire understanding of the parties with respect to this offer of employment and supersedes any other agreements, representations or understandings (whether oral or written and whether express or implied) with respect to this offer. Please review and sign this letter. You may keep one original for your personal records.

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Julie, welcome to your new position and congratulations on this latest achievement in your career path at Gap Inc.

Yours sincerely,

/s/ Art Peck

Art Peck  
Chief Executive Officer, Gap Inc.

Confirmed this 4th day of February, 2016

/s/ Julie Gruber

Julie Gruber

## CERTIFICATIONS

I, Arthur Peck, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Gap, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 3, 2016

/s/ Arthur Peck

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Arthur Peck

Chief Executive Officer

*(Principal Executive Officer)*

## CERTIFICATIONS

I, Sabrina L. Simmons, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Gap, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 3, 2016

/s/ Sabrina L. Simmons

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Sabrina L. Simmons

Executive Vice President and Chief Financial Officer

*(Principal Financial Officer)*

**Certification of the Chief Executive Officer  
Pursuant to 18 U.S.C. Section 1350,  
As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of The Gap, Inc. (the "Company") on Form 10-Q for the period ended April 30, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Arthur Peck, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: June 3, 2016

/s/ Arthur Peck

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Arthur Peck

Chief Executive Officer

*(Principal Executive Officer)*



**Certification of the Chief Financial Officer**  
**Pursuant to 18 U.S.C. Section 1350,**  
**As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of The Gap, Inc. (the "Company") on Form 10-Q for the period ended April 30, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Sabrina L. Simmons, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: June 3, 2016

/s/ Sabrina L. Simmons

Sabrina L. Simmons

Executive Vice President and Chief Financial Officer

*(Principal Financial Officer)*

