
**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 October 31, 2015

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 November 27, 2015 was 401,902,135.

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;
- announced strategic actions related to Gap brand, including planned store closures in North America, Europe and Asia, and the timing of the store closures;
- 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;
- the impact of new product to market processes on product acceptance;
- continuing investment in digital capabilities;
- further enhancing our shopping experience for our customers;
- continuing our global growth, including opening additional stores in Asia with a focus on Gap China, Old Navy China, and Old Navy Japan;
- opening additional Athleta stores;
- the impact of foreign exchange rate fluctuations on our financial results;
- announced strategic actions to position Gap brand for improved business performance, including right-sizing the fleet, streamlining the headquarter workforce, and developing a clear, on-brand product aesthetic framework;
- charges in fiscal 2015 associated with the strategic actions primarily related to Gap brand;
- 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 2015; 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 risks to our efforts to expand internationally, including our ability to operate under a global brand structure, foreign exchange fluctuations, and operating in regions where we have less experience;
 - 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;
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- 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 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 our investments in omni-channel shopping initiatives may not deliver the results we anticipate;
- the risk that comparable sales and margins will experience fluctuations;
- the risk that changes in our credit profile or deterioration in market conditions may limit our access to the capital markets and adversely impact our financial results or our business initiatives;
- the risk that updates or changes to our information technology (“IT”) systems may disrupt our operations;
- the risk that 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 31, 2015 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 December 8, 2015, 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 31, 2015.

THE GAP, INC.
TABLE OF CONTENTS

	<u>Page</u>
<u>PART I - FINANCIAL INFORMATION</u>	
Item 1. Financial Statements	1
Condensed Consolidated Balance Sheets as of October 31, 2015, January 31, 2015, and November 1, 2014	1
Condensed Consolidated Statements of Income for the Thirteen and Thirty-Nine Weeks Ended October 31, 2015 and November 1, 2014	2
Condensed Consolidated Statements of Comprehensive Income for the Thirteen and Thirty-Nine Weeks Ended October 31, 2015 and November 1, 2014	3
Condensed Consolidated Statements of Cash Flows for the Thirty-Nine Weeks Ended October 31, 2015 and November 1, 2014	4
Notes to Condensed Consolidated Financial Statements	5
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	17
Item 3. Quantitative and Qualitative Disclosures About Market Risk	23
Item 4. Controls and Procedures	23
<u>PART II - OTHER INFORMATION</u>	
Item 1. Legal Proceedings	24
Item 1A. Risk Factors	24
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	24
Item 6. Exhibits	24

PART I – FINANCIAL INFORMATION
Item 1. Financial Statements.

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

(\$ and shares in millions except par value)	October 31, 2015	January 31, 2015	November 1, 2014
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 1,042	\$ 1,515	\$ 954
Merchandise inventory	2,498	1,889	2,553
Other current assets	821	913	816
Total current assets	4,361	4,317	4,323
Property and equipment, net of accumulated depreciation of \$5,673, \$5,532, and \$5,555	2,814	2,773	2,777
Other long-term assets	631	600	719
Total assets	<u>\$ 7,806</u>	<u>\$ 7,690</u>	<u>\$ 7,819</u>
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Current maturities of debt	\$ 421	\$ 21	\$ 22
Accounts payable	1,327	1,173	1,477
Accrued expenses and other current liabilities	997	1,020	1,011
Income taxes payable	23	20	12
Total current liabilities	2,768	2,234	2,522
Long-term liabilities:			
Long-term debt	1,331	1,332	1,358
Lease incentives and other long-term liabilities	1,098	1,141	1,084
Total long-term liabilities	2,429	2,473	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 404, 421, and 424 shares	20	21	21
Retained earnings	2,484	2,797	2,680
Accumulated other comprehensive income	105	165	154
Total stockholders' equity	2,609	2,983	2,855
Total liabilities and stockholders' equity	<u>\$ 7,806</u>	<u>\$ 7,690</u>	<u>\$ 7,819</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		39 Weeks Ended	
	October 31, 2015	November 1, 2014	October 31, 2015	November 1, 2014
Net sales	\$ 3,857	\$ 3,972	\$ 11,412	\$ 11,727
Cost of goods sold and occupancy expenses	2,417	2,376	7,132	7,096
Gross profit	1,440	1,596	4,280	4,631
Operating expenses	1,026	1,042	3,111	3,067
Operating income	414	554	1,169	1,564
Interest expense	19	19	41	55
Interest income	(1)	(1)	(3)	(2)
Income before income taxes	396	536	1,131	1,511
Income taxes	148	185	425	568
Net income	\$ 248	\$ 351	\$ 706	\$ 943
Weighted-average number of shares - basic	406	432	415	439
Weighted-average number of shares - diluted	408	437	417	444
Earnings per share - basic	\$ 0.61	\$ 0.81	\$ 1.70	\$ 2.15
Earnings per share - diluted	\$ 0.61	\$ 0.80	\$ 1.69	\$ 2.12
Cash dividends declared and paid per share	\$ 0.23	\$ 0.22	\$ 0.69	\$ 0.66

See Accompanying Notes to Condensed Consolidated Financial Statements

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

(\$ in millions)	13 Weeks Ended		39 Weeks Ended	
	October 31, 2015	November 1, 2014	October 31, 2015	November 1, 2014
Net income	\$ 248	\$ 351	\$ 706	\$ 943
Other comprehensive income (loss), net of tax:				
Foreign currency translation	(2)	(22)	(9)	(13)
Change in fair value of derivative financial instruments, net of tax (tax benefit) of \$(4), \$27, \$9, and \$24	(4)	59	22	51
Reclassification adjustment for realized gains on derivative financial instruments, net of tax of \$(14), \$(6), \$(31), and \$(11)	(33)	(12)	(73)	(19)
Other comprehensive income (loss), net of tax	(39)	25	(60)	19
Comprehensive income	\$ 209	\$ 376	\$ 646	\$ 962

See Accompanying Notes to Condensed Consolidated Financial Statements

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

(\$ in millions)	39 Weeks Ended	
	October 31, 2015	November 1, 2014
Cash flows from operating activities:		
Net income	\$ 706	\$ 943
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	438	412
Amortization of lease incentives	(48)	(47)
Share-based compensation	58	76
Tax benefit from exercise of stock options and vesting of stock units	22	34
Excess tax benefit from exercise of stock options and vesting of stock units	(24)	(35)
Non-cash and other items	(45)	(52)
Deferred income taxes	(6)	(29)
Changes in operating assets and liabilities:		
Merchandise inventory	(615)	(644)
Other current assets and other long-term assets	30	174
Accounts payable	149	244
Accrued expenses and other current liabilities	(24)	(99)
Income taxes payable, net of prepaid and other tax-related items	69	(8)
Lease incentives and other long-term liabilities	24	145
Net cash provided by operating activities	734	1,114
Cash flows from investing activities:		
Purchases of property and equipment	(505)	(508)
Proceeds from sale of property and equipment	—	121
Other	(4)	(1)
Net cash used for investing activities	(509)	(388)
Cash flows from financing activities:		
Proceeds from issuance of short-term debt	400	—
Proceeds from issuances under share-based compensation plans	60	76
Withholding tax payments related to vesting of stock units	(68)	(51)
Repurchases of common stock	(822)	(1,046)
Excess tax benefit from exercise of stock options and vesting of stock units	24	35
Cash dividends paid	(285)	(290)
Other	(1)	—
Net cash used for financing activities	(692)	(1,276)
Effect of foreign exchange rate fluctuations on cash and cash equivalents	(6)	(6)
Net decrease in cash and cash equivalents	(473)	(556)
Cash and cash equivalents at beginning of period	1,515	1,510
Cash and cash equivalents at end of period	\$ 1,042	\$ 954
Non-cash investing activities:		
Purchases of property and equipment not yet paid at end of period	\$ 85	\$ 93
Supplemental disclosure of cash flow information:		
Cash paid for interest during the period	\$ 76	\$ 77
Cash paid for income taxes during the period, net of refunds	\$ 338	\$ 570

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 October 31, 2015 and November 1, 2014, the Condensed Consolidated Statements of Income and the Condensed Consolidated Statements of Comprehensive Income for the thirteen and thirty-nine weeks ended October 31, 2015 and November 1, 2014, and the Condensed Consolidated Statements of Cash Flows for the thirty-nine weeks ended October 31, 2015 and November 1, 2014 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 October 31, 2015 and November 1, 2014 and for all periods presented. The Condensed Consolidated Balance Sheet as of January 31, 2015 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. We suggest that you read these Condensed Consolidated Financial Statements in conjunction with the Consolidated Financial Statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended January 31, 2015.

The results of operations for the thirteen and thirty-nine weeks ended October 31, 2015 are not necessarily indicative of the operating results that may be expected for the 52-week period ending January 30, 2016.

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. We are currently assessing the potential impact of the ASU on our Condensed Consolidated Financial Statements.

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

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

In November 2015, the FASB issued ASU No. 2015-17, Income Taxes: Balance Sheet Classification of Deferred Taxes, which changes how deferred taxes are classified on the balance sheet. The ASU eliminates the current 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. We are currently assessing the potential impact of the ASU on our Condensed Consolidated Financial Statements.

Note 3. Debt and Credit Facilities

Total long-term debt, less current portion, is as follows:

(\$ in millions)	October 31, 2015	January 31, 2015	November 1, 2014
Notes	\$ 1,248	\$ 1,247	\$ 1,247
Japan Term Loan	104	106	133
Total long-term debt	1,352	1,353	1,380
Less: Current portion	(21)	(21)	(22)
Total long-term debt, less current portion	\$ 1,331	\$ 1,332	\$ 1,358

As of October 31, 2015, January 31, 2015, and November 1, 2014, 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, \$1.44 billion, and \$1.41 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 October 31, 2015, January 31, 2015, and November 1, 2014, 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 (\$21 million as of October 31, 2015) are payable on January 15 of each year, and commenced on January 15, 2015, with a final repayment of 7.5 billion Japanese yen (\$62 million as of October 31, 2015) 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 October 31, 2015, 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 was set to expire in May 2018. On May 20, 2015, the Facility was amended under substantially similar terms to extend the expiration date to May 2020 and improve the pricing structure. There were no borrowings and no material outstanding standby letters of credit under the Facility as of October 31, 2015.

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 \$49 million as of October 31, 2015. As of October 31, 2015, there were no borrowings under the Foreign Facilities. There were \$12 million in bank guarantees issued and outstanding primarily related to store leases under the Foreign Facilities as of October 31, 2015.

We have bilateral unsecured standby letter of credit agreements that are uncommitted and do not have expiration dates. As of October 31, 2015, we had \$21 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 October 31, 2015.

Note 4. Fair Value Measurements

There were no purchases, sales, issuances, or settlements related to recurring level 3 measurements during the thirteen and thirty-nine weeks ended October 31, 2015 or November 1, 2014. There were no transfers of financial assets or liabilities into or out of level 1 and level 2 during the thirteen and thirty-nine weeks ended October 31, 2015 or November 1, 2014.

Financial Assets and Liabilities

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

(\$ in millions)	October 31, 2015	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)
Assets:				
Cash equivalents	\$ 174	\$ 62	\$ 112	\$ —
Derivative financial instruments	84	—	84	—
Deferred compensation plan assets	41	41	—	—
Total	\$ 299	\$ 103	\$ 196	\$ —
Liabilities:				
Derivative financial instruments	\$ 8	\$ —	\$ 8	\$ —

(\$ in millions)	January 31, 2015	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)
Assets:				
Cash equivalents	\$ 429	\$ 88	\$ 341	\$ —
Derivative financial instruments	157	—	157	—
Deferred compensation plan assets	40	40	—	—
Total	\$ 626	\$ 128	\$ 498	\$ —
Liabilities:				
Derivative financial instruments	\$ 1	\$ —	\$ 1	\$ —

(\$ in millions)	November 1, 2014	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)
Assets:				
Cash equivalents	\$ 241	\$ 29	\$ 212	\$ —
Derivative financial instruments	98	—	98	—
Deferred compensation plan assets	40	40	—	—
Total	\$ 379	\$ 69	\$ 310	\$ —
Liabilities:				
Derivative financial instruments	\$ 2	\$ —	\$ 2	\$ —

We have highly liquid investments classified as cash equivalents, which are placed primarily in time deposits and money market funds. These investments are classified as held-to-maturity based on our positive intent and ability to hold the securities to maturity. We value these investments at their original purchase prices plus interest that has accrued at the stated rate.

Derivative financial instruments primarily include foreign exchange forward contracts. The principal currencies hedged against changes in the U.S. dollar are British pounds, Canadian dollars, Euro, and Japanese yen. 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 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 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 impairment charges recorded for goodwill for the thirteen and thirty-nine weeks ended October 31, 2015.

We review the carrying amount of indefinite-lived intangible assets and long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In June 2015, the Company announced a series of strategic actions to position Gap brand for improved business performance in the future, including its plan to close about 175 Gap brand specialty stores in North America and a limited number of European stores over the next few years. In addition, the Company now expects to close a limited number of stores in Asia. As a result of the strategic actions, in the third quarter of fiscal 2015, we recorded an impairment charge of \$5 million related to an indefinite-lived intangible asset and \$2 million related to long-lived assets. We also recorded an impairment charge of \$4 million for long-lived assets that were unrelated to the Gap brand strategic actions.

The impairment charges were recorded in operating expenses in the Condensed Consolidated Statement of Income and reduced the then carrying amount of the applicable indefinite-lived intangible asset of \$6 million to its fair value of \$1 million and the applicable long-lived assets of \$6 million to their fair value of zero during the thirteen weeks ended October 31, 2015.

We recorded a charge for the impairment of long-lived assets of \$43 million during the thirty-nine weeks ended October 31, 2015, which reduced the then carrying amount of the applicable long-lived assets of \$49 million to their fair value of \$6 million.

The fair value of the long-lived assets was determined using level 3 inputs and based on discounted future cash flows of the asset or asset group using a discount rate commensurate with the risk. The asset group is defined as the lowest level for which identifiable cash flows are available and largely independent of the cash flows of other groups of assets, which for our retail stores is primarily at the store level.

There were no material impairment charges recorded for goodwill, other indefinite-lived intangible assets, or other long-lived assets for the thirteen and thirty-nine weeks ended November 1, 2014.

Note 5. Derivative Financial Instruments

We operate in foreign countries, which exposes us to market risk associated with foreign currency exchange rate fluctuations. 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 principal currencies hedged against changes in the U.S. dollar are British pounds, Canadian dollars, Euro, and Japanese yen. We do not enter into derivative financial contracts for trading purposes. 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 and thirty-nine weeks ended October 31, 2015 or November 1, 2014 as a result 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 and thirty-nine weeks ended October 31, 2015 or November 1, 2014 as a result 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, 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:

(notional amounts in millions)	October 31, 2015	January 31, 2015	November 1, 2014
U.S. dollars (1)	\$ 1,731	\$ 1,395	\$ 1,615
Canadian dollars	C\$ 45	C\$ 14	C\$ 14
Euro	€ 2	€ 1	€ 1
Japanese Yen	¥ 850	¥ —	¥ —

(1) The principal currencies hedged against changes in the U.S. dollar were British pounds, Canadian dollars, Euro, and Japanese yen.

Quantitative Disclosures about Derivative Financial Instruments

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

(\$ in millions)	October 31, 2015	January 31, 2015	November 1, 2014
Derivatives designated as cash flow hedges:			
Other current assets	\$ 56	\$ 115	\$ 59
Other long-term assets	\$ 12	\$ 23	\$ 23
Accrued expenses and other current liabilities	\$ 3	\$ —	\$ 1
Lease incentives and other long-term liabilities	\$ 3	\$ —	\$ —
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	\$ 16	\$ 18	\$ 16
Other long-term assets	\$ —	\$ —	\$ —
Accrued expenses and other current liabilities	\$ 2	\$ 1	\$ 1
Lease incentives and other long-term liabilities	\$ —	\$ —	\$ —
Total derivatives in an asset position	\$ 84	\$ 157	\$ 98
Total derivatives in a liability position	\$ 8	\$ 1	\$ 2

The majority of the unrealized gains and losses from designated cash flow hedges as of October 31, 2015 will be recognized in income within the next 12 months at the then-current values, which may differ from the fair values as of October 31, 2015 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 \$5 million, \$1 million, and \$2 million as of October 31, 2015, January 31, 2015, and November 1, 2014, respectively. If we did elect to offset, the net amounts of our derivative financial instruments in an asset position would be \$79 million, \$156 million, and \$96 million and the net amounts of the derivative financial instruments in a liability position would be \$3 million as of October 31, 2015, and zero as of January 31, 2015 and November 1, 2014.

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		39 Weeks Ended	
	October 31, 2015	November 1, 2014	October 31, 2015	November 1, 2014
Derivatives in cash flow hedging relationships:				
Gain (loss) recognized in other comprehensive income	\$ (8)	\$ 86	\$ 31	\$ 75
Gain reclassified into cost of goods sold and occupancy expenses	\$ 45	\$ 16	\$ 99	\$ 26
Gain reclassified into operating expenses	\$ 2	\$ 2	\$ 5	\$ 4
Derivatives in net investment hedging relationships:				
Gain recognized in other comprehensive income	\$ —	\$ 2	\$ 1	\$ 2

For the thirteen and thirty-nine weeks ended October 31, 2015 and November 1, 2014, 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		39 Weeks Ended	
	October 31, 2015	November 1, 2014	October 31, 2015	November 1, 2014
Gain (loss) recognized in operating expenses	\$ —	\$ 8	\$ —	\$ 6

Note 6. Share Repurchases

Share repurchase activity is as follows:

(\$ and shares in millions except average per share cost)	13 Weeks Ended		39 Weeks Ended	
	October 31, 2015	November 1, 2014	October 31, 2015	November 1, 2014
Number of shares repurchased	6.2	11.4	21.8	26.0
Total cost	\$ 200	\$ 433	\$ 807	\$ 1,016
Average per share cost including commissions	\$ 32.17	\$ 37.95	\$ 36.93	\$ 39.15

Between November 2013 and February 2015, the Board of Directors authorized a total of \$2.5 billion for share repurchases, of which \$495 million was remaining as of October 31, 2015.

All of the share repurchases were paid for as of October 31, 2015 and November 1, 2014. All except \$15 million of total share repurchases were paid for as of January 31, 2015. 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		39 Weeks Ended	
	October 31, 2015	November 1, 2014	October 31, 2015	November 1, 2014
Stock units	\$ 12	\$ 18	\$ 46	\$ 64
Stock options	2	3	8	8
Employee stock purchase plan	1	2	4	4
Share-based compensation expense	15	23	58	76
Less: Income tax benefit	(6)	(8)	(22)	(29)
Share-based compensation expense, net of tax	<u>\$ 9</u>	<u>\$ 15</u>	<u>\$ 36</u>	<u>\$ 47</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 31, 2015	\$ 60	\$ 105	\$ 165
13 Weeks Ended May 2, 2015:			
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	66	74	140
13 Weeks Ended August 1, 2015:			
Foreign currency translation	(13)	—	(13)
Change in fair value of derivative financial instruments	—	36	36
Amounts reclassified from accumulated other comprehensive income	—	(19)	(19)
Other comprehensive income (loss), net	(13)	17	4
Balance at August 1, 2015	53	91	144
13 Weeks Ended October 31, 2015:			
Foreign currency translation	(2)	—	(2)
Change in fair value of derivative financial instruments	—	(4)	(4)
Amounts reclassified from accumulated other comprehensive income	—	(33)	(33)
Other comprehensive loss, net	(2)	(37)	(39)
Balance at October 31, 2015	\$ 51	\$ 54	\$ 105

(\$ in millions)	Foreign Currency Translation	Cash Flow Hedges	Total
Balance at February 1, 2014	\$ 107	\$ 28	\$ 135
13 Weeks Ended May 3, 2014:			
Foreign currency translation	11	—	11
Change in fair value of derivative financial instruments	—	(11)	(11)
Amounts reclassified from accumulated other comprehensive income	—	(5)	(5)
Other comprehensive income (loss), net	11	(16)	(5)
Balance at May 3, 2014	118	12	130
13 Weeks Ended August 2, 2014:			
Foreign currency translation	(2)	—	(2)
Change in fair value of derivative financial instruments	—	3	3
Amounts reclassified from accumulated other comprehensive income	—	(2)	(2)
Other comprehensive income (loss), net	(2)	1	(1)
Balance at August 2, 2014	116	13	129
13 Weeks Ended November 1, 2014:			
Foreign currency translation	(22)	—	(22)
Change in fair value of derivative financial instruments	—	59	59
Amounts reclassified from accumulated other comprehensive income	—	(12)	(12)
Other comprehensive income (loss), net	(22)	47	25
Balance at November 1, 2014	\$ 94	\$ 60	\$ 154

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 October 31, 2015, it is reasonably possible that we will recognize a decrease in gross unrecognized tax benefits within the next 12 months of up to \$5 million, primarily due to the potential settlement of outstanding tax matters and 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.

During the thirty-nine weeks ended October 31, 2015, we recognized an interest expense reversal of approximately \$15 million primarily as a result of a favorable foreign tax ruling and actions of foreign tax authorities related to transfer pricing matters. We reduced our unrecognized tax benefits for this matter by \$31 million, and there was no impact on the tax provision due to the offsetting impact for the U.S. indirect effect of these unrecognized tax benefits.

Note 10. Earnings Per Share

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

(shares in millions)	13 Weeks Ended		39 Weeks Ended	
	October 31, 2015	November 1, 2014	October 31, 2015	November 1, 2014
Weighted-average number of shares - basic	406	432	415	439
Common stock equivalents	2	5	2	5
Weighted-average number of shares - diluted	408	437	417	444

The above computations of weighted-average number of shares – diluted exclude 4 million and 2 million shares related to stock options and other stock awards for the thirteen weeks ended October 31, 2015 and November 1, 2014, respectively, and 3 million and 1 million shares related to stock options and other stock awards for the thirty-nine weeks ended October 31, 2015 and November 1, 2014, 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 October 31, 2015, 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 October 31, 2015, January 31, 2015, and November 1, 2014, 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 October 31, 2015, January 31, 2015, and November 1, 2014 was not material for any individual Action or in total. Subsequent to October 31, 2015 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 October 31, 2015, our operating segments included Gap Global, Old Navy Global, Banana Republic Global, Athleta, and Intermix. The operating results for the thirty-nine weeks ended October 31, 2015 and the thirteen and thirty-nine weeks ended November 1, 2014 also include Piperlime, which was discontinued as of April 30, 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 October 31, 2015.

Net sales by brand and region are as follows:

(\$ in millions)						
13 Weeks Ended October 31, 2015	Gap Global	Old Navy Global	Banana Republic Global	Other (2)	Total	Percentage of Net Sales
U.S. (1)	\$ 838	\$ 1,449	\$ 520	\$ 159	\$ 2,966	77%
Canada	94	118	56	—	268	7
Europe	182	—	17	—	199	5
Asia	300	50	26	—	376	10
Other regions	34	6	8	—	48	1
Total	\$ 1,448	\$ 1,623	\$ 627	\$ 159	\$ 3,857	100%
Sales growth (decline)	(7)%	4%	(11)%	4%	(3)%	

(\$ in millions)						
13 Weeks Ended November 1, 2014	Gap Global	Old Navy Global	Banana Republic Global	Other (3)	Total	Percentage of Net Sales
U.S. (1)	\$ 907	\$ 1,390	\$ 581	\$ 152	\$ 3,030	76%
Canada	105	129	63	1	298	8
Europe	198	—	22	—	220	6
Asia	296	39	33	—	368	9
Other regions	49	—	7	—	56	1
Total	\$ 1,555	\$ 1,558	\$ 706	\$ 153	\$ 3,972	100%
Sales growth (decline)	(3)%	3%	1%	(2)%	—%	

(\$ in millions)						
39 Weeks Ended October 31, 2015	Gap Global	Old Navy Global	Banana Republic Global	Other (3)	Total	Percentage of Net Sales
U.S. (1)	\$ 2,368	\$ 4,352	\$ 1,598	\$ 511	\$ 8,829	77%
Canada	251	344	167	2	764	7
Europe	522	—	54	—	576	5
Asia	855	142	80	—	1,077	10
Other regions	128	12	26	—	166	1
Total	\$ 4,124	\$ 4,850	\$ 1,925	\$ 513	\$ 11,412	100%
Sales growth (decline)	(8)%	4%	(7)%	(2)%	(3)%	

(\$ in millions)						
39 Weeks Ended November 1, 2014	Gap Global	Old Navy Global	Banana Republic Global	Other (3)	Total	Percentage of Net Sales
U.S. (1)	\$ 2,585	\$ 4,202	\$ 1,705	\$ 519	\$ 9,011	77%
Canada	280	357	174	3	814	7
Europe	605	—	71	—	676	6
Asia	856	102	107	—	1,065	9
Other regions	139	—	22	—	161	1
Total	\$ 4,465	\$ 4,661	\$ 2,079	\$ 522	\$ 11,727	100%
Sales growth (decline)	(2)%	3%	2%	10%	1%	

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

(2) Includes Athleta and Intermix.

(3) Includes Piperlime, Athleta, and Intermix.

Online sales are reflected within the respective results of each brand and region in the net sales above. Total online sales were \$635 million and \$621 million for the thirteen weeks ended October 31, 2015 and November 1, 2014, respectively. Total online sales were \$1.7 billion for each of the thirty-nine weeks ended October 31, 2015 and November 1, 2014.

Net sales by region are allocated based on the location in which the sale was 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. We have franchise agreements with unaffiliated franchisees to operate Gap, Banana Republic, and Old Navy stores throughout Asia, Australia, Europe, Latin America, the Middle East, and Africa. Under these agreements, third parties operate, or will operate, stores that sell apparel and related products under our brand names. Our products are also available to customers online through Company-owned websites and through the use of third parties that provide logistics and fulfillment services. In addition to operating in the specialty, outlet, online, and franchise channels, we also use our omni-channel capabilities to bridge the digital world and physical stores to further enhance our shopping experience for our customers. Our omni-channel services include order-in-store, reserve-in-store, find-in-store, and ship-from-store. 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

Financial results for the third quarter of fiscal 2015 are as follows:

- Net sales for the third quarter of fiscal 2015 decreased 3 percent compared with the third quarter of fiscal 2014. Excluding the impact of foreign exchange, our net sales were flat for the third quarter of fiscal 2015 compared with the third quarter of fiscal 2014. See Net Sales discussion for impact of foreign exchange.
- Comparable sales for the third quarter of fiscal 2015 decreased 2 percent compared with a 2 percent decrease for the third quarter of fiscal 2014.
- Operating margin for the third quarter of fiscal 2015 was 10.7 percent compared with 13.9 percent for the third quarter of fiscal 2014.
- Net income for the third quarter of fiscal 2015 was \$248 million compared with \$351 million for the third quarter of fiscal 2014, and diluted earnings per share was \$0.61 for the third quarter of fiscal 2015 compared with \$0.80 for the third quarter of fiscal 2014.
- During the first three quarters of fiscal 2015, we distributed \$1.1 billion to shareholders through share repurchases and dividends.

For fiscal 2015, our top priority is putting new product to market processes in place at Gap brand and Banana Republic that we expect will result in more consistent product acceptance. These processes are largely already in place at our largest brand, Old Navy. Further, we expect to continue our investment in digital capabilities and to further enhance our shopping experience for our customers. We also plan to continue our global growth, including opening additional stores in Asia with a focus on Gap China, Old Navy China, and Old Navy Japan. In addition, we also expect to open additional Athleta stores in the United States.

In fiscal 2015, we expect that foreign exchange rate fluctuations will continue to have a meaningful negative impact on our results, particularly in our largest foreign subsidiaries in Canada and Japan. With the depreciation of the Canadian dollar, Japanese yen, and other foreign currencies, we expect net sales translated into U.S. dollars will negatively impact our total Company net sales growth. In addition, we expect gross margins for our foreign subsidiaries to be negatively impacted as our merchandise purchases are primarily in U.S. dollars. We expect this negative impact of foreign exchange rate fluctuations to be partially offset by the favorable impact of translation of expenses in foreign currencies into U.S. dollars.

In June 2015, we announced a series of strategic actions to position Gap brand for improved business performance in the future, including our decision to right-size the Gap brand store fleet and streamline the brand's headquarter workforce. The Company expects to close approximately 175 specialty stores in North America and a limited number of European stores. In addition, the Company now expects to close a limited number of stores in Asia. The North America and International store closures will take place over the next few years, with about 140 closures occurring in fiscal 2015. The brand's headquarter workforce is expected to be reduced by approximately 250 roles during fiscal 2015. We are also developing a clear, on-brand product aesthetic framework that will help strengthen the Gap brand to compete more successfully on the global stage. In connection with the strategic actions, the Company incurred certain charges during the third quarter of fiscal 2015, primarily consisting of impairment charges and employee related expenses. The charges incurred during the thirty-nine weeks ended October 31, 2015 primarily consist of impairment of store assets related to underperforming stores, lease termination fees and lease losses, and impairment of inventory that did not meet brand standards.

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

(\$ in millions) 13 Weeks Ended October 31, 2015	Cost of Goods Sold and Occupancy Expenses	Operating Expenses	Total Charges
Store closures and workforce reduction:			
Lease termination fees and lease losses	\$ —	\$ (3)	\$ (3)
Employee related expenses	2	2	4
Store asset impairment	1	2	3
Other	1	1	2
Total	4	2	6
Other charges:			
Inventory impairment	2	—	2
Other intangible asset impairment	—	5	5
Total	2	5	7
Total charges related to strategic actions	\$ 6	\$ 7	\$ 13

(\$ in millions) 39 Weeks Ended October 31, 2015	Cost of Goods Sold and Occupancy Expenses	Operating Expenses	Total Charges
Store closures and workforce reduction:			
Lease termination fees and lease losses	\$ —	\$ 20	\$ 20
Employee related expenses	5	12	17
Store asset impairment	2	5	7
Other	1	4	5
Total	8	41	49
Other charges:			
Store asset impairment related to underperforming stores	—	33	33
Inventory impairment	20	—	20
Other intangible asset impairment	—	5	5
Total	20	38	58
Total charges related to strategic actions	\$ 28	\$ 79	\$ 107

Including the charges incurred in the thirty-nine weeks ended October 31, 2015, the Company expects to incur approximately \$130 million to \$140 million of charges in fiscal 2015 associated with the strategic actions primarily related to Gap brand.

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		39 Weeks Ended	
	October 31, 2015	November 1, 2014	October 31, 2015	November 1, 2014
Gap Global	(4)%	(5)%	(7)%	(5)%
Old Navy Global	4 %	1 %	3 %	2 %
Banana Republic Global	(12)%	— %	(8)%	— %
The Gap, Inc.	(2)%	(2)%	(3)%	(1)%

Comparable online sales favorably impacted total Company Comp sales by 1 percent and 2 percent in the third quarter of fiscal 2015 and 2014, respectively. Comparable online sales favorably impacted total Company Comp sales by 1 percent and 2 percent in the first three quarters of fiscal 2015 and 2014, respectively.

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

A store is included in the Comp sales calculations when it has been open and operated by the Company for at least one year and the selling square footage

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

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

A store is considered “Closed” if it is temporarily closed for three or more full consecutive days or it is permanently closed. When a temporarily closed store reopens, the store will be placed in the Comp/Non-comp status it was in prior to its closure. If a store was in Closed status for three or more days in the prior year, the store will be in Non-comp status for the same days the following year.

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

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

Store Count and Square Footage Information

Net sales per average square foot is as follows:

	13 Weeks Ended		39 Weeks Ended	
	October 31, 2015	November 1, 2014	October 31, 2015	November 1, 2014
Net sales per average square foot (1)	\$ 82	\$ 86	246	\$ 260

(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 31, 2015	39 Weeks Ended October 31, 2015		October 31, 2015	
	Number of Store Locations	Number of Stores Opened	Number of Stores Closed	Number of Store Locations	Square Footage (in millions)
Gap North America	960	25	46	939	9.8
Gap Asia	266	34	1	299	2.9
Gap Europe	189	5	10	184	1.6
Old Navy North America	1,013	27	13	1,027	17.4
Old Navy Asia	43	14	—	57	0.8
Banana Republic North America	610	18	10	618	5.2
Banana Republic Asia	44	6	—	50	0.2
Banana Republic Europe	11	—	—	11	0.1
Athleta North America	101	17	—	118	0.5
Intermix North America	42	2	1	43	0.1
Piperlime North America	1	—	1	—	—
Company-operated stores total	3,280	148	82	3,346	38.6
Franchise	429	42	23	448	N/A
Total	3,709	190	105	3,794	38.6
Increase over prior year				3.1%	1.6%

	February 1, 2014	39 Weeks Ended November 1, 2014		November 1, 2014	
	Number of Store Locations	Number of Stores Opened	Number of Stores Closed	Number of Store Locations	Square Footage (in millions)
Gap North America	968	32	23	977	10.2
Gap Asia	228	24	3	249	2.5
Gap Europe	193	—	4	189	1.6
Old Navy North America	1,004	27	16	1,015	17.3
Old Navy Asia	18	18	—	36	0.5
Banana Republic North America	596	25	11	610	5.1
Banana Republic Asia	43	4	2	45	0.2
Banana Republic Europe	11	—	—	11	0.1
Athleta North America	65	28	1	92	0.4
Intermix North America	37	4	—	41	0.1
Piperlime North America	1	—	—	1	—
Company-operated stores total	3,164	162	60	3,266	38.0
Franchise	375	51	12	414	N/A
Total	3,539	213	72	3,680	38.0
Increase over prior year				4.7%	2.2%

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

Net Sales

Our net sales for the third quarter of fiscal 2015 decreased \$115 million, or 3 percent, compared with the third quarter of fiscal 2014 primarily due to the unfavorable impact of foreign exchange of \$99 million and a decrease in net sales primarily at Gap and Banana Republic; partially offset by an increase in net sales at Old Navy. The unfavorable impact of foreign exchange was primarily due to the weakening of the Japanese yen and Canadian dollar against the U.S. dollar. The foreign exchange impact is the translation impact if net sales for the third quarter of fiscal 2014 were translated at exchange rates applicable during the third quarter of fiscal 2015. Excluding the impact of foreign exchange, our net sales for the third quarter of fiscal 2015 were flat on a constant currency basis compared with the third quarter of fiscal 2014. We believe this metric enhances the visibility of underlying business trends by excluding the impact of foreign currency exchange rate fluctuations.

Our net sales for the first three quarters of fiscal 2015 decreased \$315 million, or 3 percent, compared with the first three quarters of fiscal 2014 primarily due to the unfavorable impact of foreign exchange of \$287 million and a decrease in net sales primarily at Gap and Banana Republic; partially offset by an increase in net sales at Old Navy. The unfavorable impact of foreign exchange was primarily due to the weakening of the Japanese yen and Canadian dollar against the U.S. dollar. The foreign exchange impact is the translation impact if net sales during the first three quarters of fiscal 2014 were translated at exchange rates applicable during the first three quarters of fiscal 2015. Excluding the impact of foreign exchange, our net sales for the first three quarters of fiscal 2015 were flat on a constant currency basis compared with the first three quarters of fiscal 2014. We believe this metric enhances the visibility of underlying business trends by excluding the impact of foreign currency exchange rate fluctuations.

Cost of Goods Sold and Occupancy Expenses

(\$ in millions)	13 Weeks Ended		39 Weeks Ended	
	October 31, 2015	November 1, 2014	October 31, 2015	November 1, 2014
Cost of goods sold and occupancy expenses	\$ 2,417	\$ 2,376	\$ 7,132	\$ 7,096
Gross profit	\$ 1,440	\$ 1,596	\$ 4,280	\$ 4,631
Cost of goods sold and occupancy expenses as a percentage of net sales	62.7%	59.8%	62.5%	60.5%
Gross margin	37.3%	40.2%	37.5%	39.5%

Cost of goods sold and occupancy expenses increased 2.9 percentage points in the third quarter of fiscal 2015 compared with the third quarter of fiscal 2014.

- Cost of goods sold increased 2.4 percentage points in the third quarter of fiscal 2015 compared with the third quarter of fiscal 2014 primarily driven by increased markdown activities. Cost of goods sold in the third quarter of fiscal 2015 was also negatively impacted by foreign exchange as our merchandise purchases are primarily in U.S. dollars.
- Occupancy expenses increased 0.5 percentage points in the third quarter of fiscal 2015 compared with the third quarter of fiscal 2014, primarily driven by the decrease in net sales without a corresponding decrease in occupancy expenses.

Cost of goods sold and occupancy expenses increased 2.0 percentage points during the first three quarters of fiscal 2015 compared with the first three quarters of fiscal 2014.

- Cost of goods sold increased 1.4 percentage points during the first three quarters of fiscal 2015 compared with the first three quarters of fiscal 2014 primarily driven by increased markdown activities and incremental shipping costs partially due to the U.S. West Coast port congestion. Cost of goods sold in the first three quarters of fiscal 2015 was also negatively impacted by foreign exchange as our merchandise purchases are primarily in U.S. dollars.
- Occupancy expenses increased 0.6 percentage points during the first three quarters of fiscal 2015 compared with the first three quarters of fiscal 2014, primarily driven by the decrease in net sales without a corresponding decrease in occupancy expenses.

Operating Expenses

(\$ in millions)	13 Weeks Ended		39 Weeks Ended	
	October 31, 2015	November 1, 2014	October 31, 2015	November 1, 2014
Operating expenses	\$ 1,026	\$ 1,042	\$ 3,111	\$ 3,067
Operating expenses as a percentage of net sales	26.6%	26.2%	27.3%	26.2%
Operating margin	10.7%	13.9%	10.2%	13.3%

Operating expenses decreased \$16 million, but increased 0.4 percentage points, in the third quarter of fiscal 2015 compared with the third quarter of fiscal 2014. The decrease in operating expenses was largely driven by a decrease in marketing expenses primarily at Gap.

Operating expenses increased \$44 million, or 1.1 percentage points, during the first three quarters of fiscal 2015 compared with the first three quarters of fiscal 2014. The increase in operating expenses was primarily due to charges associated with the store closures, workforce reduction, and store asset impairment, primarily related to Gap brand, as well as the gain on sale of a building recognized in the second quarter of fiscal 2014; partially offset by a decrease in marketing expenses primarily at Gap and Banana Republic, and a favorable translation impact as a result of foreign exchange rate fluctuations.

Interest Expense

(\$ in millions)	13 Weeks Ended		39 Weeks Ended	
	October 31, 2015	November 1, 2014	October 31, 2015	November 1, 2014
Interest expense	\$ 19	\$ 19	\$ 41	\$ 55

Interest expense for the third quarter of fiscal 2015 and 2014 primarily consists of interest on overall borrowings and other obligations mainly related to our \$1.25 billion 5.95 percent Notes.

Interest expense during the first three quarters of fiscal 2015 includes \$56 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 \$15 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. Interest expense during the first three quarters of fiscal 2014 primarily consists of interest on overall borrowings and other obligations mainly related to our \$1.25 billion 5.95 percent Notes.

Income Taxes

(\$ in millions)	13 Weeks Ended		39 Weeks Ended	
	October 31, 2015	November 1, 2014	October 31, 2015	November 1, 2014
Income taxes	\$ 148	\$ 185	\$ 425	\$ 568
Effective tax rate	37.4%	34.5%	37.6%	37.6%

The increase in the effective tax rate for the third quarter of fiscal 2015 compared with the third quarter of fiscal 2014 was primarily due to the recognition of foreign tax credits upon a distribution of certain foreign earnings that occurred during the third quarter of fiscal 2014.

The effective tax rate was flat during the first three quarters of fiscal 2015 compared with the first three quarters of fiscal 2014, primarily due to the impact of the indefinite reinvestment of certain fiscal 2015 foreign earnings, which was offset by the impact of the recognition of the foreign tax credits upon a distribution of certain foreign earnings made during the third quarter of fiscal 2014.

LIQUIDITY AND CAPITAL RESOURCES

Our largest source of cash flows is cash collections from the sale of our merchandise. Our primary uses of cash include merchandise inventory purchases, occupancy costs, personnel-related expenses, purchases of property and equipment, share repurchases, and payment of taxes. As of October 31, 2015, cash and cash equivalents were \$1.0 billion. As of October 31, 2015, over half of our cash and cash equivalents were held in the U.S. 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 three quarters of fiscal 2015 decreased \$380 million compared with the first three quarters of fiscal 2014, primarily due to the following:

- a decrease of \$237 million in net income;
- a decrease of \$144 million related to other current assets and other long-term assets primarily due to the change in timing of payments received related to our credit card program, which resulted in increased cash inflow in the first three quarters of fiscal 2014;
- a decrease of \$121 million related to lease incentives and other long-term liabilities primarily due to the receipt of an upfront payment in the first three quarters of fiscal 2014 related to the amendment of our credit card program agreement with the third-party financing company, which is being amortized into income over the term of the contract;
- a decrease of \$95 million related to accounts payable primarily due to the timing of merchandise payments; partially offset by
- an increase of \$77 million related to income taxes payable, net of prepaid and other-tax related items, primarily due to a prepayment in fiscal 2014 for estimated taxes related to the upfront payment for the amendment of our credit card program agreement;
- an increase of \$75 million related to accrued expenses and other current liabilities primarily due to a lower bonus payout in the first three quarters of fiscal 2015 compared with the bonus payout in the first three quarters of fiscal 2014; and
- an increase of \$29 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 three quarters of fiscal 2015 increased \$121 million compared with the first three quarters of fiscal 2014, primarily due to the following:

- \$121 million of proceeds from the sale of a building owned but no longer occupied by the Company in the first three quarters of fiscal 2014.

Cash Flows from Financing Activities

Net cash used for financing activities during the first three quarters of fiscal 2015 decreased \$584 million compared with the first three quarters of fiscal 2014, primarily due to the following:

- \$400 million proceeds from the issuance of short-term debt in fiscal 2015; and
- \$224 million less repurchases of common stock; partially offset by
- \$8 million net cash out flows for fiscal 2015 compared with \$25 million net cash inflows for fiscal 2014 related to issuances under share-based compensation plans and withholding tax payments related to vesting of stock units.

Free Cash Flow

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

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

(\$ in millions)	39 Weeks Ended	
	October 31, 2015	November 1, 2014
Net cash provided by operating activities	\$ 734	\$ 1,114
Less: Purchases of property and equipment	(505)	(508)
Free cash flow	\$ 229	\$ 606

Long-Term Debt and Credit Facilities

Certain financial information about the Company's long-term 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 \$0.69 per share and \$0.66 per share during the first three quarters of fiscal 2015 and fiscal 2014, respectively. Including the dividend paid during the first three quarters of fiscal 2015, we intend to pay an annual dividend of \$0.92 per share for fiscal 2015 compared with the annual dividend of \$0.88 per share for fiscal 2014.

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 31, 2015, other than those which occur in the normal course of business and the \$400 million Term Loan discussed in Note 3 of Notes to Condensed Consolidated Financial Statements included in Part I, Item 1 of this Form 10-Q. 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 31, 2015.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

In October 2015, we entered into a \$400 million unsecured term loan. The Term Loan matures and is payable in full on October 15, 2016, but may be extended until October 15, 2017. As of October 31, 2015, 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. Due to the short-term nature of the loan, we believe we have no material exposure to interest rate risk.

Other than the issuance of the Term Loan described above, our market risk profile as of October 31, 2015 has not significantly changed since January 31, 2015. Our market risk profile as of January 31, 2015 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 third quarter of fiscal 2015 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 31, 2015.

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 October 31, 2015 by The Gap, Inc. or any affiliated purchaser, as defined in Exchange Act Rule 10b-18(a)(3):

	Total Number of Shares Purchased	Average Price Paid Per Share Including Commissions	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or approximate dollar amount) of Shares that May Yet be Purchased Under the Plans or Programs (1)
Month #1 (August 2 - August 29)	3,102,629	\$ 32.23	3,102,629	\$ 595 million
Month #2 (August 30 - October 3)	3,116,026	\$ 32.11	3,116,026	\$ 495 million
Month #3 (October 4 - October 31)	—	\$ —	—	\$ 495 million
Total	<u>6,218,655</u>	\$ 32.17	<u>6,218,655</u>	

(1) On February 26, 2015, we announced that the Board of Directors approved a \$1 billion share repurchase authorization. This authorization has no expiration date.

Item 6. Exhibits.

- 10.1 Credit Agreement dated October 15, 2015. (1)
- 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). (1)
- 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). (1)
- 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. (2)
- 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. (2)
- 101 The following materials from The Gap, Inc.'s Quarterly Report on Form 10-Q for the quarter ended October 31, 2015, 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. (1)

(1) Filed herewith.

(2) 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: December 8, 2015

By /s/ Arthur Peck

Arthur Peck
Chief Executive Officer

Date: December 8, 2015

By /s/ Sabrina L. Simmons

Sabrina L. Simmons
Executive Vice President and Chief Financial Officer

Exhibit Index

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(1) Filed herewith.

(2) Furnished herewith.

U.S. \$400,000,000

CREDIT AGREEMENT

Dated as of October 15, 2015

between

THE GAP, INC.

as the Company, and

THE BANK OF NOVA SCOTIA

as the Lender

TABLE OF CONTENTS

Page

ARTICLE I
DEFINITIONS AND ACCOUNTING TERMS

Section 1.01 Certain Defined Terms1
Section 1.02 Computation of Time Periods12
Section 1.03 Accounting Terms12
Section 1.04 Times of Day12

ARTICLE II
AMOUNTS AND TERMS OF THE ADVANCE

Section 2.01 Advance12
Section 2.02 Making the Advance12
Section 2.03 Additional Fees13
Section 2.04 Termination and Reduction of the Commitment13
Section 2.05 Repayment of the Advance13
Section 2.06 Interest on the Advance13
Section 2.07 Interest Rate Determination14
Section 2.08 Prepayments of the Advance14
Section 2.09 Increased Costs15
Section 2.10 Illegality17
Section 2.11 Extension of the Termination Date17

ARTICLE III
PAYMENTS, TAXES, EVIDENCE OF DEBT, ETC

Section 3.01 Payments Generally18
Section 3.02 Taxes18
Section 3.03 Evidence of Debt/Borrowings21

ARTICLE IV
CONDITIONS OF LENDING

Section 4.01 Conditions Precedent to Effectiveness of This Agreement21
Section 4.02 Conditions Precedent to the Advance22

ARTICLE V
REPRESENTATIONS AND WARRANTIES

Section 5.01 Representations and Warranties of the Company23

ARTICLE VI
COVENANTS OF THE COMPANY

Section 6.01 Affirmative Covenants26
Section 6.02 Negative Covenants27
Section 6.03 Reporting Requirements28

ARTICLE VII
EVENTS OF DEFAULT

TABLE OF CONTENTS
(continued)

Page

Section 7.01	Events of Default	29
ARTICLE VIII MISCELLANEOUS		
Section 8.01	Amendments, Etc	32
Section 8.02	Notices, Etc	32
Section 8.03	No Waiver; Remedies	33
Section 8.04	Costs and Expenses	33
Section 8.05	Right of Set-Off	35
Section 8.06	Binding Effect	35
Section 8.07	Assignments and Participations	36
Section 8.08	Payments Set Aside.....	36
Section 8.09	Severability of Provisions	37
Section 8.10	Independence of Provisions	37
Section 8.11	Confidentiality	37
Section 8.12	Headings	37
Section 8.13	Entire Agreement	38
Section 8.14	Execution in Counterparts	38
Section 8.15	Consent to Jurisdiction	38
Section 8.16	GOVERNING LAW	38
Section 8.17	USA PATRIOT Act	39
Section 8.18	No Advisory or Fiduciary Responsibility	39
Section 8.19	Judgment Currency	39
Section 8.20	WAIVER OF JURY TRIAL	40
	Schedule ICOMPANY’S AND LENDER’S OFFICE; CERTAIN ADDRESSES FOR NOTICES	43
	Schedule IICHANGE OF CONTROL	45
	Schedule III ERISA MATTERS	46
	Schedule IV ENVIRONMENTAL MATTERS.....	47
Exhibit A	ADVANCE/CONTINUATION NOTICE	1
Exhibit B	FORM OF NOTE	1

CREDIT AGREEMENT, dated as of October 15, 2015 (this “Agreement”), between The Gap, Inc., a Delaware corporation (the “Company”), as borrower, and The Bank of Nova Scotia, as lender (the “Lender”).

ARTICLE I

DEFINITIONS AND ACCOUNTING TERMS

Section 1.01 Certain Defined Terms. As used in this Agreement, the following terms shall have the following meanings (such meanings to be equally applicable to both the singular and plural forms of the terms defined):

“Advance” means an extension of credit by the Lender to the Company under ARTICLE II.

“Advance/Continuation Notice” means a notice of (a) a Borrowing or (b) a continuation of all or a portion of the Advance, pursuant to Section 2.02(a), which, if in writing, shall be substantially in the form of Exhibit A or such other form as may be approved by the Lender (including any form on an electronic platform or electronic transmission system as shall be approved by the Lender), appropriately completed and signed by a Responsible Officer of the Company.

“Advance Termination Date” has the meaning specified in Section 2.01.

“Affiliate” means, as to any Person, any other Person that, directly or indirectly, controls, is controlled by, or is under common control with, such Person.

“Applicable Margin” has the meaning specified in Section 2.06.

“Borrowing” means a portion of the Advance having the same Interest Period.

“Business Day” means (a) any day other than a Saturday, Sunday or other day on which commercial banks are authorized to close under the laws of, or are in fact closed in New York City or where the Lender’s Office with respect to Obligations denominated in Dollars is located and (b) any day on which dealings in deposits in Dollars are conducted by and between banks in the London interbank eurodollar market.

“Capital Lease” of any Person means any lease of any property (whether real, personal or mixed) by such Person as lessee, which lease should, in accordance with GAAP, be required to be accounted for as a capital lease on the balance sheet of such Person.

“Capital Lease Obligations” means the obligations of any Person to pay rent or other amounts under a Capital Lease, the amount of which is required to be capitalized on the balance sheet of such Person in accordance with GAAP.

“CERCLA” means the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended (42 U.S.C. § 9601 et seq.), and any regulations promulgated thereunder.

“Change of Control” means the occurrence, after the date of this Agreement, of (i) any Person or two or more Persons acting in concert acquiring beneficial ownership (within the meaning of Rule 13d-3 of the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended), directly or indirectly, of securities of the Company (or other securities convertible into such securities) representing 50% or more of the combined voting power of all securities of the Company entitled to vote in the election of directors; or (ii) during any period of up to 24 consecutive months, commencing before or after the date of this Agreement, individuals who at the beginning of such 24-month period were directors of the Company ceasing for any reason to constitute a majority of the Board of Directors of the Company unless the Persons replacing such individuals were nominated or approved by the Board of Directors of the Company; or (iii) any Person or two or more Persons acting in concert acquiring by contract or otherwise, or entering into a contract or arrangement which upon consummation will result in its or their acquisition of, control over securities of the Company (or other securities convertible into such securities) representing 50% or more of the combined voting power of all securities of the Company entitled to vote in the election of directors; provided, that, the Person or group of Persons referred to in clauses (i) and (iii) of this definition of Change of Control shall not include any Person listed on Schedule II or any group of Persons in which one or more of the Persons listed on Schedule II are members.

“Code” means the Internal Revenue Code of 1986, as amended or replaced and as in effect from time to time.

“Commitment” means, as to the Lender, its obligation to make the Advance to the Company pursuant to Section 2.01 in an aggregate principal amount at any one time outstanding not to exceed \$400,000,000.

“Confidential Information” means certain non-public, confidential or proprietary information and material disclosed, from time to time, either orally, in writing, electronically or in some other form by the Company in connection with the Loan Documents. Confidential Information shall include, but not be limited to non-public, confidential or proprietary information, trade secrets, know-how, inventions, techniques, processes, algorithms, software programs, documentation, screens, icons, schematics, software programs, source documents and other MIS related information; contracts, customer lists, financial information, financial forecasts, sales and marketing plans and information and business plans, products and product designs; textile projections and results; ideas, designs and artwork for all types of marketing, advertising, public relations and commerce (including ideas, designs and artwork related to the World Wide Web and any Web Site of the Company or any Subsidiary); textile designs; advertising, strategies, plans and results; sourcing information; vendor lists, potential product labeling and

marking ideas; all materials including, without limitation, documents, drawings, samples, sketches, designs, and any other information concerning, color palette and color standards furnished to a Recipient by the Company or any Subsidiary; customer base(s); and other non-public information relating to the Company's or any Subsidiary's business.

“Connection Income Taxes” means Other Connection Taxes that are imposed on or measured by net income (however denominated) or that are franchise taxes or branch profits taxes.

“Consolidated” and any derivative thereof each means, with reference to the accounts or financial reports of any Person, the consolidated accounts or financial reports of such Person and each Subsidiary of such Person determined in accordance with GAAP, including principles of consolidation, consistent with those applied in the preparation of the Consolidated financial statements of the Company referred to in Section 5.01(f).

“Constitutive Documents” means, with respect to any Person, the certificate of incorporation or registration (including, if applicable, certificate of change of name), articles of incorporation or association, memorandum of association, charter, bylaws, certificate of limited partnership, partnership agreement, trust agreement, joint venture agreement, certificate of formation, articles of organization, limited liability company operating or members agreement, joint venture agreement or one or more similar agreements, instruments or documents constituting the organization or formation of such Person.

“Credit Extension” means the Advance made or to be made to the Company.

“Debt” of any Person means, without duplication, (i) all indebtedness of such Person for borrowed money or for the deferred purchase price (excluding any deferred purchase price that constitutes an account payable incurred in the ordinary course of business) of property or services, (ii) all obligations of such Person in connection with any agreement to purchase, redeem, exchange, convert or otherwise acquire for value any capital stock of such Person or to purchase, redeem or acquire for value any warrants, rights or options to acquire such capital stock, now or hereafter outstanding, (iii) all obligations of such Person evidenced by bonds, notes, debentures, convertible debentures or other similar instruments, (iv) all indebtedness created or arising under any conditional sale or other title retention agreement (other than under any such agreement which constitutes or creates an account payable incurred in the ordinary course of business) with respect to property acquired by such Person (even though the rights and remedies of the seller or lender under such agreement in the event of default, acceleration, or termination are limited to repossession or sale of such property), (v) all Capital Lease Obligations, (vi) obligations under direct or indirect guaranties in respect of, and obligations (contingent or otherwise) to purchase or acquire, or otherwise to assure a creditor against loss in respect of, indebtedness or obligations of others of the kinds referred to in clauses (i) through (v) above, (vii) all Debt referred to in clause (i), (ii), (iii), (iv), (v),

or (vi) above secured by (or for which the holder of such Debt has an existing right, contingent or otherwise, to be secured by) any lien, security interest or other charge or encumbrance upon or in property (including, without limitation, accounts and contract rights) owned by such Person, even though such Person has not assumed or become liable for the payment of such Debt and (viii) all mandatorily redeemable preferred stock of such Person, valued at the applicable redemption price, plus accrued and unpaid dividends payable in respect of such redeemable preferred stock.

“Default” means an event which would constitute an Event of Default but for the requirement that notice be given or time elapse, or both.

“Default Rate” means an interest rate equal to the interest rate (including the Applicable Margin for the Advance) otherwise applicable to the Advance or any portion thereof plus 2.0% per annum.

“Dollars,” “dollars” and the sign “\$” each means lawful money of the United States.

“Effective Date” has the meaning specified in Section 4.01.

“Environmental Law” means any Requirement of Law relating to (a) the generation, use, handling, transportation, treatment, storage, disposal, release or discharge of Hazardous Substances, (b) pollution or the protection of the environment, health, safety or natural resources or (c) occupational safety and health, industrial hygiene, land use or the protection of human, plant or animal health or welfare, including, without limitation, CERCLA, in each case as amended from time to time, and including the regulations promulgated and the rulings issued from time to time thereunder.

“ERISA Affiliate” means any trade or business (whether or not incorporated) which is a member of a controlled group of which the Company is a member or which is under common control with the Company within the meaning of Section 414 of the Code, and the regulations promulgated and rulings issued thereunder.

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended from time to time, and the regulations promulgated and rulings issued thereunder.

“ERISA Event” means a reportable event with respect to a Plan within the meaning of §4043 of ERISA.

“Eurocurrency Liabilities” has the meaning assigned to that term in Regulation D of the Board of Governors of the Federal Reserve System, as in effect from time to time.

“Eurocurrency Rate” means for any Interest Period with respect to the Advance comprising part of the same Borrowing, the rate per annum equal to the London

Interbank Offered Rate (“LIBOR”) or a comparable or successor rate, which rate is approved by the Lender, as published on the applicable Bloomberg screen page (or such other commercially available source providing such quotations as may be designated by the Lender from time to time) at approximately 11:00 a.m., London time, two London Banking Days prior to the commencement of such Interest Period, for deposits in the relevant currency (for delivery on the first day of such Interest Period) with a term equivalent to such Interest Period; provided that (x) if the Eurocurrency Rate shall be less than zero, such rate shall be deemed zero for purposes of this Agreement and (y) to the extent a comparable or successor rate is approved by the Lender in connection herewith, the approved rate shall be applied in a manner consistent with market practice; provided, further that to the extent such market practice is not administratively feasible for the Lender, such approved rate shall be applied in a manner as otherwise reasonably determined by the Lender.

“Eurocurrency Rate Reserve Percentage” of the Lender for any Interest Period for any portions of the Advance means the reserve percentage applicable during such Interest Period (or if more than one such percentage shall be so applicable, the daily average of such percentages for those days in such Interest Period during which any such percentage shall be so applicable) under regulations issued from time to time by the Board of Governors of the Federal Reserve System (or any successor) for determining the maximum reserve requirement (including, without limitation, any emergency, supplemental or other marginal reserve requirement) for the Lender with respect to liabilities or assets consisting of or including Eurocurrency Liabilities having a term equal to such Interest Period.

“Events of Default” has the meaning specified in Section 7.01.

“Excluded Taxes” means any of the following Taxes imposed on or with respect to any Recipient or required to be withheld or deducted from a payment to a Recipient, (a) Taxes imposed on or measured by net income (however denominated), franchise taxes, and branch profits taxes, in each case, (i) imposed as a result of such Recipient being organized under the laws of, or having its principal office or, in the case of the Lender, its applicable lending office located in, the jurisdiction imposing such Tax (or any political subdivision thereof) or (ii) that are Other Connection Taxes, (b) in the case of the Lender, United States Federal withholding taxes imposed on amounts payable to or for the account of the Lender with respect to an applicable interest in an Advance or Commitment pursuant to a law in effect on the date on which (i) the Lender acquires such interest in an Advance or Commitment or (ii) the Lender changes its Lending Office, except in each case to the extent that, pursuant to Section 3.02(a)(ii) or (c), amounts with respect to such Taxes were payable either to the Lender’s assignor immediately before the Lender became a party hereto or to the Lender immediately before it changed its Lending Office, and (d) any Taxes imposed pursuant to FATCA.

“Extension Option” has the meaning specified in Section 2.11.

“FATCA” means Sections 1471 through 1474 of the Code, as in effect on the date hereof (and any successor or comparable provision that is not materially more onerous), any present or future Treasury Regulations issued thereunder or interpretations thereof, any agreements entered into pursuant to Section 1471(b)(1) of the Code, any intergovernmental agreement between the United States and any other jurisdiction to implement Sections 1471 through 1474 of the Code (an “IGA”), and any law, regulation or other official guidance enacted in any jurisdiction implementing Sections 1471 through 1474 of the Code or an IGA.

“Fiscal Quarter” means any quarter in any Fiscal Year, the duration of such quarter being defined in accordance with GAAP applied consistently with that applied in the preparation of the Company’s financial statements referred to in Section 5.01(f).

“Fiscal Year” means a fiscal year of the Company and its Subsidiaries.

“GAAP” means generally accepted accounting principles in the United States set forth in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or such other principles as may be approved by a significant segment of the accounting profession in the United States, applied on a basis consistent (except for changes concurred in by the Company’s independent public accountants) with the most recent audited consolidated financial statements of the Company and its Subsidiaries delivered pursuant to Section 6.03.

“Governmental Authority” means any nation or government, any state, province, city, municipal entity or other political subdivision thereof, and any governmental, executive, legislative, judicial, administrative or regulatory agency, department, authority, instrumentality, commission, board or similar body, whether federal, state, provincial, territorial, local or foreign.

“Governmental Authorization” means any authorization, approval, consent, franchise, license, covenant, order, ruling, permit, certification, exemption, notice, declaration or similar right, undertaking or other action of, to or by, or any filing, qualification or registration with, any Governmental Authority.

“Hazardous Substance” means (i) any hazardous substance or toxic substance as such terms are presently defined or used in § 101(14) of CERCLA (42 U.S.C. § 9601(14)), in 33 U.S.C. § 1251 et. seq. (Clean Water Act), or 15 U.S.C. § 2601 et. seq. (Toxic Substances Control Act) and (ii) as of any date of determination, any additional substances or materials which are hereafter incorporated in or added to the definition of “hazardous substance” or “toxic substance” for purposes of CERCLA or any other applicable law.

“Indemnified Taxes” means (a) Taxes, other than Excluded Taxes, imposed on or with respect to any payment made by or on account of any obligation of the Company

under any Loan Document and (b) to the extent not otherwise described in clause (a), Other Taxes.

“Interest Period” means, for any portion of the Advance comprising part of the same Borrowing, the period commencing on the date of such portion of the Advance and ending on the last day of the period selected by the Company pursuant to the provisions below and, thereafter, each subsequent period commencing on the last day of the immediately preceding Interest Period and ending on the last day of the period selected by the Company pursuant to the provisions below. The duration of each such Interest Period shall be 1, 2, 3 or 6 months, in each case as the Company may, upon notice received by the Lender not later than 12:00 noon (New York City time) on the third Business Day prior to the first day of such Interest Period, select; provided, however, that:

- (i) the Company may not select any Interest Period which ends after the Termination Date;
- (ii) Interest Periods commencing on the same date any portion of the Advance comprising part of the same Borrowing shall be of the same duration;
- (iii) whenever the last day of any Interest Period would otherwise occur on a day other than a Business Day, the last day of such Interest Period shall be extended to occur on the next succeeding Business Day, provided, in the case of any Interest Period for any portion of the Advance, that if such extension would cause the last day of such Interest Period to occur in the next following calendar month, the last day of such Interest Period shall occur on the next preceding Business Day;
- (iv) the Company may request in an Advance/Continuation Notice an Interest Period of a duration other than 1, 2, 3, or 6 months for any portion of the Advance and the Interest Period for such portion of the Advance shall be for such period, if, and only if, the Lender determines a Eurocurrency Rate for the tenor of such Interest Period and the Lender does not notify the Company pursuant to Section 2.06(a) that the Eurocurrency Rate for such Interest Period will not adequately reflect the cost to the Lender of making, funding or maintaining the Advance for such Interest Period; if both of the preceding conditions are not satisfied with respect to such requested Interest Period, the duration of the requested Interest Period shall be the alternative specified in the Advance/Continuation Notice, or, if no alternative Interest Period is selected, 6 months; and
- (v) any Interest Period that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding

day in the calendar month at the end of such Interest Period) shall end on the last Business Day of the calendar month at the end of such Interest Period.

“IRS” means the United States Internal Revenue Service.

“Laws” means, collectively, all international, foreign, Federal, state and local statutes, treaties, rules, guidelines, regulations, ordinances, codes and administrative or judicial precedents or authorities, including the interpretation or administration thereof by any Governmental Authority charged with the enforcement, interpretation or administration thereof, and all applicable administrative orders, directed duties, requests, licenses, authorizations and permits of, and agreements with, any Governmental Authority, in each case whether or not having the force of law.

“Lender” means The Bank of Nova Scotia, or any eligible assignee hereunder.

“Lender’s Office” means the Lender’s address and, as appropriate, account as set forth on Schedule I, or such other address or account with respect to such currency as the Lender may from time to time notify the Company.

“Lending Office” means the office or offices of the Lender at The Bank of Nova Scotia, 650 West Georgia Street, Suite 1800, Vancouver, British Columbia V6B 4N7, Canada, or such other office or offices as the Lender may from time to time notify to the Company, which office may include any Affiliate of the Lender or any domestic or foreign branch of the Lender or such Affiliate. Unless the context otherwise requires each reference to the Lender shall include its applicable Lending Office.

“Lien” means any assignment, chattel mortgage, pledge or other security interest or any mortgage, deed of trust or other lien, or other charge or encumbrance, upon property or rights (including after-acquired property or rights), or any preferential arrangement with respect to property or rights (including after-acquired property or rights) which has the practical effect of constituting a security interest or lien.

“Loan Documents” means, collectively, this Agreement and any note delivered pursuant to Section 3.03(b), in each case as amended, supplemented or otherwise modified hereafter from time to time in accordance with the terms thereof.

“Margin Stock” has the meaning assigned to such term in Regulation U of the Board of Governors of the Federal Reserve System, as in effect from time to time.

“Material Adverse Change” means any material adverse change in the business, condition (financial or otherwise), results of operations, or prospects of the Company and its Subsidiaries, taken as a whole; provided, that a downgrade of the Company’s public debt ratings or a Negative Pronouncement shall not by itself be deemed to be a material adverse change; provided, further, the occurrence or subsistence of any such material adverse change which has been disclosed (a) by the Company in any filing made with the

Securities and Exchange Commission prior to the date of this Agreement or (b) by the Company in a public announcement prior to the date of this Agreement, shall not constitute a Material Adverse Change.

“Material Adverse Effect” means a material adverse effect on the financial condition or results of operations of the Company and its Subsidiaries taken as a whole.

“Moody’s” means Moody’s Investors Service, Inc.

“Multiemployer Plan” means a “multiemployer plan” as defined in Section 4001(a)(3) of ERISA to which the Company or any ERISA Affiliate is making or accruing an obligation to make contributions or has within any of the preceding five plan years made or accrued an obligation to make contributions.

“Negative Pronouncement” means a public announcement by either S&P or Moody’s in respect to a possible downgrade of, or negative outlook with respect to, the public debt rating of the Company.

“Note” means a promissory note made by the Company in favor of the Lender, in substantially the form of Exhibit B hereto, evidencing the aggregate indebtedness of the Company to the Lender resulting from Advance to be made by the Lender hereunder.

“Obligation” means, with respect to any Person, any payment, performance or other obligation of such Person of any kind, including, without limitation, any liability of such Person on any claim, whether or not the right of any creditor to payment in respect of such claim is reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, disputed, undisputed, legal, equitable, secured or unsecured, and whether or not such claim is discharged, stayed or otherwise affected by any proceeding referred to in Section 7.01(e). Without limiting the generality of the foregoing, the Obligations of the Company under the Loan Documents include (a) the obligation to pay principal, interest, commissions, charges, expenses, fees, attorneys’ fees and disbursements, indemnity payments and other amounts payable by the Company under any Loan Document and (b) the obligation of the Company to reimburse any amount in respect of any of the foregoing items that the Lender, in its sole discretion, may elect to pay or advance on behalf of the Company.

“OFAC” means the Office of Foreign Assets Control of the United States Department of the Treasury.

“Other Connection Taxes” means, with respect to any Recipient, Taxes imposed as a result of a present or former connection between such Recipient and the jurisdiction imposing such Tax (other than connections arising from such Recipient having executed, delivered, become a party to, performed its obligations under, received payments under, received or perfected a security interest under, engaged in any other transaction pursuant

to or enforced any Loan Document, or sold or assigned an interest in any portion of the Advance or Loan Document).

“Other Taxes” means all present or future stamp, court or documentary, intangible, recording, filing or similar Taxes that arise from any payment made under, from the execution, delivery, performance, enforcement or registration of, from the receipt or perfection of a security interest under, or otherwise with respect to, any Loan Document, except any such Taxes that are Other Connection Taxes imposed with respect to an assignment.

“Outstanding Amount” means with respect to the Advance on any date, the aggregate outstanding principal amount thereof after giving effect to any borrowings and prepayments or repayments of any portion of the Advance.

“Person” means an individual, partnership, limited liability company, corporation (including a business trust), joint stock company, trust, unincorporated association, joint venture or other entity, or a government or any political subdivision or agency thereof.

“Plan” means an employee benefit plan (other than a Multiemployer Plan) maintained by the Company or any ERISA Affiliate for its employees and subject to Title IV of ERISA.

“Recipient” has the meaning specified in Section 8.11.

“Register” has the meaning specified in Section 8.07(b).

“Related Parties” means, with respect to any Person, such Person’s Affiliates and the partners, directors, officers, employees, agents, trustees and advisors of such Person and of such Person’s Affiliates.

“Requirements of Law” means, with respect to any Person, all laws, constitutions, statutes, treaties, ordinances, rules and regulations, all orders, writs, decrees, injunctions, judgments, determinations and awards of an arbitrator, a court or any other Governmental Authority, and all Governmental Authorizations, binding upon or applicable to such Person or to any of its properties, assets or businesses.

“Responsible Officer” means, with respect to any certificate, report or notice to be delivered or given hereunder, unless the context otherwise requires, the president, chief executive officer, chief financial officer or treasurer of the Company or other executive officer of the Company who in the normal performance of his or her operational duties would have knowledge of the subject matter relating to such certificate, report or notice and, solely for purposes of notices given pursuant to ARTICLE II, any other officer or employee of the Company so designated by any of the foregoing officers in a notice to the Lender.

“Revolving Credit Agreement” means that certain Amended and Restated Credit Agreement, dated as of May 20, 2015, by and among the Company, certain of its Subsidiaries party thereto, the banks and financial institutions party thereto, as lenders, and Bank of America, N.A., as administrative agent, as such agreement may be amended, restated or otherwise modified from time to time; provided that, for the purposes of Section 6.02(e) and Section 7.01(h), the covenants and events of default (and any related provisions) in the Revolving Credit Agreement in effect at the time the Revolving Credit Agreement terminates, shall continue to be effective for the purposes of Section 6.02(e) and Section 7.01(h); provided, further, any amendments, supplements or modifications becoming effective within the 30-day period prior to the later of the dates when the commitments under the Revolving Credit Agreement are terminated or all obligations thereunder are paid in full, shall be considered part of the Revolving Credit Agreement only if the Lender so agrees.

“Same Day Funds” means immediately available funds.

“Sanctioned Jurisdiction” means any country or territory to the extent that such country or territory itself is the subject of any Sanction.

“Sanction(s)” means any sanction administered or enforced by the United States Government (including without limitation, OFAC), the United Nations Security Council, the European Union, Her Majesty’s Treasury (“HMT”) or other relevant sanctions authority.

“S&P” means Standard & Poor’s Financial Services LLC and any successor thereto.

“Subsidiary” means, with respect to any Person, any corporation, partnership, trust or other Person of which more than 50% of the outstanding capital stock (or similar property right in the case of partnerships and trusts and other Persons) having ordinary voting power to elect a majority of the board of directors of such corporation (or similar governing body or Person with respect to partnerships and trusts and other Persons) (irrespective of whether or not at the time capital stock of any other class or classes of such corporation shall or might have voting power upon the occurrence of any contingency) is at the time directly or indirectly owned by such Person, by such Person and one or more other Subsidiaries of such Person, or by one or more other Subsidiaries of such Person.

“Taxes” means all present or future taxes, levies, imposts, duties, deductions, withholdings (including backup withholding), assessments, fees or other charges imposed by any Governmental Authority, including any interest, additions to tax or penalties applicable thereto.

“Termination Date” means October 15, 2016, or the earlier date of termination in whole of the Commitments pursuant to Section 2.06(a) or Section 7.01 or as extended by exercise of the Extension Option pursuant to Section 2.11.

“United States Person” means any Person that is a “United States Person” as defined in Section 7701(a)(30) of the Code.

“Withdrawal Liability” has the meaning specified in Part I of Subtitle E of Title IV of ERISA.

Section 1.02 Computation of Time Periods. In this Agreement in the computation of periods of time from a specified date to a later specified date, the word “from” means “from and including” and the words “to” and “until” each means “to but excluding”.

Section 1.03 Accounting Terms.

(a) Generally. All accounting terms not specifically or completely defined herein shall be construed in conformity with, and all financial data (including financial ratios and other financial calculations) required to be submitted pursuant to this Agreement shall be prepared in conformity with GAAP as in effect from time to time, except as otherwise specifically prescribed herein.

(b) Changes in GAAP. Notwithstanding any change in GAAP occurring after the Effective Date, the computations of all financial ratios and requirements set forth in any Loan Document shall continue to be computed in accordance with GAAP prior to such change therein.

Section 1.04 Times of Day. (Unless otherwise specified, all references herein to times of day shall be references to Eastern time (daylight or standard, as applicable).

ARTICLE II

AMOUNTS AND TERMS OF THE ADVANCE

Section 2.01 Advance. The Lender agrees, on the terms and conditions hereinafter set forth, to make an Advance to the Company on any single Business Day during the period from the Effective Date until October 25, 2015 (the “Advance Termination Date”) in an aggregate amount not to exceed the Commitment. Amounts borrowed and repaid or prepaid may not be reborrowed. The Advance shall be denominated in Dollars.

Section 2.02 Making the Advance.

(a) The Borrowing and each continuation of the Advance shall be made upon the Company’s irrevocable notice to the Lender, which may be given by telephone. Each such notice must be received by the Lender not later than 11:00 a.m. three Business Days prior to the requested date of the Borrowing of or continuation of the Advance. Each

telephonic notice by the Company pursuant to this Section 2.02 must be confirmed promptly by delivery to the Lender of a written Advance/Continuation Notice, appropriately completed and signed by a Responsible Officer of the Company. Each Advance/Continuation Notice (whether telephonic or written) shall specify (i) whether the Company is requesting the Advance or a continuation of all or a portion the Advance, (ii) the requested date of the Borrowing or continuation, as the case may be (which shall be a Business Day), (iii) the principal amount of the Advance to be borrowed or continued and (iv) the duration of the Interest Period with respect thereto. Unless the Company provides a notice requesting a continuation, the Advance shall be continued with an Interest Period of one month. If the Company requests a Borrowing or continuation of the Advance in any such Advance/Continuation Notice, but fails to specify an Interest Period, it will be deemed to have specified an Interest Period of one month.

(b) Following receipt of an Advance/Continuation Notice, upon satisfaction of the applicable conditions set forth in Section 4.01, the Lender shall make all Advance funds either by wire transfer of such funds or by crediting the account of the Company on the books of the Lender in immediately available funds, in each case in accordance with instructions provided to (and reasonably acceptable to) the Lender by the Company.

(c) There shall not be more than six Interest Periods in effect at any time.

Section 2.03 Additional Fees. There are no upfront or other commitment fees due under this Agreement.

Section 2.04 Termination and Reduction of the Commitment. Immediately after the initial Borrowing, the unused portion, if any, of the Commitment shall terminate. On the Advance Termination Date, the unused portion, if any, of the Commitment shall terminate.

Section 2.05 Repayment of the Advance. The Company shall repay to the Lender the aggregate principal amount of the Advance outstanding on the Termination Date. The Company may voluntarily prepay the Advance, in whole or in part, in accordance with Section 2.08.

Section 2.06 Interest on the Advance.

(a) Standard Interest. The Company shall pay interest on the unpaid principal amount of the Advance made to it by the Lender from the date of the Advance until such principal amount shall be paid in full, at a rate per annum equal at all times during each Interest Period for such portion of the Advance to the sum of (x) the Eurocurrency Rate for such Interest Period plus (y) 0.75%, or, upon the exercise of the Extension Option, 0.85% (the "Applicable Margin"), such interest to be payable on the last day of each Interest Period and if such Interest Period has a duration of more than three months, on each three month anniversary of the first day of such Interest Period (unless such day is

not a Business Day, in which case such payment shall be due on the following Business Day).

(b) Default Interest. (i) If any amount of principal of the Advance is not paid when due, whether at stated maturity, by acceleration or otherwise, such amount shall thereafter bear interest at a fluctuating interest rate per annum at all times equal to the Default Rate to the fullest extent permitted by applicable Requirement of Law; (ii) If any amount (other than principal of the Advance) payable by the Company under any Loan Document is not paid when due (without regard to any applicable grace periods), whether at stated maturity, by acceleration or otherwise, then upon the request of the Lender, such amount shall thereafter bear interest at a fluctuating interest rate per annum at all times equal to the Default Rate to the fullest extent permitted by applicable Requirement of Law; (iii) Upon the request of the Lender, while any Event of Default exists, the Company shall pay interest on the principal amount of all outstanding Obligations hereunder at a fluctuating interest rate per annum at all times equal to the Default Rate to the fullest extent permitted by applicable Requirement of Law; (iv) Accrued and unpaid interest on past due amounts (including interest on past due interest) shall be due and payable upon written demand.

Section 2.07 Interest Rate Determination.

(a) The Lender shall give prompt notice to the Company of the applicable interest rate determined by the Lender for purposes of Section 2.06.

(b) If the Lender determines that for any reason in connection with any Advance/Continuation Notice that (i) adequate and reasonable means do not exist for determining the Eurocurrency Rate for any requested Interest Period with respect to any portion of the Advance or continuation or (ii) the Eurocurrency Rate for any requested Interest Period with respect to the Advance or continuation does not adequately and fairly reflect the cost to the Lender of funding such portion of the Advance or continuation, the Lender will promptly so notify the Company. Thereafter the interest rate for each portion of the Advance shall be equal to (x) the cost of funds determined by the Lender after consultation with, and explanation to, the Company plus (y) the Applicable Margin.

(c) All computations of interest for the Advance shall be made on the basis of a year of 360 days and actual days elapsed. Interest shall accrue on each portion of the Advance for the day on which the Advance is made and/or the Interest Period was selected, and shall not accrue on any portion of the Advance for the day on which the Advance or such portion is paid. Each determination by the Lender of an interest rate or fee hereunder shall be conclusive and binding for all purposes, absent manifest error.

Section 2.08 Prepayments of the Advance. The Company may, upon notice to the Lender, at any time or from time to time voluntarily prepay the Advance made to it in whole or in part without premium or penalty; provided that (a) such notice must be received by the Lender not later than 11:00 a.m. three Business Days prior to any date of prepayment, (b) any

prepayment shall be in a principal amount of \$5,000,000 or a whole multiple of \$1,000,000 in excess thereof (or such lower amount as may be agreed to by the Lender) or (c) if less, the entire principal amount thereof then outstanding. Each such notice shall specify the date and amount of such prepayment and the Interest Period(s) of such portion of the Advance. The Company shall make such prepayment and the payment amount specified in such notice shall be due and payable on the date specified therein; provided that such notice of prepayment may state that such prepayment is conditioned upon the availability of other financing, in which case such notice may be revoked by the Company (by notice to the Lender prior to the specified date of such prepayment) if such condition is not satisfied (it being understood that any revocation by the Company of a notice of prepayment shall entitle the Lender to any amounts as set forth in Section 8.04(b)). Any prepayment of all or a portion of the Advance shall be accompanied by all accrued interest thereon, together with any additional amounts required pursuant to Section 8.04(b). Each such prepayment of all or a portion of the Advance shall be applied to the principal repayment installments thereof as the Company shall direct.

Section 2.09 Increased Costs.

(a) If, at any time after the date of this Agreement, any change in any law or regulation or in the interpretation thereof by any court or administrative or governmental authority charged with the administration thereof shall.

(i) impose, modify or deem applicable any reserve, special deposit, compulsory loan, insurance charge or similar requirement against assets of, deposits with or for the account of, or credit extended by the Lender (except any reserve requirement included in the Eurocurrency Rate Reserve Percentage);

(ii) subject the Lender to any tax of any kind whatsoever with respect to this Agreement, or the Advance made by it, or change the basis of taxation of payments to such Lender in respect thereof (except for (A) Indemnified Taxes, (B) Taxes described in clauses (b) through (d) of the definition of Excluded Taxes and (C) Connection Income Taxes); or

(iii) impose on the Lender or the London interbank market any other condition, cost or expense (other than Taxes) affecting this Agreement or the Advance made by the Lender;

and the result of any of the foregoing shall be to increase the cost to the Lender of making or maintaining any Advance the interest on which is determined by reference to the Eurocurrency Rate (or of maintaining its obligation to make any such Advance), or to reduce the amount of any sum received or receivable by the Lender hereunder (whether of principal, interest or any other amount) then, the Company shall from time to time, upon written demand by the Lender pay to the Lender additional amounts sufficient to compensate the Lender for such increased cost. A certificate as to the amount of such increased cost setting forth the basis for the calculation of such increased costs, submitted to the Company by the Lender, shall be conclusive and binding for all purposes, absent manifest error.

(b) If, at any time after the date of this Agreement, the Lender determines that compliance with any law or regulation or any guideline or request from any central bank or other governmental authority (whether or not having the force of law) affects or would affect the amount of capital or liquidity required or expected to be maintained by the Lender or any corporation controlling the Lender and that the amount of such capital or liquidity is increased by or based upon the existence of the Lender's commitment to lend hereunder and other commitments of this type (or similar contingent obligations), then, upon written demand by the Lender, the Company shall immediately pay to the Lender, from time to time as specified by the Lender, additional amounts sufficient to compensate the Lender or such corporation in the light of such circumstances, to the extent that the Lender reasonably determines such increase in capital or liquidity to be allocable to the existence of the Lender's commitment hereunder. A certificate as to such amounts submitted to the Company by the Lender and setting forth the basis for the calculation of such amount shall be conclusive and binding for all purposes, absent manifest error.

(c) Notwithstanding anything herein to the contrary, (x) the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, rules, guidelines or directives thereunder or issued in connection therewith and (y) all requests, rules, guidelines or directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the United States regulatory authorities, in each case pursuant to Basel III, shall in each case be deemed to be a "Change in Law", regardless of the date enacted, adopted or issued.

(d) Without affecting its rights under any other provision of this Agreement, the Lender agrees that if there is any increase in any cost to or reduction in any amount receivable by the Lender with respect to which the Company would be obligated to compensate the Lender pursuant to Section 2.09(a) or Section 2.09(b), the Lender shall use reasonable efforts to select an alternative issuing office or Lending Office which would not result in any such increase in any cost to or reduction in any amount receivable by the Lender; provided, however, that the Lender shall not be obligated to select an alternative issuing office or Lending Office if the Lender determines that (i) as a result of such selection the Lender would be in violation of any applicable law, regulation, treaty, or guideline, or would incur additional costs or expenses or (ii) such selection would be inadvisable for regulatory reasons or inconsistent with the interests of the Lender.

(e) Failure or delay on the part of the Lender to demand compensation pursuant to the foregoing provisions of this Section shall not constitute a waiver of the Lender's right to demand such compensation, provided that the Company shall not be required to compensate the Lender pursuant to the foregoing provisions of this Section for any increased costs incurred or reductions suffered more than four months prior to the date that the Lender notifies the Company of the Change in Law giving rise to such increased costs or reductions and of the Lender's intention to claim compensation therefor (except that, if the Change in Law giving rise to such increased costs or

reductions is retroactive, then the four-month period referred to above shall be extended to include the period of retroactive effect thereof).

(f) Without prejudice to the survival of any other agreement of the Company hereunder, the agreements and obligations of the Company contained in this Section 2.09 shall survive the payment in full (after the Termination Date) of all Obligations.

Section 2.10 Illegality.

(a) Notwithstanding any other provision of this Agreement, if the Lender shall notify the Company that the introduction of or any change in or in the interpretation of any law or regulation makes it unlawful or impossible, or any central bank or other governmental authority asserts that it is unlawful, for the Lender or its Lending Office to perform its obligations hereunder to make Eurocurrency Rate Advances or to fund or maintain Eurocurrency Rate Advances hereunder, (i) the obligation of the Lender to make the Advance shall be suspended until the Lender shall notify the Company and the Lender that the circumstances causing such suspension no longer exist and (ii) the Company shall forthwith prepay in full the Advance of the Lender then outstanding, together with interest accrued thereon.

(b) Without affecting its rights under any other provision of this Agreement, the Lender agrees that if it becomes unlawful or impossible for the Lender to make, maintain or fund all or a portion of the Advance as contemplated by this Agreement, the Lender shall use reasonable efforts to select an alternative Lending Office from which the Lender may maintain and give effect to its obligations under this Agreement with respect to making, funding and maintaining all or a portion of the Advance; provided, however, that the Lender shall not be obligated to select an alternative Lending Office if the Lender determines that (i) as a result of such selection the Lender would be in violation of any applicable law, regulation, or treaty, or would incur additional costs or expenses or (ii) such selection would be inadvisable for regulatory reasons or inconsistent with the interests of the Lender.

Section 2.11 Extension of the Termination Date. Subject to the provisions of this Section 2.11, the Company shall have the option to extend the Termination Date for one additional year, subject to the satisfaction of each of the following conditions:

(a) The Company shall notify the Lender of its exercise of the option at least 45 days, but not more than 120 days, prior to the then scheduled Termination Date;

(b) No Default or Event of Default shall have occurred and be continuing at the time of giving such notice pursuant to clause (a) above or on the then scheduled Termination Date;

(c) The representations and warranties made by the Company in this Agreement and the other Loan Documents shall have been true and correct in all material

respects when made and shall also be true and correct in all material respects on the then scheduled Termination Date;

(d) The Borrower shall have delivered updates to the Lender of all the Schedules referred to in ARTICLE V hereof and such updated Schedules shall be acceptable to the Lender in its reasonable judgment;

(e) At the time of the exercise of the extension hereunder, the Company shall have delivered (1) a certificate from a Responsible Officer demonstrating that the Company is in compliance with the covenants set forth in Section 7.03 of the Revolving Credit Agreement as of the end of the most recent Fiscal Quarter and (B) a certificate of a Responsible Officer certifying that such Responsible Officer has no knowledge of any change since the end of such Fiscal Quarter which would cause the Company to not be in compliance with the covenants set forth in Section 7.03 of the Revolving Credit Agreement; and

(f) The Company shall have paid all reasonable out-of-pocket costs and expenses incurred by the Lender and all reasonable fees and expenses paid to third party consultants (including reasonable attorneys' fees and expenses) by the Lender in connection with such extension.

ARTICLE III

PAYMENTS, TAXES, EVIDENCE OF DEBT, ETC.

Section 3.01 Payments Generally. All payments to be made by the Company shall be made without condition or deduction for any counterclaim, defense, recoupment or setoff. Except as otherwise expressly provided herein, all payments by the Company hereunder shall be made to the Lender, at the Lender's Office in the United States in Dollars and in Same Day Funds not later than 2:00 p.m. on the date specified herein. All payments received by the Lender after 2:00 p.m., shall in each case be deemed received on the next succeeding Business Day and any applicable interest or fee shall continue to accrue. If any payment to be made by the Company shall come due on a day other than a Business Day, payment shall be made on the next following Business Day, and such extension of time shall be included in computing interest or fees, as the case may be.

Section 3.02 Taxes.

(a) Payments Free of Taxes.

(i) Any and all payments by or on account of any obligation of the Company under any Loan Document shall be made without deduction or withholding for any Taxes, except as required by applicable Laws. If any applicable Laws (as determined in the good faith discretion of the Lender) require the deduction or withholding of any Tax from any such payment by the Lender or

the Company, then the Lender or the Company shall be entitled to make such deduction or withholding.

(ii) If the Company or the Lender shall be required (as determined in the good faith discretion of the Company or the Lender) by any applicable Laws to withhold or deduct any Taxes from any payment, then (A) the Company or the Lender, as required by such Laws, shall withhold or make such deductions as are determined by it to be required, (B) the Company or the Lender, to the extent required by such Laws, shall timely pay the full amount withheld or deducted to the relevant Governmental Authority in accordance with such Laws, and (C) to the extent that the withholding or deduction is made on account of Indemnified Taxes, the sum payable by the Company shall be increased as necessary so that after any required withholding or the making of all required deductions (including deductions applicable to additional sums payable under this Section 3.02) the Lender receives an amount equal to the sum it would have received had no such withholding or deduction been made.

(b) Payment of Other Taxes by the Company. Without limiting the provisions of subsection (a) above, the Company shall timely pay to the relevant Governmental Authority in accordance with applicable law, or at the option of the Lender timely reimburse it for the payment of, any Other Taxes.

(c) Tax Indemnification. The Company shall, and does hereby agree to, severally indemnify the Lender, and shall make payment in respect thereof within 10 days after demand therefor, for the full amount of any Indemnified Taxes (including Indemnified Taxes imposed or asserted on or attributable to amounts payable by the Company under this Section 3.02) payable or paid by the Lender or required to be withheld or deducted from a payment to the Lender, and any penalties, interest and reasonable expenses arising therefrom or with respect thereto, whether or not such Indemnified Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. A certificate as to the amount of such payment or liability delivered to the Company by the Lender shall be conclusive absent manifest error.

(d) Evidence of Payments. As soon as practicable after any payment of Taxes by the Company to a Governmental Authority as provided in this Section 3.02, the Company shall deliver to the Lender the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment, a copy of any return required by Laws to report such payment or other evidence of such payment reasonably satisfactory to the Lender.

(e) Choice of Lending Office. Without affecting its rights under this Section 3.02 or any provision of this Agreement, the Lender agrees that if any Indemnified Taxes are imposed and required by law to be paid or to be withheld from any amount payable to the Lender or its Lending Office with respect to which the Company would be obligated pursuant to this Section 3.02 to increase any amounts payable to the Lender or to pay any

such Indemnified Taxes, the Lender shall use reasonable efforts to select an alternative Lending Office which would not result in the imposition of such Indemnified Taxes; provided, however, that the Lender shall not be obligated to select an alternative Lending Office if the Lender determines that as a result of such selection the Lender would be in violation of an applicable law, regulation, or treaty, or would incur unreasonable additional costs or expenses.

(f) Treatment of Certain Tax Benefits. If the Lender determines, in its sole discretion exercised in good faith, that it has received a refund of, credit against, release or remission for, or repayment of any Taxes as to which it has been indemnified by the Company or with respect to which the Company has paid additional amounts pursuant to this Section 3.02 (any such refund, credit, release, remission or repayment, a “Tax Benefit”), it shall pay to the Company an amount equal to such Tax Benefit (but only to the extent of indemnity payments made, or additional amounts paid, by the Company under this Section 3.02 with respect to the Taxes giving rise to such Tax Benefit), net of all out-of-pocket expenses (including Taxes) incurred by the Lender, and without interest (other than any interest paid by the relevant Governmental Authority with respect to such Tax Benefit), provided that the Company, upon the request of the Lender, agrees to repay the amount paid over to the Company (plus any penalties, interest or other charges imposed by the relevant Governmental Authority) by the Lender in the event the Lender is required to repay such Tax Benefit to such Governmental Authority. Notwithstanding anything to the contrary in this subsection, in no event will the Lender be required to pay any amount to the Company pursuant to this subsection the payment of which would place the Lender in a less favorable net after-Tax position than the Lender would have been in if the Tax subject to indemnification and giving rise to such Tax Benefit had not been deducted, withheld or otherwise imposed and the indemnification payments or additional amounts with respect to such Tax had never been paid. This subsection shall not be construed to require the Lender to make available its tax returns (or any other information relating to its taxes that it deems confidential) to the Company or any other Person.

(g) The Lender agrees with the Company that it will take all reasonable actions by all usual means to (i) secure and maintain the benefit of all benefits available to it under the provisions of any applicable double tax treaty concluded by the United States of America to which it may be entitled by reason of the location of the Lender’s lending office or place of incorporation or its status as an enterprise of any jurisdiction having any such applicable double tax treaty, if such benefit would reduce the amount payable by the Company in accordance with this Section 3.02 and (ii) otherwise cooperate with the Company to minimize the amount payable by the Company pursuant to this Section 3.02; provided, however, that the Lender shall not be obliged to disclose to the Company any information regarding its tax affairs or tax computations or to reorder its tax affairs or tax planning pursuant thereto.

(h) Survival. Each party's obligations under this Section 3.02 any assignment of rights by, or the replacement of, the Lender, the termination of the Commitments and the repayment, satisfaction or discharge of all other Obligations.

Section 3.03 Evidence of Debt/Borrowings.

(a) The Lender shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of the Company to the Lender resulting from the Advance owing to the Lender from time to time, including the amounts of principal and interest payable and paid to the Lender from time to time hereunder.

(b) The Register maintained by the Lender pursuant to Section 8.07(b) shall include (i) the date and amount of each Borrowing made hereunder and the Interest Period applicable thereto, (ii) the amount of any principal or interest due and payable or to become due and payable, and (iii) the amount of any sum received by the Lender from the Company hereunder.

(c) The entries made in the Register shall be conclusive and binding for all purposes, absent manifest error.

(d) Upon the request of the Lender to the Company, the Company shall execute and deliver, or cause to be executed and delivered, to the Lender a Note, which shall evidence the Lender's Advance to the Company in addition to such accounts or records. The Lender may attach schedules to a Note and endorse thereon the date, amount and maturity of the Advance and payments with respect thereto.

ARTICLE IV

CONDITIONS OF LENDING

Section 4.01 Conditions Precedent to Effectiveness of This Agreement. This Agreement shall become effective on and as of the first date (the "Effective Date") on which the following conditions precedent have been satisfied:

(a) The Lender shall have received the following in form and substance satisfactory to the Lender:

(i) Executed counterpart of this Agreement.

(ii) A Note made payable to the order of the Lender to the extent requested by the Lender pursuant to Section 3.03(b).

(iii) Certified copies of the resolutions of the board of directors (or persons performing similar functions) of the Company approving transactions of the type contemplated by this Agreement and each of the Loan Documents.

(iv) A copy of a certificate of the Secretary of State (or equivalent Governmental Authority) of the jurisdiction of organization of the Company listing the certificate or certificate of incorporation (or similar Constitutive Document) of the Company and each amendment thereto on file in the office of such Secretary of State (or such governmental authority) and certifying (A) that such amendments are the only amendments to such Person's certificate of incorporation (or similar constitutive document) on file in its office, (B) if customarily available in such jurisdiction, that such Person has paid all franchise taxes (or the equivalent thereof) to the date of such certificate and (C) that such Person is duly organized and is in good standing under the laws of the jurisdiction of its organization.

(v) A certificate of the Secretary or an Assistant Secretary of the Company certifying the names and true signatures of the officers of the Company authorized to sign each Loan Document and the other documents to be delivered hereunder.

(vi) A favorable opinion of Orrick, Herrington & Sutcliffe LLP, special New York counsel to the Company, that is reasonably satisfactory to the Lender.

(vii) A certificate of a Responsible Officer of the Company certifying that (A) the representations and warranties contained in Section 5.01 are correct on and as of the Effective Date, except to the extent that any such representation or warranty is stated to relate to an earlier date, in which case such representation or warranty shall be true and correct on and as of such earlier date, (B) no event has occurred and is continuing which constitutes an Event of Default or Default and (C) since January 31, 2015, there has been no (1) material adverse change in, or a material adverse effect on, the business, condition (financial or otherwise), results of operations or prospects of the Company and its Subsidiaries, taken as a whole; (2) material impairment of the rights and remedies of the Lender under this Agreement, or of the ability of the Company to perform its obligations under this Agreement as and when due; or (3) material adverse effect upon the legality, validity, binding effect or enforceability against the Company of this Agreement.

(viii) Such other documents as the Lender may reasonably request.

Section 4.02 Conditions Precedent to the Advance. The obligation of the Lender to make the Advance shall be subject to the further conditions precedent that on the date of the Advance the following statements shall be true:

(a) The representations and warranties contained in Section 5.01 are correct on and as of the date of such Borrowing, before and after giving effect to the Advance, and to the application of the proceeds therefrom, as though made on and as of such date, except to the extent that any such representation or warranty is stated to relate to an

earlier date, in which case such representation or warranty shall be true and correct on and as of such earlier date; and

(b) No event has occurred and is continuing, or would result from such Credit Extension or from the application of the proceeds therefrom, which constitutes an Event of Default or Default.

(c) The Company shall have paid all documented accrued fees and expenses of the Lender (including documented the accrued fees and expenses of counsel to the Lender) incurred in connection with this Agreement.

ARTICLE V

REPRESENTATIONS AND WARRANTIES

Section 5.01 Representations and Warranties of the Company. The Company represents and warrants as follows:

(a) Corporate Status. The Company is duly organized or formed, validly existing and in good standing under the laws of its jurisdiction of incorporation or organization and possesses all powers (corporate or otherwise) and all other authorizations and licenses necessary to carry on its business, except where the failure to so possess would not have a Material Adverse Effect.

(b) Corporate Authority; Non-Contravention. The execution, delivery and performance by the Company of the Loan Documents and the consummation of the transactions contemplated thereby are within the Company's powers (corporate or otherwise), have been duly authorized by all necessary action (corporate or otherwise), and do not (i) contravene the Company's Constitutive Documents, (ii) violate any Requirements of Law, (iii) conflict with or result in the breach of, or constitute a default or require any payment to be made under, any material contract, loan agreement, indenture, mortgage, deed of trust, lease or other material instrument binding on or affecting the Company or any of its properties or (iv) result in or require the creation or imposition of any Lien upon or with respect to any of the properties of the Company. The Company is not in violation of any such Requirements of Law or in breach of any such contract, loan agreement, indenture, mortgage, deed of trust, lease or other instrument, the violation or breach of which would be reasonably likely to have a Material Adverse Effect.

(c) Authorization. No authorization or approval or other action by, and no notice to or filing with, any governmental authority or regulatory body is required for the due execution, delivery and performance by the Company of the Loan Documents.

(d) Binding Effect. Each Loan Document is the legal, valid and binding obligation of the Company thereto enforceable against the Company in accordance with

its terms, except as limited by bankruptcy, insolvency or other laws of general application relating to or affecting the enforcement of creditors' rights generally and general principles of equity (regardless of whether considered in a proceeding in equity or at law).

(e) Litigation. There is no pending or, to the Company's knowledge, threatened action or proceeding affecting the Company or any of its Subsidiaries before any court, governmental agency or arbitrator, (i) which has a reasonable probability (taking into account the exhaustion of all appeals and the assertion of all defenses) of having a Material Adverse Effect or (ii) which purports to affect the legality, validity or enforceability of any Loan Document.

(f) Financial Statements. The Consolidated balance sheets of the Company and its Subsidiaries as of January 31, 2015, and the related Consolidated statements of income and retained earnings of the Company and its Subsidiaries for the Fiscal Year then ended, certified by Deloitte & Touche LLP, copies of which have been furnished to the Lender, fairly present in all material respects the Consolidated financial condition of the Company and its Subsidiaries taken as a whole as at such date and the results of the operations of the Company and its Subsidiaries for the period ended on such date, all in accordance with GAAP consistently applied.

(g) Material Adverse Change. Since January 31, 2015, there has been no Material Adverse Change.

(h) Compliance With Law. The Company and each of its Subsidiaries is in compliance with all Requirements of Law (including, without limitation, all applicable Environmental Laws) applicable to their respective properties, assets and business other than (i) where the failure to so comply would (as to all such failures to comply in the aggregate) not have a Material Adverse Effect or (ii) as described on Schedule IV.

(i) ERISA. Except as provided in Schedule III:

(i) Neither the Company nor any ERISA Affiliate is a party or subject to, or has any obligation to make payments, or incur any material Withdrawal Liability, to, any Multiemployer Plan.

(ii) Schedule SB (Actuarial Information) to the most recently completed annual report (Form 5500 Series) for each Plan, copies of which have been or will be filed with the Internal Revenue Service, is complete and accurate in all material respects and fairly presents the funding status of such Plan, and since the date of such Schedule SB there has been no material adverse change in such funding status which would reasonably be likely to result in a Material Adverse Effect.

(iii) No ERISA Event has occurred with respect to any Plan that, when taken together with all other such ERISA Events for which liability is reasonably expected to occur, would reasonably be likely to result in a Material Adverse Effect.

(iv) Neither the Company nor any ERISA Affiliate has been notified by the sponsor of a Multiemployer Plan that such Multiemployer Plan is in reorganization, insolvent or has been terminated, within the meaning of Title IV of ERISA or has been determined to be in “endangered” or “critical” status within the meaning of Section 432 of the Code or Section 305 of ERISA and no Multiemployer Plan is reasonably expected to be in reorganization or to be terminated, within the meaning of Title IV of ERISA.

(j) Federal Reserve Regulations. The Company is not engaged in the business of extending credit for the purpose of purchasing or carrying Margin Stock, and no proceeds of the Advance will be used to purchase any Margin Stock or to extend credit to others for the purpose of purchasing or carrying any Margin Stock.

(k) Investment Company. Neither the Company nor any of its Subsidiaries is an “investment company,” or an “affiliated person” of, or “promoter” or “principal underwriter” for, an “investment company,” as such terms are defined in the Investment Company Act of 1940, as amended.

(l) Disclosure. As of the Effective Date, no information, exhibit or report furnished by the Company to the Lender in connection with the negotiation of the Loan Documents or pursuant to the terms of the Loan Documents contained any untrue statement of a material fact or omitted to state a material fact necessary to make the statements made therein not misleading; provided that all financial projections, if any, that have been or will be prepared by the Company and made available to the Lender, have been or will be prepared in good faith based upon reasonable assumptions, it being understood by the Lender that such projections are subject to significant uncertainties and contingencies, many of which are beyond the Company’s control, and that no assurances can be given that the projections will be realized.

(m) OFAC. Neither the Company, nor any of its Subsidiaries, nor, to the knowledge of the Company, any director, officer, employee, agent, affiliate or representative thereof, is an individual or entity that is, or is owned or controlled by any individual or entity that is (i) currently the subject or target of any Sanctions, (ii) included on OFAC’s List of Specially Designated Nationals, HMT’s Consolidated List of Financial Sanctions Targets and the Investment Ban List, or any similar list enforced by any other relevant sanctions authority or (iii) located, organized or resident in a Sanctioned Jurisdiction (any Person described in clauses (i), (ii) or (iii) being a “Sanctioned Person”). The Company, its Subsidiaries and to the knowledge of the Company their respective officers, employees, directors and agents, are in compliance with applicable Sanctions in all material respects and are not knowingly engaged in any

activity that would reasonably be expected to result in the Company or any of its Subsidiaries being designated as a Sanctioned Person.

(n) Anti-Corruption Laws. The Company and its Subsidiaries have conducted their businesses in compliance with the United States Foreign Corrupt Practices Act of 1977, the UK Bribery Act 2010, and other similar anti-corruption legislation in other jurisdictions and have instituted and maintain policies and procedures designed to promote and achieve compliance by the Company, its Subsidiaries and their respective directors, officers, employees and agents with such laws.

ARTICLE VI

COVENANTS OF THE COMPANY

Section 6.01 Affirmative Covenants. The Company will, unless the Lender shall otherwise consent in writing:

(a) Preservation of Existence, Etc. Preserve and maintain, and cause each of its Subsidiaries to preserve and maintain, its existence (corporate or otherwise), rights (charter and statutory), and franchises except if, in the reasonable business judgment of the Company or such Subsidiary, as the case may be, it is in its best economic interest not to preserve and maintain such rights or franchises and such failure to preserve and maintain such rights or franchises would not materially adversely affect the rights of the Lender or the ability of the Company to perform its obligations under the respective Loan Documents (it being understood that the foregoing shall not prohibit, or be violated as a result of, any transactions by or involving the Company or other Subsidiary otherwise permitted under Section 6.02); and maintain in effect and enforce policies and procedures designed to promote and achieve compliance by the Company, its Subsidiaries and their respective directors, officers, employees and agents with applicable Sanctions.

(b) Compliance with Laws, Etc. Comply, and cause each of its Subsidiaries to comply, in all material respects with all applicable laws (including, without limitation, ERISA and all Environmental Laws), rules, regulations and orders, such compliance to include, without limitation, paying before the same become delinquent all taxes, assessments and governmental charges imposed upon it or upon its property except to the extent contested in good faith or where the failure to comply would not have a Material Adverse Effect.

(c) Visitation Rights. Permit the Lender, or any agents or representatives thereof, from time to time, during normal business hours, and upon reasonable prior notice, to examine and make copies of and abstracts from its records and books of account, to visit its properties, and to discuss the affairs, finances and accounts of the Company with any of their respective directors, officers or agents.

(d) Maintenance of Books and Records. Keep, and cause each of its Subsidiaries to keep, proper books of record and account, in which full and correct entries shall be made of all financial transactions and the assets and business of the Company and each of its Subsidiaries in accordance with sound business practice.

(e) Maintenance of Properties, Etc. Maintain and preserve, and cause each of its Subsidiaries to maintain and preserve, all of its properties which are used or useful in the conduct of its business in good working order and condition, ordinary wear and tear excepted, consistent with sound business practice, except where the failure to so maintain and preserve would not have a Material Adverse Effect.

(f) Maintenance of Insurance. Maintain, and cause each of its Subsidiaries to maintain, insurance (other than earthquake or terrorism insurance) in amounts, from responsible and reputable insurance companies or associations, with limitations, of types and on terms as is customary for the industry; provided, that, the Company and each of its Subsidiaries may self-insure risks and liabilities in accordance with its practice as of the date hereof and may in addition self-insure risks and liabilities in amounts as are customarily self-insured by similarly situated Persons in the industry.

(g) Use of Proceeds. Use the proceeds of the Advance solely (i) for share repurchases, as permitted to under the Revolving Credit Agreement and (ii) for working capital, capital expenditures and other general corporate purposes of the Company and its Subsidiaries.

(h) Anti-Corruption Laws. Conduct its businesses in compliance with the United States Foreign Corrupt Practices Act of 1977, the UK Bribery Act 2010, and other similar anti-corruption legislation in other jurisdictions, and maintain policies and procedures designed to promote and achieve compliance by the Company, its Subsidiaries and their respective directors, officers, employees and agents with such laws.

Section 6.02 Negative Covenants. The Company will not, without the written consent of the Lender:

(a) Mergers, Etc. Merge or consolidate with or into any Person, or permit any of its Subsidiaries to do so, except (i) any Subsidiary of the Company may merge or consolidate with or into the Company or any Subsidiary of the Company and (ii) the Company may merge with any other Person so long as the Company is the surviving corporation.

(b) Change in Nature of Business. Make any material change in the nature of the business of the Company and its Subsidiaries as conducted as of the date hereof.

(c) Sanctions. Directly or indirectly use the proceeds of any Credit Extension, or lend, contribute or otherwise make available such proceeds to any Subsidiary, joint venture partner or other individual or entity, to fund, finance or facilitate any activities of

or business with any individual or entity, or in any Sanctioned Jurisdiction, that, at the time of such funding, is the subject of Sanctions, or in any other manner that will result in a violation by any individual or entity (including any individual or entity participating in the transaction as Lender) of Sanctions.

(d) Anti-Corruption Laws. Directly or indirectly, or permit any Subsidiary to directly or indirectly, use the proceeds of any Credit Extension for any purpose which would breach the United States Foreign Corrupt Practices Act of 1977, the UK Bribery Act 2010, and other similar anti-corruption legislation in other jurisdictions.

(e) Covenants Under Revolving Credit Agreement. The Company will comply with each of the covenants set forth in Sections 7.01, 7.02 and 7.03 of the Revolving Credit Agreement (as such covenants may be amended from time to time), whether or not the Lender shall remain a party thereto. At such times as the Lender is no longer a party to the Revolving Credit Agreement, the Company will furnish to the Lender (i) each of the items specified in Section 7.04 of the Revolving Credit Agreement including any items requested by any lender thereunder at or prior to the time such items are furnished under the Revolving Credit Agreement (it being acknowledged and agreed to by Lender that to the extent any such documents are included in materials otherwise filed with the SEC, such documents may be delivered electronically and if so delivered, shall be deemed to have been delivered on the date (i) on which the Company posts such documents, or provides a link thereto on the Company's website on the Internet at the website address "www.gapinc.com" or any successor page notified to the Lender) and (ii) such other information respecting the condition or operations, financial or otherwise, of the Company or any of its Subsidiaries as the Lender, may from time to time reasonably request.

Section 6.03 Reporting Requirements. To the extent not otherwise furnished to the Agent under Section 7.04 of the Revolving Credit Agreement, the Company will furnish to the Lender:

(a) As soon as available and in any event within 75 days after the end of each Fiscal Year, a copy of the annual report for such year for the Company and its Subsidiaries, containing Consolidated financial statements of the Company and its Subsidiaries for such Fiscal Year certified by Deloitte & Touche LLP or other independent public accountants reasonably acceptable to the Lender.

(b) Together with the financial statements required by Section 6.03(a), a compliance certificate signed by the chief financial officer, treasurer or assistant treasurer of the Company stating (i) whether or not he or she has knowledge of the occurrence of any Event of Default or Default and, if so, stating in reasonable detail the facts with respect thereto and (ii) whether or not the Company is in compliance with the requirements set forth in Section 6.03 and showing the computations used in determining such compliance or non-compliance.

(c) As soon as possible and in any event within five days after a Responsible Officer becomes aware of each Event of Default and Default, a statement of a Responsible Officer of the Company setting forth details of such Event of Default or Default and the action which the Company has taken and proposes to take with respect thereto.

(d) Such other information respecting the condition or operations, financial or otherwise, of the Company or any of its Subsidiaries as the Lender may from time to time reasonably request.

Documents required to be delivered pursuant to Section 6.03(a) (to the extent any such documents are included in materials otherwise filed with the SEC) may be delivered electronically and if so delivered, shall be deemed to have been delivered on the date (i) on which the Company posts such documents, or provides a link thereto on the Company's website on the Internet at the website address "www.gapinc.com" (or any successor page notified to the Lender); or (ii) on which such documents are posted on the Company's behalf on an Internet or intranet website, if any, to which the Lender has access (whether a commercial, third-party website or whether sponsored by the Lender).

ARTICLE VII

EVENTS OF DEFAULT

Section 7.01 Events of Default. If any of the following events ("Events of Default") shall occur and be continuing:

(a) Non-Payment. The Company shall fail to pay any principal of the Advance when the same becomes due and payable, and in the currency required hereunder; or shall fail to pay any interest on the Advance, fees or any other amounts hereunder within five days after the same become due and payable by it; or

(b) Representations and Warranties. Any representation or warranty made by the Company in any Loan Document (whether made on behalf of itself or otherwise) in connection with any Loan Document shall prove to have been incorrect in any material respect when made; or

(c) Specific Covenants and Other Defaults. (i) The Company shall fail to perform or observe any covenant contained in Section 6.01(a) (as to the existence of the Company) or Section 6.02; or (ii) the Company shall fail to perform or observe such other term, covenant or agreement contained in any Loan Document on its part to be performed or observed if the failure to perform or observe such other term, covenant or agreement shall remain unremedied for 30 days after written notice thereof shall have been given to the Company by the Lender; or

(d) Cross-Default. The Company shall fail to pay any principal of or premium or interest on any Debt which is outstanding in a principal amount of at least \$50,000,000 in the aggregate (but excluding Debt hereunder) of the Company when the same becomes due and payable (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise), and such failure shall continue after the applicable grace period, if any, specified in the agreement or instrument relating to such Debt; or any such Debt shall be declared to be due and payable, or required to be prepaid (other than by a regularly scheduled required prepayment), redeemed, purchased or defeased, or an offer to prepay, redeem, purchase or defease such Debt shall be required to be made, in each case as a result of a default thereunder and prior to the stated maturity thereof; or

(e) Insolvency Proceeding, Etc. The Company shall generally not pay its debts as such debts become due, or shall admit in writing its inability to pay its debts generally, or shall make a general assignment for the benefit of creditors; or any proceeding shall be instituted by or against the Company seeking to adjudicate it a bankrupt or insolvent, or seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief, or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or seeking the entry of an order for relief or the appointment of a receiver, trustee, custodian or other similar official for it or for any substantial part of its property and, in the case of any such proceeding instituted against it (but not instituted by it), either such proceeding shall remain undismissed or unstayed for a period of 60 days, or any of the actions sought in such proceeding (including, without limitation, the entry of an order for relief against, or the appointment of a receiver, trustee, custodian or other similar official for, it or for any substantial part of its property) shall occur; or the Company shall take any corporate action to authorize any of the actions set forth above in this subsection (e); or

(f) Judgments. One or more judgments or orders for the payment of money in excess of \$50,000,000 in the aggregate shall be rendered against the Company and either (i) enforcement proceedings shall have been commenced by any creditor upon such judgment or order or (ii) there shall be any period of forty-five (45) consecutive days during which a stay of enforcement of such judgment or order, by reason of a pending appeal or otherwise, shall not be in effect; provided, however, that any such judgment or order shall not give rise to an Event of Default under this Section 7.01(f) if and so long as (A) the amount of such judgment or order which remains unsatisfied is covered by a valid and binding policy of insurance between the Company and the insurer covering full payment of such unsatisfied amount and (B) such insurer has been notified, and has not disputed the claim made for payment, of the amount of such judgment or order; or

(g) Change of Control. A Change of Control shall have occurred; or

(h) Revolving Credit Agreement. Any “Event of Default” shall occur and be continuing under and, as defined in, the Revolving Credit Agreement as in effect on the date hereof without giving effect to any amendments or waivers thereto which have not been consented to by the Lender; or

(i) ERISA. Any of the following events or conditions shall have occurred and such event or condition, when aggregated with any and all other such events or conditions set forth in this subsection (h), has resulted or is reasonably expected to result in liabilities of the Company and/or the ERISA Affiliates in an aggregate amount that would have a Material Adverse Effect:

(i) any ERISA Event shall have occurred with respect to a Plan; or

(ii) the Company or any of the ERISA Affiliates shall have been notified by the sponsor of a Multiemployer Plan that it has incurred Withdrawal Liability to such Multiemployer Plan; or

(iii) the Company or any of the ERISA Affiliates shall have been notified by the sponsor of a Multiemployer Plan that such Multiemployer Plan is in reorganization, is insolvent or is being terminated, within the meaning of Title IV of ERISA, or has been determined to be in “endangered” or “critical” status within the meaning of Section 432 of the Code or Section 305 of ERISA and, as a result of such reorganization, insolvency, termination or determination, the aggregate annual contributions of the Company and the ERISA Affiliates to all of the Multiemployer Plans that are in reorganization, are insolvent, being terminated or in endangered or critical status at such time have been or will be increased over the amounts contributed to such Multiemployer Plans for the plan years of such Multiemployer Plans immediately preceding the plan year in which such reorganization, insolvency or termination occurs; or

(iv) any failure to satisfy the applicable minimum funding standards under Section 412(a) of the Code or Section 302(a) of ERISA, whether or not waived, shall exist with respect to one or more of the Plans; or

(v) or any Lien shall exist on the property and assets of any of the Company or any of the ERISA Affiliates in favor of the PBGC;

then, and in any such event, the Lender may, by notice to the Company, declare the Advance, all interest thereon and all other amounts payable under this Agreement to be forthwith due and payable, whereupon the Advance, all such interest and all such amounts shall become and be forthwith due and payable, without presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived by the Company; provided, however, that in the event of an actual or deemed entry of an order for relief with respect to the Company under the Federal Bankruptcy Code, the then outstanding portion of the Advance, all such interest and all such amounts shall automatically become and be due and payable, without presentment, demand, protest or any notice of any kind, all of which are hereby expressly waived by the Company.

ARTICLE VIII

MISCELLANEOUS

Section 8.01 Amendments, Etc.

(a) Lender. No amendment or waiver of any provision of this Agreement, nor consent to any departure by the Company therefrom, shall in any event be effective unless the same shall be in writing and signed by the Lender and the Company.

(b) Limitation of Scope. All waivers and consents granted under this Section 8.01 shall be effective only in the specific instance and for the specific purpose for which given.

Section 8.02 Notices, Etc.

(a) Notices Generally. Except in the case of notices and other communications expressly permitted to be given by telephone (and except as provided in subsection (b) below), all notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by telecopier to the address, telecopier number, electronic mail address or telephone number specified for such Person on Schedule I, and all notices and other communications expressly permitted hereunder to be given by telephone shall be made to the applicable telephone number.

Notices and other communications sent by hand or overnight courier service, or mailed by certified or registered mail, shall be deemed to have been given when received; notices and other communications sent by telecopier shall be deemed to have been given when sent (except that, if not given during normal business hours for the recipient, shall be deemed to have been given at the opening of business on the next business day for the recipient). Notices and other communications delivered through electronic communications to the extent provided in subsection (b) below, shall be effective as provided in such subsection (b).

(b) Electronic Communications. Notices and other communications to the Lender hereunder may be delivered or furnished by electronic communication (including e-mail and Internet or intranet websites) pursuant to procedures approved by the Lender, provided that the foregoing shall not apply to notices to the Lender pursuant to ARTICLE II if the Lender has notified the Company that it is incapable of receiving notices under such Article by electronic communication. The Lender or the Company may, in its discretion, agree to accept notices and other communications to it hereunder by electronic communications pursuant to procedures approved by it, provided that approval of such procedures may be limited to particular notices or communications.

Unless the Lender otherwise prescribes, (i) notices and other communications sent to an e-mail address shall be deemed received upon the sender's receipt of an acknowledgement from the intended recipient (such as by the "return receipt requested" function, as available, return e-mail or other written acknowledgement), provided that if such notice or other communication is not sent during the normal business hours of the recipient, such notice or communication shall be deemed to have been sent at the opening of business on the next business day for the recipient,

and (ii) notices or communications posted to an Internet or intranet website shall be deemed received upon the deemed receipt by the intended recipient at its e-mail address as described in the foregoing clause (i) of notification that such notice or communication is available and identifying the website address therefor.

(c) Change of Address, Etc. Each of the Company and the Lender may change its address, telecopier or telephone number for notices and other communications hereunder by notice to the other parties hereto.

(d) Reliance by Lender. The Lender shall be entitled to rely and act upon any notices (including telephonic notices and Advance/Continuation Notices) purportedly given by or on behalf of the Company even if (i) such notices were not made in a manner specified herein, were incomplete or were not preceded or followed by any other form of notice specified herein, or (ii) the terms thereof, as understood by the recipient, varied from any confirmation thereof. The Company shall indemnify the Lender and its Related Parties from all losses, costs, expenses and liabilities resulting from the reasonable reliance by such Person on each notice purportedly given by or on behalf of the Company. All telephonic notices to and other telephonic communications with the Lender may be recorded by the Lender, and each of the parties hereto hereby consents to such recording.

Section 8.03 No Waiver; Remedies. No failure on the part of the Lender to exercise, and no delay in exercising, any right hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any such right preclude any other or further exercise thereof or the exercise of any other right. The remedies herein provided are cumulative and not exclusive of any remedies provided by law.

Section 8.04 Costs and Expenses.

(a) Expenses. The Company agrees to pay on demand all reasonable and documented costs and expenses of the Lender incurred in connection with the preparation, execution, delivery, modification and amendment of this Agreement, and the other documents to be delivered hereunder, including, without limitation, the reasonable and documented fees and out-of-pocket expenses of one counsel for the Lender (and appropriate local counsel) with respect thereto and with respect to advising the Lender as to its rights and responsibilities under this Agreement. The Company further agrees to pay on demand all costs and expenses of the Lender (including, without limitation, reasonable and documented fees and expenses of counsel), incurred in connection with the enforcement (whether through negotiations, legal proceedings or otherwise) of the Loan Documents and the other documents to be delivered hereunder and thereunder.

(b) Breakage. If any payment of principal of any portion of the Advance is made other than on the last day of the Interest Period for such Advance, as a result of a payment pursuant to Section 2.08, acceleration of the maturity of the Advance pursuant to Section 7.01 or for any other reason, or if the Company fails for any reason to make

any payment or prepayment of an Advance for which a notice of prepayment was given or that is otherwise required to be made, whether pursuant to Section 2.05, Section 2.08, Section 7.01 or otherwise, or if the Company fails to make payment of the Advance on its scheduled due date or any payment thereof in a different currency, or upon any failure by the Company (for a reason other than the failure of the Lender to make an Advance) to borrow or continue any portion of the Advance on the date or in the amount notified by the Company, the Company shall, upon written demand by the Lender, pay to the Lender any amounts required to compensate the Lender for any additional losses, costs or expenses which it may reasonably incur as a result of such payment or such failure to pay or prepay, as the case may be, including, without limitation, any loss (including loss of anticipated profits), cost or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by the Lender to fund or maintain such Advance.

(c) Indemnification by the Company. The Company shall indemnify the Lender (and any sub-agent thereof) and each Related Party of any of the foregoing Persons (each such Person being called an “Indemnitee”) against, and hold each Indemnitee harmless from, any and all losses, claims, damages, liabilities and related expenses (including the fees, charges and disbursements of any counsel for any Indemnitee), incurred by any Indemnitee or asserted against any Indemnitee by any third party or by the Company arising out of, in connection with, or as a result of (i) the execution or delivery of this Agreement, any other Loan Document or any agreement or instrument contemplated hereby or thereby, the performance by the parties hereto of their respective obligations hereunder or thereunder or the consummation of the transactions contemplated hereby or thereby, or, in the case of the Lender (and any sub-agent thereof) and its Related Parties only, the administration of this Agreement and the other Loan Documents, (ii) the Advance or the use or proposed use of the proceeds therefrom, (iii) any actual or alleged presence or release of Hazardous Materials on or from any property owned or operated by the Company or any of its Subsidiaries, or any Environmental Liability related in any way to the Company or any of its Subsidiaries, or (iv) any actual or prospective claim, litigation, investigation or proceeding relating to any of the foregoing, whether based on contract, tort or any other theory, whether brought by a third party or by the Company, and regardless of whether any Indemnitee is a party thereto; provided that such indemnity shall not, as to any Indemnitee, be available to the extent that such losses, claims, damages, liabilities or related expenses (x) resulted from the gross negligence or willful misconduct of such Indemnitee or (y) result from a claim brought by the Company against an Indemnitee for breach in bad faith of such Indemnitee’s obligations hereunder or under any other Loan Document, if the Company has obtained a final and nonappealable judgment in its favor on such claim as determined by a court of competent jurisdiction. This Section 8.04(c) shall not apply with respect to Taxes other than any Taxes that represent losses arising from any non-Tax claim.

(d) Waiver of Consequential Damages, Etc. To the fullest extent permitted by applicable law, the Company shall not assert, and the Company hereby waives, any claim

against any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement, any other Loan Document or any agreement or instrument contemplated hereby, the transactions contemplated hereby or thereby, the Advance or the use of the proceeds thereof. No Indemnitee referred to in subsection (c) above shall be liable for any damages arising from the use by unintended recipients of any information or other materials distributed to such unintended recipients by such Indemnitee through telecommunications, electronic or other information transmission systems in connection with this Agreement or the other Loan Documents or the transactions contemplated hereby or thereby other than for direct or actual damages resulting from the gross negligence or willful misconduct of such Indemnitee as determined by a final judgment of a court of competent jurisdiction.

(e) The Company agrees that for purposes of any determination to be made under Section 2.06, Section 2.08, Section 2.10 or Section 8.04(b) the Lender shall be deemed to have funded the Advance with proceeds of Dollar deposits in the London interbank market.

(f) Without prejudice to the survival of any other obligation of the Company hereunder, the indemnities and obligations contained in this Section 8.04 shall survive the payment in full of all the Obligations.

Section 8.05 Right of Set-Off. Upon (a) the occurrence and during the continuance of any Event of Default and (b) the making of the request to declare the Advance due and payable pursuant to the provisions of Section 7.01 or demand payment of all then outstanding Obligations, the Lender and each of its respective Affiliates is hereby authorized at any time and from time to time, to the fullest extent permitted by applicable law, to set off and apply any and all deposits (general or special, time or demand, provisional or final, in whatever currency) at any time held and other obligations (in whatever currency) at any time owing by the Lender or any such Affiliate to or for the credit or the account of the Company against any and all of the obligations of the Company now or hereafter existing under this Agreement or any other Loan Document to the Lender, irrespective of whether or not the Lender shall have made any demand under this Agreement or any other Loan Document and although such obligations of the Company may be contingent or unmatured or are owed to a branch or office of the Lender different from the branch or office holding such deposit or obligated on such indebtedness. The rights of the Lender and its respective Affiliates under this Section are in addition to other rights and remedies (including other rights of setoff) that the Lender or its respective Affiliates may have. The Lender agrees to notify the Company promptly after any such setoff and application, provided that the failure to give such notice shall not affect the validity of such setoff and application.

Section 8.06 Binding Effect. This Agreement shall become effective when it shall have been executed by the Company and the Lender and thereafter shall be binding upon and inure to the benefit of the Company and the Lender and their respective successors and

assigns, except that the Company shall not have the right to assign its respective rights hereunder or any interest herein without the prior written consent of the Lender.

Section 8.07 Assignments and Participations.

(a) Successors and Assigns Generally. The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns permitted hereby, except that the Company may not assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of the Lender, and the Lender may not assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of the Company (such consent not to be unreasonably withheld); provided, the Lender may sell and grant participations of its rights and obligations hereunder without consent of the Company so long as the Company continues to deal solely with the Lender. Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto, their respective successors and assigns permitted hereby and, to the extent expressly contemplated hereby, the Related Parties of the Lender) any legal or equitable right, remedy or claim under or by reason of this Agreement.

(b) Register. The Lender shall maintain at the Lender's Office a register for the recordation of the names and addresses of the Lender, and the Commitment, and principal amounts of the Advance owing pursuant to the terms hereof from time to time (the "Register"). The entries in the Register shall be conclusive absent manifest error, and the Company and the Lender shall treat each Person whose name is recorded in the Register pursuant to the terms hereof as the Lender hereunder for all purposes of this Agreement, notwithstanding notice to the contrary. The Register shall be available for inspection by the Company, at any reasonable time and from time to time upon reasonable prior notice.

(c) Certain Pledges. The Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement (including under its Note, if any) to secure obligations of the Lender, including any pledge or assignment to secure obligations to a Federal Reserve Bank; provided that no such pledge or assignment shall release the Lender from any of its obligations hereunder or substitute any such pledgee for the Lender as a party hereto.

Section 8.08 Payments Set Aside. To the extent that any payment by or on behalf of the Company is made to the Lender or the Lender exercises its right of setoff, and such payment or the proceeds of such setoff or any part thereof is subsequently invalidated, declared to be fraudulent or preferential, set aside or required (including pursuant to any settlement entered into by the Lender in its discretion) to be repaid to a trustee, receiver or any other party, in connection with any proceeding under any Debtor Relief Law or otherwise, then to the extent of such recovery, the obligation or part thereof originally intended to be satisfied shall be revived and continued in full force and effect as if such payment had not been made or such setoff had not occurred.

Section 8.09 Severability of Provisions. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof or affecting the validity or enforceability of such provision in any other jurisdiction.

Section 8.10 Independence of Provisions. All agreements and covenants hereunder shall be given independent effect such that if a particular action or condition is prohibited by the terms of any such agreement or covenant, the fact that such action or condition would be permitted within the limitations of another agreement or covenant shall not be construed as allowing such action to be taken or condition to exist.

Section 8.11 Confidentiality. The Lender (for purposes of this Section 8.11 a “Recipient”) agrees that it will not disclose to any third party any Confidential Information provided to it by the Company; except that Confidential Information may be disclosed (a) to its Affiliates and to its Related Parties (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such Information and instructed to keep such Information confidential), (b) to the extent required or requested by any regulatory authority purporting to have jurisdiction over such Person or its Related Parties (including any self-regulatory authority, such as the National Association of Insurance Commissioners), (c) to the extent required by applicable laws or regulations or by any subpoena or similar legal process, (d) to any other party hereto, (e) in connection with the exercise of any remedies hereunder or under any other Loan Document or any action or proceeding relating to this Agreement or any other Loan Document or the enforcement of rights hereunder or thereunder, (f) subject to an agreement containing provisions substantially the same as those of this Section, to (i) any assignee of or Participant in, or any prospective assignee of or Participant in, any of its rights and obligations under this Agreement or (ii) any actual or prospective party (or its Related Parties) to any swap, derivative or other transaction under which payments are to be made by reference to the Company and its obligations, this Agreement or payments hereunder, (g) on a confidential basis to (i) any rating agency in connection with rating the Company or its Subsidiaries or the credit facilities provided hereunder or (ii) the CUSIP Service Bureau or any similar agency in connection with the issuance and monitoring of CUSIP numbers or other market identifiers with respect to the credit facilities provided hereunder, (h) with the consent of the Company or (i) to the extent such Information (x) becomes publicly available other than as a result of a breach of this Section or (y) becomes available to the Lender or any of its respective Affiliates on a nonconfidential basis from a source other than the Company. In addition, the Lender may disclose the existence of this Agreement and information about this Agreement to market data collectors, similar service providers to the lending industry and service providers to the Lender in connection with the administration of this Agreement, the other Loan Documents, and the Commitments.

Section 8.12 Headings. Article and Section headings in this Agreement are included for convenience of reference only and shall not constitute a part of this Agreement for any other purpose.

Section 8.13 Entire Agreement. This Agreement sets forth the entire agreement of the parties with respect to its subject matter and supersedes all previous understandings, written or oral, in respect thereof.

Section 8.14 Execution in Counterparts. This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

Section 8.15 Consent to Jurisdiction.

(a) Each of the parties hereto hereby irrevocably and unconditionally agrees that it will not commence any action, litigation or proceeding of any kind or description, whether in law or equity, whether in contract or in tort or otherwise, against any party hereto or any Affiliate of the foregoing in any way relating to this Agreement or any other Loan Document or the transactions relating hereto or thereto, in any forum other than the courts of the State of New York sitting in New York County, and of the United States District Court of the Southern District of New York, and any appellate court from any thereof, and each of the parties hereto irrevocably and unconditionally submits to the jurisdiction of such courts and agrees that all claims in respect of any such action, litigation or proceeding may be heard and determined in such New York State court or, to the fullest extent permitted by applicable law, in such federal court. Each of the parties hereby irrevocably agrees, to the fullest extent each may effectively do so, that each will not assert any defense that such courts do not have subject matter or personal jurisdiction of such action or proceeding or over any party hereto. Each of the parties hereby irrevocably consents to the service of copies of the summons and complaint and any other process which may be served in any such action or proceeding by certified mail, return receipt requested, or by delivering of a copy of such process to such party at its address specified in Section 8.02 or by any other method permitted by law. Each of the parties hereby agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or by any other manner provided by law. To the extent that the Company has or hereafter may acquire any immunity from jurisdiction of any court or from any legal process (whether through service or notice, attachment prior to judgment, attachment in aid of execution, execution or otherwise) with respect to itself or its property, the Company hereby irrevocably waives such immunity in respect of its obligations under this Agreement.

(b) Nothing in this Section 8.15 shall affect the right of any of the parties hereto to serve legal process in any other manner permitted by law or affect the right of any of the parties to bring any action or proceeding against any of the parties or their property in the courts of other jurisdictions.

Section 8.16 GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

Section 8.17 USA PATRIOT Act. The Lender that is subject to the Act (as hereinafter defined) and the The Lender (hereby notifies the Company that pursuant to the requirements of the USA PATRIOT Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the “Act”), it is required to obtain, verify and record information that identifies the Company, which information includes the name and address of the Company and other information that will allow the Lender to identify the Company in accordance with the Act. The Company shall, promptly following a request by the Lender, provide all documentation and other information that the Lender requests in order to comply with its ongoing obligations under applicable “know your customer” an anti-money laundering rules and regulations, including the Act.

Section 8.18 No Advisory or Fiduciary Responsibility. In connection with all aspects of each transaction contemplated hereby (including in connection with any amendment, waiver or other modification hereof or of any other Loan Document), the Company acknowledges and agrees that: (i) (A) the arranging and other services regarding this Agreement provided by the Lender are arm’s-length commercial transactions between the Company and its respective Affiliates, on the one hand, and the Lender, on the other hand, (B) the Company has consulted its own legal, accounting, regulatory and tax advisors to the extent it has deemed appropriate, and (C) the Company is capable of evaluating, and understands and accepts, the terms, risks and conditions of the transactions contemplated hereby and by the other Loan Documents; (ii) (A) the Lender is and has been acting solely as a principal and, except as expressly agreed in writing by the relevant parties, has not been, is not, and will not be acting as an advisor, agent or fiduciary for the Company or any of its respective Affiliates, or any other Person and (B) the Lender does not have any obligation to the Company or any of its respective Affiliates with respect to the transactions contemplated hereby except those obligations expressly set forth herein and in the other Loan Documents; and (iii) the Lender and its respective Affiliates may be engaged in a broad range of transactions that involve interests that differ from those of the Company and its respective Affiliates, and the Lender does not have any obligation to disclose any of such interests to the Company or any of its respective Affiliates. To the fullest extent permitted by law, the Company hereby waives and releases any claims that it may have against the Lender with respect to any breach or alleged breach of agency or fiduciary duty in connection with any aspect of any transaction contemplated hereby.

Section 8.19 Judgment Currency. If, for the purposes of obtaining judgment in any court, it is necessary to convert a sum due hereunder or any other Loan Document in one currency into another currency, the rate of exchange used shall be that at which in accordance with normal banking procedures the Lender could purchase the first currency with such other currency on the Business Day preceding that on which final judgment is given. The obligation of the Company in respect of any such sum due from it to the Lender hereunder or under the other Loan Documents shall, notwithstanding any judgment in a currency (the “Judgment Currency”) other than that in which such sum is denominated in accordance with the applicable provisions of this Agreement (the “Agreement Currency”), be discharged only to the extent that on the Business Day following receipt by the Lender of any sum adjudged to be so due in the Judgment Currency, the Lender may in accordance with normal banking procedures purchase the

Agreement Currency with the Judgment Currency. If the amount of the Agreement Currency so purchased is less than the sum originally due to the Lender from the Company in the Agreement Currency, the Company agrees, as a separate obligation and notwithstanding any such judgment, to indemnify the Lender or the Person to whom such obligation was owing against such loss. If the amount of the Agreement Currency so purchased is greater than the sum originally due to the Lender in such currency, the Lender agrees to return the amount of any excess to the Company (or to any other Person who may be entitled thereto under applicable law).

Section 8.20 WAIVER OF JURY TRIAL. THE COMPANY AND THE LENDER HEREBY IRREVOCABLY WAIVE, TO THE FULLEST EXTENT PERMITTED BY LAW, ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM (WHETHER BASED UPON CONTRACT, TORT OR OTHERWISE) ARISING OUT OF OR RELATING TO THIS AGREEMENT, THE ADVANCE, OR THE ACTIONS OF THE LENDER IN CONNECTION WITH THE NEGOTIATION, ADMINISTRATION, PERFORMANCE OR ENFORCEMENT THEREOF.

[The remainder of this page intentionally left blank.]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers thereunto duly authorized, as of the date first above written.

THE COMPANY:

THE GAP, INC.

By: /s/ Roger Chelemedos

Name: Roger Chelemedos

Title: Senior Vice President – Finance and
Treasurer

THE LENDER:

THE BANK OF NOVA SCOTIA

By: /s/ Eugene Dempsey

Name: Eugene Dempsey

Title: Director Corporate Banking

**SCHEDULE I
COMPANY'S AND LENDER'S OFFICE;
CERTAIN ADDRESSES FOR NOTICES**

COMPANY:

The Gap, Inc.
2 Folsom Street
San Francisco, California 94105
Attn: SPV Finance, Treasurer
Telephone: 415-427-2639
Telecopier: 415-427-4015
Electronic Mail: roger_chelemedos@gap.com
Website Address: www.gap.com
U.S. Taxpayer Identification Number: 94-1697231
With a copy to:

Attn: Global General Counsel
Telephone: 415-427-6931
Telecopier: 415-427-6982
Electronic Mail: michelle_banks@gap.com

With a copy to:

Attn: General Counsel
Telephone: 415-427-2139
Telecopier: 415-427-7475
Electronic Mail: tom_lima@gap.com

LENDER:

The Bank of Nova Scotia
Global Wholesale Services
Loan Administration and Agency Services
720 King Street West, 2nd Floor.
Toronto, Ontario
M5V 2T3
Attn: US Corporate Loan Operations
Telephone: 416-649-4064 / 212-225-5705
Telecopier: 212-225-5709
Electronic Mail: GWSLoanOps.USAgency@scotiabank.com

With a copy to:

The Bank of Nova Scotia
650 West Georgia Street, Suite 1800

Vancouver, British Columbia
V6B 4N7
Attn: Relationship Manager
Telecopier: 604-697-2200

SCHEDULE II
CHANGE OF CONTROL

1. Doris F. Fisher
 2. Any person related by blood, adoption or marriage to Doris F. Fisher and any Person (as defined in this Agreement) as to which any such persons has beneficial ownership of the assets of such Person.
 3. The executive officers of The Gap, Inc. as of the Effective Date.
-

**SCHEDULE III
ERISA MATTERS**

None.

**SCHEDULE IV
ENVIRONMENTAL MATTERS**

None.

EXHIBIT A

ADVANCE/CONTINUATION NOTICE

Date: _____, _____

To: The Bank of Nova Scotia

Ladies and Gentlemen:

Reference is made to that certain Credit Agreement, dated as of October 15, 2015 (as amended, restated, extended, supplemented or otherwise modified in writing from time to time, the "Agreement;" the terms defined therein being used herein as therein defined), among The Gap, Inc., a Delaware corporation, and The Bank of Nova Scotia, as lender.

The undersigned hereby requests (select one):

A Borrowing of Advances

A continuation of Advances

1. On __ (a Business Day).
2. In the amount of \$__.
3. With an Interest Period of __ months.

[Signature page follows]

The Borrowing, if any, requested herein complies with the provisos to the first sentence of Section 2.01 of the Agreement.

THE GAP, INC.

By: _____

Name: _____

Title: _____

EXHIBIT B
FORM OF NOTE

FOR VALUE RECEIVED, the undersigned (the "Borrower"), hereby promises to pay to The Bank of Nova Scotia or registered assigns (the "Lender"), in accordance with the provisions of the Agreement (as hereinafter defined), the principal amount of \$400,000,000 advanced by the Lender to the Borrower under that certain Credit Agreement, dated as of October 15, 2015 (as amended, restated, extended, supplemented or otherwise modified in writing from time to time, the "Agreement;" the terms defined therein being used herein as therein defined), among the Borrower and Lender.

The Borrower promises to pay interest on the unpaid principal amount of the Advance from the date of such Advance until such principal amount is paid in full, at such interest rates and at such times as provided in the Agreement. All Advances, all payments of principal and interest shall be made to the Lender in Dollars in immediately available funds at the Lender's Office. If any amount is not paid in full when due hereunder, such unpaid amount shall bear interest, to be paid upon demand, from the due date thereof until the date of actual payment (and before as well as after judgment) computed at the per annum rate set forth in the Agreement.

This Note is the Note referred to in the Agreement, is entitled to the benefits thereof and may be prepaid in whole or in part subject to the terms and conditions provided therein. Upon the occurrence and continuation of one or more of the Events of Default specified in the Agreement, all amounts then remaining unpaid on this Note shall become, or may be declared to be, immediately due and payable all as provided in the Agreement. The Advance made by the Lender shall be evidenced by one or more loan accounts or records maintained by the Lender in the ordinary course of business. The Lender may also attach schedules to this Note and endorse thereon the date, amount and maturity of its Advances and payments with respect thereto.

The Borrower, for itself, its successors and assigns, hereby waives diligence, presentment, protest and demand and notice of protest, demand, dishonor and non-payment of this Note.

[Signature page follows]

THIS NOTE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

THE GAP, INC.

By: _____

Name: _____

Title: _____

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: December 8, 2015

/s/ Arthur Peck

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: December 8, 2015

/s/ Sabrina L. Simmons

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 October 31, 2015 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: December 8, 2015

/s/ Arthur Peck

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 October 31, 2015 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: December 8, 2015

/s/ Sabrina L. Simmons

Sabrina L. Simmons

Executive Vice President and Chief Financial Officer

(Principal Financial Officer)

