GAP INC
Form 10-Q
December 08, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended October 31, 2009

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ______ to ______

Commission File Number 1-7562

THE GAP, INC.

(Exact name of registrant as specified in its charter)

Delaware	**94-1697231**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
Two Folsom Street, San Francisco, California	**94105**
(Address of principal executive offices)	**(Zip code)**

Registrant s telephone number, including area code: (650) 952-4400

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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 þ 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 þ Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

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

Yes ¨ No þ

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Common Stock, $0.05 par value, 689,992,899 shares as of December 4, 2009

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

THE GAP, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

($ and shares in millions except par value)	October 31, 2009	January 31, 2009	November 1, 2008
ASSETS			
Current assets:			
Cash and cash equivalents	$ 2,173	$ 1,715	$ 1,480
Short-term investments	225		75
Restricted cash	21	41	38
Merchandise inventory	1,999	1,506	2,224
Other current assets	636	743	740
Total current assets	5,054	4,005	4,557
Property and equipment, net of accumulated depreciation of $4,733, $4,312, and $4,288	2,717	2,933	3,016
Other long-term assets	659	626	613
Total assets	$ 8,430	$ 7,564	$ 8,186
LIABILITIES AND STOCKHOLDERS EQUITY			
Current liabilities:			
Current maturities of long-term debt	$	$ 50	$ 188
Accounts payable	1,418	975	1,578
Accrued expenses and other current liabilities	1,050	1,076	1,052
Income taxes payable	6	57	25
Total current liabilities	2,474	2,158	2,843
Lease incentives and other long-term liabilities	975	1,019	1,018
Commitments and contingencies (see Note 10)			
Stockholders equity:			
Common stock $0.05 par value			
Authorized 2,300 shares; Issued 1,106, 1,105, and 1,105 shares; Outstanding 695, 694, and 706 shares	55	55	55
Additional paid-in capital	2,922	2,895	2,884
Retained earnings	10,519	9,947	9,765
Accumulated other comprehensive income	153	123	116
Treasury stock, at cost (411, 411, and 399 shares)	(8,668)	(8,633)	(8,495)
Total stockholders equity	4,981	4,387	4,325
Total liabilities and stockholders equity	$ 8,430	$ 7,564	$ 8,186

See Accompanying Notes to the Condensed Consolidated Financial Statements

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THE GAP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

($ and shares in millions except per share amounts)	13 Weeks Ended October 31, 2009	13 Weeks Ended November 1, 2008	39 Weeks Ended October 31, 2009	39 Weeks Ended November 1, 2008
Net sales	$ 3,589	$ 3,561	$ 9,961	$ 10,444
Cost of goods sold and occupancy expenses	2,065	2,183	5,910	6,386
Gross profit	1,524	1,378	4,051	4,058
Operating expenses	1,024	984	2,823	2,908
Operating income	500	394	1,228	1,150
Interest expense (reversal)	1	5	4	(1)
Interest income	(1)	(9)	(5)	(32)
Income before income taxes	500	398	1,229	1,183
Income taxes	193	152	479	459
Net income	$ 307	$ 246	$ 750	$ 724
Weighted-average number of shares - basic	698	709	697	720
Weighted-average number of shares - diluted	704	712	701	723
Earnings per share - basic	$ 0.44	$ 0.35	$ 1.08	$ 1.01
Earnings per share - diluted	$ 0.44	$ 0.35	$ 1.07	$ 1.00
Cash dividends declared and paid per share	$ 0.085	$ 0.085	$ 0.255	$ 0.255

See Accompanying Notes to the Condensed Consolidated Financial Statements

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THE GAP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	39 Weeks Ended	
($ in millions)	**October 31, 2009**	**November 1, 2008**
Cash flows from operating activities:		
Net income	$ 750	$ 724
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	491	486
Amortization of lease incentives	(60)	(64)
Share-based compensation	48	42
Tax benefit from exercise of stock options and vesting of stock units	(5)	5
Excess tax benefit from exercise of stock options and vesting of stock units	(3)	(6)
Non-cash and other items	(61)	44
Deferred income taxes	1	22
Changes in operating assets and liabilities:		
Merchandise inventory	(478)	(667)
Other current assets and other long-term assets	116	(55)
Accounts payable	419	594
Accrued expenses and other current liabilities	(66)	(238)
Income taxes payable, net of prepaid and other tax-related items	(3)	(81)
Lease incentives and other long-term liabilities	3	28
Net cash provided by operating activities	1,152	834
Cash flows from investing activities:		
Purchases of property and equipment	(221)	(315)
Purchases of short-term investments	(250)	(75)
Maturities of short-term investments	25	177
Acquisition of business, net of cash acquired		(141)
Change in restricted cash	19	1
Net cash used for investing activities	(427)	(353)
Cash flows from financing activities:		
Payment of long-term debt	(50)	
Proceeds from share-based compensation, net of withholding tax payments	47	69
Repurchases of common stock	(106)	(593)
Excess tax benefit from exercise of stock options and vesting of stock units	3	6
Cash dividends paid	(178)	(183)
Net cash used for financing activities	(284)	(701)
Effect of foreign exchange rate fluctuations on cash	17	(24)
Net increase (decrease) in cash and cash equivalents	458	(244)
Cash and cash equivalents at beginning of period	1,715	1,724

Cash and cash equivalents at end of period	$ 2,173	$ 1,480
Supplemental disclosure of cash flow information:		
Cash paid for interest during the period	$ 2	$ 10
Cash paid for income taxes during the period	$ 492	$ 557

See Accompanying Notes to the Condensed Consolidated Financial Statements

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THE GAP, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Basis of Presentation

The Condensed Consolidated Balance Sheets as of October 31, 2009 and November 1, 2008, the Condensed Consolidated Statements of Income for the thirteen and thirty-nine weeks ended October 31, 2009 and November 1, 2008, and the Condensed Consolidated Statements of Cash Flows for the thirty-nine weeks ended October 31, 2009 and November 1, 2008 have been prepared by The Gap, Inc. (the Company, we, and our), without audit. In the opinion of management, such statements include all adjustments (which include only normal recurring adjustments) considered necessary to present fairly our financial position, results of operations, and cash flows at October 31, 2009 and November 1, 2008, and for all periods presented. We evaluated events occurring after October 31, 2009 through December 8, 2009, the date the financial statements were issued. The Condensed Consolidated Balance Sheet as of January 31, 2009 has been derived from our audited financial statements.

We identify our operating segments based on the way we manage and evaluate our business activities. Beginning in the fourth quarter of fiscal 2008, we have two reportable segments: Stores and Direct.

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 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, 2009.

The results of operations for the thirteen and thirty-nine weeks ended October 31, 2009 are not necessarily indicative of the operating results that may be expected for the fifty-two week period ending January 30, 2010.

Note 2. Goodwill and Intangible Assets

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

($ in millions)	October 31, 2009	January 31, 2009	November 1, 2008
Goodwill	$ 99	$ 99	$ 99
Trade name	$ 54	$ 54	$ 54
Intangible assets subject to amortization	$ 15	$ 15	$ 15
Accumulated amortization	(7)	(2)	
Intangible assets subject to amortization, net	$ 8	$ 13	$ 15

All of the assets above have been allocated to the Direct reportable segment.

During the thirteen and thirty-nine weeks ended October 31, 2009, there were no changes in the carrying amount of goodwill or trade name. Intangible assets subject to amortization, consisting primarily of customer relationships, are being amortized over a weighted-average amortization period of four years. Amortization expense associated with intangible assets subject to amortization is recorded in operating expenses in our Condensed Consolidated Statements of Income. For the thirteen and thirty-nine weeks ended October 31, 2009, amortization expense for intangible assets subject to amortization was $1 million and $5 million, respectively. For the remainder of fiscal 2009, we expect amortization expense for intangible assets subject to amortization to be $1 million.

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As of October 31, 2009, future amortization expense associated with intangible assets subject to amortization for each of the five succeeding fiscal years is as follows:

($ in millions)		
Fiscal Year		
2010	$	4
2011	$	2
2012	$	1
2013	$	
2014	$	

Note 3. Fair Value Measurements

Financial Assets and Liabilities

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

		Fair Value Measurements at Reporting Date Using		
($ in millions)	October 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Derivative financial instruments	$ 7	$	$ 7	$
Deferred compensation plan assets	24	24		
Total	$ 31	$ 24	$ 7	$
Liabilities:				
Derivative financial instruments	$ 41	$	$ 41	$

		Fair Value Measurements at Reporting Date Using		
($ in millions)	January 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Derivative financial instruments	$ 87	$	$ 87	$
Deferred compensation plan assets	18	18		
Total	$ 105	$ 18	$ 87	$

Liabilities:				
Derivative financial instruments	$ 52	$	$ 52	$

		Fair Value Measurements at Reporting Date Using		
($ in millions)	November 1, 2008	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Derivative financial instruments	$ 72	$	$ 72	$
Deferred compensation plan assets	22	22		
Total	$ 94	$ 22	$ 72	$
Liabilities:				
Derivative financial instruments	$ 30	$	$ 30	$

Derivative financial instruments primarily include foreign exchange forward contracts, which mainly hedge U.S. dollar, Euro, British pound, Japanese yen, and Canadian dollar exposures. 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 included in other current assets or other long-term assets in the Condensed Consolidated Balance Sheets. Derivative financial instruments in a liability position are included in accrued expenses and other current liabilities or lease incentives and other long-term liabilities in the Condensed Consolidated Balance Sheets.

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We maintain deferred compensation plans which allow eligible employees and non-employee members of the Board of Directors to defer compensation up to a maximum amount. Plan investments are recorded at market value and are designated for the deferred compensation plans. The fair value of the Company s deferred compensation plan assets is determined based on quoted market prices, and the assets are included in other long-term assets in the Condensed Consolidated Balance Sheets.

In addition, we have highly liquid investments classified as cash and cash equivalents and short-term investments. These investments are placed primarily in money market funds, domestic commercial paper, U.S. treasury bills, and bank deposits, and are classified as held-to-maturity based on our positive intent and ability to hold the securities to maturity. These investments are stated at amortized cost, which approximates fair market value due to their short maturities.

Nonfinancial Assets

Effective February 1, 2009, we adopted enhanced disclosure requirements for nonfinancial assets measured at fair value on a nonrecurring basis.

During the thirteen and thirty-nine weeks ended October 31, 2009, we reviewed the carrying value of long-lived assets for impairment. Assets are considered impaired if the estimated undiscounted future cash flows of the long-lived assets are less than the carrying value. For an impaired asset, we recognize a loss equal to the difference between the carrying value and the asset s estimated fair value. The fair value of the assets is determined using level 3 inputs. It is based on estimated future cash flows of the assets using a discount rate commensurate with the risk. During the thirteen and thirty-nine weeks ended October 31, 2009, no material impairment charges were recorded for the carrying value of long-lived assets.

Note 4. Derivative Financial Instruments

Effective February 1, 2009, we adopted enhanced disclosure requirements for our derivative financial instruments and hedging activities.

We operate in foreign countries, which exposes us to market risk associated with foreign currency exchange rate fluctuations. Our risk management policy is to hedge a significant portion of forecasted merchandise purchases for foreign operations, forecasted intercompany royalty payments, and intercompany balances that bear foreign exchange risk using foreign exchange forward contracts. The principal currencies hedged are U.S. dollars, Euro, British pounds, Japanese yen, and Canadian dollars. Until March 2009, we also used a cross-currency interest rate swap to swap the interest and principal payable of the $50 million debt of our Japanese subsidiary, Gap (Japan) KK. In connection with the maturity of the debt, the swap was settled in March 2009. We do not enter into derivative financial contracts for trading purposes. Our derivative financial instruments are recorded in the Condensed Consolidated Balance Sheets at fair value determined using pricing models based on current market rates. 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: forward contracts used to hedge forecasted merchandise purchases denominated primarily in U.S. dollars made by our international subsidiaries whose functional currencies are their local currencies and forward contracts used to hedge forecasted intercompany royalty payments denominated in Japanese yen and Canadian dollars received by entities whose functional currencies are U.S. dollars. For derivative financial instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative financial instruments is reported as a component of other comprehensive income (OCI) and is recognized in income in the period which approximates the time the underlying transaction occurs. Gains and losses on the derivative financial instruments representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness, if any, are recognized in current income. During the thirteen and thirty-nine weeks ended October 31, 2009, there were no material amounts recorded 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.

We make merchandise purchases on a monthly basis and enter into foreign exchange forward contracts to hedge forecasted merchandise purchases generally occurring in 12 to 18 months. We make intercompany royalty payments on a quarterly basis and we enter into foreign exchange forward contracts to hedge intercompany royalty payments generally occurring in 12 to 15 months.

As of October 31, 2009, we had foreign exchange forward contracts outstanding to buy the notional amount of $806 million and 25 million British pounds and to sell various currencies related to both our forecasted merchandise purchases and forecasted intercompany royalty payments.

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Net Investment Hedges

We 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. For derivative financial instruments that are designated and qualify as net investment hedges, the effective portion of the gain or loss on the derivative financial instruments is reported as a component of OCI and reclassified into income in the same period or periods during which the hedged subsidiary is either sold or liquidated (or substantially liquidated). Gains and losses on the derivative financial instruments representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness, if any, are recognized in current income. During the thirteen and thirty-nine weeks ended October 31, 2009, there were no amounts recorded as a result of hedge ineffectiveness, hedge components excluded from the assessment of effectiveness, or the discontinuance of net investment hedges.

As of October 31, 2009, we did not have foreign exchange forward contracts outstanding to hedge the net assets of our international subsidiaries.

Not Designated as Hedging Instruments

We also use 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. For derivative financial instruments not designated as hedging instruments, the gain or loss on the derivative financial instruments, as well as the remeasurement of the underlying intercompany balances, is recognized in operating expenses in the same period and generally offset.

We generate intercompany activity each month, and as such, we generally enter into foreign exchange forward contracts on a monthly basis to hedge intercompany balances that bear foreign exchange risk. These foreign exchange forward contracts generally settle in fewer than six months. As of October 31, 2009, we had foreign exchange forward contracts outstanding to buy $41 million and 5 billion Japanese yen related to our intercompany balances that bear foreign exchange risk.

Contingent Features

We had no derivative financial instruments with credit-risk-related contingent features underlying the agreements as of October 31, 2009.

Quantitative Disclosures about Derivative Financial Instruments

The fair values of asset and liability derivative financial instruments are as follows:

	October 31, 2009			
	Asset Derivatives		**Liability Derivatives**	
($ in millions)	**Balance Sheet Location**	**Fair Value**	**Balance Sheet Location**	**Fair Value**
Derivatives designated as cash flow hedges:				
Foreign exchange forward contracts	Other current assets	$ 4	Accrued expenses and other current liabilities	$ 30
Foreign exchange forward contracts	Other long-term assets	1	Lease incentives and other long-term liabilities	5
Total derivatives designated as cash flow hedges		5		35
Derivatives not designated as hedging instruments:				
Foreign exchange forward contracts	Other current assets	2	Accrued expenses and other current	6

			liabilities	
Foreign exchange forward contracts	Other long-term assets		Lease incentives and other long-term liabilities	
Total derivatives not designated as hedging instruments		2		6
Total derivative instruments		$ 7		$ 41

Substantially all unrealized gains and losses from designated cash flow hedges as of October 31, 2009 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, 2009 shown above.

See Note 3 for additional disclosures on the fair value measurements of our derivative financial instruments.

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The effects of derivative financial instruments on OCI and the Condensed Consolidated Statements of Income, on a pre-tax basis for the thirteen and thirty-nine weeks ended October 31, 2009, are as follows:

($ in millions)	Amounts of Gain (Loss) Recognized in OCI (Effective Portion) 13 Weeks Ended October 31, 2009	Amounts of Gain (Loss) Recognized in OCI (Effective Portion) 39 Weeks Ended October 31, 2009	Amounts of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) (1) 13 Weeks Ended October 31, 2009	Amounts of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) (1) 39 Weeks Ended October 31, 2009
Derivatives in cash flow hedging relationships:				
Foreign exchange forward contracts	$ (9)	$ (40)	$ (5)	$ 20
Cross-currency interest rate swap		3		1
Total	$ (9)	$ (37)	$ (5)	$ 21

($ in millions)	Amounts of Gain (Loss) Recognized in OCI (Effective Portion) 13 Weeks Ended October 31, 2009	Amounts of Gain (Loss) Recognized in OCI (Effective Portion) 39 Weeks Ended October 31, 2009	Amounts of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) 13 Weeks Ended October 31, 2009	Amounts of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) 39 Weeks Ended October 31, 2009
Derivatives in net investment hedging relationships:				
Foreign exchange forward contracts	$	$ (2)	$	$

($ in millions)	Amounts of Gain (Loss) Recognized in Income (2) 13 Weeks Ended October 31, 2009	Amounts of Gain (Loss) Recognized in Income (2) 39 Weeks Ended October 31, 2009
Derivatives not designated as hedging instruments:		
Foreign exchange forward contracts	$ 42	$ 32

(1) Includes loss of $4 million and gain of $22 million recorded in cost of goods sold and occupancy expenses related to foreign exchange forward contracts used to hedge forecasted merchandise purchases for the thirteen and thirty-nine weeks ended October 31, 2009, respectively. Also includes losses of $1 million and $2 million recorded in operating expenses related to foreign exchange forward contracts used to hedge forecasted intercompany royalty payments for the thirteen and thirty-nine weeks ended October 31, 2009, respectively. The gain of $1 million related to the cross-currency interest rate swap was recorded in operating expenses.

(2) Recorded in operating expenses.

See Note 7 for components of comprehensive income, which includes changes in fair value of derivative financial instruments, net of tax, and reclassification adjustments for realized gains and losses on derivative financial instruments, net of tax.

Note 5. Share Repurchases

Share repurchases are as follows:

($ and shares in millions except average per share amounts)	13 Weeks Ended October 31, 2009	13 Weeks Ended November 1, 2008	39 Weeks Ended October 31, 2009	39 Weeks Ended November 1, 2008
Number of shares repurchased	4.1	5.7	4.5	33.4
Total cost	$ 91	$ 100	$ 96	$ 600
Average per share cost including commissions	$ 22.42	$ 17.65	$ 21.44	$ 17.97

In February 2008, our Board of Directors authorized $1 billion for share repurchases, of which $841 million was utilized through October 31, 2009. In connection with this authorization, we entered into purchase agreements with individual members of the Fisher family. We expect that approximately $147 million (approximately 15 percent) of the $1 billion share repurchase program will be purchased from the Fisher family members under these purchase agreements (related party transactions). The shares are purchased at the same weighted-average market price that we pay for share repurchases in the open market. During the thirteen and thirty-nine weeks ended October 31, 2009, approximately 0.6 million shares and 0.7 million shares, respectively, were repurchased for $14 million and $15 million, respectively, from the Fisher family. During the thirteen and thirty-nine weeks ended November 1, 2008, approximately 0.9 million shares and 5.3 million shares, respectively, were repurchased for $15 million and $94 million, respectively, from the Fisher family.

All except $31 million of total share repurchases were paid for as of October 31, 2009, of which $14 million was payable to Fisher family members. All of the share repurchases were paid for as of November 1, 2008 except $7 million which was payable to Fisher family members.

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In November 2009, we announced that our Board of Directors authorized an additional $500 million share repurchase program, and we entered into new purchase agreements with individual members of the Fisher family. We expect that approximately $20 million (approximately 4 percent) of the $500 million share repurchase program will be purchased from the Fisher family members under these purchase agreements (related party transactions).

Note 6. Share-Based Compensation

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

	13 Weeks Ended		39 Weeks Ended	
($ in millions)	**October 31, 2009**	**November 1, 2008**	**October 31, 2009**	**November 1, 2008**
Stock units	$ 18	$ 10	$ 38	$ 31
Stock options	4	1	7	8
Employee stock purchase plan	1	1	3	3
Share-based compensation expense	23	12	48	42
Less: Income tax benefit	(9)	(4)	(19)	(16)
Share-based compensation expense, net of tax	$ 14	$ 8	$ 29	$ 26

Note 7. Comprehensive Income

Comprehensive income is comprised of net income and other gains and losses affecting equity that are excluded from net income. The components of other comprehensive income consist of foreign currency translation gains and losses and changes in the fair value of derivative financial instruments, net of tax.

Comprehensive income, net of tax, is as follows:

	13 Weeks Ended		39 Weeks Ended	
($ in millions)	**October 31, 2009**	**November 1, 2008**	**October 31, 2009**	**November 1, 2008**
Net income	$ 307	$ 246	$ 750	$ 724
Foreign currency translation	26	(53)	66	(56)
Change in fair value of derivative financial instruments, net of tax (tax benefit) of ($3), $10, ($14), and $18	(6)	16	(23)	22
Reclassification adjustment for realized losses (gains) on derivative financial instruments, net of tax (tax benefit) of ($2), ($6), $8, and ($15)	3	11	(13)	25
Comprehensive income, net of tax	$ 330	$ 220	$ 780	$ 715