

Gap Inc.

Gap
Banana Republic
Old Navy

June 30, 2004

Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

To: Lawrence W. Smith, Director – Technical Applications & Implementation Activities

On behalf of Gap Inc., I am writing to express concern over pending Financial Accounting Standards Board action (FASB), which could potentially lead to the elimination of employee stock purchase plans (ESPPs). Gap Inc. is proud of our highly successful ESPP and believes strongly in the merits of this kind of employee benefit. However, newly released language governing the expensing of stock options would render the discount we currently provide for employee stock purchases through the ESPPs an expense. As you may know, many companies have already eliminated ESPPs in light of expected FASB expensing requirements. Gap Inc. wants very much not to see this occur with our own plan.

It is clear that ESPPs have many positive benefits for employees. First, ESPPs are an important element in the benefit packages used to recruit and retain employees at Gap Inc. Today's job seekers are quite savvy in evaluating total rewards from a potential employer and ESPPs play an important role in that calculation. Second, ESPPs promote pride and motivation by literally giving employees a piece of the company through stock ownership. Each time the hard work of our employees leads to a good quarter or rising sales, they can see the result of that work in the increased value of their stock. And third, ESPPs provide an important way to save and invest for the future. With savings and investment rates declining, ESPPs provide an easily accessible vehicle to reverse this trend.

FASB's pending action related to stock option expensing will have a negative impact on our ability to offer our ESPP in its current form. Non-executive employees benefit greatly from ESPPs. It seems unfair and counterproductive to punish these employees with an overly broad attempt at reform.

We at Gap Inc believe a more moderate approach to expensing should be considered. There are bipartisan bills before Congress that would require greater transparency while preserving ESPPs or limit expensing to a select group of executives. More balanced approaches, such as these, are options worth considering. Without question, ESPPs need to be preserved for rank-and-file employees.

I am happy to answer any questions you may have about Gap Inc. and its ESPP and urge FASB to reconsider its proposal. Thank you.

Sincerely,

Bill Tompkins
Vice President, Total Rewards and HR Technology
Gap, Inc.