SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

# FORM 10-Q

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

For the quarterly period ended May 2, 1998

OR

[_] 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 1-8344

THE LIMITED, INC.
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware | 31-1029810 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

Three Limited Parkway, P.O. Box 16000, Columbus, OH 43216
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (614) 415-7000

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 X No ___

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

| Common Stock, $.50 Par Value | Outstanding at May 29, 1998 |
|---|---|
| | 227,869,914 Shares |

THE LIMITED, INC.

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PART I - FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

THE LIMITED, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Thousands except per share amounts)

(Unaudited)

| | Thirteen Weeks Ended | |
|---|---|---|
| | May 2, 1998 | May 3, 1997 |
| NET SALES | $2,008,077 | $1,829,780 |
| Cost of Goods Sold, Occupancy and Buying Costs | 1,421,407 | 1,328,309 |
| GROSS INCOME | 586,670 | 501,471 |
| General, Administrative and Store Operating Expenses | (530,323) | (451,847) |
| Special & Nonrecurring Items, Net | 88,633 | -- |
| OPERATING INCOME | 144,980 | 49,624 |
| Interest Expense | (15,741) | (16,547) |
| Other Income | 16,153 | 8,837 |
| Minority Interest | (7,923) | (5,647) |
| Gain in Connection with Initial Public Offering of Equity Investee | -- | 8,606 |
| INCOME BEFORE INCOME TAXES | 137,469 | 44,873 |
| Provision for Income Taxes | 58,000 | 20,000 |
| NET INCOME | $79,469 | $24,873 |
| NET INCOME PER SHARE: | | |
| Basic | $.29 | $.09 |
| Diluted | $.28 | $.09 |
| DIVIDENDS PER SHARE | $.13 | $.12 |

The accompanying notes are an integral part of these consolidated financial statements.

THE LIMITED, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Thousands)

| | May 2, 1998 (Unaudited) | January 31, 1998 |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS: | | |
| Cash and Equivalents | $687,869 | $746,395 |
| Accounts Receivable | 81,602 | 83,370 |
| Inventories | 1,056,091 | 1,002,710 |
| Store Supplies | 96,789 | 99,167 |
| Other | 92,422 | 99,509 |
| TOTAL CURRENT ASSETS | 2,014,773 | 2,031,151 |
| PROPERTY AND EQUIPMENT, NET | 1,491,790 | 1,519,908 |
| RESTRICTED CASH | 351,600 | 351,600 |
| DEFERRED INCOME TAXES | 62,237 | 56,586 |
| OTHER ASSETS | 328,593 | 341,516 |
| TOTAL ASSETS | $4,248,993 | $4,300,761 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| CURRENT LIABILITIES: | | |
| Accounts Payable | $277,243 | $300,703 |
| Accrued Expenses | 679,365 | 676,715 |
| Income Taxes Payable | 18,325 | 115,994 |
| TOTAL CURRENT LIABILITIES | 974,933 | 1,093,412 |
| LONG-TERM DEBT | 650,000 | 650,000 |
| OTHER LONG-TERM LIABILITIES | 56,211 | 58,720 |
| MINORITY INTEREST | 105,574 | 102,072 |
| CONTINGENT STOCK REDEMPTION AGREEMENT | 351,600 | 351,600 |
| SHAREHOLDERS' EQUITY: | | |
| Common Stock | 180,352 | 180,352 |
| Paid-in Capital | 152,056 | 148,018 |
| Retained Earnings | 3,657,072 | 3,613,174 |
| | 3,989,480 | 3,941,544 |
| Less Treasury Stock, at Average Cost | (1,878,805) | (1,896,587) |
| TOTAL SHAREHOLDERS' EQUITY | 2,110,675 | 2,044,957 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | $4,248,993 | $4,300,761 |

The accompanying notes are an integral part of these consolidated financial statements.

THE LIMITED, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Thousands)

(Unaudited)

| | Thirteen Weeks Ended | |
| --- | --- | --- |
| | May 2, 1998 | May 3, 1997 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net Income | $79,469 | $24,873 |
| Impact of Other Operating Activities on Cash Flows: | | |
| Net Gain in Connection with Initial Public Offering of Equity Investee | - | (5,606) |
| Special and Nonrecurring Items, Net | (53,633) | - |
| Depreciation and Amortization | 74,722 | 75,380 |
| Minority Interest, Net of Dividends Paid | 3,502 | (512) |
| Changes in Assets and Liabilities: | | |
| Accounts Receivable | 1,768 | (10,789) |
| Inventories | (53,381) | (83,753) |
| Accounts Payable and Accrued Expenses | (25,910) | (60,304) |
| Income Taxes | (138,320) | (143,400) |
| Other Assets and Liabilities | (2,074) | (4,306) |
| NET CASH USED FOR OPERATING ACTIVITIES | (113,857) | (208,417) |
| INVESTING ACTIVITIES: | | |
| Capital Expenditures | (62,180) | (83,881) |
| Proceeds From Sale of Interest in Investee | 131,262 | - |
| NET CASH PROVIDED FROM (USED FOR) INVESTING ACTIVITIES | 69,082 | (83,881) |
| FINANCING ACTIVITIES: | | |
| Net Proceeds from Commercial Paper Borrowings | - | 65,990 |
| Dividends Paid | (35,571) | (32,529) |
| Stock Options and Other | 21,820 | 3,495 |
| NET CASH PROVIDED FROM (USED FOR) FINANCING ACTIVITIES | (13,751) | 36,956 |
| NET DECREASE IN CASH AND EQUIVALENTS | (58,526) | (255,342) |
| Cash and Equivalents, Beginning of Year | 746,395 | 312,796 |
| CASH AND EQUIVALENTS, END OF PERIOD | $687,869 | $57,454 |

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. BASIS OF PRESENTATION

The consolidated financial statements include the accounts of The Limited, Inc. (the "Company") and all significant subsidiaries which are more than 50 percent owned and controlled. All significant intercompany balances and transactions have been eliminated in consolidation.

Investments in other entities (including joint ventures) where the Company has the ability to significantly influence operating and financial policies are accounted for on the equity method.

The consolidated financial statements as of and for the periods ended May 2, 1998 and May 3, 1997 are unaudited and are presented pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, these consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company's 1997 Annual Report on Form 10-K. In the opinion of management, the accompanying consolidated financial statements reflect all adjustments (which are of a normal recurring nature) necessary to present fairly the financial position and results of operations and cash flows for the interim periods, but are not necessarily indicative of the results of operations for a full fiscal year.

The consolidated financial statements as of May 2, 1998 and for the thirteen week periods ended May 2, 1998 and May 3, 1997 included herein have been reviewed by the independent public accounting firm of Coopers & Lybrand L.L.P. and the report of such firm follows the notes to consolidated financial statements.

2. EARNINGS PER SHARE

Weighted average common shares outstanding (thousands):

| | Thirteen Weeks Ended | |
|---|---|---|
| | May 2, 1998 | May 3, 1997 |
| Common shares issued | 379,454 | 379,454 |
| Treasury shares | (105,616) | (108,132) |
| Basic shares | 273,838 | 271,322 |
| Dilutive effect of stock options and restricted shares | 5,524 | 1,156 |
| Diluted shares | 279,362 | 272,478 |

Options to purchase 0.1 million and 4.3 million shares of common stock were outstanding at quarter-end for 1998 and 1997, but were not included in the computation of earnings per share because the options' exercise price was greater than the average market price of the common shares during the period. Exercise of the 18.75 million shares subject to the Contingent Stock Redemption Agreement did not have a dilutive effect on earnings per share.

3. INVENTORIES

The fiscal year of the Company and its subsidiaries is comprised of two principal selling seasons: Spring (the first and second quarters) and Fall (the third and fourth quarters). Valuation of finished goods inventories is based principally upon the lower of average cost or market determined on a first-in, first-out basis utilizing the retail method. Inventory valuation at the end of the first and third quarters reflects adjustments for inventory markdowns and shrinkage estimates for the total selling season.

4. PROPERTY AND EQUIPMENT, NET

Property and equipment, net, consisted of (thousands):

| | May 2, 1998 | January 31, 1998 |
|---|---|---|
| Property and equipment, at cost | $3,097,865 | $3,104,612 |
| Accumulated depreciation and amortization | (1,606,075) | (1,584,704) |
| Property and equipment, net | $1,491,790 | $1,519,908 |

5. INCOME TAXES

The provision for income taxes is based on the current estimate of the annual effective tax rate. Income taxes paid during the thirteen weeks ended May 2, 1998 and May 3, 1997 approximated $154.7 million and $160.4 million.

The Internal Revenue Service has assessed the Company for additional taxes and interest for years 1992 to 1994 related to the treatment of transactions involving the Company's foreign operations for which the Company has provided deferred taxes on the undistributed earnings of foreign affiliates. The Company strongly disagrees with the IRS position and is vigorously contesting the assessment. Management believes resolution of this matter will not have a material adverse effect on the Company's results of operations or financial condition.

6. FINANCING ARRANGEMENTS

Unsecured long-term debt consisted of (thousands):

| | May 2, 1998 | January 31, 1998 |
|---|---|---|
| 7 1/2% Debentures due March 2023 | $250,000 | $250,000 |
| 7 4/5% Notes due May 2002 | 150,000 | 150,000 |
| 9 1/8% Notes due February 2001 | 150,000 | 150,000 |
| 8 7/8% Notes due August 1999 | 100,000 | 100,000 |
| | $650,000 | $650,000 |

The Company maintains a $1 billion unsecured revolving credit agreement (the "Agreement"). Borrowings outstanding under the Agreement are due September 28, 2002. However, the revolving term of the Agreement may be extended an additional two years upon notification by the Company on the second and fourth anniversaries of the effective date (September 29, 1997), subject to the approval of the lending banks. The Agreement has several borrowing options, including interest rates which are based on either the lender's "Base Rate", as defined, LIBOR, CD-based options or at a rate submitted under a bidding process. Facilities fees payable under the Agreement are based on the Company's long-term credit ratings, and currently approximate 0.1% of the committed amount per annum. The Company is in compliance with covenants contained in the Agreement relating to the Company's working capital, debt and net worth. No amounts were outstanding under the Agreement as of May 2, 1998.

The Agreement supports the Company's commercial paper program which is used from time to time to fund working capital and other general corporate requirements. No commercial paper was outstanding at May 2, 1998.

Up to $250 million of debt securities and warrants to purchase debt securities may be issued under the Company's shelf registration statement.

Interest paid during the thirteen weeks ended May 2, 1998 and May 3, 1997 approximated $24.1 million and $24.4 million.

7. SPECIAL ITEMS

During the first quarter of 1998, the company recognized a pretax gain of $93.7 million from the sale of its remaining interest in Brylane, Inc., a specialty catalogue retailer. This gain was partially offset by a $5.1 million pretax charge for severance and other associate termination costs related to the closing of five of six Henri Bendel stores. At May 2, 1998 $3.0 million of these charges were paid.

During first quarter of 1997, the Company recognized a pretax gain of $8.6 million in connection with the initial public offering of Brylane, Inc.

During 1997, the Company recorded pretax special and nonrecurring charges related to closing the Cacique lingerie business, streamlining the Henri Bendel business from six stores to one store, recognizing impaired asset charges and closing and downsizing certain stores, principally at the women's businesses. Write-downs related to the noncash component of the charge were recognized in 1997. Outlays for the cash component of the charge are expected to approximate $70 to $80 million during 1998, leaving a remaining accrual at year-end of $20 to $30 million, principally for contractual obligations. Cash outlays of $20 million during the first quarter of 1998 were principally for store closings.

8. SUBSEQUENT EVENT - ABERCROMBIE & FITCH EXCHANGE OFFER

On May 19, 1998, the Company completed a tax-free exchange offer to establish Abercrombie & Fitch ("A&F") as an independent company. The Limited accepted 47,075,052 shares of its common stock that were exchanged at a ratio of .86 of a share of A&F common stock for each Limited share accepted for exchange. In addition, on June 1, 1998 The Limited effected a pro rata spin-off to its shareholders of its remaining 3,115,455 A&F shares. Limited shareholders of record as of the close of trading on May 29, 1998 received .013673 of a share of A&F for each Limited share owned at that time.

[LETTERHEAD OF COOPERS & LYBRAND APPEARS HERE]

REPORT OF INDEPENDENT ACCOUNTANTS

To the Audit Committee of
The Board of Directors of
The Limited, Inc.

We have reviewed the condensed consolidated balance sheet of The Limited, Inc. and Subsidiaries at May 2, 1998, and the related condensed consolidated statements of income and cash flows for the thirteen-week periods ended May 2, 1998 and May 3, 1997. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements for them to be in conformity with generally accepted accounting principles.

We have previously audited, in accordance with generally accepted auditing standards, the consolidated balance sheet as of January 31, 1998, and the related consolidated statements of income, shareholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated February 20, 1998, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of January 31, 1998, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Coopers & Lybrand L.L.P.

COOPERS & LYBRAND L.L.P.

Columbus, Ohio
May 18, 1998

## Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

### RESULTS OF OPERATIONS

Net sales for the first quarter of 1998 grew 10% to $2.008 billion from $1.830 billion a year ago. Operating income increased to $145.0 million compared to operating income of $49.6 million for 1997. Operating income in 1998 included a $93.7 million pretax gain from the sale of the Company's remaining interest in Brylane, Inc. that was partially offset by a $5.1 million pretax charge for severance and other associate termination costs at Henri Bendel during the first quarter. Excluding these special and nonrecurring items, operating income increased 14% to $56.4 million. Net income increased to $79.5 million compared to $24.9 million in 1997, and earnings per share increased to $.28 from $.09 in 1997. Exclusive of these special and nonrecurring items and the 1997 gain arising in connection with the initial public offering of Brylane, Inc., net income increased 34% in 1998 to $25.8 million compared to $19.3 million for 1997 and earnings per share increased to $.09 from $.07 in 1997.

Business highlights include the following:

The Intimate Brands businesses began 1998 with an 18% increase in operating income, led by Victoria's Secret Stores which recorded a 6% comparable store sales increase while operating income increased more than 30%.

The women's businesses showed improvement with an 8% increase in comparable store sales, led by Express with a 20% increase in comparable store sales off of last year's disappointing 30% decrease.

Abercrombie & Fitch Co. also significantly improved first quarter operating income, supported by a 48% comparable store sales increase.

Financial Summary

The following summarized financial data compares the thirteen week period ended May 2, 1998 to the comparable 1997 period:

| | First Quarter 1998 | First Quarter 1997 | % Change From Prior Year |
|---|---|---|---|
| Net Sales (millions): | | | |
| Victoria's Secret Stores | $362 | $325 | 11% |
| Victoria's Secret Catalogue | 199 | 180 | 11% |
| Bath & Body Works | 205 | 177 | 16% |
| Cacique | - | 19 | N/M |
| Other | 5 | 3 | N/M |
| Total Intimate Brands | 771 | 704 | 10% |
| Express | 269 | 224 | 20% |
| Lerner New York | 202 | 195 | 4% |
| Lane Bryant | 211 | 204 | 3% |
| The Limited | 171 | 180 | (5%) |
| Henri Bendel | 12 | 25 | (52%) |
| Total Women's Businesses | 865 | 828 | 4% |
| Structure | 121 | 127 | (5%) |
| The Limited Too | 82 | 66 | 24% |
| Galyan's | 35 | 31 | 13% |
| Total Emerging Businesses | 238 | 224 | 6% |
| Abercrombie & Fitch | 134 | 74 | 81% |
| Total Net Sales | $2,008 | $1,830 | 10% |

| | First Quarter 1998 | First Quarter 1997 | % Change From Prior Year |
|---|---|---|---|
| Operating Income (Loss) (millions): | | | |
| Intimate Brands | $71 | $60 | 18% |
| Women's Businesses | (40)* | (26) | (54%) |
| Emerging Businesses | 104* | 14 | N/M |
| Abercrombie & Fitch | 10 | 2 | 400% |
| Total Operating Income | $145 | $50 | 12% |
| Increase (Decrease) in Comparable Store Sales: | | | |
| Victoria's Secret Stores | 6% | 7% | |
| Bath & Body Works | (1%) | 13% | |
| Cacique | - | 4% | |
| Total Intimate Brands | 4% | 8% | |
| Express | 20% | (30%) | |
| Lerner New York | 10% | (7%) | |
| Lane Bryant | 5% | (7%) | |
| The Limited | (2%) | (2%) | |
| Henri Bendel | (27%) | 2% | |
| Total Women's Businesses | 8% | (13%) | |
| Structure | (5%) | (2%) | |
| The Limited Too | 23% | 35% | |
| Galyan's | (2%) | 5% | |
| Total Emerging Businesses | 3% | 8% | |
| Abercrombie & Fitch | 48% | 14% | |
| Total comparable store sales increase (decrease) | 8% | (4%) | |
| Retail sales increase attributable to new and remodeled stores | 2% | 6% | |
| Retail sales per average selling square foot | $64.03 | $58.12 | 10% |
| Retail sales per average store (thousands) | $322 | $293 | 10% |
| Average store size at end of quarter (selling square feet) | 5,001 | 5,024 | - |
| Retail selling square feet (thousands) | 28,000 | 28,278 | (1%) |
| Number of Stores: | | | |
| Beginning of year | 5,640 | 5,633 | |
| Opened | 64 | 71 | |
| Closed | (105) | (75)** | |
| End of period | 5,599 | 5,629 | |

* The women's businesses include a $5 million charge and the emerging businesses include $94 million in income for special and nonrecurring items (see Note 7).

** Includes sale of four Penhaligon's stores in April 1997.

| | Number of Stores | | | Selling Sq. Ft. (thousands) | | |
|---|---|---|---|---|---|---|
| | May 2, 1998 | May 3, 1997 | Change From Prior Year | May 2, 1998 | May 3, 1997 | Change From Prior Year |
| Victoria's Secret Stores | 797 | 742 | 55 | 3,580 | 3,360 | 220 |
| Bath & Body Works | 960 | 796 | 164 | 1,868 | 1,457 | 411 |
| Cacique | - | 118 | (118) | - | 362 | (362) |
| Total Intimate Brands | 1,757 | 1,656 | 101 | 5,448 | 5,179 | 269 |
| Express | 735 | 751 | (16) | 4,674 | 4,737 | (63) |
| Lerner New York | 697 | 759 | (62) | 5,391 | 5,824 | (433) |
| Lane Bryant | 773 | 815 | (42) | 3,735 | 3,897 | (162) |
| The Limited | 614 | 651 | (37) | 3,709 | 3,909 | (200) |
| Henri Bendel | 1 | 6 | (5) | 35 | 113 | (78) |
| Total Women's Businesses | 2,820 | 2,982 | (162) | 17,544 | 18,480 | (936) |
| Structure | 540 | 541 | (1) | 2,135 | 2,120 | 15 |
| The Limited Too | 313 | 309 | 4 | 983 | 970 | 13 |
| Galyan's | 11 | 9 | 2 | 641 | 488 | 153 |
| Total Emerging Businesses | 864 | 859 | 5 | 3,759 | 3,578 | 181 |
| Abercrombie & Fitch | 158 | 132 | 26 | 1,249 | 1,041 | 208 |
| Total stores and selling sq. ft. | 5,599 | 5,629 | (30) | 28,000 | 28,278 | (278) |

## Net Sales

Net sales for the first quarter of 1998 increased 10% over the first quarter of 1997, primarily as a result of the 8% increase in comparable store sales. During the first quarter of 1998, the Company opened 64 new stores, remodeled 124 stores and closed 105 stores.

Sales at the Intimate Brand's businesses for the first quarter of 1998 increased 10% over the same period last year. This increase was attributable to the net addition of 219 new stores at Bath & Body Works and Victoria's Secret Stores, a 4% increase in comparable store sales and an 11% increase in catalogue net sales, offset by a 3% decrease from the closing of Cacique.

Sales at the women's businesses for the first quarter of 1998 increased 4% from the first quarter of 1997, due to the 8% increase in comparable store sales more than offsetting the net decrease in stores. The increase in sales performance in the women's businesses included a 20% increase in comparable store sales at Express. Significant gains in sales at Limited Too and Abercrombie & Fitch Co. resulted from comparable store sales increases of 23% and 48%.

## Gross Income

Gross income, expressed as a percentage of sales, increased to 29.2% for the first quarter of 1998 from 27.4% for the first quarter of 1997. The increase was attributable to a 1.6% increase in merchandise margins, arising from higher initial markups which were partially offset by a higher markdown rate over the comparable period last year.

## General, Administrative and Store Operating Expenses

General, administrative and store operating expenses, expressed as a percentage of sales, increased to 26.4% for the first quarter of 1998 as compared to 24.7% for the first quarter of 1997. This increase was attributable to expenses associated with updating computer systems and applications in preparation for the Year 2000, expenses associated with the rollout of the merchandise process redesign and brand building, and an inability to leverage expenses in other businesses with poor sales results.

## Operating Income

Operating income, expressed as a percentage of sales, was 7.2% for the first quarter of 1998 and 2.7% for 1997. Operating income excluding special and nonrecurring items, expressed as a percentage of sales, was 2.8% in 1998. Higher general, administrative and store operating expense nearly offset the increase in gross income, expressed as a percentage of sales.

## Interest Expense

| | First Quarter | |
|---|---|---|
| | 1998 | 1997 |
| Average Borrowings (millions) | $734.4 | $793.5 |
| Average Effective Interest Rate | 8.57% | 8.34% |

Interest expense declined $800 thousand in the first quarter of 1998 versus 1997 as average commercial paper borrowings declined.

## Other Income

The increase in other income to $16.1 million for the first quarter of 1998 from the $8.8 million in the first quarter of 1997 was due to significantly higher average invested cash balances during 1998.

FINANCIAL CONDITION

## Liquidity and Capital Resources

Cash provided from operating activities, commercial paper backed by funds available under the committed long-term credit agreement and the Company's capital structure continue to provide the capital resources to support operations, including projected growth, seasonal requirements and capital expenditures. A summary of the Company's working capital position and capitalization follows (thousands):

| | May 2, 1998 | January 31, 1998 |
|---|---|---|
| Working Capital | $1,039,840 | $937,739 |
| Capitalization: | | |
| Long-term debt | $650,000 | $650,000 |
| Shareholders' equity | 2,110,675 | 2,044,957 |
| Total Capitalization | $2,760,675 | $2,694,957 |
| Additional amounts available under long-term credit agreements | $1,000,000 | $1,000,000 |

In addition, the Company may offer up to $250 million of debt securities and warrants to purchase debt securities under its shelf registration statement.

Net cash used for operating activities was $113.9 million in the first quarter of 1998 versus $208.4 million in the first quarter last year. The $94.5 million improvement was primarily attributable to smaller increases in inventory at the women's businesses and smaller decreases in payables and accrued expenses compared to the same period last year.

Investing activities included capital expenditures, primarily for new and remodeled stores and proceeds from the sale of the Company's remaining investment in Brylane, Inc.

Financing activities for the first quarter of 1998 reflect an increase in the dividend from $.12 per share to $.13 per share and lower commercial paper borrowings at quarter end.

## Capital Expenditures

Capital expenditures totaled $62.2 million for the first quarter of 1998, compared to $83.9 million for the first quarter of 1997. The Company anticipates spending $390 - $410 million for capital expenditures in 1998, of which $200 - $220 million will be for new stores, the remodeling of existing stores and related improvements for the retail businesses. Decreases from previously planned amounts result principally from the split-off of Abercrombie & Fitch, a reduction in planned stores at Galyan's and a reduction in planned store additions at other businesses.

The Company expects that 1998 capital expenditures will be funded by net cash provided by operating activities.

## Information Systems and "Year 2000" Compliance

As discussed in the Company's Annual Report on Form 10-K, the Company has completed a comprehensive review of its information systems and is involved in an enterprise-wide program to update computer systems and applications in preparation for the year 2000. The Company will incur internal staff costs as well as outside consulting and other expenditures related to this initiative. Total incremental expenses, including depreciation and amortization of new package systems, remediation to bring current systems into compliance and writing off legacy systems are not expected to have a material impact on the Company's financial condition during any year during the conversion process from 1997 through 2000. However, incremental expenses could total approximately $30 to $35 million in 1998, of which the majority will impact the first three fiscal quarters of 1998.

The Company is attempting to contact vendors and others on whom it relies to assure that their systems will be timely converted. However, there can be no assurance that the systems of other companies on which the Company's systems rely also will be timely converted or that any such failure to convert by another company would not have an adverse effect on the Company's systems. Furthermore, no assurance can be given that any or all of the Company's systems are or will be Year 2000 compliant, or that the ultimate costs required to address the Year 2000 issue or the impact of any failure to achieve substantial Year 2000 compliance will not have a material adverse effect on the Company's financial condition.

## Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995

The Company cautions that any forward-looking statements (as such term is defined in the Private Securities Litigation Reform Act of 1995) contained in this report or made by management of the Company involve risks and uncertainties, and are subject to change based on various important factors. The following factors, among others, in some cases have affected and in the future could affect the Company's financial performance and actual results and could cause actual results for 1998 and beyond to differ materially from those expressed or implied in any such forward-looking statements: changes in consumer spending patterns, consumer preferences and overall economic conditions, the impact of competition and pricing, changes in weather patterns, political stability, currency and exchange risks and changes in existing or potential duties, tariffs or quotas, postal rate increases and charges, paper and printing costs, availability of suitable store locations at appropriate terms, ability to develop new merchandise and ability to hire and train associates.

## PART II - OTHER INFORMATION

### Item 1. LEGAL PROCEEDINGS

The Company is a defendant in a variety of lawsuits arising in the ordinary course of business.

On November 13, 1997, the United States District Court for the Southern District of Ohio, Eastern Division, dismissed with prejudice an amended complaint previously transferred to that court by the United States District Court, Central District of California. The amended complaint, which had been filed against the Company and certain of its subsidiaries by the American Textile Manufacturers Institute ("ATMI"), a textile industry trade association, alleged that the defendants violated the federal False Claims Act by submitting false country of origin records to the US Customs Service. On November 26, 1997, ATMI served a motion to alter or amend judgment and a motion to disqualify the presiding judge and to vacate the order of dismissal. The motion to disqualify was denied on December 22, 1997, but as a matter of his personal discretion, the presiding judge elected to recuse himself from further proceedings and this matter was transferred to another judge of the United States District Court for the Southern District of Ohio, Western Division. On May 21, 1998, this judge reaffirmed the earlier dismissal and denied all pending motions seeking to alter, amend or vacate the judgment that had been entered in favor of the Company. On June 5, 1998, ATMI filed a notice of appeal to the United States Court of Appeals for the Sixth Circuit.

Although it is not possible to predict with certainty the eventual outcome of any litigation, in the opinion of management, the foregoing proceedings are not expected to have a material adverse effect on the Company's financial position or results of operations.

### Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company held its Annual Meeting of Stockholders on May 18, 1998. The matters voted upon and the results of the voting were as follows:

(a) Eugene M. Freeman, Kenneth B. Gilman, David Kollat and Leslie H. Wexner were elected to the Board of Directors for a term of three years. Of the 230,690,672 shares present in person or represented by proxy at the meeting, the number of shares voted for and the number of shares as to which authority to vote in the election was withheld were as follows with respect to each of the nominees:

| Name | Shares Voted For Election | Shares as to Which Voting Authority Withheld |
| --- | --- | --- |
| Eugene M. Freedman | 226,984,270 | 3,706,402 |
| Kenneth B. Gilman | 226,911,455 | 3,779,217 |
| David T. Kollat | 227,028,389 | 3,662,283 |
| Leslie H. Wexner | 226,862,483 | 3,828,189 |

In addition, directors whose term of office continued after the Annual Meeting were: E. Gordon Gee, Claudine B. Malone, Leonard A. Schlesinger, Donald B. Shackelford, Allan R. Tessler, Martin Trust, Abigail S. Wexner, and Raymond P. Zimmerman.

(b) The 1998 Restatement of The Limited, Inc. 1993 Stock Option and Performance Incentive Plan was approved with 168,032,396 shares voted for approval, 29,538,451 against and 281,659 abstained.

(c) A proposal made by the Amalgamated Bank of New York Long View Collection Investment Fund, one of the Company's shareholders, concerning the selection of foreign suppliers and executive compensation, was defeated. A total of 180,827,245 shares were voted against the proposal, while 6,288,676 were voted for and 10,736,585 abstained.

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits.

3. Articles of Incorporation and Bylaws.

3.1 Certificate of Incorporation of the Company incorporated by reference to Exhibit 3.4 to the Company's Annual Report on Form 10-K for the fiscal year ended January 30, 1988.

3.2 Restated Bylaws of the Company incorporated by reference to Exhibit 3.2 to the Company's Annual Report on Form 10-K for the fiscal year ended February 2, 1991 (the "1990" form 10-K).

4. Instruments Defining the Rights of Security Holders.

4.1 Copy of the form of Global Security representing the Company's 7 1/2% Debentures due 2023, incorporated by reference to Exhibit 1 to the Company's Current Report on Form 8-K dated March 4, 1993.

4.2 Conformed copy of the Indenture dated as of March 15, 1988 between the Company and The Bank of New York, incorporated by reference to Exhibit 4.1(a) to the Company's Current Report on Form 8-K dated March 21, 1989.

4.3 Copy of the form of Global Security representing the Company's 8 7/8% Notes due August 15, 1999 incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K dated August 14, 1989.

4.4 Copy of the form of Global Security representing the Company's 9 1/8% Notes due February 1, 2001 incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K dated February 6, 1991.

4.5 Copy of the form of Global Security representing the Company's 7.80% Notes due May 15, 2002, incorporated by reference to the Company's Current Report on Form 8-K dated February 27, 1992.

4.6 Proposed form of Debt Warrant Agreement for Warrants attached to Debt Securities, with proposed form of Debt Warrant Certificate incorporated by reference to Exhibit 4.2 to the Company's Registration Statement on Form S-3 (File no. 33-53366) originally filed with the Securities and Exchange Commission (the "Commission") on October 16, 1992 as amended by Amendment No. 1 thereto, filed with the Commission on February 23, 1993 (the "1993 Form S-3").

4.7 Proposed form of Debt Warrant Agreement for Warrants not attached to Debt Securities, with proposed form of Debt Warrant Certificate incorporated by reference to Exhibit 4.3 to the 1993 Form S-3.

4.8 Credit Agreement dated as of September 25, 1997 among the Company, Morgan Guaranty Trust Company of New York and the banks listed therein, incorporated by reference to Exhibit 4.8 to the Company's Quarterly Report on Form 10-Q for the quarter ended November 1, 1997.

10. Material Contracts

10.1 The 1998 Restatement of The Limited, Inc. 1993 Stock Option and Performance Incentive Plan incorporated by reference to Exhibit A to the Company's Proxy Statement dated April 20, 1998.

10.2 The Limited, Inc. 1996 Stock Plan for Non-Associate Directors incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended November 2, 1996.

10.3 The Limited, Inc. Incentive Compensation Performance Plan incorporated by reference to Exhibit A to the Company's Proxy Statement dated April 14, 1997.

12. Statement re: Computation of Ratio of Earnings to Fixed Charges.

15. Letter re: Unaudited Interim Financial Information to Securities and Exchange Commission re: Incorporation of Independent Accountants' Report.

27. Financial Data Schedule.

(b) Reports on Form 8-K.

i. On February 17, 1998 the Company filed a report on Form 8-K which included an exhibit containing a press release dated February 17, 1998.

ii. On April 9, 1998 the Company filed a report on Form 8-K which included an exhibit containing a press release dated April 9, 1998.

## SIGNATURE

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 LIMITED, INC.
(Registrant)

By /s/ V. Ann Hailey
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V. Ann Hailey,
Executive Vice President and Chief
Financial Officer*

Date: June 11, 1998

- ------------------------------

* Ms. Hailey is the principal financial officer and has been duly authorized to sign on behalf of the Registrant.

EXHIBIT INDEX

| Exhibit No. | Document |
|---|---|
| 12 | Statement re: Ratio of Earnings to Fixed Charges. |
| 15 | Letter re: Unaudited Interim Financial Information to Securities and Exchange Commission re: Incorporation of Independent Accountants' Report. |
| 27 | Financial Data Schedule. |

EXHIBIT 12

THE LIMITED, INC. AND SUBSIDIARIES

RATIO OF EARNINGS TO FIXED CHARGES

(Thousands except ratio amounts)

| | Thirteen Weeks Ended | |
|---|---|---|
| | May 2, 1998 | May 3, 1997 |
| **Adjusted Earnings** | | |
| Income before income taxes | $137,469 | $44,873 |
| Portion of minimum rent ($191,238 in 1998 and $179,081 in 1997) representative of interest | 63,746 | 59,694 |
| Interest on indebtedness | 15,741 | 16,547 |
| Minority interest | 7,923 | 5,647 |
| Total earnings as adjusted | $224,879 | $126,761 |
| **Fixed Charges** | | |
| Portion of minimum rent representative of interest | $63,746 | $59,694 |
| Interest on indebtedness | 15,741 | 16,547 |
| Total fixed charges | $79,487 | $76,241 |
| Ratio of earnings to fixed charges | 2.83x | 1.66x |

EXHIBIT 15
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[LETTERHEAD OF COOPERS & LYBRAND APPEARS HERE]

Securities and Exchange Commission
450 5th Street, N.W.
Judiciary Plaza
Washington, D.C. 20549

We are aware that our report dated May 18, 1998, on our review of the interim consolidated financial information of The Limited, Inc. and Subsidiaries for the thirteen-week period ended May 2, 1998 and included in this Form 10-Q is incorporated by reference in the Company's registration statements on Form S-8, Registration Nos. 33-18533, 33-25005, 2-92277, 33-24829, 33-24507, 33-24828, 2-95788, 2-88919, 33-24518, 33-6965, 33-14049, 33-22844, 33-44041, 33-49871, 333-04927, 333-04941, and the registration statements on Form S-3, Registration Nos. 33-20788, 33-31540, 33-43832, and 33-53366. Pursuant to Rule 436(c) under the Securities Act of 1933, this report should not be considered a part of the registration statement prepared or certified by us within the meaning of Sections 7 and 11 of that Act.

/s/ Coopers & Lybrand L.L.P.

COOPERS & LYBRAND L.L.P.

Columbus, Ohio
June 8, 1998

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JAN-30-1999
FEB-01-1998
MAY-02-1998
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81,723
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