

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended August 1, 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 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

Outstanding at August 28, 1998

\$.50 Par Value

28,080,286 Shares

THE LIMITED, INC.

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PART 1 - FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

THE LIMITED, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Thousands except per share amounts)
(Unaudited)

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	August 1, 1998	August 2, 1997	August 1, 1998	August 2, 1997
NET SALES	\$2,083,101	\$2,020,084	\$ 4,091,178	\$3,849,864
Cost of Goods Sold, Occupancy and Buying Costs	1,468,387	1,481,177	2,889,794	2,809,486
GROSS INCOME	614,714	538,907	1,201,384	1,040,378
General, Administrative and Store Operating Expenses	(538,336)	(466,247)	(1,068,659)	(918,094)
Special & Nonrecurring Items, Net	1,651,397	-	1,740,030	-
OPERATING INCOME	1,727,775	72,660	1,872,755	122,284
Interest Expense	(16,414)	(16,272)	(32,155)	(32,819)
Other Income	15,595	6,818	31,748	15,655
Minority Interest	(12,618)	(10,632)	(20,541)	(16,279)
Gain in Connection with Initial Public Offering of Equity Investee	-	-	-	8,606
INCOME BEFORE INCOME TAXES	1,714,338	52,574	1,851,807	97,447
Provision for Income Taxes	30,000	25,000	88,000	45,000
NET INCOME	\$1,684,338	\$ 27,574	\$ 1,763,807	\$ 52,447
NET INCOME PER SHARE:				
Basic	\$7.13	\$.10	\$6.92	\$.19
Diluted	\$6.93	\$.10	\$6.75	\$.19
DIVIDENDS PER SHARE	\$.13	\$.12	\$.26	\$.24

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

THE LIMITED, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Thousands)

	August 1, 1998	January 31, 1998
	----- (Unaudited)	-----
ASSETS		

CURRENT ASSETS:		
Cash and Equivalents	\$ 498,862	\$ 746,395
Accounts Receivable	81,131	83,370
Inventories	1,144,545	1,002,710
Store Supplies	91,187	99,167
Other	80,954	99,509
	-----	-----
TOTAL CURRENT ASSETS	1,896,679	2,031,151
PROPERTY AND EQUIPMENT, NET	1,462,011	1,519,908
RESTRICTED CASH	351,600	351,600
DEFERRED INCOME TAXES	65,613	56,586
OTHER ASSETS	361,042	341,516
	-----	-----
TOTAL ASSETS	\$ 4,136,945	\$ 4,300,761
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		

CURRENT LIABILITIES:		
Accounts Payable	\$ 264,864	\$ 300,703
Accrued Expenses	701,746	676,715
Income Taxes Payable	14,004	115,994
	-----	-----
TOTAL CURRENT LIABILITIES	980,614	1,093,412
LONG-TERM DEBT	650,000	650,000
OTHER LONG-TERM LIABILITIES	54,606	58,720
MINORITY INTEREST	99,258	102,072
CONTINGENT STOCK REDEMPTION AGREEMENT	351,600	351,600
SHAREHOLDERS' EQUITY:		
Common Stock	180,352	180,352
Paid-in Capital	151,002	148,018
Retained Earnings	5,306,178	3,613,174
	-----	-----
	5,637,532	3,941,544
Less: Treasury Stock, at Average Cost	(3,636,665)	(1,896,587)
	-----	-----
TOTAL SHAREHOLDERS' EQUITY	2,000,867	2,044,957
	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 4,136,945	\$ 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)

	Twenty-six Weeks Ended	
	August 1, 1998	August 2, 1997
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	\$ 1,763,807	\$ 52,447
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 of Tax	(1,705,030)	-
Depreciation and Amortization	144,362	149,657
Minority Interest, Net of Dividends Paid	7,720	4,459
Changes in Assets and Liabilities:		
Accounts Receivable	1,288	(22,208)
Inventories	(178,542)	(148,362)
Accounts Payable and Accrued Expenses	34,429	10,354
Income Taxes	(148,405)	(180,542)
Other Assets and Liabilities	(11,559)	894
NET CASH USED FOR OPERATING ACTIVITIES	(91,930)	(138,907)
CASH USED FOR INVESTING ACTIVITIES:		
Capital Expenditures	(158,435)	(212,475)
Proceeds from Sale of Interest in Investee	131,262	-
NET CASH USED FOR INVESTING ACTIVITIES	(27,173)	(212,475)
FINANCING ACTIVITIES:		
Net Proceeds from Commercial Paper and Other Short-term Borrowings	-	116,121
Dividends Paid	(65,219)	(65,118)
Stock Options and Other	31,923	10,050
Settlement of Abercrombie & Fitch Intercompany Account	(47,649)	-
Repurchase of Subsidiary Common Stock, Net	(47,485)	-
NET CASH PROVIDED FROM (USED FOR) FINANCING ACTIVITIES	(128,430)	61,053
NET DECREASE IN CASH AND EQUIVALENTS	(247,533)	(290,329)
Cash and Equivalents, Beginning of Year	746,395	312,796
CASH AND EQUIVALENTS, END OF PERIOD	\$ 498,862	\$ 22,467

In 1998, noncash financing activities include the addition of \$1.766 billion to treasury stock as a result of the exchange of 40,484,545 common shares of Abercrombie & Fitch previously owned by the Company for 47,075,052 shares of common stock of the Company. Additional noncash financing activities include a \$5.6 million dividend effected by a pro rata spin-off of the Company's remaining shares of Abercrombie & Fitch (see Note 7).

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

THE LIMITED, INC. AND SUBSIDIARIES

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) that 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 August 1, 1998 and for the thirteen and twenty-six week periods ended August 1, 1998 and August 2, 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 August 1, 1998 and for the thirteen and twenty-six week periods ended August 1, 1998 and August 2, 1997 included herein have been reviewed by the independent public accounting firm of PricewaterhouseCoopers LLP and the report of such firm follows the notes to consolidated financial statements.

In March 1998, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued Statement of Position ("SOP") 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." The SOP requires that certain external costs and internal payroll and payroll related costs be capitalized during the application development and implementation stages of a software development project and amortized over the software's useful life. The SOP is effective in the first quarter of 1999.

Additionally, SOP 98-5, "Reporting on the Costs of Start-Up Activities," was issued in April 1998. This SOP requires that entities expense start-up costs and organization costs as they are incurred. The SOP is effective in the first quarter of 1999.

2. EARNINGS PER SHARE

Weighted average common shares outstanding (thousands):

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	August 1, 1998	August 2, 1997	August 1, 1998	August 2, 1997
Common shares issued	379,454	379,454	379,454	379,454
Treasury shares	(143,322)	(107,860)	(124,469)	(107,821)
Basic shares	236,132	271,594	254,985	271,633
Dilutive effect of stock options and restricted shares	6,947	1,620	6,236	1,213
Diluted shares	243,079	273,214	261,221	272,846

Options to purchase .8 million and 9.0 million shares of common stock were outstanding at August 1, 1998 and August 2, 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. In addition, the 18.75 million shares subject to the Contingent Stock Redemption Agreement are excluded from the dilution calculation because their redemption would 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 using 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):

	August 1, 1998	January 31, 1998
Property and equipment, at cost	\$ 3,057,597	\$ 3,104,612
Accumulated depreciation and amortization	(1,595,586)	(1,584,704)
Property and equipment, net	\$ 1,462,011	\$ 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 twenty-six weeks ended August 1, 1998 and August 2, 1997 approximated \$199 million and \$183 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

assessment 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):

	August 1, 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 at August 1, 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 August 1, 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 twenty-six weeks ended August 1, 1998 and August 2, 1997 approximated \$32.4 million and \$40.1 million.

7. SPECIAL ITEMS

On May 19, 1998, the Company completed a tax-free exchange offer to establish Abercrombie & Fitch ("A&F") as an independent company. A total of 47,075,052 shares of the Company's common stock were exchanged at a ratio of .86 of a share of A&F common stock for each Limited share tendered. In connection with the exchange, the Company recorded a \$1.65 billion tax-free gain. In addition, on June 1, 1998 a \$5.6 million dividend was effected through a pro rata spin-off to shareholders of the Company's 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.

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 August 1, 1998, \$3.9 million of these charges had been paid.

During the 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 the fourth quarter of 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 charges for impaired assets and closing and downsizing certain stores, principally at the women's businesses. Write-downs related to the \$175 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 \$32 million during the first half of 1998 were principally related to store closings.

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 (the Company) at August 1, 1998, and the related condensed consolidated statements of income and cash flows for the thirteen-week and twenty-six-week periods ended August 1, 1998 and August 2, 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/ PricewaterhouseCoopers LLP

PRICEWATERHOUSECOOPERS LLP

Columbus, Ohio
August 18, 1998

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

RESULTS OF OPERATIONS

Net sales for the second quarter of 1998 grew 3% to \$2.083 billion from \$2.020 billion a year ago. Operating income was \$1.728 billion compared to operating income of \$72.7 million for 1997. The operating results of Abercrombie & Fitch through May 19, 1998, the date of the split-off (see Note 7), are included in the discussion of Results of Operations herein. Operating income in 1998 included a \$1.651 billion gain from the split-off of Abercrombie & Fitch (the "A&F gain"). Excluding the A&F gain, operating income increased 5% to \$76.4 million. Net income was \$1.684 billion compared to \$27.6 million in 1997, and earnings per share was \$6.93 compared to \$.10 in 1997. Exclusive of the A&F gain, net income increased 19% in 1998 to \$32.9 million compared to \$27.6 million for 1997 and earnings per share increased to \$.13 from \$.10 in 1997.

Second quarter business highlights include the following:

The Intimate Brands businesses continued their consistent performance trend by recording a 16% operating income increase and a 21% increase in net income.

Victoria's Secret Stores operating margin and operating income were significantly higher on a comparable store sales increase of 2%. Victoria's Secret Catalogue sales increased 3%. Major lingerie introductions and the semi-annual sale were supported by national television advertising.

Bath & Body Works, up against strong comparable store sales of 16% a year ago, delivered a comparable store sales increase of 3% and achieved a 30% increase in operating profits. New product collections and a strong sale event contributed to the sales and profit growth.

The women's businesses continued their first quarter improvement in sales and operating income, with Express, Lerner and Lane Bryant as contributors; however, the operating income improvement was partially offset by a significant decline in operating results at Limited Stores. Overall, the women's businesses reported a 10% increase in comparable store sales.

Limited Too continued its strong sales momentum with a 20% comparable store sales gain, its eighth consecutive quarter with a double digit comparable store sales increase.

Net sales for the twenty-six weeks ended August 1, 1998 increased 6% to \$4.091 billion compared to \$3.850 billion in 1997. Operating income was \$1.873 billion compared to \$122.3 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 first quarter pretax charge for severance and other associate termination costs at Henri Bendel and a \$1.651 billion second quarter gain from the split-off of Abercrombie & Fitch. Excluding these special and nonrecurring items, operating income increased 9% to \$132.7 million. Net income increased to \$1.764 billion compared to \$52.4 million in 1997, and earnings per share was \$6.75 compared to \$.19 in 1997. Exclusive of these special and nonrecurring items and the \$8.6 million 1997 gain in connection with the initial public offering of Brylane, Inc., net income increased 26% in 1998 to \$58.8 million compared to \$46.8 million for 1997 and earnings per share increased to \$.22 from \$.17 in 1997.

Financial Summary

The following summarized financial and statistical data compares the thirteen week and twenty-six week periods ended August 1, 1998 to the comparable 1997 periods:

	Second Quarter			Year - to - Date		
	1998	1997	Change From Prior Year	1998	1997	Change From Prior Year
Net Sales (millions):						
Victoria's Secret Stores	\$413	\$389	6%	\$775	\$714	9%
Victoria's Secret Catalogue	202	196	3%	401	376	7%
Bath & Body Works	254	212	20%	459	389	18%
Cacique (a)	-	22	N/M	-	42	N/M
Other	6	8	N/M	11	10	N/M
Total Intimate Brands	875	\$827	6%	\$1,646	\$1,531	8%
Express	\$284	\$246	15%	\$553	\$470	18%
Lerner	216	203	6%	418	397	5%
Lane Bryant	230	217	6%	441	421	5%
Limited Stores	169	175	(3%)	340	355	(4%)
Henri Bendel (c)	8	17	N/M	20	43	N/M
Total Women's Businesses	\$907	\$858	6%	\$1,772	\$1,686	5%
Structure	\$131	\$152	(14%)	\$252	\$279	(10%)
Limited Too	75	61	23%	157	127	24%
Galyan's	46	35	31%	81	66	23%
Mast and Other	27	-	N/A	27	-	N/A
Total Emerging Businesses	\$279	\$248	13%	\$517	\$472	10%
Abercrombie & Fitch (b)	\$22	\$87	N/M	\$156	\$161	N/M
Total Net Sales	\$2,083	\$2,020	3%	\$4,091	\$3,850	6%
Operating Income (millions):						
Intimate Brands	\$125	\$107	16%	\$196	\$168	17%
Women's Businesses	(25)	(69)	64%	(60)*	(96)	37%
Emerging Businesses	(25)	30	(183%)	(15)	43	(135%)
Special and Nonrecurring Items	1,651	-	N/A	1,740	-	N/A
Abercrombie & Fitch (b)	2	5	N/M	12	7	N/M
Total Operating Income	\$1,728	\$73	N/M	\$1,873	\$122	N/M

(a) The Cacique business was closed effective January 31, 1998.

(b) The Abercrombie & Fitch business was split-off effective May 19, 1998 via a tax-free exchange offer. Results up to this date are included in the consolidated financial statements.

(c) Five of six Henri Bendel stores were closed at the end of 1997.

*The women's businesses exclude a \$5 million first quarter charge for special and nonrecurring items (see Note 7).

	Second Quarter			Year-to-Date		
	1998	1997	Change From Prior Year	1998	1997	Change From Prior Year
Increase (Decrease) in Comparable Store Sales:						
Victoria's Secret Stores	2%	15%		4%	11%	
Bath & Body Works	3%	16%		1%	15%	
Cacique	N/A	11%		N/A	8%	
Total Intimate Brands	2%	15%		3%	12%	
Express	17%	(24%)		18%	(27%)	
Lerner	13%	(5%)		11%	(6%)	
Lane Bryant	8%	5%		7%	(1%)	
Limited Stores	0%	(12%)		(1%)	(7%)	
Henri Bendel	(10%)	(12%)		(21%)	(4%)	
Total Women's Businesses	10%	(11%)		9%	(12%)	
Structure	(14%)	1%		(10%)	0%	
Limited Too	20%	25%		21%	30%	
Galyan's	6%	2%		2%	3%	
Total Emerging Businesses	(3%)	6%		0%	7%	
Abercrombie & Fitch (through May 19, 1998)	N/M	15%		48%	14%	
Total comparable store sales increase (decrease)	6%	0%		7%	(2%)	
Retail Sales Excluding Catalogue and Other:						
Retail sales increase attributable to net new and remodeled stores (1998 excludes impact of closing Cacique and split-off of A&F)	2%	7%		2%	7%	
Retail sales per average selling square foot	\$68	\$64	6%	\$133	\$122	9%
Retail sales per average store (thousands)	\$335	\$322	4%	\$657	\$614	7%
Average store size at end of quarter (selling square feet)	4,913	5,004	(2%)			
Retail selling square feet at end of quarter (thousands)	26,734	28,474	(6%)			
Number of Stores:						
Beginning of period	5,599	5,629		5,640	5,633	
Opened	59	80		123	151	
Disposed	(159)*	-		(159)*	(4)	
Closed	(58)	(19)		(163)	(90)	
End of period	5,441	5,690		5,441	5,690	

*Split-off of Abercrombie & Fitch effective May 19, 1998

	Number of Stores			Selling Sq. Ft. (thousands)		
	Aug. 1, 1998	Aug. 2, 1997	Change From Prior Year	Aug. 1, 1998	Aug. 2, 1997	Change From Prior Year
Victoria's Secret Stores	799	757	42	3,595	3,433	162
Bath & Body Works	1,000	844	156	1,954	1,564	390
Cacique	-	118	(118)	-	363	(363)
Total Intimate Brands	1,799	1,719	80	5,549	5,360	189
Express	724	751	(27)	4,608	4,738	(130)
Lerner	687	757	(70)	5,289	5,803	(514)
Lane Bryant	770	808	(38)	3,719	3,875	(156)
Limited Stores	599	648	(49)	3,615	3,891	(276)
Henri Bendel	1	6	(5)	35	113	(78)
Total Women's Businesses	2,781	2,970	(189)	17,266	18,420	(1,154)
Structure	537	543	(6)	2,129	2,132	(3)
Limited Too	311	310	1	979	973	6
Galyan's	13	9	4	811	488	323
Total Emerging Businesses	861	862	(1)	3,919	3,593	326
Abercrombie & Fitch	-	139	(139)	-	1,101	(1,101)
Total stores and selling square feet	5,441	5,690	(249)	26,734	28,474	(1,740)

Net Sales

Net sales for the second quarter of 1998 increased 3% over the second quarter of 1997, primarily as a result of the 6% increase in comparable store sales, offset by a 4% decrease from the A&F split-off and the Cacique closing and decreases resulting from closed stores. During the second quarter of 1998, the Company opened 59 new stores, remodeled 130 stores, closed 58 stores and disposed of 159 stores via the A&F split-off. Net sales for the twenty-six weeks ended August 1, 1998 increased 6% as compared to the same period in 1997 primarily as a result of a 7% increase in comparable store sales.

Sales at the Intimate Brands businesses for the second quarter of 1998 increased 6% over the same period last year. The increase was attributable to the net addition of new and remodeled stores, a 2% increase in comparable store sales and a 3% increase in catalogue net sales. Year-to-date Intimate Brands sales increased 8% over the same period in 1997, due to the net addition of new and remodeled stores, a 3% increase in comparable store sales, and a 7% increase in catalogue net sales. If the impact of closing Cacique at the end of 1997 were excluded, both the quarter and the year-to-date sales increases would be 3% higher.

Sales at the women's businesses for the second quarter and year-to-date periods of 1998 increased 6% and 5%, compared to the same periods in 1997, primarily due to the 10% and 9% increases in comparable store sales, offset by the impact of closed stores. Substantial improvements in comparable store sales were realized at Express, Lerner and Lane Bryant.

Structure recorded 14% and 10% declines in comparable store sales for the thirteen and twenty-six week periods ended August 1, 1998.

Gross Income

Gross income, expressed as a percentage of sales, increased to 29.5% for the second quarter of 1998 from 26.7% for the second quarter of 1997. The increase, expressed as a percentage of sales, was attributable to a 2.0% increase in merchandise margins and a .9% decrease in buying and occupancy costs. The increase in merchandise margin was attributable to higher initial markup combined with a slightly lower markdown rate over the comparable period last year. Buying and occupancy costs, expressed as a percentage of sales, decreased as a result of leverage from higher sales at the women's businesses and efforts over the past two years to streamline the businesses and close underperforming stores.

The 1998 year-to-date gross income percentage increased 2.4% to 29.4% in 1998 from 27.0% for the same period in 1997, attributable to higher initial markup and lower markdowns and a .6% decline in buying and occupancy.

General, Administrative and Store Operating Expenses

General, administrative and store operating expenses, expressed as a percentage of sales, increased to 25.8% for the second quarter of 1998 as compared to 23.1% for the second quarter of 1997. This increase was attributable to expenses associated with increased investments in information technology in preparation for the Year 2000, expenses associated with the rollout of the merchandise process redesign and brand building, and an investment in national advertising for Victoria's Secret.

Year-to-date general, administrative and store operating expenses increased as a percentage of sales to 26.1% in 1998 compared to 23.8% in 1997. This increase was due primarily to the reasons discussed above.

Operating Income

Exclusive of special and nonrecurring items described in Note 7, second quarter and year-to-date 1998 operating income, expressed as a percentage of sales, was 3.7% and 3.2%, compared to 3.6% and 3.2%, respectively, for 1997. Increases in gross income were mostly offset by increases in general, administrative and store operating expenses resulting in a 5% second quarter operating income growth. Gains in operating income at Express, Lane Bryant and Lerner were more than offset by significant declines in second quarter operating results at Structure and Limited Stores.

Interest Expense

	Second Quarter		Year-to-Date	
	1998	1997	1998	1997
Average Borrowings (millions)	\$753	\$767	\$744	\$780
Average Effective Interest Rate	8.72%	8.49%	8.65%	8.42%

Interest expense increased \$.1 million and decreased \$.7 million in the second quarter and year-to-date periods in 1998 from the comparable periods in 1997. The year-to-date decrease was mainly a result of lower average borrowings offset by slightly higher interest rates.

Other Income

Other income increased \$8.8 million and \$16.1 million in the second quarter and year-to-date periods in 1998 from the comparable periods in 1997 due to interest earned on 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 working capital requirements and capital expenditures. A summary of the Company's working capital position and capitalization follows (thousands):

	August 1, 1998 -----	January 31, 1998 -----
Working Capital	\$ 916,065 =====	\$ 937,739 =====
Capitalization:		
Long-term debt	\$ 650,000	\$ 650,000
Shareholders' equity	2,000,867 -----	2,044,957 -----
Total Capitalization	\$2,650,867 =====	\$2,694,957 =====
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 \$91.9 million for the twenty-six weeks ended August 1, 1998 versus \$138.9 million last year. The use of cash in both years is principally from the growth of inventories for the Fall selling seasons and the timing of tax payments related to the fourth quarter of the prior years.

Investing activities included capital expenditures of approximately \$108 million in 1998 and \$107 million in 1997 for new and remodeled stores, and the 1998 proceeds from the sale of the Company's remaining investment in Brylane, Inc.

Cash used for financing activities for 1998 reflects an increase in the quarterly dividend to \$.13 per share from \$.12 per share and lower commercial paper borrowings at quarter end. Intimate Brands has previously announced authorization by its Board of Directors to repurchase up to four million shares of its common stock on the open market, specifically reserved to cover shares needed for employee benefit plans. At August 1, 1998, Intimate Brands had repurchased approximately two million shares for this program and by the end of August all four million shares were repurchased. In connection with the split-off of Abercrombie & Fitch (see Note 7), the Company paid \$47.6 million to settle its intercompany balance at May 19, 1998.

Capital Expenditures

Capital expenditures totaled \$158.4 million for the twenty-six weeks ended August 1, 1998, compared to \$212.5 million for the same period of 1997. The Company anticipates spending \$400 to \$420 million for capital expenditures in 1998, of which \$200 to \$220 million will be for new stores, the remodeling of existing stores and related improvements for the retail businesses.

The Company expects that 1998 capital expenditures will be funded with cash from operations.

Information Systems and "Year 2000" Compliance

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 expenditures related to remediation, testing, conversion, replacement and upgrading system applications are expected to range from \$85 to \$100 million from 1997 through 2000. Of the total, approximately \$50 to \$60 million will be capital expenditures related to acquisition and implementation of new package systems. The balance, approximately \$35 to \$40 million, will be expenses associated with remediation and testing of existing systems. 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 in 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, at a rate of \$8 to \$10 million per quarter. As of August 1, 1998, the Company has incurred expenses of approximately \$16 million relating to the Company's Year 2000 initiatives.

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 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.

Adoption of New Accounting Standards

In March 1998, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued Statement of Position ("SOP") 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." The SOP requires that certain external costs and internal payroll and payroll related costs be capitalized during the application development and implementation stages of a software development project and amortized over the software's useful life. The SOP is effective in the first quarter of 1999.

Additionally, SOP 98-5, "Reporting on the Costs of Start-Up Activities," was issued in April 1998. This SOP requires that entities expense start-up costs and organization costs as they are incurred. The SOP is effective in the first quarter of 1999 and the Company does not anticipate that this SOP will have an adverse effect on the Company's reported results of operations.

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, 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 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.
 - 10.19 Employment agreement by and between The Limited, Inc. and V. Ann Hailey dated as of July 27, 1998 with exhibits.
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 May 7, 1998 the Company filed a report on Form 8-K which included an exhibit containing a press release dated May 7, 1998.
- ii. On May 14, 1998 the Company filed a report on Form 8-K which included an exhibit containing a press release dated May 14, 1998.
- iii. On May 19, 1998 the Company filed a report on Form 8-K which included an exhibit containing a press release dated May 19, 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

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

Date: September 14, 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
-----	-----
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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.

EMPLOYMENT AGREEMENT

THIS AGREEMENT is entered into as of July 27, 1998, by and between The Limited, Inc. and Limited Service Corporation, each a Delaware corporation (the "Company"), and V. Ann Hailey (the "Executive") (hereinafter collectively referred to as "the parties").

WHEREAS, the Executive has heretofore been employed as Executive Vice President and Chief Financial Officer of The Limited, Inc. and is experienced in all phases of its business and possesses an intimate knowledge of the business and affairs of the Company and its policies, procedures, methods and personnel; and

WHEREAS, the Company has determined that it is essential and in its best interests to retain the services of key management personnel and to ensure their continued dedication and efforts; and

WHEREAS, the Compensation Committee of the Board of Directors of the Company (the "Board") has determined that it is in the best interest of the Company to secure the continued services and employment of the Executive and the Executive is willing to render such services on the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the foregoing and the respective agreements of the parties contained herein, the parties hereby agree as follows:

1. Term. The initial term of employment under this Agreement shall

be for the period commencing on the date hereof (the "Commencement Date") and ending on the sixth anniversary of the Commencement Date (the "Initial Term"); provided, however, that upon the expiration of the Initial Term, this Agreement

shall be automatically extended for a period of one year, unless either the Company or the Executive shall have given written notice to the other at least ninety (90) days prior thereto that the term of this Agreement shall not be so extended.

2. Employment.

(a) Position. The Executive shall be employed as the Executive

Vice President and Chief Financial Officer of The Limited, Inc. or such other position of reasonably comparable or greater status and responsibilities as may be determined by the Board with any division, subsidiary or affiliate of the Company. The Executive shall perform the duties, undertake the responsibilities and exercise the authority customarily performed, undertaken and exercised by persons employed in a similar executive capacity. The Executive shall report to the Vice Chairman and Chief Administrative Officer of The Limited, Inc., or such other person as may be designated by the Chairman.

(b) Obligations. The Executive agrees to devote her full business

time and attention to the business and affairs of the Company. The foregoing, however, shall not

preclude the Executive from serving on corporate, civil or charitable boards or committees or managing personal investments, so long as such activities do not interfere with the performance of the Executive's responsibilities hereunder.

3. Base Salary. The Company agrees to pay or cause to be paid to the

Executive during the term of this Agreement an annual base salary at the rate of \$525,000. This base salary will be subject to annual review and may be increased from time to time by the Board considering factors such as the executive's responsibilities, compensation of similar executives within the Company and in other companies, performance of the executive and other pertinent factors (hereinafter referred to as the "Base Salary"). Such Base Salary shall be payable in accordance with the Company's customary practices applicable to its executives.

4. Equity Compensation. The Company has granted to the Executive

rights to receive 100,000 shares of the Company's common stock and options to acquire 200,000 shares of the Company's common stock pursuant to the terms of the agreements attached hereto as Exhibits A and B.

5. Employee Benefits. The Executive shall be entitled to participate

in all employee benefit plans, practices and programs maintained by the Company and made available to senior executives generally and as may be in effect from time to time. The Executive's participation in such plans, practices and programs shall be on the same basis and terms as are applicable to senior executives of the Company generally.

6. Bonus. The Executive shall be entitled to participate in the

Company's applicable incentive compensation plan on such terms and conditions as may be determined from time to time by the Board.

7. Other Benefits.

(a) Life Insurance.

(1) During the term of the Agreement, the Company shall maintain term life insurance coverage on the life of the Executive in the amount of \$5,000,000, the proceeds of which shall be payable to the beneficiary or beneficiaries designated by the Executive. The Executive agrees to undergo any reasonable physical examination and other procedures as may be necessary to maintain such policy. If the Company is not able to obtain such policy due to Executive's physical examination results, an AD&D (accidental death and dismemberment) policy of an equivalent amount will be obtained in lieu of the term life insurance coverage.

(2) During the term of this Agreement, the Company shall be entitled to maintain a "key person" term life insurance policy on the life of the Executive, the proceeds of which shall be payable to the Company or its designees. The Executive agrees to undergo any reasonable physical examination and other procedures as may be necessary to maintain such policy.

(b) Expenses. Subject to applicable Company policies, the

Executive shall be entitled to receive prompt reimbursement of all expenses reasonably incurred by her in connection with the performance of her duties hereunder or for promoting, pursuing or otherwise furthering the business or interests of the Company.

(c) Office and Facilities. The Executive shall be provided with

an appropriate office and with such secretarial and other support facilities as are commensurate with the Executive's status with the Company and adequate for the performance of the Executive's duties hereunder.

8. Vacation. The Executive shall be entitled to annual vacation in

accordance with the policies periodically established by the Board for similarly situated executives of the Company.

9. Termination. The Executive's employment hereunder may be

terminated under the following circumstances:

(a) Disability. The Company shall be entitled to terminate the

Executive's employment after having established the Executive's Disability. For purposes of this Agreement, "Disability" means a physical or mental infirmity which impairs the Executive's ability to substantially perform her duties under this Agreement for a period of at least six (6) months in any 12 month calendar period as determined in accordance with the The Limited, Inc. Long-Term Disability Plan.

(b) Cause. The Company shall be entitled to terminate the

Executive's employment for "Cause" without prior written notice. For purposes of this Agreement, "Cause" shall mean that the Executive (1) willfully failed to perform her duties with the Company (other than a failure resulting from the Executive's incapacity due to physical or mental illness); or (2) has plead "guilty" or "no contest" to or has been convicted of an act which is defined as a felony under federal or state law; or (3) engaged in willful misconduct in bad faith which could reasonably be expected to materially harm the Company's business or its reputation.

The Executive shall be given written notice by the Board of termination for Cause, such notice to state in detail the particular act or acts or failure or failures to act that constitute the grounds on which the proposed termination for Cause is based. The Executive shall be entitled to a hearing before the Board or a committee thereof established for such purpose and to be accompanied by legal counsel. Such hearing shall be held within 15 days of notice to the Company by the Executive, provided the Executive requests such hearing within 30 days of the written notice from the Board of the termination for Cause.

(c) Termination by the Executive. The Executive may terminate

employment hereunder for "Good Reason" by delivering to the Company (1) a Preliminary Notice of Good Reason (as defined below), and (2) not earlier than thirty (30) days from the delivery of such Preliminary Notice, a Notice of Termination. For purposes of this Agreement, "Good Reason" means (i) the failure to continue the Executive as Executive Vice President and

Chief Financial Officer of The Limited, Inc. or in another capacity contemplated by Section 2 hereof; (ii) the assignment to the Executive of any duties materially inconsistent with the Executive's positions, duties, authority, responsibilities and reporting requirements as set forth in Section 2 hereof; (iii) a reduction in or a material delay in payment of the Executive's total cash compensation and benefits from those required to be provided in accordance with the provisions of this Agreement; (iv) the Company, the Board or any person controlling the Company requires the Executive to be based outside of the United States, other than on travel reasonably required to carry out the Executive's obligations under the Agreement; or (v) the failure of the Company to obtain the assumption in writing of its obligation to perform this Agreement by any successor to all or substantially all of the assets of the Company within 15 days after a merger, consolidation, sale or similar transaction; provided,

however, that "Good Reason" shall not include (A) acts not taken in bad faith

which are cured by the Company in all respects not later than thirty (30) days from the date of receipt by the Company of a written notice from the Executive identifying in reasonable detail the act or acts constituting "Good Reason" (a "Preliminary Notice of Good Reason") or (B) acts taken by the Company by reason of the Executive's physical or mental infirmity which impairs the Executive's ability to substantially perform her duties under this Agreement. A Preliminary Notice of Good Reason shall not, by itself, constitute a Notice of Termination.

(d) Notice of Termination. Subject to Section 9(b), any purported

termination by the Company or by the Executive shall be communicated by a written Notice of Termination to the other two weeks prior to the Termination Date (as defined below). For purposes of this Agreement, a "Notice of Termination" shall mean a notice which indicates the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated. For purposes of this Agreement, no such purported termination of employment shall be effective without such Notice of Termination.

(e) Termination Date, Etc. "Termination Date" shall mean in the

case of the Executive's death, the date of death, or in all other cases, the date specified in the Notice of Termination; provided, however, that if the

Executive's employment is terminated by the Company due to Disability, the date specified in the Notice of Termination shall be at least thirty (30) days from the date the Notice of Termination is given to the Executive.

10. Compensation Upon Termination. -----

(a) If during the term of this Agreement (including any extensions thereof), the Executive's employment is terminated by the Company for Cause, by reason of the Executive's death or if the Executive gives written notice not to extend the term of this Agreement, the Company's sole obligation hereunder shall be to pay the Executive the following amounts earned hereunder but not paid as of the Termination Date: (i) Base Salary, (ii) reimbursement for any and all monies advanced or expenses incurred pursuant to Section 7(b) through the Termination Date, and (iii) any earned compensation which the Executive had previously deferred (including any interest earned or credited thereon) (collectively, "Accrued

Compensation"); provided, however, that if the Executive gives such written

notice not to extend, the Company shall continue to pay the premiums provided for in Section 7(a)(1) through the end of the calendar year in which the Executive's termination occurs. The Executive's entitlement to any other benefits shall be determined in accordance with the Company's employee benefit plans then in effect.

(b) If the Executive's employment is terminated by the Company other than for Cause or by the Executive for Good Reason, the Company's sole obligation hereunder shall be as follows:

(i) the Company shall pay the Executive the Accrued Compensation;

(ii) the Company shall continue to pay the Executive the Base Salary for a period of one (1) year following the Termination Date; and

(iii) the Company shall continue to pay the premiums provided for in Section 7(a)(1) hereof through the end of the calendar year in which such termination occurs.

(c) If the Executive's employment is terminated by the Company by reason of the Executive's Disability, the Company's sole obligation hereunder shall be as follows:

(i) the Company shall pay the Executive the Accrued Compensation;

(ii) the Company shall continue to pay the Executive 100% of the Base Salary for the first twelve months following the Termination Date, 80% of the Base Salary for the second twelve months following the Termination Date, and 60% of the Base Salary for the third twelve months following the Termination Date; provided, however, that such

Base Salary shall be reduced by the amount of any benefits the Executive receives by reason of her Disability under the Company's relevant disability plan or plans; and

(iii) if the Executive is disabled beyond thirty-six (36) months, the Company shall continue to pay the Executive 60% of Base Salary up to a maximum of \$250,000 per year for the period of the Executive's Disability, as defined in the Company's relevant disability plans; provided, however, that such payments shall be reduced by the

amount of any benefits the Executive receives by reason of her Disability under the Company's relevant disability plan or plans; and

(iv) the Company shall continue to pay the premiums provided for in Section 7(a)(1) hereof through the end of the calendar year in which such termination occurs.

(d) If the Executive's employment is terminated by reason of the Company's written notice to the Executive of its decision not to extend the term of this Agreement as contemplated in Section 1 hereof, the Company's sole obligation hereunder shall be as follows:

(i) the Company shall pay the Executive the Accrued Compensation;

(ii) the Company shall continue to pay the Executive the Base Salary for a period of one (1) year following the expiration of such term; and

(iii) the Company shall continue to pay the premiums provided for in Section 7(a)(1) hereof through the end of the calendar year in which the Executive's termination occurs.

(e) During the period the Executive is receiving salary continuation pursuant to Section 10(b)(ii), 10(c)(ii) or 10(d)(ii) hereof, the Company shall, at its expense, provide to the Executive and the Executive's beneficiaries medical and dental benefits substantially similar in the aggregate to those provided to the Executive immediately prior to the date of the Executive's termination of employment; provided, however, that the Company's obligation with respect to the foregoing benefits shall be reduced to the extent that the Executive or the Executive's beneficiaries obtain any such benefits pursuant to a subsequent employer's benefit plans.

(f) The Executive shall not be required to mitigate the amount of any payment provided for in this Agreement by seeking other employment or otherwise and no such payment shall be offset or reduced by the amount of any compensation provided to the Executive in any subsequent employment.

11. Employee Covenants.

(a) Unauthorized Disclosure. The Executive shall not, during the

term of this Agreement and thereafter, make any Unauthorized Disclosure. For purposes of this Agreement, "Unauthorized Disclosure" shall mean disclosure by the Executive without the prior written consent of the Board to any person, other than an employee of the Company or a person to whom disclosure is reasonably necessary or appropriate in connection with the performance by the Executive of duties as an executive of the Company or as may be legally required, of any information relating to the business or prospects of the Company (including, but not limited to, any confidential information with respect to any of the Company's customers, products, methods of distribution, strategies, business and marketing plans and business policies and practices); provided, however, that such term shall not include the use or

disclosure by the Executive, without consent, of any information known generally to the public (other than as a result of disclosure by the Executive in violation of this Section 11(a)). This confidentiality covenant has no temporal, geographical or territorial restriction.

(b) Non-Competition. During the Non-Competition Period described

below, the Executive shall not, directly or indirectly, without the prior written consent of the Company, own, manage, operate, join, control, be employed by, consult with or participate in the ownership, management, operation or control of, or be connected with (as a stockholder, partner, or otherwise), any business, individual, partner, firm, corporation, or other entity that competes, directly or indirectly, with the Company or any division, subsidiary or affiliate of the Company; provided, however, that the "beneficial ownership" by

the Executive after termination of employment with the Company, either individually or as a member of a "group," as such terms are used in Rule 13d of the General Rules and Regulations under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), of not more than two percent (2%) of the voting stock of any publicly held corporation shall not be a violation of Section 11 of this Agreement.

The "Non-Competition Period" means the period the Executive is employed by the Company plus one (1) year from the Termination Date if the Executive's employment is terminated (i) by the Company for any reason, (ii) by the Executive for any reason, or (iii) by reason of either the Company's or the Executive's decision not to extend the term of this Agreement as contemplated by Section 1 hereof.

(c) Non-Solicitation. During the No-Raid Period described below,

the Executive shall not, either directly or indirectly, alone or in conjunction with another party, interfere with or harm, or attempt to interfere with or harm, the relationship of the Company, its subsidiaries and/or affiliates, with any person who at any time was an employee, customer or supplier of the Company, its subsidiaries and/or affiliates or otherwise had a business relationship with the Company, its subsidiaries and/or affiliates.

The "No-Raid Period" means the period the Executive is employed by the Company plus one (1) year from the Termination Date if the Executive's employment is terminated (i) by the Company for any reason except by reason of the Executive's Disability, (ii) by the Executive for any reason, or (iii) by reason of either the Company's or the Executive's decision not to extend the term of this Agreement as contemplated by Section 1 hereof.

(d) Remedies. The Executive agrees that any breach of the terms

of this Section 11 would result in irreparable injury and damage to the Company for which the Company would have no adequate remedy at law; the Executive therefore also agrees that in the event of said breach or any threat of breach, the Company shall be entitled to an immediate injunction and restraining order to prevent such breach and/or threatened breach and/or continued breach by the Executive and/or any and all persons and/or entities acting for and/or with the Executive, without having to prove damages, and to all costs and expenses, including

reasonable attorneys' fees and costs, in addition to any other remedies to which the Company may be entitled at law or in equity. The terms of this paragraph shall not prevent the Company from pursuing any other available remedies for any breach or threatened breach hereof, including but not limited to the recovery of damages from the Executive. The Executive and the Company further agree that the provisions of the covenants not to compete and solicit are reasonable and that the Company would not have entered into this Agreement but for the inclusion of such covenants herein. Should a court determine, however, that any provision of the covenants is unreasonable, either in period of time, geographical area, or otherwise, the parties hereto agree that the covenant should be interpreted and enforced to the maximum extent which such court or arbitrator deems reasonable.

The provisions of this Section 11 shall survive any termination of this Agreement, and the existence of any claim or cause of action by the Executive against the Company, whether predicated on this Agreement or otherwise, shall not constitute a defense to the enforcement by the Company of the covenants and agreements of this Section 11; provided, however, that this

paragraph shall not, in and of itself, preclude the Executive from defending herself against the enforceability of the covenants and agreements of this Section 11.

12. Limitation of Payments.

(a) Gross-Up Payment. In the event it shall be determined that

any payment or distribution of any type to or for the benefit of the Executive by the Company, any of its affiliates, any Person who acquires ownership or effective control of the Company or ownership of a substantial portion of the Company's assets (within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended (the "Code"), and the regulations thereunder) or any affiliate of such Person, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise (the "Total Payments"), would be subject to the excise tax imposed by Section 4999 of the Code or any interest or penalties with respect to such excise tax (such excise tax, together with any such interest and penalties, are collectively referred to as the "Excise Tax"), then the Executive shall be entitled to receive an additional payment (a "Gross-Up Payment") in an amount such that after payment by the Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including any Excise Tax, imposed upon the Gross-Up Payment, the Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Total Payments (not including any Gross-Up Payment).

(b) All determinations as to whether any of the Total Payments are "parachute payments" (within the meaning of Section 280G of the Code), whether a Gross-Up Payment is required, the amount of such Gross-Up Payment and any amounts relevant to the last sentence of Subsection 12(a), shall be made by an independent accounting firm selected by the Company from among the largest five accounting firms in the United States (the "Accounting Firm"). The Accounting Firm shall provide its determination (the "Determination"), together with detailed supporting calculations regarding the amount of any Gross-Up Payment and any other relevant matter, both to the Company and the Executive

within five (5) days of the Termination Date, if applicable, or such earlier time as is requested by the Company or the Executive (if the Executive reasonably believes that any of the Total Payments may be subject to the Excise Tax). Any determination by the Accounting Firm shall be binding upon the Company and the Executive. As a result of uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that the Company should have made Gross-Up Payments ("Underpayment"), or that Gross-Up Payments will have been made by the Company which should not have been made ("Overpayments"). In either such event, the Accounting Firm shall determine the amount of the Underpayment or Overpayment that has occurred. In the case of an Underpayment, the amount of such Underpayment shall be promptly paid by the Company to or for the benefit of the Executive. In the case of an Overpayment, the Executive shall, at the direction and expense of the Company, take such steps as are reasonably necessary (including the filing of returns and claims for refund), follow reasonable instructions from, and procedures established by, the Company, and otherwise reasonably cooperate with the Company to correct such Overpayment.

13. Employee Representation. The Executive expressly represents

and warrants to the Company that the Executive is not a party to any contract or agreement and is not otherwise obligated in any way, and is not subject to any rules or regulations, whether governmentally imposed or otherwise, which will or may restrict in any way the Executive's ability to fully perform the Executive's duties and responsibilities under this Agreement.

14. Successors and Assigns.

(a) This Agreement shall be binding upon and shall inure to the benefit of the Company, its successors and assigns, and the Company shall require any successor or assign to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession or assignment had taken place. The term "the Company" as used herein shall include any such successors and assigns to the Company's business and/or assets. The term "successors and assigns" as used herein shall mean a corporation or other entity acquiring or otherwise succeeding to, directly or indirectly, all or substantially all the assets and business of the Company (including this Agreement) whether by operation of law or otherwise.

(b) Neither this Agreement nor any right or interest hereunder shall be assignable or transferable by the Executive, the Executive's beneficiaries or legal representatives, except by will or by the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal personal representative.

15. Arbitration. Except with respect to the remedies set forth

in Section 11(d) hereof, if in the event of any controversy or claim between the Company or any of its affiliates and the Executive arising out of or relating to this Agreement, either party delivers to the other party a written demand for arbitration of a controversy or claim then such

claim or controversy shall be submitted to binding arbitration. The binding arbitration shall be administered by the American Arbitration Association under its Commercial Arbitration Rules. The arbitration shall take place in Columbus, Ohio. Each of the Company and the Executive shall appoint one person to act as an arbitrator, and a third arbitrator shall be chosen by the first two arbitrators (such three arbitrators, the "Panel"). The Panel shall have no authority to award punitive damages against the Company or the Executive. The Panel shall have no authority to add to, alter, amend or refuse to enforce any portion of the disputed agreements. The Company and the Executive each waive any right to a jury trial or to a petition for stay in any action or proceeding of any kind arising out of or relating to this Agreement.

16. Notice. For the purposes of this Agreement, notices and all

other communications provided for in the Agreement (including the Notice of Termination) shall be in writing and shall be deemed to have been duly given when personally delivered or sent by registered or certified mail, return receipt requested, postage prepaid, or upon receipt if overnight delivery service or facsimile is used, addressed as follows:

To the Executive:

V. Ann Hailey

To the Company:

The Limited, Inc.
3 Limited Parkway
Columbus, Ohio 43230
Attn: Secretary

17. Settlement of Claims. The Company's obligation to make the

payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any circumstances, including, without limitation, any set-off, counterclaim, recoupment, defense or other right which the Company may have against the Executive or others.

18. Miscellaneous. No provision of this Agreement may be

modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing and signed by the Executive and the Company. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. No agreement or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not expressly set forth in this Agreement.

19. Governing Law. This Agreement shall be governed by and

construed and enforced in accordance with the laws of the State of Ohio without giving effect to the conflict of law principles thereof.

20. Severability. The provisions of this Agreement shall be

deemed severable and the invalidity or unenforceability of any provision shall not affect the validity or enforceability of the other provisions hereof.

21. Entire Agreement. This Agreement constitutes the entire

agreement between the parties hereto with respect to the subject matter hereof and supersedes all prior agreements, if any, understandings and arrangements, oral or written, between the parties hereto with respect to the subject matter hereof.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed by its duly authorized officer and the Executive has executed this Agreement as of the day and year first above written.

THE LIMITED, INC.
LIMITED SERVICE CORPORATION

By: /s/ Leslie H. Wexner

Name: Leslie H. Wexner

/s/ V. Ann Hailey

V. Ann Hailey

===== [LOGO OF THE LIMITED, INC. APPEARS HERE] =====

S T O C K A W A R D

STOCK OPTION AGREEMENT
ACKNOWLEDGEMENT OF RECEIPT

This Stock Option Agreement is entered into by and between The Limited, Inc. (the "Company"), and the associate of the Company whose name appears below (the "Associate") in order to set forth the terms and conditions of Options granted to the Associate under The Limited, Inc. 1993 Stock Option and Performance Incentive Plan (1998 Restatement) (the "Plan").

Associate's Name: V. ANN HAILEY

Division: LIMITED, INC.

Social Security #:

Address:

Plan Name	Date of Grant	Expiration Date	Number of Shares	Option Price	Exercise Schedule Date	Schedule Shares
1993 ISO PLAN (98 RESTATEMENT)	02/02/98	02/03/08	11,058	\$27.1250	02/02/02	3,686
					02/02/03	3,686
					02/02/04	3,686
1993 NQ PLAN (97 RESTATEMENT)	02/02/98	02/03/08	188,942	\$27.1250	02/02/99	20,000
					02/02/00	20,000
					02/02/01	20,000
					02/02/02	26,314
					02/02/03	36,314
					02/02/04	66,314

Subject to the attached Terms and Conditions and the terms of the Plan, which are incorporated herein by reference, the Company hereby grants to the Associate, Options to purchase shares of Common Stock of the Company, as outlined above. This award is granted pending shareholder approval of the 1998 Restatement of The Limited, Inc. 1993 Stock Option and Performance Incentive Plan.

The Company and the Associate have executed this Agreement as of the Date of Grant set forth above.

THE LIMITED, INC.

ASSOCIATE

By: /s/ Leslie H. Wexner

Leslie H. Wexner, Chairman

/s/ V. Ann Hailey

Please return one signed copy of this agreement to
The Limited, Inc.
Three Limited Parkway
Columbus, OH 43230
614-415-7000

===== [LOGO OF THE LIMITED, INC. APPEARS HERE] =====

S T O C K A W A R D

RESTRICTED STOCK AGREEMENT
ACKNOWLEDGEMENT OF RECEIPT

This Restricted Stock Agreement is entered into by and between The Limited, Inc. (the "Company"), and the associate or director of the Company whose name appears below (the "Associate") in order to set forth the terms and conditions of a Restricted Stock Award granted to the Associate under The Limited, Inc. 1993 Stock Option and Performance Incentive Plan (1998 Restatement) ("the Plan").

Associate's Name: V. ANN HAILEY

Division: LIMITED, INC.

Social Security #:

Address:

Plan Name	Date of Grant	Number of Shares	Vesting Schedule* Date	Shares
93 RESTRICTED (98 RESTATEMENT)	02/02/98	100,000	02/02/99	10,000
			02/02/00	10,000
			02/02/01	10,000
			02/02/02	15,000
			02/02/03	20,000
			02/02/04	35,000

* If employment is terminated by the Company other than for Cause or by the Associate for Good Reason, vesting will be at 16% for each full year following the date of grant for the first five years, and 20% for the sixth year (offset by any shares previously vested under the normal schedule).

Subject to the attached Terms and Conditions of this Agreement and the terms of the Plan, which are incorporated herein by reference, the Company hereby grants to the Associate Restricted shares, as outlined above. This award is granted pending shareholder approval of the 1998 Restatement of The Limited, Inc., 1993 Stock Option and Performance Incentive Plan.

The Company and the Associate have executed this Agreement as of the Date of Grant set forth above.

THE LIMITED, INC.

ASSOCIATE

By: /s/ Leslie H. Wexner

Leslie H. Wexner, Chairman

/s/ V. Ann Hailey

This Restricted Stock Agreement is granted and the award will be earned and vest as outlined in the above schedule based on achieving a x% increase in sales growth for The Limited, Inc. for the 1998 fiscal year over the 1997 fiscal year.*

Please return one signed copy of this agreement to
The Limited, Inc.
Three Limited Parkway
Columbus, OH 43230
614-415-7000

THE LIMITED, INC. AND SUBSIDIARIES

RATIO OF EARNINGS TO FIXED CHARGES

(Thousands except ratio amounts)

	Twenty-Six Weeks Ended	
	August 1, 1998	August 2, 1997
Adjusted Earnings		

Income, excluding gain on split-off of Abercrombie & Fitch, before income taxes	\$200,410	\$ 97,447
Portion of minimum rent (\$366,398 in 1998 and \$373,445 in 1997) representative of interest	122,133	124,582
Interest on indebtedness	32,155	32,819
Minority interest	20,541	16,279
	-----	-----
Total earnings as adjusted	\$375,239	\$271,127
	=====	=====
Fixed Charges		

Portion of minimum rent representative of interest	\$122,133	\$124,582
Interest on indebtedness	32,155	32,819
	-----	-----
Total fixed charges	\$154,288	\$157,401
	=====	=====
Ratio of earnings to fixed charges	2.43x	1.72x
	=====	=====

[LETTERHEAD OF PRICEWATERHOUSECOOPERS APPEARS HERE]

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

We are aware that our report dated August 18, 1998, on our review of the interim consolidated financial information of The Limited, Inc. and Subsidiaries for the thirteen-week and twenty-six-week periods ended August 1, 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/ PricewaterhouseCoopers LLP

PRICEWATERHOUSECOOPERS LLP

Columbus, Ohio
September 11, 1998

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) OF THE LIMITED, INC. AND SUBSIDIARIES FOR THE QUARTER ENDED AUGUST 1, 1998 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

3-MOS	
	JAN-30-1999
	FEB-01-1998
	AUG-01-1998
	498,862
	0
	81,131
	0
	1,144,545
	1,896,679
	3,057,597
	1,595,586
	4,136,945
980,614	
	650,000
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	180,352
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2,083,101	
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	1,468,387
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	30,000
1,684,338	
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	0
	0
	1,684,338
	7.13
	6.93