# UNITED STATES
# 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 2, 2008**

**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**

# LIMITED BRANDS, INC.
**(Exact name of registrant as specified in its charter)**

| | |
|---|---|
| **Delaware**<br>**(State or other jurisdiction of incorporation or organization)** | **31-1029810**<br>**(I.R.S. Employer Identification No.)** |
| **Three Limited Parkway, P.O. Box 16000, Columbus, Ohio**<br>**(Address of principal executive offices)** | **43216**<br>**(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 by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

| | |
|---|---|
| Large accelerated filer ☒ | Accelerated filer ☐ |
| Non-accelerated filer ☐ (Do not check if a smaller reporting company) | Smaller reporting company ☐ |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.): Yes ☐ No ☒

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 August 29, 2008 |
|---|---|
| | **339,741,920 Shares** |

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## LIMITED BRANDS, INC.

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## PART I—FINANCIAL INFORMATION

### Item 1. FINANCIAL STATEMENTS

**LIMITED BRANDS, INC.**
**CONSOLIDATED STATEMENTS OF INCOME**
**(in millions except per share amounts)**
**(Unaudited)**

| | Second Quarter | | Year-to-Date | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| Net Sales | $ 2,284 | $ 2,624 | $ 4,209 | $ 4,935 |
| Costs of Goods Sold, Buying and Occupancy | (1,523) | (1,813) | (2,807) | (3,330) |
| Gross Profit | 761 | 811 | 1,402 | 1,605 |
| General, Administrative and Store Operating Expenses | (575) | (722) | (1,116) | (1,408) |
| Gain on Divestiture of Express | — | 302 | — | 302 |
| Loss on Divestiture of Limited Stores | — | (72) | — | (72) |
| Net Gain on Joint Ventures | — | — | 109 | — |
| Operating Income | 186 | 319 | 395 | 427 |
| Interest Expense | (47) | (31) | (92) | (56) |
| Interest Income | 5 | 3 | 11 | 6 |
| Other Income | 17 | 116 | 22 | 116 |
| Minority Interest | 3 | 16 | 4 | 22 |
| Income Before Income Taxes | 164 | 423 | 340 | 515 |
| Provision for Income Taxes | 62 | 159 | 140 | 198 |
| Net Income | $ 102 | $ 264 | $ 200 | $ 317 |
| Net Income Per Basic Share | $ 0.30 | $ 0.68 | $ 0.59 | $ 0.80 |
| Net Income Per Diluted Share | $ 0.30 | $ 0.67 | $ 0.58 | $ 0.79 |
| Dividends Per Share | $ 0.15 | $ 0.15 | $ 0.30 | $ 0.30 |

The accompanying Notes are an integral part of these Consolidated Financial Statements.

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**LIMITED BRANDS, INC.**
**CONSOLIDATED BALANCE SHEETS**
**(in millions except per share amounts)**

| | August 2, 2008 (Unaudited) | February 2, 2008 | August 4, 2007 (Unaudited) |
|---|---|---|---|
| **ASSETS** | | | |
| Current Assets: | | | |
| Cash and Cash Equivalents | $ 978 | $ 1,018 | $ 1,193 |
| Accounts Receivable, Net | 331 | 355 | 275 |
| Inventories | 1,220 | 1,251 | 1,468 |
| Other | 292 | 295 | 286 |
| Total Current Assets | 2,821 | 2,919 | 3,222 |
| Property and Equipment, Net | 1,933 | 1,862 | 1,730 |
| Goodwill | 1,673 | 1,733 | 1,714 |
| Trade Names and Other Intangible Assets, Net | 644 | 677 | 672 |
| Other Assets | 165 | 246 | 234 |
| Total Assets | $ 7,236 | $ 7,437 | $ 7,572 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| Current Liabilities: | | | |
| Accounts Payable | $ 536 | $ 517 | $ 611 |
| Accrued Expenses and Other | 628 | 721 | 697 |
| Income Taxes | 81 | 136 | 151 |
| Total Current Liabilities | 1,245 | 1,374 | 1,459 |
| Deferred Income Taxes | 175 | 175 | 103 |
| Long-term Debt | 2,901 | 2,905 | 2,908 |
| Other Long-term Liabilities | 716 | 709 | 629 |
| Minority Interest | — | 55 | 62 |
| Shareholders' Equity: | | | |
| Preferred Stock—$1.00 par value; 10 shares authorized; none issued | — | — | — |
| Common Stock—$0.50 par value; 1,000 shares authorized; 524 shares issued; 339, 346 and 370 shares outstanding, respectively | 262 | 262 | 262 |
| Paid-in Capital | 1,537 | 1,550 | 1,549 |
| Accumulated Other Comprehensive Income | 34 | 31 | 16 |
| Retained Earnings | 4,855 | 4,758 | 4,465 |
| Less: Treasury Stock, at Average Cost; 185, 178 and 154 shares, respectively | (4,489) | (4,382) | (3,881) |
| Total Shareholders' Equity | 2,199 | 2,219 | 2,411 |
| Total Liabilities and Shareholders' Equity | $ 7,236 | $ 7,437 | $ 7,572 |

The accompanying Notes are an integral part of these Consolidated Financial Statements.

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**LIMITED BRANDS, INC.**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(in millions)**
**(Unaudited)**

| | Year-to-Date | |
|---|---|---|
| | 2008 | 2007 |
| Operating Activities: | | |
| Net Income | $ 200 | $ 317 |
| Adjustments to Reconcile Net Income to Net Cash Provided by (Used for) | | |
| Operating Activities: | | |
| Depreciation and Amortization | 168 | 183 |
| Deferred Income Taxes | 5 | (155) |
| Excess Tax Benefits from Share-based Compensation | (2) | (26) |
| Share-based Compensation Expense | 16 | 26 |
| Minority Interest | (4) | (22) |
| Net Gain on Joint Ventures | (109) | — |
| Gain on Distribution from Express | (13) | — |
| Gain on Divestiture of Express | — | (302) |
| Loss on Divestiture of Limited Stores | — | 72 |
| Gain on Distribution from Easton Town Center, LLC | — | (100) |
| Goodwill Impairment | — | 13 |
| Changes in Assets and Liabilities: | | |
| Accounts Receivable | 13 | (109) |
| Inventories | 23 | 114 |
| Accounts Payable, Accrued Expenses and Other | (62) | (160) |
| Income Taxes Payable | (53) | (14) |
| Other Assets and Liabilities | 65 | 127 |
| Net Cash Provided by (Used for) Operating Activities | 247 | (36) |
| Investing Activities: | | |
| Capital Expenditures | (272) | (400) |
| Net Proceeds from the Divestiture of Joint Venture | 144 | — |
| Return of Capital from Express | 95 | — |
| Proceeds from Divestiture of Express, Net | — | 548 |
| Proceeds from Distribution from Easton Town Center, LLC | — | 102 |
| Other Investing Activities | (3) | 72 |
| Net Cash (Used for) Provided by Investing Activities | (36) | 322 |
| Financing Activities: | | |
| Proceeds from Debt Offering | — | 997 |
| Proceeds from Term Loan Refinancing | — | 250 |
| Payments of Long-term Debt | (4) | (4) |
| Repurchase of Common Stock | (161) | (805) |
| Dividends Paid | (103) | (120) |
| Excess Tax Benefits from Share-based Compensation | 2 | 26 |
| Proceeds From Exercise of Stock Options and Other | 17 | 63 |
| Net Cash (Used for) Provided by Financing Activities | (249) | 407 |
| Effects of Exchange Rate Changes on Cash | (2) | — |
| Net (Decrease) Increase in Cash and Cash Equivalents | (40) | 693 |
| Cash and Cash Equivalents, Beginning of Period | 1,018 | 500 |
| Cash and Cash Equivalents, End of Period | $ 978 | $1,193 |

The accompanying Notes are an integral part of these Consolidated Financial Statements.

**LIMITED BRANDS, INC.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**(Unaudited)**

**1. Description of Business and Basis of Presentation**

Limited Brands, Inc. (the Company) operates in the highly competitive specialty retail business. The Company is a specialty retailer of women's intimate and other apparel, beauty and personal care products and accessories under various trade names. The Company sells its merchandise through specialty retail stores in the United States and Canada, which are primarily mall-based, and through e-commerce and catalogue direct response channels. The Company currently operates the following retail brands:

- Victoria's Secret
- Pink
- La Senza
- Bath & Body Works
- C. O. Bigelow
- The White Barn Candle Company
- Henri Bendel

The Company's fiscal year ends on the Saturday nearest to January 31. As used herein, "second quarter of 2008" and "second quarter of 2007" refer to the thirteen week periods ending August 2, 2008 and August 4, 2007, respectively. "Year-to-date 2008" and "year-to-date 2007" refer to the twenty-six week periods ending August 2, 2008 and August 4, 2007, respectively.

The Consolidated Financial Statements include the accounts of the Company and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. The Consolidated Financial Statements include the results of Express and Limited Stores through their divestiture dates which were July 6, 2007 and August 3, 2007, respectively.

Subsequent to the divestitures of Express and Limited Stores, the Company's remaining 25% ownership interest in each is accounted for under the equity method of accounting. As a result, the Company's share of net income or loss for both Express and Limited Stores is included in Other Income on the Consolidated Statements of Income. The Company eliminates in consolidation 25% of merchandise sourcing sales to Express and Limited Stores consistent with the Company's ownership percentage.

The Company's Consolidated Financial Statements also include less than 100% owned variable interest entities in which the Company is designated as the primary beneficiary in accordance with Financial Accounting Standards Board Interpretation No. 46(R), "Consolidation of Variable Interest Entities."

The Company accounts for investments in unconsolidated entities where it exercises significant influence, but does not have control, using the equity method. The Company's share of net income or loss of unconsolidated entities from which the Company purchases merchandise or merchandise components is included in Cost of Goods Sold, Buying and Occupancy on the Consolidated Statements of Income. The Company's share of net income or loss of all other unconsolidated entities is included in Other Income on the Consolidated Statements of Income. The Company's equity investments are required to be tested for impairment when it is determined there may be an other than temporary loss in value.

The Consolidated Financial Statements as of and for the quarter and year-to-date periods ended August 2, 2008 and August 4, 2007 are unaudited and are presented pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Accordingly, these Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and Notes thereto contained in the Company's 2007 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 for a fair presentation of the results for the interim periods.

Due to seasonal variations in the retail industry, the results of operations for any interim period are not necessarily indicative of the results expected for the full fiscal year.

Certain prior period amounts have been reclassified to conform to the current period presentation.

## 2. Earnings Per Share and Shareholders' Equity

Earnings per basic share are computed based on the weighted-average number of outstanding common shares. Earnings per diluted share include the weighted-average effect of dilutive options and restricted stock on the weighted-average shares outstanding.

The following table provides shares utilized for the calculation of basic and diluted earnings per share for the second quarter and year-to-date 2008 and 2007:

| | Second Quarter | | Year-to-Date | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | (in millions) | | | |
| Common Shares Issued | 524 | 524 | 524 | 524 |
| Treasury Shares | (185) | (134) | (184) | (129) |
| Basic Shares | 339 | 390 | 340 | 395 |
| Effect of Dilutive Options and Restricted Stock | 2 | 6 | 3 | 6 |
| Diluted Shares | 341 | 396 | 343 | 401 |
| Anti-dilutive Options (a) | 14 | 6 | 14 | 6 |

(a) These options were excluded from the calculation of diluted earnings per share because the exercise prices were greater than or equal to the average market price of the common shares and, therefore, their inclusion would have been anti-dilutive.

In November 2007, the Company's Board of Directors authorized the repurchase of $250 million of the Company's common stock. In May 2008, the Company completed this program by repurchasing 1.5 million shares of common stock for $27 million at an average price per share of approximately $18.71.

## 3. Derivative Instruments

The Company has foreign exchange rate exposure primarily as a result of the January 2007 acquisition of La Senza Corporation whose operations are conducted primarily in Canada. To mitigate the exposure to fluctuations in the U.S. dollar-Canadian dollar exchange rate, the Company entered into a series of cross-currency swaps related to Canadian dollar denominated intercompany loans. These cross-currency swaps require the periodic exchange of fixed rate Canadian dollar interest payments for fixed rate U.S. dollar interest payments as well as exchange of Canadian dollar and U.S. dollar principal payments upon maturity. The swap arrangements mature between 2015 and 2018 at the same time as the related loans.

The cross-currency interest rate swaps are designated as cash flow hedges of foreign currency exchange risk. Changes in the U.S. dollar-Canadian dollar exchange rate result in reclassification of amounts from accumulated other comprehensive income (loss) to earnings to offset foreign currency transaction gains and losses recognized on the intercompany loans. The Company's aggregate fair value of foreign currency swap arrangements was a liability of $48 million as of August 2, 2008, $54 million as of February 2, 2008 and $42 million as of August 4, 2007. These liabilities are included in Other Long-term Liabilities on the Consolidated Balance Sheets.

In March and June 2007, the Company entered into interest rate lock agreements designated as cash flow hedges to mitigate exposure to interest rate fluctuations on the anticipated future issuance of debt. In conjunction with the Company's issuance of notes during July 2007, the interest rate locks were settled. Based on changes between the anticipated and actual amount and timing of the debt issuance, the Company concluded during the second quarter of 2007 that the interest rate locks no longer qualified as cash flow hedges. As a result, $17 million of realized pre-tax gains from the settlement of the interest rate locks was recognized in earnings in the second quarter of 2007. The gain on the interest rate lock agreements is included in Other Income on the 2007 Consolidated Statements of Income.

In January 2008, the Company entered into a participating interest rate swap arrangement designated as a cash flow hedge to mitigate exposure to interest rate fluctuations related to the Company's $750 million Term Loan. The fair value of the participating interest rate swap arrangement was an asset of $2 million as of August 2, 2008 and a liability of $13 million as of February 2, 2008. The asset and the liability are included in Other Assets and Other Long-term Liabilities, respectively, on the Consolidated Balance Sheets.

On February 3, 2008, the Company adopted Statement of Financial Accounting Standards No. 157 ("SFAS 157") "Fair Value Measurements" for financial assets and liabilities. The fair values of the derivative instruments are determined using valuation methodologies that employ Level 2 inputs as defined in SFAS 157. For additional information, see Note 16, "Recently Issued Accounting Pronouncements."

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**4. Comprehensive Income**

The following table provides detail for other comprehensive income for second quarter and year-to-date 2008 and 2007:

| | Second Quarter | | Year-to-Date | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | (in millions) | | | |
| Net Income | $ 102 | $ 264 | $200 | $317 |
| Other Comprehensive Income (Loss): | | | | |
| Foreign Currency Translation | (1) | (1) | (4) | 23 |
| Unrealized Gain (Loss) on Cross Currency Interest Rate Cash Flow Hedge | 3 | (16) | 7 | (39) |
| Unrealized Gain (Loss) on Interest Rate Cash Flow Hedge | 5 | (2) | 15 | — |
| Reclassification of Cash Flow Hedges to Earnings | (4) | 20 | (15) | 48 |
| Other | — | 1 | — | 1 |
| Total Comprehensive Income | $ 105 | $ 266 | $203 | $350 |

**5. Divestitures and Other**

***Joint Venture***

In April 2008, the Company and its investment partner completed the divestiture of a joint venture, which the Company consolidated under the provisions of FIN 46(R) “Consolidation of Variable Interest Entities,” to a third party. The Company recognized a pre-tax gain of $128 million and received pre-tax proceeds of $168 million on the divestiture. The pre-tax gain is included in Net Gain on Joint Ventures on the year-to-date 2008 Consolidated Statement of Income. Total proceeds included $24 million which is to be held in escrow until August 2009 to cover any post-closing contingencies. The cash in escrow is included in Other Assets on the 2008 Consolidated Balance Sheet.

***Express***

On July 6, 2007, the Company completed the divestiture of 75% of its ownership interest in Express to affiliates of Golden Gate Capital for pre-tax net cash proceeds of $548 million. For additional information, see Note 10, “Equity Investments and Other.” The Company recorded a pre-tax gain on the divestiture of $302 million.

In conjunction with the transaction, the Company and Express entered into transition services agreements whereby the Company provides support to Express in various operational areas including logistics, technology and merchandise sourcing. The terms of these transition services arrangements vary and ranged from 3 months to 3 years. The Company recognized merchandise sourcing revenue from Express of $101 million and $51 million in the second quarter of 2008 and 2007, respectively. The Company recognized merchandise sourcing revenue from Express of $214 million and $51 million for year-to-date 2008 and 2007, respectively. This amount is net of the elimination of 25% of the gross merchandise sourcing revenue consistent with the Company’s ownership percentage. The Company’s accounts receivable from Express for merchandise sourcing and other services provided in accordance with the terms and conditions of their transition services agreements totaled $134 million, $151 million and $104 million as of August 2, 2008, February 2, 2008 and August 4, 2007, respectively.

***Limited Stores***

On August 3, 2007, the Company completed the divestiture of 75% of its ownership interest in Limited Stores to affiliates of Sun Capital. As part of the agreement, Sun Capital contributed $50 million of equity capital into the business and arranged a $75 million credit facility. For additional information, see Note 10, “Equity Investments and Other.” The Company recorded a pre-tax loss on the divestiture of $72 million.

In conjunction with the transaction, the Company and Limited Stores entered into transition services agreements where the Company provides support to Limited Stores in various operational areas including logistics, technology and merchandise sourcing. The terms of these transition services arrangements vary and ranged from 3 months to 3 years. The Company recognized merchandise sourcing revenue from Limited Stores of $23 million in the second quarter of 2008 and $49 million for year-to-date 2008. This amount is net of the elimination of 25% of the gross merchandise sourcing revenue consistent with the Company’s ownership percentage. The Company’s accounts receivable from Limited Stores for merchandise sourcing and other services provided in accordance with the terms and conditions of their transition services agreements totaled $18 million, $22 million and $7 million as of August 2, 2008, February 2, 2008 and August 4, 2007, respectively.

***Other***

In the second quarter of 2007, the Company recognized an impairment charge of $13 million ($6 million net of minority interest) related to the disposition of a personal care products business and $2 million of costs consisting primarily of property and equipment write-offs associated with the closure of the six Diva London concept stores.

**6. Restructuring Activities**

During the second quarter of 2007, the Company initiated a restructuring program designed to resize the Company's corporate infrastructure and to adjust for the impact of the apparel divestitures. This program resulted in the elimination of approximately 500 positions (or 10%) of the Company's corporate and home office headcount through position eliminations and transfers to Express and Limited Stores. The Company recognized a pre-tax charge consisting primarily of severance and related costs of $38 million. These costs were included in General, Administrative and Store Operating Expenses on the 2007 Consolidated Statements of Income.

**7. Inventories**

Inventories are principally valued at the lower of cost, as determined by the weighted-average cost method, or market.

The following table provides details of inventories as of August 2, 2008, February 2, 2008 and August 4, 2007:

| | August 2, 2008 | February 2, 2008 | August 4, 2007 |
|---|---|---|---|
| | | (in millions) | |
| Finished Goods Merchandise | $ 1,093 | $ 1,140 | $ 1,236 |
| Raw Materials and Merchandise Components | 127 | 111 | 232 |
| Total Inventories | $ 1,220 | $ 1,251 | $ 1,468 |

During the second quarter of 2007, the Company recognized a pre-tax charge of $19 million related to excess raw material and component inventory at Bath & Body Works. This cost was included in Cost of Goods Sold, Buying and Occupancy on the 2007 Consolidated Statements of Income.

**8. Property and Equipment, Net**

The following table provides details of property and equipment, net as of August 2, 2008, February 2, 2008 and August 4, 2007:

| | August 2, 2008 | February 2, 2008 | August 4, 2007 |
|---|---|---|---|
| | | (in millions) | |
| Property and Equipment, at Cost | $ 3,942 | $ 3,811 | $ 3,596 |
| Accumulated Depreciation and Amortization | (2,009) | (1,949) | (1,866) |
| Property and Equipment, Net | $ 1,933 | $ 1,862 | $ 1,730 |

Depreciation expense was $90 million and $93 million for the second quarter of 2008 and 2007, respectively. Depreciation expense was $180 million and $195 million for year-to-date 2008 and 2007, respectively.

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## 9. Goodwill, Trade Names and Other Intangible Assets, Net

***Goodwill***

The following table provides the rollforward of goodwill for year-to-date 2008:

| | Victoria's Secret | Bath & Body Works | Other | Total |
|---|---|---|---|---|
| | | (in millions) | | |
| Balance as of February 2, 2008 | $ 1,057 | $ 628 | $ 48 | $1,733 |
| Divestiture (See Note 5) | — | — | (48) | (48) |
| Foreign Currency Translation | (12) | — | — | (12) |
| Balance as of August 2, 2008 | $ 1,045 | $ 628 | $— | $1,673 |

The following table provides the rollforward of goodwill for year-to-date 2007:

| | Victoria's Secret | Bath & Body Works | Other | Total |
|---|---|---|---|---|
| | | (in millions) | | |
| Balance as of February 3, 2007 | $ 999 | $ 628 | $ 49 | $1,676 |
| Acquisitions | — | — | 25 | 25 |
| Reclassification to Trade Name | — | — | (12) | (12) |
| Impairment | — | — | (13) | (13) |
| Foreign Currency Translation | 38 | — | — | 38 |
| Balance as of August 4, 2007 | $ 1,037 | $ 628 | $ 49 | $1,714 |

In February 2007, the Company acquired a personal care products business along with an investment partner. Net assets of the acquired business consisted primarily of goodwill, which is included above based on the preliminary purchase price allocation. During the second quarter of 2007, the Company and its investment partner made a decision to close the operations of the acquired business. Based on this decision, the Company completed a valuation of the acquired business trade name, which the Company intends to continue to use. Based on the Company's evaluation, $12 million of the $25 million purchase price was allocated to the trade name. The remaining $13 million was recognized as an impairment charge in operating income in the second quarter of 2007. The Company recognized the investment partner's portion of the impairment charge of $6 million in Minority Interest on the 2007 Consolidated Statements of Income.

***Intangible Assets—Indefinite Lives***

Intangible assets, not subject to amortization, represent the Victoria's Secret, Bath & Body Works and La Senza trade names. These assets totaled $604 million as of August 2, 2008, $611 million as of February 2, 2008 and $600 million as of August 4, 2007. These intangible assets are included in Trade Names and Other Intangible Assets, Net on the Consolidated Balance Sheets.

***Intangible Assets—Finite Lives***

The following table provides intangible assets with finite lives as of August 2, 2008, February 2, 2008 and August 4, 2007:

| | August 2, 2008 | February 2, 2008 | August 4, 2007 |
|---|---|---|---|
| | | (in millions) | |
| Intellectual Property | $ 41 | $ 41 | $ 41 |
| Trademarks/Brands | 21 | 45 | 45 |
| Licensing Agreements and Customer Relationships | 24 | 28 | 27 |
| Favorable Operating Leases | 19 | 22 | 21 |
| Total | 105 | 136 | 134 |
| Accumulated Amortization | (65) | (70) | (62) |
| Intangible Assets, Net (a) | $ 40 | $ 66 | $ 72 |

(a) The decreases in intangible assets with finite lives relate primarily to the divestiture of a joint venture. For additional information, see Note 5, "Divestitures and Other."

Amortization expense was $2 million and $3 million for the second quarter of 2008 and 2007, respectively. Amortization expense was $4 million and $6 million for year-to-date 2008 and 2007, respectively. Estimated future annual amortization expense will be approximately $3 million for the remainder of 2008, $6 million in 2009, $7 million in 2010 and 2011, $4 million in 2012 and $13 million in the aggregate thereafter.

**10. Equity Investments and Other**

***Express***

On July 6, 2007, the Company completed the divestiture of 75% of its ownership interest in Express to affiliates of Golden Gate Capital. The Company's remaining 25% investment in Express is accounted for under the equity method of accounting. Accordingly, the Company records 25% of Express' results in Other Income on the Consolidated Statements of Income.

In March 2008, Express distributed cash to its owners and the Company received $41 million. The Company's portion representing a return of capital is $28 million and is included in Return of Capital from Express within the Investing Activities section of the 2008 Consolidated Statement of Cash Flows. The remaining $13 million is considered a return on capital and is included in Other Assets and Liabilities within the Operating Activities section of the 2008 Consolidated Statement of Cash Flows.

In July 2008, Express distributed additional cash to its owners and the Company received $71 million. The Company's portion representing a return of capital is $67 million with the remaining $4 million representing a return on capital. The proceeds received from the cash distribution were in excess of the Company's carrying value of the investment in Express. As a result, the carrying value was reduced to zero as of the date of the cash distribution and a pre-tax gain of approximately $13 million was recorded. The gain is included in Other Income on the 2008 Consolidated Statements of Income. Subsequent to the cash distribution, the Company recognized its proportional share of Express' net loss resulting in a $(2) million investment carrying value as of August 2, 2008. The Company's investment carrying value for Express was $99 million as of February 2, 2008 and $79 million as of August 4, 2007. These amounts are included in Other Assets on the Consolidated Balance Sheets.

***Limited Stores***

On August 3, 2007, the Company completed the divestiture of 75% of its ownership interest in Limited Stores to affiliates of Sun Capital. The Company's remaining 25% investment in Limited Stores is accounted for under the equity method of accounting. Accordingly, the Company records 25% of Limited Stores' results in Other Income on the Consolidated Statements of Income. The Company's investment carrying value for Limited Stores was $14 million as of August 2, 2008, $13 million as of February 2, 2008 and $17 million as of August 4, 2007. These amounts are included in Other Assets on the Consolidated Balance Sheets.

***Easton Investment***

The Company has land and other investments in Easton, a 1,300 acre planned community in Columbus, Ohio that integrates office, hotel, retail, residential and recreational space. These investments, at cost, totaled $63 million as of August 2, 2008, $62 million as of February 2, 2008 and $56 million as of August 4, 2007. These investments are recorded in Other Assets on the Consolidated Balance Sheets.

Included in the Company's Easton investments is an equity interest in Easton Town Center, LLC ("ETC"), an entity that owns and has developed a commercial entertainment and shopping center. The Company's investment in ETC is accounted for using the equity method of accounting. The Company has a majority financial interest in ETC, but another unaffiliated member manages ETC. Certain significant decisions regarding ETC require the consent of unaffiliated members in addition to the Company.

In July 2007, ETC refinanced its $290 million secured bank loan replacing it with a $405 million secured bank loan. The loan is payable in full on August 9, 2017 and is non-recourse to the Company.

In conjunction with the loan refinancing, ETC repaid the existing loan, reserved cash for capital expenditures and operations, and authorized the distribution of $150 million to ETC members. As an ETC member, the Company received approximately $102 million of proceeds, resulting in a $100 million gain after reducing the Company's ETC carrying value from $2 million to zero. The gain is included in Other Income on the 2007 Consolidated Statements of Income.

***Other***

In April 2008, the Company recorded a pre-tax impairment charge of $19 million related to an unconsolidated joint venture accounted for under the equity method of accounting. The charge consisted of writing down the investment balance, reserving certain accounts and notes receivable and accruing a contractual liability. The impairment of $19 million is included in Net Gain on Joint Ventures on the year-to-date 2008 Consolidated Statement of Income.

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**11. Income Taxes**

The provision for income taxes is based on the current estimate of the annual effective tax rate and is adjusted as necessary for quarterly events. The Company's effective tax rate has historically reflected and continues to reflect a provision related to the undistributed earnings of foreign affiliates. The Company has recorded a deferred tax liability for those amounts, but the taxes are not paid until the earnings are deemed repatriated to the United States.

The Company's effective tax rate increased to 38.0% in the second quarter of 2008 from 37.6% in the second quarter 2007. The second quarter 2007 effective tax rate reflects the impact of a $39 million after-tax benefit associated with the reversal of state net operating loss carryforward valuation allowances in conjunction with the divestiture of the apparel brands, offset by the impact of the Limited Stores divestiture, for which no income tax benefit was recognized due to uncertainty about the ultimate timing of the recognition of the Limited Stores loss for tax purposes.

The Company's effective tax rate increased to 41.2% for year-to-date 2008 from 38.4% for year-to-date 2007. The increase is primarily related to the impact of an impairment of an unconsolidated joint venture in the first quarter of 2008 for which no deferred tax asset has been recorded and other changes in income tax reserves.

Income taxes paid approximated $14 million and $56 million for the second quarter of 2008 and 2007, respectively. Income taxes paid approximated $174 million and $254 million for year-to-date 2008 and 2007, respectively. The current income tax liability included net current deferred tax liabilities of $2 million as of August 2, 2008, $4 million as of February 2, 2008 and $5 million as of August 4, 2007. Additionally, current deferred tax assets of $68 million as of August 2, 2008, $75 million as of February 2, 2008 and $41 million as of August 4, 2007 are included in Other Current Assets on the Consolidated Balance Sheets.

**12. Long-term Debt**

The following table provides the Company's long-term debt balance as of August 2, 2008, February 2, 2008 and August 4, 2007:

| | August 2, 2008 | February 2, 2008 | August 4, 2007 |
|---|---|---|---|
| | | (in millions) | |
| Term Loan due August 2012. Interest Rate of 3.43% as of August 2, 2008 | $ 750 | $ 750 | $ 750 |
| 6.90% $700 million Notes due July 2017, Less Unamortized Discount | 698 | 698 | 698 |
| 5.25% $500 million Notes due November 2014, Less Unamortized Discount | 499 | 499 | 499 |
| 6.95% $350 million Debentures due March 2033, Less Unamortized Discount | 350 | 350 | 350 |
| 7.60% $300 million Notes due July 2037, Less Unamortized Discount | 299 | 299 | 299 |
| 6.125% $300 million Notes due December 2012, Less Unamortized Discount | 299 | 299 | 299 |
| Credit Facility due January 2010. Interest rate of 3.25% as of August 2, 2008 | 12 | 15 | 19 |
| 5.30% Mortgage due August 2010 | 2 | 2 | 2 |
| Total | 2,909 | 2,912 | 2,916 |
| Current Portion of Long-term Debt | (8) | (7) | (8) |
| Total Long-term Debt, Net of Current Portion | $ 2,901 | $ 2,905 | $ 2,908 |

In July 2007, the Company issued $700 million of 6.90% notes due July 15, 2017 and $300 million of 7.60% notes due July 15, 2037 utilizing a shelf registration statement under which up to $1 billion of debt securities, common and preferred stock and other securities could be issued. Interest on the notes is payable on January 15 and July 15 of each year.

On August 3, 2007, the Company amended the October 2004 $500 million Term Loan agreement to increase the borrowing capacity to $750 million and extend the term to August 2012. During the second quarter of 2007, the Company borrowed the additional $250 million under the Term Loan agreement.

On August 3, 2007, the Company amended its $1 billion unsecured revolving credit facility (the "5-Year Facility") by extending its term to August 2012 and executed a $500 million, 364-day unsecured revolving credit facility (the "2007 364-Day Facility"), which terminated in July 2008. In July 2008, the Company replaced the 2007 364-Day Facility with a $300 million 364-day unsecured revolving credit facility (the "2008 364-Day Facility"). Both facilities support the Company's commercial paper and letter of credit programs. As of August 2, 2008, there were no borrowings outstanding under any facility. Fees payable under the 5-Year Facility are based on the Company's long-term credit ratings and are currently 0.125% of the committed amount per year. Fees payable under the 2008 364-Day Facility are based on the Company's long-term credit ratings and are 0.25% of the committed amount.

No commercial paper was outstanding as of August 2, 2008, February 2, 2008 or August 4, 2007.

The Facilities and the Term Loan have several interest rate options which are based in part on the Company's long-term credit ratings. These agreements also require the Company to maintain certain specified fixed charge and debt-to-earnings ratios and prohibit certain types of liens on property or assets. The Company was in compliance with the covenant requirements as of August 2, 2008.

In January 2008, the Company entered into a participating interest rate swap arrangement designated as a cash flow hedge to mitigate exposure to interest rate fluctuations related to the Term Loan. For additional information, see Note 3, "Derivative Instruments."

## 13. Commitments and Contingencies

The Company is subject to various claims and contingencies related to lawsuits, taxes, insurance, regulatory and other matters arising out of the normal course of business. Management believes that the ultimate liability arising from such claims and contingencies, if any, is not likely to have a material adverse effect on the Company's results of operations, financial condition or cash flows.

### *Guarantees*

In connection with the disposition of certain businesses, the Company has remaining guarantees of approximately $215 million related to lease payments of Express, Limited Stores, Abercrombie & Fitch, Tween Brands (formerly Limited Too and Too, Inc.), Dick's Sporting Goods (formerly Galyan's), Lane Bryant, New York & Company and Anne.x under the current terms of noncancelable leases expiring at various dates through 2017. These guarantees include minimum rent and additional payments covering taxes, common area costs and certain other expenses and relate to leases that commenced prior to the disposition of the businesses. In certain instances, the Company's guarantee may remain in effect if the term of a lease is extended. The Company believes the likelihood of material liabilities being triggered under these guarantees is remote.

In April 2008, the Company received an irrevocable standby letter of credit from Express of $34 million issued by a third-party bank to mitigate a portion of the Company's contingent liability for guaranteed future lease payments of Express. The Company can draw from the irrevocable standby letter of credit if Express were to default on any of the guaranteed leases. The irrevocable standby letter of credit is reduced through the March 31, 2011 expiration date consistent with the overall reduction in guaranteed lease payments. The outstanding balance of the irrevocable standby letter of credit from Express was $33 million as of August 2, 2008.

## 14. Retirement Benefits

The Company sponsors a tax-qualified defined contribution retirement plan and a non-qualified supplemental retirement plan for substantially all of its associates within the United States of America (U.S.). Participation in the qualified plan is available to associates who meet certain age and service requirements. Participation in the non-qualified plan is made available to associates who meet certain age, service, job level and compensation requirements.

The qualified plan permits associates to elect contributions up to the maximum limits allowable under the Internal Revenue Code. The Company matches associate contributions according to a predetermined formula and contributes additional amounts based on a percentage of the associates' eligible annual compensation and based on years of service. Associate contributions and Company matching contributions vest immediately. Additional Company contributions and the related investment earnings are subject to vesting based on years of service. Total expense recognized related to the qualified plan was $11 million and $10 million for the second quarter of 2008 and 2007, respectively. Total expense recognized related to the qualified plan was $21 million and $23 million for year-to-date 2008 and 2007, respectively.

The non-qualified plan is an unfunded plan which provides benefits beyond the Internal Revenue Code limits for qualified defined contribution plans. The plan permits associates to elect contributions up to a maximum percentage of eligible compensation. The Company matches associate contributions according to a predetermined formula and credits additional amounts based on a percentage of the associates' eligible compensation and years of service. The plan also permits associates to defer additional compensation up to a maximum amount. The Company does not match the contributions for additional deferred compensation. Associates' accounts are credited with interest using a rate determined annually based on an evaluation of the 10-year and 30-year borrowing rates available to the Company. Associate contributions and the related interest vest immediately. Company contributions, credits and the related interest are subject to vesting based on years of service. Associates may elect an in-service distribution for the additional deferred compensation component only. Associates are not permitted to take a withdrawal from any other portion of the plan while actively employed with the Company. The remaining vested portion of associates' accounts in the plan will be distributed upon termination of employment in either a lump sum or in equal annual installments over a specified period of up to 10 years. Total expense recognized related to the non-qualified plan was $5 million for both the second quarter of 2008 and 2007. Total expense recognized related to the non-qualified plan was $10 million and $11 million for the year-to-date 2008 and 2007, respectively.

**15. Segment Information**

Prior to the divestitures of Express and Limited Stores in the second quarter of 2007, the Company had three reportable segments: Victoria's Secret, Bath & Body Works and Apparel.

The Victoria's Secret segment sells women's intimate and other apparel, personal care and beauty products and accessories marketed under the Victoria's Secret, Pink and La Senza brand names. Victoria's Secret merchandise is sold through retail stores in the United States and direct response channels (e-commerce and catalogue). Through its e-commerce site, *www.VictoriasSecret.com*, catalogue and other distribution channels, certain Victoria's Secret's merchandise may be purchased worldwide. La Senza sells merchandise through retail stores located throughout Canada and licensed stores in 44 other countries. La Senza's merchandise is also sold through its e-commerce site, *www.LaSenza.com.*

The Bath & Body Works segment sells personal care, beauty and home fragrance products marketed under the Bath & Body Works, C.O. Bigelow and White Barn Candle Company brand names in addition to third-party brands. Bath & Body Works merchandise is sold at retail stores, through its e-commerce site, *www.bathandbodyworks.com*, and catalogue.

The Apparel segment sold women's and men's apparel through Express and Limited Stores. After the closing dates of the divestitures, the segment no longer exists. The Company retains a 25% ownership interest in Express and Limited Stores.

Other consists of the following:

- Henri Bendel, operator of two specialty stores in New York, New York and Columbus, Ohio which feature fashion, personal care products and accessories for sophisticated women;
- Mast, an apparel merchandise sourcing and production company serving Victoria's Secret and third party customers;
- Beauty Avenues, a personal care sourcing and production company serving Victoria's Secret and Bath & Body Works; and
- Corporate functions including non-core real estate, equity investments and other administrative functions such as treasury and tax.

In 2007, the Company reviewed its corporate organization and allocation methodology as a result of changes in its business including the divestitures of Express and Limited Stores. Consistent with these business changes, the Company has transferred certain individuals and functions from corporate to its operating business units. Beginning in 2008, the Company changed its methodology for allocating certain remaining corporate costs to its operating business units, including, but not limited to, costs related to store real estate and store design and construction activities. This change primarily impacted General, Administrative and Store Operating Expenses across the Company's segments.

The following table provides the Company's segment information for second quarter and year-to-date 2008 and 2007:

| | Victoria's Secret | Bath & Body Works | Apparel (a) (b) | Other | Total |
|---|---|---|---|---|---|
| | | | (in millions) | | |
| **2008** | | | | | |
| **Second Quarter:** | | | | | |
| Net Sales | $ 1,471 | $ 553 | NA | $ 260 | $2,284 |
| Operating Income (Loss) | 183 | 41 | NA | (38) | 186 |
| **Year-to-Date:** | | | | | |
| Net Sales | $ 2,725 | $ 952 | NA | $ 532 | $4,209 |
| Operating Income (c) | 332 | 35 | NA | 28 | 395 |
| **2007** | | | | | |
| **Second Quarter:** | | | | | |
| Net Sales | $ 1,430 | $ 562 | $ 370 | $ 262 | $2,624 |
| Operating Income (Loss) (d) | 162 | 14 | 237 | (94) | 319 |
| **Year-to-Date:** | | | | | |
| Net Sales | $ 2,637 | $ 984 | $ 870 | $ 444 | $4,935 |
| Operating Income (Loss) (d) | 294 | 13 | 250 | (130) | 427 |

(a) Results of Express and Limited Stores are included through July 6, 2007 and August 3, 2007, respectively, when the businesses were divested.
(b) Operating income for the second quarter and year-to-date 2007 includes the gain on divestiture of Express of $302 million and the loss on divestiture of Limited Stores of $72 million.
(c) Other includes $109 million net gain from joint ventures.
(d) Amounts presented are restated to conform with the corporate cost allocation methodology adopted at the beginning of 2008.
NA Not applicable

The Company's international sales totaled $179 million and $148 million for second quarter of 2008 and 2007, respectively. The Company's international sales totaled $331 million and $267 million for year-to-date 2008 and 2007, respectively. The Company's international sales include direct sales shipped internationally, sales from company-owned La Senza stores and wholesale sales to La Senza's international franchisees.

### 16. Recently Issued Accounting Pronouncements

*SFAS 161 "Disclosures about Derivative Instruments and Hedging Activities" ("SFAS 161")*

In March 2008, the FASB issued SFAS 161, which requires disclosures about the fair value of derivative instruments and their gains or losses in tabular format as well as disclosures regarding credit-risk-related contingent features in derivative agreements, counterparty credit risk and strategies and objectives for using derivative instruments. SFAS 161 amends and expands SFAS 133 "Accounting for Derivative Instruments and Hedging Activities" and is effective prospectively beginning in 2009. The Company is currently evaluating the disclosure implications to its financial statements.

*SFAS 141 (revised 2007) "Business Combinations" ("SFAS 141(R)")*

In December 2007, the FASB issued SFAS 141(R), which establishes how the acquiring entity recognizes and measures the assets acquired, liabilities assumed, any gain on bargain purchases and any noncontrolling interest in the acquired entity. SFAS 141(R) requires acquisition-related costs to be expensed in the periods they are incurred, with the exception of the costs to issue debt or equity securities. SFAS 141(R) requires disclosure of information for a business combination that occurs during the accounting period or prior to the issuance of the financial statements for the accounting period. SFAS 141(R) is effective prospectively for business combinations with an acquisition date on or after the beginning of the first annual reporting period after December 15, 2008.

*SFAS 160 "Noncontrolling Interests in Consolidated Financial Statements" ("SFAS 160")*

In December 2007, the FASB issued SFAS 160, which modifies reporting for noncontrolling interest (minority interest) in consolidated financial statements. SFAS 160 requires noncontrolling interest be reported in equity and establishes a new framework for recognizing net income or loss and comprehensive income by the controlling interest. SFAS 160 requires specific disclosures regarding changes in equity interest of both the controlling and noncontrolling parties and presentation of the noncontrolling equity balance and income or loss for all periods presented. SFAS 160 is effective for interim and annual periods in fiscal years beginning after December 15, 2008. The statement is applied prospectively upon adoption, however the presentation and disclosure requirements are applied retrospectively. The Company is currently evaluating the impact to its financial statements.

*SFAS 157 "Fair Value Measurements" ("SFAS 157")*

In September 2006, the FASB issued SFAS 157, which provides guidance for fair value measurement of assets and liabilities and instruments measured at fair value that are classified in shareholders' equity. The statement defines fair value, establishes a fair value measurement framework and expands fair value disclosures. It emphasizes that fair value is market-based with the highest measurement hierarchy level being market prices in active markets. The standard requires fair value measurements be disclosed by hierarchy level, an entity include its own credit standing in the measurement of its liabilities and modifies the transaction price presumption.

In February 2008, the FASB issued FSP FAS 157-2 "Effective Date of FASB Statement No. 157" which delays the effective date of SFAS 157 to fiscal years beginning after November 15, 2008 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually).

Accordingly, as of February 3, 2008, the Company adopted SFAS 157 for financial assets and liabilities only. As of August 2, 2008, the Company's financial assets and liabilities subject to SFAS 157 consisted of the cross-currency interest rate swaps and the participating interest rate swap. The fair value of these instruments is determined using valuation methodologies that employ Level 2 inputs as defined in SFAS 157. The adoption of SFAS 157 for financial assets and financial liabilities did not have a significant impact on the Company's results of operations, financial condition or liquidity. The Company plans to adopt SFAS 157 at the beginning of 2009 for items within the scope of FSP FAS 157-2 and is currently evaluating the impact to the financial statements.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders
of Limited Brands, Inc.:

We have reviewed the consolidated balance sheets of Limited Brands, Inc. and subsidiaries (the “Company”) as of August 2, 2008 and August 4, 2007, and the related consolidated statements of income for the thirteen and twenty-six week periods ended August 2, 2008 and August 4, 2007, and the consolidated statements of cash flows for the twenty-six week periods ended August 2, 2008 and August 4, 2007. These financial statements are the responsibility of the Company’s management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, 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 reviews, we are not aware of any material modifications that should be made to the consolidated interim financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Limited Brands, Inc. and subsidiaries as of February 2, 2008, 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 March 28, 2008, we expressed an unqualified opinion on those consolidated financial statements and included an explanatory paragraph regarding the Company’s change in its method of accounting for inventories in fiscal 2005, share-based compensation in fiscal 2006 and income taxes in fiscal 2007. In our opinion, the information set forth in the accompanying consolidated balance sheet as of February 2, 2008, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Ernst & Young LLP

Columbus, Ohio
September 5, 2008

## SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION ACT OF 1995

**Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995**

We caution 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 our company or our management involve risks and uncertainties and are subject to change based on various important factors, many of which are beyond our control. Accordingly, our future performance and financial results may differ materially from those expressed or implied in any such forward-looking statements. Words such as "estimate," "project," "plan," "believe," "expect," "anticipate," "intend," "planned," "potential" and similar expressions may identify forward-looking statements. Risks associated with the following factors, among others, in some cases have affected and in the future could affect our financial performance and actual results and could cause actual results to differ materially from those expressed or implied in any forward-looking statements included in this report or otherwise made by our company or our management:

- general economic conditions, consumer confidence and consumer spending patterns;
- the dependence on a high volume of mall traffic and the possible lack of availability of suitable store locations on appropriate terms;
- the seasonality of our business;
- our ability to grow through new store openings and existing store remodels and expansions;
- our ability to expand into international markets;
- independent licensees;
- our direct channel business including our new distribution center;
- our failure to protect our reputation and our brand images;
- our failure to protect our trade names and trademarks;
- market disruptions including severe weather conditions, natural disasters, health hazards, terrorist activities or the prospect of these events;
- stock price volatility;
- our failure to maintain our credit rating;
- our ability to service our debt;
- the highly competitive nature of the retail industry generally and the segments in which we operate particularly;
- consumer acceptance of our products and our ability to keep up with fashion trends, develop new merchandise, launch new product lines successfully, offer products at the appropriate price points and enhance our brand image;
- our ability to retain key personnel;
- our ability to attract, develop and retain qualified employees and manage labor costs;
- our reliance on foreign sources of production, including risks related to:
  - political instability,
  - duties, taxes, other charges on imports,
  - legal and regulatory matters,
  - currency and exchange rates,
  - local business practices and political issues,
  - potential delays or disruptions in shipping and related pricing impacts and
  - the disruption of imports by labor disputes;
- the possible inability of our manufacturers to deliver products in a timely manner or meet quality standards;
- rising energy costs;
- increases in the costs of mailing, paper and printing;
- our ability to implement and sustain information technology systems; and
- our failure to comply with regulatory requirements.

We are not under any obligation and do not intend to make publicly available any update or other revisions to any of the forward-looking statements contained in this report to reflect circumstances existing after the date of this report or to reflect the occurrence of future events even if experience or future events make it clear that any expected results expressed or implied by those forward-looking statements will not be realized. Additional information regarding these and other factors can be found in "Item 1A. Risk Factors" in our 2007 Annual Report on Form 10-K.

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

The following discussion and analysis of financial condition and results of operations are based upon our Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The following information should be read in conjunction with our financial statements and the related notes included in Item 1. Financial Statements.

### Executive Overview

Our second quarter 2008 diluted earnings per share decreased to $0.30 from $0.67 in the second quarter of 2007. The second quarter 2008 diluted earnings per share includes a $13 million ($0.02 per share) pre-tax gain related to a $71 million cash distribution from Express. The decrease in earnings per share was primarily driven by several significant items in the second quarter of 2007 including a:

- $230 million ($0.26 per share) pre-tax net gain from the divestitures of Express and Limited Stores;
- $100 million ($0.15 per share) pre-tax gain related to the refinancing of Easton Town Center;
- $39 million ($0.10 per share) after-tax benefit associated with the reversal of state net operating loss carryforward valuation allowances in conjunction with the divestiture of the Apparel segment;
- $17 million ($0.02 per share) pre-tax gain related to an interest rate hedge entered into in anticipation of the La Senza acquisition.

Partially offset by:

- $47 million ($0.07 per share) of pre-tax restructuring and impairment charges.

In addition to the impact of the significant items noted above, our second quarter 2008 earnings per share benefited from operating income increases at both Victoria's Secret and Bath & Body Works.

### *Victoria's Secret*

Victoria's Secret experienced sales growth of 3% driven by 7% growth in the direct channel and new and expanded stores, partially offset by negative comparable store sales of 7%. The gross profit rate increased due to an increase in the merchandise margin rate partially offset by an increase in the buying and occupancy rate. The general, administrative and store operating expense rate slightly declined driven primarily by leverage on higher overall sales. As a result of these factors, Victoria's Secrets' second quarter operating income increased $21 million to $183 million.

### *Bath & Body Works*

Bath & Body Works experienced a sales decline of 2% and negative comparable store sales of 8%. The gross profit rate increased due to a significant increase in the merchandise margin rate impacted by the 2007 inventory related charges associated with the write-off of excess component inventory and shrink offset by an increase in the buying and occupancy rate. The general, administrative and store operating expense rate increased on flat total expenses due to the sales decline. As a result of these factors, Bath & Body Works second quarter operating income increased $27 million to $41 million.

**Results of Operations**

**Operating Income - Second Quarter of 2008 Compared to Second Quarter of 2007**

The following table provides our segment operating income (loss) and operating income rates (expressed as a percentage of net sales) for 2008 in comparison to 2007:

| | | | Operating Income Rate | |
|---|---|---|---|---|
| | 2008 | 2007 (a) | 2008 | 2007 |
| **Second Quarter** | (in millions) | | | |
| Victoria's Secret | $183 | $ 162 | 12.4% | 11.4% |
| Bath & Body Works | 41 | 14 | 7.3% | 2.5% |
| Apparel (b) | NA | 237 | NA | 63.9% |
| Other (c) (d) | (38) | (94) | (14.6)% | (35.9)% |
| Total Operating Income | $186 | $ 319 | 8.1% | 12.2% |

(a) Amounts presented are restated to conform with the corporate cost allocation methodology adopted at the beginning of 2008. For additional information, see Note 15 to the Consolidated Financial Statements included in Item 1. Financial Statements.
(b) Express and Limited Stores were divested in July 2007 and August 2007, respectively. In 2007, operating income includes a $230 million net gain on the divestiture of the Apparel segment. For additional information, see Note 5 to the Consolidated Financial Statements included in Item 1. Financial Statements.
(c) Includes Corporate, Mast, Beauty Avenues and Henri Bendel.
(d) In 2007, includes restructuring and impairment charges totaling $53 million, which excludes $6 million of minority interest income associated with the charges. For additional information, see Note 5 and Note 6 to the Consolidated Financial Statements included in Item 1. Financial Statements.
NA Not applicable

For the second quarter of 2008, operating income decreased $133 million to $186 million and the operating income rate decreased to 8.1% from 12.2%. Operating income for the second quarter of 2007 included a net gain of $230 million associated with the divestiture of the Apparel segment and $53 million of restructuring and impairment charges, which excludes $6 million of minority interest income associated with the charges. Additional changes in second quarter operating income were driven by the following:

- At Victoria's Secret, operating income increased $21 million to $183 million primarily driven by a 7% increase in net sales at Victoria Secret Direct.
- At Bath & Body Works, operating income increased $27 million to $41 million primarily driven by the 2007 impact of inventory related charges associated with the write-off of excess component inventory and shrink.

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**Operating Income - Year-to-Date 2008 Compared to Year-to-Date 2007**

The following table provides our segment operating income (loss) and operating income rates (expressed as a percentage of net sales) for 2008 in comparison to 2007:

| | | | Operating Income Rate | |
|---|---|---|---|---|
| | 2008 | 2007 (a) | 2008 | 2007 |
| **Year-to-Date** | (in millions) | | | |
| Victoria's Secret | $332 | $ 294 | 12.2% | 11.2% |
| Bath & Body Works | 35 | 13 | 3.7% | 1.3% |
| Apparel (b) | NA | 250 | NA | 28.7% |
| Other (c) (d) (e) | 28 | (130) | 5.3% | (29.2)% |
| Total Operating Income | $395 | $ 427 | 9.4% | 8.7% |

(a) Amounts presented are restated to conform with the corporate cost allocation methodology adopted at the beginning of 2008. For additional information, see Note 15 to the Consolidated Financial Statements included in Item 1. Financial Statements.

(b) Express and Limited Stores were divested in July 2007 and August 2007, respectively. In 2007, operating income includes a $230 million net gain on the divestiture of the Apparel segment. For additional information, see Note 5 to the Consolidated Financial Statements included in Item 1. Financial Statements.

(c) Includes Corporate, Mast, Beauty Avenues and Henri Bendel.

(d) In 2008, includes a $109 million net gain on joint ventures. For additional information, see Note 5 and Note 10 to the Consolidated Financial Statements included in Item 1. Financial Statements.

(e) In 2007, includes restructuring and impairment charges totaling $53 million, which excludes $6 million of minority interest income associated with the charges. For additional information, see Note 6 to the Consolidated Financial Statements included in Item 1. Financial Statements.

NA Not applicable

For year-to-date 2008, operating income decreased $32 million to $395 million and the operating income rate increased to 9.4% from 8.7%. Year-to-date operating income included the following significant items:

- In 2008, a $109 million net gain on joint ventures.
- In 2007, a $230 million net gain associated with the divestiture of the Apparel segment and $53 million of restructuring and impairment charges, which excludes $6 million of minority interest income associated with the charges.

Additional changes in year-to-date operating income were driven by the following:

- At Victoria's Secret, operating income increased $38 million to $332 million primarily driven by increased net sales at Victoria's Secret Direct and La Senza.
- At Bath & Body Works, operating income increased $22 million to $35 million primarily driven by the 2007 impact of inventory related charges associated with the write-off of excess component inventory and shrink.

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**Store Data**

The following table compares second quarter of 2008 store data to the comparable periods for second quarter of 2007 and year-to-date 2008 store data to the comparable periods for year-to-date 2007:

| | Second Quarter | | | Year-to-Date | | |
|---|---|---|---|---|---|---|
| **Sales Per Average Selling Square Foot** | **2008** | **2007** | **% Change** | **2008** | **2007** | **% Change** |
| Victoria's Secret Stores | $ 159 | $ 177 | (10)% | $ 293 | $ 325 | (10)% |
| La Senza (a) | 143 | 134 | 6% | 267 | 228 | 17% |
| Bath & Body Works | 137 | 151 | (9)% | 239 | 264 | (10)% |
| **Sales per Average Store (in thousands)** | | | | | | |
| Victoria's Secret Stores | $ 885 | $ 916 | (3)% | $1,628 | $1,684 | (3)% |
| La Senza (a) | 422 | 377 | 12% | 782 | 691 | 13% |
| Bath & Body Works | 326 | 354 | (8)% | 567 | 619 | (8)% |
| **Average Store Size (selling square feet)** | | | | | | |
| Victoria's Secret Stores | $5,610 | $5,246 | 7% | | | |
| La Senza | 2,976 | 2,821 | 5% | | | |
| Bath & Body Works | 2,373 | 2,349 | 1% | | | |
| **Total Selling Square Feet (in thousands)** | | | | | | |
| Victoria's Secret Stores | $5,812 | $5,277 | 10% | | | |
| La Senza | 949 | 852 | 11% | | | |
| Bath & Body Works | 3,880 | 3,627 | 7% | | | |

(a) Excluding the impact of currency fluctuations, sales per average selling square foot increased 2% and 7% for the second quarter and year-to-date 2008, respectively, and sales per average store increased 7% and 4% for the second quarter and year-to-date 2008, respectively.

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The following table compares second quarter of 2008 store data to the comparable periods for second quarter of 2007 and year-to-date 2008 store data to the comparable periods for year-to-date 2007:

| Number of Stores (a) | Second Quarter 2008 | Second Quarter 2007 | Year-to-Date 2008 | Year-to-Date 2007 |
|---|---|---|---|---|
| **Victoria's Secret** | | | | |
| Beginning of Period | 1,028 | 1,003 | 1,020 | 1,003 |
| Opened | 11 | 7 | 25 | 12 |
| Closed | (3) | (4) | (9) | (9) |
| End of Period | 1,036 | 1,006 | 1,036 | 1,006 |
| **La Senza (b)** | | | | |
| Beginning of Period | 318 | 298 | 312 | 291 |
| Opened | 4 | 4 | 10 | 14 |
| Closed | (3) | — | (3) | (3) |
| End of Period | 319 | 302 | 319 | 302 |
| **Bath & Body Works** | | | | |
| Beginning of Period | 1,626 | 1,540 | 1,592 | 1,546 |
| Opened | 18 | 7 | 59 | 10 |
| Closed | (9) | (3) | (16) | (12) |
| End of Period | 1,635 | 1,544 | 1,635 | 1,544 |
| **Apparel** | | | | |
| Beginning of Period | — | 884 | — | 918 |
| Opened | — | — | — | — |
| Closed | — | (15) | — | (49) |
| Disposed | — | (869) | — | (869) |
| End of Period | — | — | — | — |

(a) Excludes Henri Bendel store locations (2 in 2008 and 2007). In addition, we closed our 6 Diva London stores locations during the second quarter of 2007.
(b) Number of stores excludes independently owned La Senza stores.

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**Second Quarter of 2008 Compared to Second Quarter of 2007**

**Net Sales**

The following table provides net sales for the second quarter of 2008 in comparison to the second quarter of 2007:

| Second Quarter | 2008 | 2007 | % Change |
|---|---|---|---|
| | (in millions) | | |
| Victoria's Secret Stores | $ 913 | $ 920 | (1)% |
| Victoria's Secret Direct | 423 | 397 | 7% |
| La Senza | 135 | 113 | 19% |
| Total Victoria's Secret | 1,471 | 1,430 | 3% |
| Bath & Body Works | 553 | 562 | (2)% |
| Express (a) | NA | 271 | NM |
| Limited Stores (a) | NA | 99 | NM |
| Total Apparel (a) | NA | 370 | NM |
| Other (b) | 260 | 262 | (1)% |
| Total Net Sales | $2,284 | $2,624 | (13)% |

(a) Express and Limited Stores were divested in July 2007 and August 2007, respectively.
(b) Other includes Corporate, Mast, Beauty Avenues and Henri Bendel.
NA Not applicable
NM Not meaningful

The following table provides a reconciliation of net sales for the second quarter of 2008 to the second quarter of 2007:

| Second Quarter | Victoria's Secret | Bath & Body Works | Apparel | Other | Total |
|---|---|---|---|---|---|
| | | | (in millions) | | |
| **2007 Net Sales** | $ 1,430 | $ 562 | $ 370 | $262 | $2,624 |
| Comparable Store Sales | (61) | (41) | — | — | (102) |
| Sales Associated With New, Closed, Divested and Non-comparable Remodeled Stores, Net (a) | 76 | 27 | (370) | — | (267) |
| Direct Channels | 26 | 5 | — | — | 31 |
| Mast Third-party Sales and Other | — | — | — | (2) | (2) |
| **2008 Net Sales** | $ 1,471 | $ 553 | $ — | $260 | $2,284 |

(a) Victoria's Secret includes a $7 million increase in net sales related to currency fluctuations.

The following table compares second quarter of 2008 comparable store sales to second quarter of 2007:

| Second Quarter | 2008 | 2007 |
|---|---|---|
| Victoria Secret Stores | (8)% | 4% |
| La Senza | 4% | NA |
| Total Victoria's Secret | (7)% | 4% |
| Bath & Body Works | (8)% | (4)% |
| Express (a) | NA | 6% |
| Limited Stores (a) | NA | 3% |
| Total Apparel (a) | NA | 5% |
| Henri Bendel | 11% | 0% |
| Total Comparable Store Sales | (7)% | 2% |

(a) Express and Limited Stores were divested in July 2007 and August 2007, respectively.
NA Not applicable

For the second quarter of 2008, our net sales decreased $340 million to $2.284 billion and comparable store sales decreased 7%. The decrease in our net sales was primarily driven by the following:

***Victoria's Secret***

For the second quarter of 2008, net sales increased $41 million to $1.471 billion and comparable store sales decreased 7%. The increase in net sales was primarily driven by:

- At Victoria's Secret Direct, net sales increased 7% driven by strong performance of spring merchandise including swimwear and dresses, as well as bras and shoes;
- At La Senza, net sales increased due to favorable currency fluctuations, new store growth and incremental sales of Victoria's Secret Beauty product;

Offset partially by:

- At Victoria's Secret Stores, net sales decreased across most categories driven by a challenging economic environment, less promotional activity and insufficient innovation in the product assortment in beauty. The declines were partially offset by growth related to new and expanded stores and an increase in Pink.

The decrease in comparable store sales was primarily driven by the factors cited above for Victoria's Secret Stores.

***Bath & Body Works***

For the second quarter of 2008, net sales decreased $9 million to $553 million and comparable store sales decreased 8%. The decrease in net sales and comparable store sales was primarily driven by softness in traffic, a challenging economic environment and insufficient innovation in the product assortment.

***Apparel***

For the second quarter of 2008, Apparel net sales decreased $370 million as a result of the divestitures of Express and Limited Stores in the second quarter of 2007.

**Gross Profit**

For the second quarter of 2008, our gross profit decreased $50 million to $761 million, but our gross profit rate (expressed as a percentage of net sales) increased to 33.3% from 30.9% primarily driven by the following:

***Victoria's Secret***

For the second quarter of 2008, gross profit increased driven by:

- At La Senza, gross profit increased significantly driven by increased net sales and an increase in merchandise margin due to less promotional activity, improved inventory management and favorable currency fluctuations;
- At Victoria's Secret Stores, gross profit increased driven by significant improvements in merchandise margin due to less promotional activity, improved inventory management and improved sell through of fashion merchandise, which were partially offset by increased buying and occupancy expenses associated with real estate expansion activities.
- At Victoria's Secret Direct, gross profit was flat as the impact of promotional activity and increased buying and occupancy expenses associated with the new distribution center offset the impact of the 7% increase in net sales.

The increase in the gross profit rate was driven primarily by an increase in the merchandise margin rate partially offset by an increase in the buying and occupancy expense rate due to the factors cited above.

***Bath & Body Works***

For the second quarter of 2008, gross profit increased driven by the 2007 impact of inventory related charges associated with the write-off of excess component inventory and shrink partially offset by the 2008 impact of a decrease in net sales and an increase in buying and occupancy expenses associated with store real estate activity.

The increase in the gross profit rate was driven primarily by an increase in the merchandise margin rate offset by an increase in the buying and occupancy rate due to the factors cited above.

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*Apparel*

For the second quarter of 2008, gross profit decreased $103 million as a result of the divestitures of Express and Limited Stores in the second quarter of 2007.

**General, Administrative and Store Operating Expenses**

For the second quarter of 2008, our general, administrative and store operating expenses decreased $147 million to $575 million primarily driven by the Apparel divestitures in the second quarter of 2007 and restructuring and impairment charges totaling $51 million recognized in the second quarter of 2007. The general, administrative and store operating expense rate decreased to 25.2% from 27.5% primarily driven by the factors cited above partially offset by the impact of the recognition of Mast net sales to Express and Limited Stores.

**Apparel Divestitures**

On July 6, 2007, we finalized the divestiture of a 75% ownership interest in our Express brand to affiliates of Golden Gate Capital for pre-tax net cash proceeds of $548 million. The transaction resulted in a pre-tax gain on divestiture of $302 million.

On August 3, 2007, we divested a 75% ownership interest of our Limited Stores business to affiliates of Sun Capital Partners. As part of the transaction, Sun Capital contributed $50 million of equity capital into the business and arranged for a $75 million credit facility. We received no cash proceeds from the transaction and recorded a pre-tax loss of $72 million on the transaction.

## Other Income and Expense

**Interest Expense**

The following table provides the average daily borrowings and average borrowing rates for the second quarter of 2008 and 2007:

| Second Quarter | 2008 | 2007 |
|---|---|---|
| Average daily borrowings (in millions) | $2,915 | $2,035 |
| Average borrowing rate (in percentages) | 5.89% | 6.02% |

For the second quarter of 2008, our interest expense increased $16 million to $47 million. The increase was primarily driven by an increase in average borrowings resulting from the issuance of $1 billion of notes and borrowing an additional $250 million under our amended term loan during the second quarter of 2007.

**Interest Income**

For the second quarter of 2008, our interest income increased $2 million to $5 million. The increase was primarily driven by an increase in average invested cash balances slightly offset by a decrease in average effective interest rates.

**Other Income**

For the second quarter of 2008, our other income decreased $99 million to $17 million due to gains recorded in 2007 of $100 million related to a distribution from Easton Town Center, LLC and $17 million from the settlement of interest rate lock agreements. The other income decrease was partially offset by a $71 million cash distribution from Express which resulted in a pre-tax gain of $13 million in 2008.

**Minority Interest**

For the second quarter of 2008, our minority interest decreased $13 million to $3 million. Minority interest represents the proportional share of net income or losses of consolidated, less than wholly-owned subsidiaries attributable to the minority investor. The decrease relates to losses in the second quarter of 2007 from both a personal care business and an investment in an independent technology company focused on large multi-channel retailers.

**Provision for Income Taxes**

For the second quarter of 2008, our effective tax rate increased to 38.0% from 37.6% in the second quarter of 2007. The second quarter 2007 effective tax rate reflects the impact of a $39 million after-tax benefit associated with the reversal of state net operating loss carryforward valuation allowances in conjunction with the divestiture of the Apparel segment, offset by the impact of the Limited Stores divestiture, for which no income tax benefit was recognized due to uncertainty about the ultimate timing of the recognition of the Limited Stores loss for tax purposes.

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### Results of Operations—Year-to-Date 2008 Compared to Year-to-Date 2007

**Net Sales**

The following table provides net sales for year-to-date 2008 in comparison to year-to-date 2007:

| Year-to-Date | 2008 | 2007 | % Change |
|---|---|---|---|
| | (in millions) | | |
| Victoria's Secret Stores | $1,674 | $1,691 | (1)% |
| Victoria's Secret Direct | 804 | 741 | 9% |
| La Senza | 247 | 205 | 20% |
| Total Victoria's Secret | 2,725 | 2,637 | 3% |
| Bath & Body Works | 952 | 984 | (3)% |
| Express (a) | NA | 659 | NM |
| Limited Stores (a) | NA | 211 | NM |
| Total Apparel (a) | NA | 870 | NM |
| Other (b) | 532 | 444 | 20% |
| Total Net Sales | $4,209 | $4,935 | (15)% |

(a) Express and Limited Stores were divested in July 2007 and August 2007, respectively.
(b) Other includes Corporate, Mast, Beauty Avenues and Henri Bendel.
NA Not applicable
NM Not meaningful

The following table provides a reconciliation of net sales for year-to-date 2008 to year-to-date 2007:

| Year-to-Date | Victoria's Secret | Bath & Body Works | Apparel | Other | Total |
|---|---|---|---|---|---|
| | | | (in millions) | | |
| **2007 Net Sales** | $ 2,637 | $ 984 | $ 870 | $444 | $4,935 |
| Comparable Store Sales | (107) | (80) | — | — | (187) |
| Sales Associated With New, Closed, Divested and Non-comparable Remodeled Stores, Net (a) | 132 | 38 | (870) | — | (700) |
| Direct Channels | 63 | 10 | — | — | 73 |
| Mast Third-party Sales and Other | — | — | — | 88 | 88 |
| **2008 Net Sales** | $ 2,725 | $ 952 | $ — | $532 | $4,209 |

(a) Victoria's Secret includes a $22 million increase in net sales related to currency fluctuations.

The following table compares year-to-date 2008 comparable store sales to year-to-date 2007:

| Year-to-Date | 2008 | 2007 |
|---|---|---|
| Victoria Secret Stores | (8)% | 3% |
| La Senza | 2% | NA |
| Total Victoria's Secret | (7)% | 3% |
| Bath & Body Works | (9)% | — |
| Express (a) | NA | 6% |
| Limited Stores (a) | NA | 4% |
| Total Apparel (a) | NA | 5% |
| Henri Bendel | 9% | 1% |
| Total Comparable Store Sales | (7)% | 3% |

(a) Express and Limited Stores were divested in July 2007 and August 2007, respectively.
NA Not applicable

For year-to-date 2008, our net sales decreased $726 million to $4.209 billion and comparable store sales decreased 7%. The decrease in our net sales was primarily driven by the following:

***Victoria's Secret***

For year-to-date 2008, net sales increased $88 million to $2.725 billion and comparable store sales decreased 7%. The increase in net sales was driven by:

- At Victoria's Secret Direct, net sales increased across most categories;
- At La Senza, net sales increased due to favorable currency fluctuations, new store growth and incremental sales of Victoria's Secret Beauty product;

Offset partially by:

- At Victoria's Secret Stores, net sales decreased across most categories driven by a challenging economic environment, less promotional activity and insufficient innovation in the product assortment in beauty. The declines were partially offset by growth related to new and expanded stores and an increase in Pink.

The decrease in comparable store sales was primarily driven by the factors cited above.

***Bath & Body Works***

For year-to-date 2008, net sales decreased $32 million to $952 million and comparable store sales decreased 9%. The decrease in net sales and comparable store sales was primarily driven by softness in traffic, a challenging economic environment and insufficient innovation in the product assortment.

***Apparel and Other***

For year-to-date 2008, Apparel net sales decreased $870 million as a result of the divestitures of Express and Limited Stores. In addition, Other net sales increased $88 million to $532 million primarily driven by an increase in third-party customer sales at Mast due to the divestitures of Express and Limited Stores in July 2007 and August 2007, respectively. Subsequent to the divestitures, 75% of Mast sales to Express and Limited Stores are included in third-party customer sales while the remaining 25% are eliminated in consolidation consistent with our ownership interest.

**Gross Profit**

For year-to-date 2008, our gross profit decreased $203 million to $1.402 billion and our gross profit rate (expressed as a percentage of net sales) increased to 33.3% from 32.5% primarily driven by the following:

***Victoria's Secret***

For year-to-date 2008, gross profit increased primarily driven by:

- At La Senza, gross profit increased driven by increased net sales and an increase in merchandise margin due to less promotional activity, improved inventory management and favorable currency fluctuations;
- At Victoria's Secret Stores, gross profit slightly increased driven by significant improvements in merchandise margin due to less promotional activity and improved inventory management. This was partially offset by increased buying and occupancy expenses associated with real estate expansion activities;
- At Victoria's Secret Direct, gross profit was flat as the impact of promotional activity and increased buying and occupancy expenses associated with the new distribution center offset the impact of the 9% increase in net sales.

The gross profit rate remained flat driven primarily by an increase in the merchandise margin rate offset by an increase in the buying and occupancy expense rate due to the factors cited above.

***Bath & Body Works***

For year-to-date 2008, gross profit increased primarily driven by the 2007 impact of inventory related charges associated with the write-off of excess component inventory and shrink partially offset by the 2008 impact of a decrease in net sales and an increase in buying and occupancy expenses associated with store real estate activity.

The increase in gross profit rate was driven primarily by the factors cited above.

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*Apparel*

For year-to-date 2008, gross profit decreased $250 million as a result of the divestitures of Express and Limited Stores in 2007.

**General, Administrative and Store Operating Expenses**

For year-to-date 2008, our general, administrative and store operating expenses decreased $292 million to $1.116 billion primarily driven by the Apparel divestitures in the second quarter of 2007, restructuring and impairment charges totaling $51 million recognized in the second quarter of 2007 and a reduction in marketing expense in 2008.

The general, administrative and store operating expense rate decreased to 26.5% from 28.5% primarily driven by the factors cited above partially offset by the recognition of Mast net sales to Express and Limited Stores.

**Apparel Divestitures**

On July 6, 2007, we finalized the divestiture of a 75% ownership interest in our Express brand to affiliates of Golden Gate Capital for pre-tax net cash proceeds of $548 million. The transaction resulted in a pre-tax gain on divestiture of $302 million.

On August 3, 2007, we divested a 75% ownership interest of our Limited Stores business to affiliates of Sun Capital Partners. As part of the transaction, Sun Capital contributed $50 million of equity capital into the business and arranged for a $75 million credit facility. We received no cash proceeds from the transaction and recorded a pre-tax loss of $72 million on the transaction.

**Net Gain on Joint Ventures**

In April 2008, we and our investment partner completed the divestiture of a joint venture to a third party. We recognized a pre-tax gain of $128 million on the divestiture. The pre-tax gain is included in Net Gain on Joint Ventures on the year-to-date 2008 Consolidated Statement of Income. In addition, we recorded a $19 million impairment charge related to another joint venture. The charge consisted of writing down the investment balance, reserving certain accounts and notes receivable and accruing a contractual liability. The impairment of $19 million is also included in Net Gain on Joint Ventures on the year-to-date 2008 Consolidated Statement of Income.

**Other Income and Expense**

**Interest Expense**

The following table provides the average daily borrowings and average borrowing rates for year-to-date 2008 and 2007:

| Second Quarter | 2008 | 2007 |
|---|---|---|
| Average daily borrowings (in millions) | $2,915 | $1,885 |
| Average borrowing rate (in percentages) | 5.90% | 5.96% |

For year-to-date 2008, our interest expense increased $36 million to $92 million. The increase was primarily driven by an increase in average borrowings resulting from the issuance of $1 billion of notes and borrowing an additional $250 million under our amended term loan during the second quarter of 2007.

**Interest Income**

For year-to-date 2008, our interest income increased $5 million to $11 million. The increase was primarily driven by an increase in average invested cash balances slightly offset by a decrease in average effective interest rates.

**Other Income**

For year-to-date 2008, our other income decreased $94 million to $22 million due to a gain of $100 million related to a distribution from Easton Town Center, LLC and net gains of $17 million from the settlement of interest rate lock agreements in 2007. The other income decrease was partially offset by a $71 million cash distribution from Express which resulted in a pre-tax gain of $13 million in 2008.

**Minority Interest**

For year-to-date 2008, our minority interest decreased $18 million to $4 million. Minority interest represents the proportional share of net income or losses of consolidated, less than wholly-owned subsidiaries attributable to the minority investor. The decrease relates to losses for year-to-date 2007 from both a personal care business and an investment in an independent technology company focused on large multi-channel retailers.

### Provision for Income Taxes

For year-to-date 2008, our effective tax rate increased to 41.2% from 38.4% in 2007. The increase is primarily related to the impact of an impairment of an unconsolidated joint venture in the first quarter of 2008 for which no deferred tax asset has been recorded and other changes in income tax reserves.

## FINANCIAL CONDITION

### Liquidity and Capital Resources

Liquidity, or access to cash, is an important factor in determining our financial stability. We are committed to maintaining adequate liquidity. Cash generated from our operating activities provides the primary resources to support current operations, growth initiatives, seasonal funding requirements and capital expenditures. Our cash provided from operations is impacted by working capital changes and our net income. Our net income is impacted by, among other things, sales volume, seasonal sales patterns, timing of new product introductions and profit margins. Sales are typically higher during the fourth quarter of the fiscal year due to seasonal and holiday-related sales patterns. Generally, our need for working capital peaks during the summer and fall months as inventory builds in anticipation of the holiday period.

In addition, we have funds available from an unsecured revolving credit facility (the “Facility”) as well as a commercial paper program which is backed by the Facility. In July 2008, we renewed our 364-day unsecured revolving credit facility reducing its capacity from $500 million to $300 million. For additional information, see Note 12 to the Consolidated Financial Statements included in Item 1. Financial Statements.

We believe that available short-term and long-term capital resources are sufficient to fund our capital expenditures, working capital requirements, scheduled debt payments, interest payments, income tax obligations, dividends to our shareholders, any contemplated strategic acquisitions and share repurchases.

The following table provides a summary of our working capital position and capitalization as of August 2, 2008, February 2, 2008 and August 4, 2007:

| | August 2, 2008 | February 2, 2008 | August 4, 2007 |
|---|---|---|---|
| | | (in millions) | |
| Working Capital | $ 1,576 | $ 1,545 | $ 1,763 |
| Capitalization: | | | |
| Long-term Debt | 2,901 | 2,905 | 2,908 |
| Shareholders’ Equity | 2,199 | 2,219 | 2,411 |
| Total Capitalization | 5,100 | 5,124 | 5,319 |
| Additional Amounts Available Under Credit Agreements | 1,300 | 1,500 | 1,500 |

### Credit Ratings

The following table provides our credit ratings on unsecured debt as of August 2, 2008:

| | Moody’s | S&P | Fitch |
|---|---|---|---|
| Senior Unsecured Debt | Baa3 | BBB- | BB+ |

Our borrowing costs under our term loan and revolving credit facilities are linked to our credit ratings. In addition, if we receive a downgrade in our credit ratings by any of the agencies listed above, the availability of additional credit could be negatively affected. A downgrade in our ratings by any of the agencies would not accelerate the repayment of any of our debt.

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## Cash Flow

The following table provides a summary of our cash flow activity for year-to-date 2008 and 2007:

| | Year-to-Date 2008 | Year-to-Date 2007 |
|---|---|---|
| | (in millions) | |
| Cash and Cash Equivalents, Beginning of Period | $1,018 | $ 500 |
| Net Cash Flows Provided by (Used for) Operating Activities | 247 | (36) |
| Net Cash Flows (Used for) Provided by Investing Activities | (36) | 322 |
| Net Cash Flows (Used for) Provided by Financing Activities | (249) | 407 |
| Effect of Exchange Rate Changes on Cash | (2) | — |
| Net (Decrease) Increase in Cash and Cash Equivalents | (40) | 693 |
| Cash and Cash Equivalents, End of Period | $ 978 | $1,193 |

### *Operating Activities*

Net cash provided by operating activities in 2008 was $247 million, including net income of $200 million. Net income included depreciation and amortization and the $109 million net gain on divestiture of a joint venture. Other changes in assets and liabilities represent items that had a current period cash flow impact, such as changes in working capital. The most significant items in working capital were decreases in Accounts Payable, Accrued Expenses and Other and Income Taxes Payable.

Net cash used for operating activities in 2007 was $36 million including net income of $317 million. Net income included (a) depreciation and amortization, (b) the $302 million gain on divestiture of Express, (c) the $100 million gain on distribution from Easton Town Center, LLC, and (d) deferred income taxes partially offset by the $72 million loss on divestiture of Limited Stores. Other changes in assets and liabilities represent items that had a current period cash flow impact, such as changes in working capital. Inventory levels decreased $114 million in 2007 due to a concerted effort to control and reduce inventory levels across the enterprise and due to reductions in safety stocks at Bath & Body Works that increased during 2006 in connection with the 2006 supply chain system conversion. Other significant items in working capital were increases in Accounts Receivable and decreases in Accounts Payable, Accrued Expenses and Other.

### *Investing Activities*

Net cash used for investing activities in 2008 was $36 million consisting primarily of $272 million of capital expenditures offset by $144 million from the divestiture of a joint venture and $95 million from returns of capital from Express. The capital expenditures included $211 million for opening new stores and remodeling and improving existing stores. Remaining capital expenditures were primarily related to spending on technology and infrastructure to support growth.

Net cash provided by investing activities in 2007 was $322 million consisting primarily of $548 million of proceeds from the divestiture of Express and $102 million of proceeds from a distribution from Easton Town Center, LLC, partially offset by $400 million of capital expenditures. The capital expenditures included $241 million for opening new stores and remodeling and improving existing stores. Remaining capital expenditures were primarily related to spending on technology and infrastructure to support growth.

### *Financing Activities*

Net cash used for financing activities in 2008 was $249 million consisting primarily of cash payments of $161 million related to the repurchase of shares of common stock under our November 2007 share repurchase program and quarterly dividend payments of $0.15 per share, or $103 million.

Net cash provided by financing activities in 2007 was $407 million consisting primarily of (a) debt offerings proceeds of $997 million (b) term loan financing proceeds of $250 million, partially offset by (a) cash payments of $805 million related to the repurchase of shares of common stock during 2007 under our various share repurchase programs and (b) dividend payments of $120 million.

## Contingent Liabilities and Contractual Obligations

In connection with the disposition of certain businesses, we have remaining guarantees of approximately $215 million related to lease payments of Express, Limited Stores, Abercrombie & Fitch, Tween Brands Inc. (formerly Limited Too and Too, Inc.), Dick's Sporting Goods (formerly Galyan's), Lane Bryant, New York & Company and Anne.x under the current terms of noncancelable leases expiring at various dates through 2017. These guarantees include minimum rent and additional payments covering taxes, common area costs and certain other expenses, and relate to leases that commenced prior to the disposition of the businesses. In certain instances, our guarantee may remain in effect if the term of a lease is extended. We believe the likelihood of material liability being triggered under these guarantees is remote.

In April 2008, the Company received an irrevocable standby letter of credit from Express of $34 million issued by a third-party bank to mitigate a portion of the Company's liability for guaranteed future lease payments of Express. The Company can draw from the irrevocable standby letter of credit if Express were to default on any of the guaranteed leases. The irrevocable standby letter of credit is reduced through the March 31, 2011 expiration date consistent with the overall reduction in guaranteed lease payments. The outstanding balance of the irrevocable standby letter of credit from Express was $33 million as of August 2, 2008.

Our contractual obligations primarily consist of long-term debt and the related interest payments, operating leases, purchase orders for merchandise inventory and other agreements to purchase goods and services that are legally binding and that require minimum quantities to be purchased. These contractual obligations impact our short and long-term liquidity and capital resource needs. There have been no other material changes in our contractual obligations since February 2, 2008, other than those which occur in the normal course of business (primarily changes in our merchandise inventory-related purchase obligations which fluctuate throughout the year as a result of the seasonal nature of our operations).

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

*SFAS 161 "Disclosures about Derivative Instruments and Hedging Activities" ("SFAS 161")*

In March 2008, the FASB issued SFAS 161, which requires disclosures about the fair value of derivative instruments and their gains or losses in tabular format as well as disclosures regarding credit-risk-related contingent features in derivative agreements, counterparty credit risk and strategies and objectives for using derivative instruments. SFAS 161 amends and expands SFAS 133 "Accounting for Derivative Instruments and Hedging Activities" and is effective prospectively beginning in 2009. The Company is currently evaluating the disclosure implications to its financial statements.

*SFAS 141 (revised 2007) "Business Combinations" ("SFAS 141(R)")*

In December 2007, the FASB issued SFAS 141(R), which establishes how the acquiring entity recognizes and measures the assets acquired, liabilities assumed, any gain on bargain purchases and any noncontrolling interest in the acquired entity. SFAS 141(R) requires acquisition-related costs to be expensed in the periods they are incurred, with the exception of the costs to issue debt or equity securities. SFAS 141(R) requires disclosure of information for a business combination that occurs during the accounting period or prior to the issuance of the financial statements for the accounting period. SFAS 141(R) is effective prospectively for business combinations with an acquisition date on or after the beginning of the first annual reporting period after December 15, 2008.

*SFAS 160 "Noncontrolling Interests in Consolidated Financial Statements" ("SFAS 160")*

In December 2007, the FASB issued SFAS 160, which modifies reporting for noncontrolling interest (minority interest) in consolidated financial statements. SFAS 160 requires noncontrolling interest be reported in equity and establishes a new framework for recognizing net income or loss and comprehensive income by the controlling interest. SFAS 160 requires specific disclosures regarding changes in equity interest of both the controlling and noncontrolling parties and presentation of the noncontrolling equity balance and income or loss for all periods presented. SFAS 160 is effective for interim and annual periods in fiscal years beginning after December 15, 2008. The statement is applied prospectively upon adoption, however the presentation and disclosure requirements are applied retrospectively. We are currently evaluating the impact to our financial statements.

*SFAS 157 "Fair Value Measurements" ("SFAS 157")*

In September 2006, the FASB issued SFAS 157, which provides guidance for fair value measurement of assets and liabilities and instruments measured at fair value that are classified in shareholders' equity. The statement defines fair value, establishes a fair value measurement framework and expands fair value disclosures. It emphasizes that fair value is market-based with the highest measurement hierarchy level being market prices in active markets. The standard requires fair value measurements be disclosed by hierarchy level, an entity include its own credit standing in the measurement of its liabilities and modifies the transaction price presumption.

In February 2008, the FASB issued FSP FAS 157-2 "Effective Date of FASB Statement No. 157" which delays the effective date of SFAS 157 to fiscal years beginning after November 15, 2008 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually).

Accordingly, as of February 3, 2008, the Company adopted SFAS 157 for financial assets and liabilities only. As of August 2, 2008, the Company's financial assets and liabilities subject to SFAS 157 consisted of the cross-currency interest rate swaps and the participating interest rate swap. The fair value of these instruments is determined using valuation methodologies that employ Level 2 inputs as defined in SFAS 157. The adoption of SFAS 157 for financial assets and financial liabilities did not have a significant impact on our results of operations, financial condition or liquidity. We plan to adopt SFAS 157 at the beginning of 2009 for items within the scope of FSP FAS 157-2 and are currently evaluating the impact to the financial statements.

## IMPACT OF INFLATION

Our results of operations and financial condition are presented primarily based on a historical cost basis. While it is difficult to accurately measure the impact of inflation due to the imprecise nature of the estimates required, we believe the effects of inflation, if any, on the results of operations and financial condition have been minor.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to adopt accounting policies related to estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period, as well as the related disclosure of contingent assets and liabilities at the date of the financial statements. On an ongoing basis, management evaluates its accounting policies, estimates and judgments, including those related to inventories, long-lived assets, claims and contingencies, income taxes and revenue recognition. Management bases its estimates and judgments on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

There have been no material changes to the critical accounting policies and estimates since February 2, 2008 as disclosed in our 2007 Annual Report on Form 10-K.

## Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The market risk inherent in our financial instruments represents the potential loss in fair value, earnings or cash flows arising from adverse changes in foreign currency exchange rates or interest rates.

There were no material changes in our exposure to market risk since February 2, 2008 as disclosed in our 2007 Annual Report on Form 10-K.

## Item 4. CONTROLS AND PROCEDURES

*Evaluation of disclosure controls and procedures.* As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of the end of the period covered by this report, our disclosure controls and procedures were adequate and effective and designed to ensure that material information required to be disclosed by us in reports we file or submit under the Exchange Act is (1) recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and (2) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

*Changes in internal control over financial reporting.* In April 2008, Mast implemented new supply chain management and finance systems and related processes in the third phase of an enterprise wide systems implementation. Various controls were modified due to the new systems. Additionally, subsequent to implementation, we established additional compensating controls over financial reporting to ensure the accuracy and integrity of our financial statements during the post-implementation phase. We believe that the system and process changes will enhance internal control over financial reporting in future periods. There were no other changes in our internal control over financial reporting that occurred in the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II - OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

We are a defendant in a variety of lawsuits arising in the ordinary course of business. Although it is not possible to predict with certainty the eventual outcome of any litigation, in the opinion of management, our legal proceedings are not expected to have a material adverse effect on our financial position or results of operations.

Item 1A. RISK FACTORS

The risk factors that affect our business and financial results are discussed in "Item 1A: Risk Factors" in the 2007 Annual Report on Form 10-K. We wish to caution the reader that the risk factors discussed in "Item 1A: Risk Factors" in our 2007 Annual Report on Form 10-K, and those described elsewhere in this report or other Securities and Exchange Commission filings, could cause actual results to differ materially from those stated in any forward-looking statements.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table provides our repurchases of our common stock during the second quarter of 2008:

| Period | Total Number of Shares Purchased (a) | Average Price Paid Per Share (b) | Total Number of Shares Purchased as Part of Publicly Announced Programs (c) | Maximum Number of Shares (or Approximate Dollar Value) that May Yet be Purchased Under the Programs (c) |
|---|---|---|---|---|
| | (in thousands) | | (in thousands) | |
| May 2008 | 1,488 | $ 18.71 | 1,462 | $ — |
| June 2008 | 1 | 17.65 | — | — |
| July 2008 | 1 | 16.36 | — | — |
| Total | 1,490 | 18.70 | 1,462 | — |

(a) The total number of shares repurchased primarily includes shares repurchased as part of publicly announced programs, with the remainder relating to shares repurchased in connection with (i) tax payments due upon vesting of employee restricted stock awards, (ii) the use of our stock to pay the exercise price on employee stock options, and (iii) the Company's small shareholder repurchase program.

(b) The average price paid per share includes any broker commissions.

(c) For additional share repurchase program information, see Note 2 to the Consolidated Financial Statements included in Item 1. Financial Statements.

Item 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

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

Information regarding the Annual Meeting of Stockholders on May 19, 2008 was presented in Form 10-Q for the first quarter of 2008.

Item 5. OTHER INFORMATION

Not applicable.

Item 6. EXHIBITS

| Exhibits | |
|---|---|
| 10 | Material Contracts |
| 10.1 | Amendment to Employment Agreement dated as of April 9, 2007 among Limited Brands, Inc., and Stuart Burgdoerfer.* |
| 10.2 | Amendment to Employment Agreement dated as of October 18, 2006 among Limited Brands, Inc., and Diane Neal.* |
| 15 | Letter re: Unaudited Interim Financial Information re: Incorporation of Report of Independent Registered Public Accounting Firm. |
| 31.1 | Section 302 Certification of CEO. |
| 31.2 | Section 302 Certification of CFO. |
| 32 | Section 906 Certification (by CEO and CFO). |

* Identifies management contract or compensatory plans or arrangements.

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.

LIMITED BRANDS, INC.
(Registrant)

By: /s/ STUART B. BURGDOERFER
Stuart B. Burgdoerfer
Executive Vice President and Chief Financial Officer *

Date: September 5, 2008

* Mr. Burgdoerfer is the principal financial officer and the principal accounting officer and has been duly authorized to sign on behalf of the Registrant.

**EXHIBIT 10.1**

EMPLOYMENT AGREEMENT AMENDMENT

This Amendment to the Employment Agreement effective September 5, 2008 (as herein after defined) is entered into between Limited Brands, Inc. (the "Company") and Stuart Burgdoerfer (the "Executive") and shall for all purposes constitute and be deemed an amendment to the Employment Agreement entered into as of April 9, 2007, by and between the Company, and the Executive. The Employment Agreement, as modified by this Amendment, shall govern the terms and conditions of Executive's employment relationship with the Company.

WHEREAS, nothing in this Amendment shall cancel or modify any previous grant of stock options or restrictive stock which was previously granted to the Executive or any rights to repurchase shares represented by such grants;

WHEREAS, the Executive and the Company desire to cause the Employment Agreement to be amended as provided herein; and

NOW, THEREFORE, in consideration of the foregoing and the respective agreements of the parties contained herein, the parties agree to amend the Executive's Employment Agreement as follows:

1. Section 1 is amended in its entirety as follows:

Term. The initial term of employment under this Amendment shall be for a period commencing on September 5, 2008 (the "Commencement Date") and ending on the sixth anniversary of the Commencement Date (the "Initial Term"); provided however, that thereafter the Employment Agreement as amended by the Amendment shall be automatically renewed from year to 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 the Employment Agreement as amended shall not be so renewed.

2. Section (3) is amended in its entirety as follows:

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 Seven Hundred Twenty-five Thousand Dollars ($725,000), less applicable withholding. 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.

3. Section (4) is amended in its entirety as follows:

Equity Compensation. Pursuant both to the Company's Stock Option and Performance Incentive Plan and to such terms and conditions as set forth in any stock grant, the Executive shall also be eligible for such other additional equity-based awards as may be commensurate with his position and performance as determined by the Compensation Committee.

4. Section (6) is amended in its entirety as follows:

Bonus.

The Executive shall be entitled to participate in the Company's incentive compensation plan at a target level of one hundred percent (100%) of the Executive's base salary, on such terms and conditions as determined from time to time by the Compensation Committee.

5. Section 9 (d) is amended in part as follows:

(d) Executive agrees that as part of the consideration for the Special Grant that if he decides to resign his employment with the Company to provide the Company with three (3) months prior written notice.

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.

LIMITED BRANDS, INC.

By: /s/ MARTYN REDGRAVE
Name: Martyn Redgrave
Title: Chief Administrative Officer

/s/ STUART BURGDOERFER
Stuart Burgdoerfer

**EXHIBIT 10.2**

EMPLOYMENT AGREEMENT AMENDMENT

This Amendment to the Employment Agreement effective September 5, 2008 (as herein after defined) is entered into between Bath & Body Works Brand Management, Inc. (the “Company”) and Diane Neal (the “Executive”) and shall for all purposes constitute and be deemed an amendment to the Employment Agreement entered into as of October 18, 2006, by and between Limited Brands, Inc., Bath & Body Works Brand Management, Inc. and the Executive. The Employment Agreement, as modified by this Amendment, shall govern the terms and conditions of Executive’s employment relationship with the Company.

WHEREAS, nothing in this Amendment shall cancel or modify any previous grant of stock options or restrictive stock which was previously granted to the Executive or any rights to repurchase shares represented by such grants;

WHEREAS, the Executive and the Company desire to cause the Employment Agreement to be amended as provided herein; and

NOW, THEREFORE, in consideration of the foregoing and the respective agreements of the parties contained herein, the parties agree to amend the Executive’s Employment Agreement as follows:

1. Section 1 is amended in its entirety as follows:

Term. The initial term of employment under this Amendment shall be for a period commencing on September 5, 2008 (the “Commencement Date”) and ending on the sixth anniversary of the Commencement Date (the “Initial Term”); provided however, that thereafter the Employment Agreement as amended by the Amendment shall be automatically renewed from year to 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 the Employment Agreement as amended shall not be so renewed.

2. Section 2 (a) is amended in its entirety as follows:

(a) Position. The Executive shall be employed as the Chief Executive Officer of Bath & Body Works, Inc. or such other position of reasonably comparable or greater status and responsibilities, as may be determined by the Board of Directors. 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.

3. Section (3) is amended in its entirety as follows:

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 Nine Hundred Twenty-seven Thousand Dollars ($927,000.00), less applicable withholding. 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. Section (4) is amended in its entirety as follows:

Equity Compensation. Pursuant both to the Company's Stock Option and Performance Incentive Plan and to such terms and conditions as set forth in any stock grant, the Executive shall also be eligible for such other additional equity-based awards as may be commensurate with her position and performance as determined by the Compensation Committee.

5. Section 6 (a) is amended in its entirety as follows:

Bonus.

The Executive shall be entitled to participate in the Company's incentive compensation plan at a target level of one hundred and ten percent (110%) of the Executive's base salary, on such terms and conditions as determined from time to time by the Compensation Committee.

6. Section 9 (d) is amended in part as follows:

(d) Executive agrees that if she decides to resign her employment with the Company to provide the Company with three (3) months prior written notice.

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.

LIMITED BRANDS, INC.

By: /s/ LESLIE H. WEXNER
Name: Leslie H. Wexner
Title: Chairman of the Board

/s/ DIANE NEAL
Diane Neal

**EXHIBIT 15**

September 5, 2008

To the Board of Directors and Shareholders of Limited Brands, Inc.:

We are aware of the incorporation by reference in the following Registration Statements:

Registration Statement (Form S-3 ASR No. 333-146420)
Registration Statement (Form S-8 No. 33-49871)
Registration Statement (Form S-8 No. 333-110465)
Registration Statement (Form S-8 No. 333-04927)
Registration Statement (Form S-8 No. 333-04941)
Registration Statement (Form S-8 No. 333-118407);

of Limited Brands, Inc. of our report dated September 5, 2008 relating to the unaudited consolidated interim financial statements of Limited Brands, Inc. and its subsidiaries that are included in its Form 10-Q for the quarter ended August 2, 2008.

/s/ Ernst & Young LLP

Columbus, Ohio

**EXHIBIT 31.1**

Section 302 Certification

I, Leslie H. Wexner, certify that:

1. I have reviewed this report on Form 10-Q of Limited Brands, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

/s/ LESLIE H. WEXNER

Leslie H. Wexner
Chairman and Chief Executive Officer

Date: September 5, 2008

**EXHIBIT 31.2**

Section 302 Certification

I, Stuart B. Burgdoerfer, certify that:

1. I have reviewed this report on Form 10-Q of Limited Brands, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ STUART B. BURGDOERFER

Stuart B. Burgdoerfer
Executive Vice President and
Chief Financial Officer

Date: September 5, 2008

**EXHIBIT 32**

Section 906 Certification

Leslie H. Wexner, the Chairman and Chief Executive Officer, and Stuart B. Burgdoerfer, the Executive Vice President and Chief Financial Officer, of Limited Brands, Inc. (the "Company"), each certifies that, to the best of his knowledge:

(i) the Quarterly Report of the Company on Form 10-Q dated September 5, 2008 for the period ending August 2, 2008 (the "Form 10-Q"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(ii) the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ LESLIE H. WEXNER
Leslie H. Wexner
Chairman and Chief Executive Officer

/s/ STUART B. BURGDOERFER
Stuart B. Burgdoerfer
Executive Vice President and Chief Financial Officer

Date: September 5, 2008