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# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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## FORM 10-Q

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

For the quarterly period ended May 3, 2003

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

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# LIMITED BRANDS, INC.

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**31-1029810**

(I.R.S. Employer  
Identification No.)

**Three Limited Parkway,  
P.O. Box 16000, Columbus, Ohio**  
(Address of principal executive offices)

**43216**  
(Zip Code)

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

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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 an accelerated filer (as defined in Exchange Act Rule 12b-2). 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**

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**Outstanding at May 30, 2003**

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521,425,725 Shares

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

The Company cautions that any forward-looking statements (as such term is defined in the Private Securities Litigation Reform Act of 1995) contained in this Quarterly Report on Form 10-Q (“Report”) or otherwise made by the Company or management of the Company involve risks and uncertainties and are subject to change based on various important factors, many of which may be beyond the Company’s control. Accordingly, the Company’s 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,” and similar expressions may identify forward-looking statements. The following factors, among others, in some cases have affected and in the future could affect the Company’s financial performance and actual results and could cause actual results for 2003 and beyond to differ materially from those expressed or implied in any forward-looking statements included in this Report or otherwise made by the Company or management: changes in consumer spending patterns, consumer preferences and overall economic conditions; the potential impact of national and international security concerns on the retail environment, including any possible military action, terrorist attacks or other hostilities; the impact of competition and pricing; changes in weather patterns; political stability; postal rate increases and charges; paper and printing costs; risks associated with the seasonality of the retail industry; risks related to consumer acceptance of the Company’s products and the ability to develop new merchandise; the ability to retain, hire and train key personnel; risks associated with the possible inability of the Company’s manufacturers to deliver products in a timely manner; risks associated with relying on foreign sources of production including the impact in Asia and elsewhere of the recent outbreak of severe acute respiratory syndrome; and risks associated with the possible lack of availability of suitable store locations on appropriate terms. Investors should read Exhibit 99.1 to the Company’s Annual Report on Form 10-K, as well as the Company’s other filings with the Securities and Exchange Commission, for a more detailed discussion of these and other factors. The Company does not undertake to publicly update or revise its forward-looking statements even if experience or future changes make it clear that any projected results expressed or implied therein will not be realized.

## PART I—FINANCIAL INFORMATION

Item 1. *Financial Statements*LIMITED BRANDS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME  
(Thousands except per share amounts)  
(Unaudited)

	Thirteen Weeks Ended	
	May 3, 2003	May 4, 2002
Net sales	\$ 1,842,297	\$ 1,798,707
Costs of goods sold, buying and occupancy	(1,230,234)	(1,177,046)
Gross income	612,063	621,661
General, administrative and store operating expenses	(503,012)	(493,518)
Special item	—	(33,808)
Operating income	109,051	94,335
Interest expense	(26,970)	(9,230)
Interest income	9,234	7,562
Other loss	(8,471)	(476)
Minority interest	—	(6,063)
Gain on investee's stock	79,686	—
Income from continuing operations before income taxes	162,530	86,128
Provision for income taxes	65,000	42,000
Net income from continuing operations	97,530	44,128
Income from discontinued operations, net of tax	—	5,730
Net income	\$ 97,530	\$ 49,858
Income per basic share:		
Continuing operations	\$ 0.19	\$ 0.10
Discontinued operations	—	0.01
Net income per basic share	\$ 0.19	\$ 0.11
Income per diluted share:		
Continuing operations	\$ 0.19	\$ 0.09
Discontinued operations	—	0.01
Net income per diluted share	\$ 0.19	\$ 0.10
Dividends per share	\$ 0.10	\$ 0.075

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

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

	May 3, 2003	February 1, 2003	May 4, 2002
	(Unaudited)		(Unaudited)
<b>ASSETS</b>			
Current assets:			
Cash and equivalents	\$2,243,214	\$2,261,518	\$1,339,913
Accounts receivable	119,598	150,693	77,637
Inventories	955,187	966,436	919,026
Other	227,587	227,680	251,924
Total current assets	3,545,586	3,606,327	2,588,500
Property and equipment, net	1,458,252	1,490,847	1,573,327
Goodwill	1,310,868	1,310,868	1,315,372
Trade names and other intangible assets, net	445,666	447,245	453,606
Other assets	349,711	390,516	460,004
Total assets	<u>\$7,110,083</u>	<u>\$7,245,803</u>	<u>\$6,390,809</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current liabilities:			
Accounts payable	\$ 367,735	\$ 456,274	\$ 318,184
Current portion of long-term debt	—	—	150,000
Accrued expenses	533,230	607,104	595,598
Income taxes	110,701	195,734	52,618
Total current liabilities	1,011,666	1,259,112	1,116,400
Deferred income taxes	118,992	124,862	106,982
Long-term debt, net of current portion	648,106	546,820	248,008
Other long-term liabilities	442,739	455,071	448,799
Shareholders' equity:			
Common stock	261,683	261,548	260,560
Paid-in capital	1,702,117	1,692,662	1,659,330
Retained earnings	2,952,012	2,905,728	2,585,511
	4,915,812	4,859,938	4,505,401
Less: treasury stock, at average cost	(27,232)	—	(34,781)
Total shareholders' equity	<u>4,888,580</u>	<u>4,859,938</u>	<u>4,470,620</u>
Total liabilities and shareholders' equity	<u>\$7,110,083</u>	<u>\$7,245,803</u>	<u>\$6,390,809</u>

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

**LIMITED BRANDS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Thousands)**  
**(Unaudited)**

	Thirteen Weeks Ended	
	May 3, 2003	May 4, 2002
<b>Operating activities:</b>		
Net income	\$ 97,530	\$ 49,858
Adjustments to reconcile net income to net cash used for operating activities:		
Depreciation and amortization	68,642	69,670
Gain on sale of investee's stock	(79,686)	—
Special item	—	33,808
Debt extinguishment costs	5,594	—
Amortization of deferred compensation	8,013	5,649
Deferred income taxes	(5,430)	6,000
Loss on sale of joint ventures	6,921	—
Minority interest, net of dividends paid	—	600
Change in assets and liabilities:		
Accounts receivable	31,095	1,902
Inventories	11,249	47,043
Accounts payable and accrued expenses	(163,386)	(117,482)
Income taxes payable	(85,641)	(217,874)
Other assets and liabilities	640	(6,788)
<b>Net cash used for operating activities</b>	<b>(104,459)</b>	<b>(127,614)</b>
<b>Investing activities:</b>		
Capital expenditures	(63,554)	(55,429)
Proceeds from sale of investee's stock	130,673	—
Proceeds from the sale of joint ventures	8,000	—
Net proceeds (expenditures) related to Easton investment	(1,866)	270
Other investing activities	(10,020)	34,750
<b>Net cash provided by (used for) investing activities</b>	<b>63,233</b>	<b>(20,409)</b>
<b>Financing activities:</b>		
Redemption of debentures	(250,000)	—
Proceeds from issuance of long-term debt	350,000	—
Dividends paid	(52,356)	(32,426)
Repurchase of common stock	(27,232)	—
Proceeds from exercise of stock options and other	2,510	25,583
<b>Net cash provided by (used for) financing activities</b>	<b>22,922</b>	<b>(6,843)</b>
<b>Net decrease in cash and equivalents</b>	<b>(18,304)</b>	<b>(154,866)</b>
Cash and equivalents, beginning of year	2,261,518	1,494,779
<b>Cash and equivalents, end of period</b>	<b>\$2,243,214</b>	<b>\$ 1,339,913</b>

In 2002, non-cash investing and financing activities included the issuance of 88.9 million shares of Limited Brands common stock valued at \$1.6 billion in exchange for all of the outstanding shares of Intimate Brands, Inc. Class A common stock.

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

**LIMITED BRANDS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**1. Basis of Presentation**

Limited Brands, Inc. (the “Company” or “Limited Brands”) sells women’s and men’s apparel, women’s intimate apparel and personal care products under various trade names through its specialty retail stores and direct response (catalog and e-commerce) businesses.

The consolidated financial statements include the accounts of the Company and its subsidiaries including Intimate Brands, Inc. (“IBI” or “Intimate Brands”), an 84% owned subsidiary through March 21, 2002 and wholly-owned thereafter. On March 21, 2002, the Company completed a tax-free tender offer and merger, which resulted in the acquisition of the IBI minority interest (“IBI recombination”). The operating results of Lerner New York (“Lerner”) are reflected as discontinued operations for all periods presented through November 27, 2002 when it was sold to a third party (see Note 4). All significant intercompany balances and transactions have been eliminated in consolidation.

Investments in unconsolidated entities over which the Company exercises significant influence but does not have control are accounted for using the equity method. The Company’s share of the net income or loss of unconsolidated entities from which the Company purchases merchandise or merchandise components is included in cost of goods sold. The Company’s share of the net income or loss of all other unconsolidated entities is included in other loss which amounted to \$1.8 million and \$1.0 million for the thirteen weeks ended May 3, 2003 and May 4, 2002, respectively.

In the first quarter of 2003, Mast Industries, Inc., a subsidiary of the Company, sold its interest in certain joint ventures for \$8.0 million in cash and \$5.1 million in preferred notes (net of a \$1.9 million fair value discount) resulting in a loss of \$6.9 million which is included in other loss.

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

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.

The consolidated financial statements as of and for the thirteen week period ended May 3, 2003 and May 4, 2002 are unaudited and are presented pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, these consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company’s 2002 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 statement of the results for the interim periods, but are not necessarily indicative of the results of operations for a full fiscal year.

The consolidated financial statements as of and for the thirteen week period ended May 3, 2003 included herein have been reviewed by the independent public accounting firm of Ernst & Young LLP and the report of such firm follows the Notes to Consolidated Financial Statements. Ernst & Young LLP is not subject to the liability provisions of Section 11 of the Securities Act of 1933 for its report on the consolidated financial statements because that report is not a report within the meaning of Sections 7 and 11 of that Act.

**2. Stock-Based Compensation**

The Company reports stock-based compensation through the disclosure-only requirements of Statement of Financial Accounting Standards (“SFAS”) No. 123, “Accounting for Stock-Based Compensation,” as amended by SFAS No. 148, “Accounting for Stock-Based Compensation-Transition and Disclosure-an

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Amendment to FASB No. 123,” but elects to measure compensation expense using the intrinsic value method in accordance with Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees” (“APB No. 25”). Under APB No. 25, because the exercise price of the Company’s employee stock options is generally equal to the market price of the underlying stock on the date of grant, no compensation expense is recognized.

SFAS No. 123 establishes an alternative method of expense recognition for stock-based compensation awards based on fair values. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123:

	Thirteen Weeks Ended	
	May 3, 2003	May 4, 2002
(millions except per share amounts)		
Net income, as reported	\$ 97,530	\$ 49,858
Add: Stock compensation cost recorded, net of tax	5,000	29,535
Deduct: Stock compensation cost calculated under SFAS No. 123, net of tax	(10,013)	(11,879)
Pro forma net income	\$ 92,517	\$ 67,514
Earnings per basic share, as reported	\$ 0.19	\$ 0.11
Earnings per basic share, pro forma	\$ 0.18	\$ 0.14
Earnings per diluted share, as reported	\$ 0.19	\$ 0.10
Earnings per diluted share, pro forma	\$ 0.18	\$ 0.14

The above stock compensation cost recorded by the Company in 2002 and 2003 primarily relates to compensation expense resulting from the exchange of both vested and unvested IBI stock awards in connection with the IBI recombination. Stock compensation expense related to the IBI recombination was recognized in accordance with Emerging Issues Task Force (“EITF”) 00-23, “Issues Related to the Accounting for Stock Compensation under APB Opinion No. 25 and FASB Interpretation No. 44.”

The weighted average per share fair value of options granted by the Company (\$3.53 during 2003 and \$5.31 during 2002) was used to calculate the pro forma compensation expense under SFAS No. 123. The fair value was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions for 2003 and 2002: dividend yields of 3.3% and 2.8%; volatility of 42% and 42%; risk-free interest rates of 2.4% and 3.0%; and expected lives of 4.2 years and 4.4 years.

### 3. Shareholders’ Equity and Earnings Per Share

At May 3, 2003, one billion shares of \$0.50 par value common stock were authorized, 523.6 million were issued and 521.4 million were outstanding. At February 1, 2003, 523.5 million shares were issued and outstanding and at May 4, 2002, 521.1 million shares were issued and 519.5 million shares were outstanding. Ten million shares of \$1.00 par value preferred stock were authorized, none of which were issued.

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



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Weighted average common shares outstanding (thousands):

	Thirteen Weeks Ended	
	May 3, 2003	May 4, 2002
Common shares issued	523,588	476,655
Treasury shares	(834)	(2,469)
Basic shares	522,754	474,186
Dilutive effect of stock options and restricted shares	4,278	12,939
Diluted shares	527,032	487,125

The quarterly computation of earnings per diluted share excludes options to purchase 25.3 million and 6.1 million shares of common stock at May 3, 2003 and May 4, 2002 because the options' exercise prices were greater than the average market price of the common shares during the period.

#### **4. Discontinued Operations**

In the fourth quarter of 2002, the Company sold one of its apparel businesses, Lerner New York, to an investor group led by the business unit's President and Chief Executive Officer and affiliates of Bear Stearns Merchant Banking. Under the terms of the agreement, the Company received \$79 million in cash, a \$75 million subordinated note and warrants for approximately 15% of the common equity of the new company. A \$26 million fair value discount was recorded on the subordinated note, which will be accreted to income over the term of the note. The subordinated note bears interest at 10% to be accrued and added to the principal balance of the note. The subordinated note and related accrued interest are due on November 26, 2009. During the first quarter of 2003, the Company received approximately \$38 million in additional cash consideration based on Lerner's net working capital at closing.

The transaction resulted in an after-tax loss of approximately \$4 million in the fourth quarter of 2002, which reflects transaction costs and a \$12 million lease guarantee liability. The Company's financial statements reflect Lerner's operating results (including the transaction loss) as a discontinued operation for all periods presented in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets".

The Company will continue to provide certain corporate services to Lerner under a service agreement.

#### **5. Special Item**

In connection with the IBI recombination, vested IBI stock options and restricted stock were exchanged for Limited Brands stock awards with substantially similar terms. In accordance with EITF No. 00-23, "Issues Related to the Accounting for Stock Compensation under APB Opinion No. 25 and FASB Interpretation No. 44," the exchange was accounted for as a modification of a stock-based compensation arrangement. As a result, the Company recorded a pretax, non-cash special charge of \$33.8 million in the first quarter of 2002.

#### **6. Gain on Investee's Stock**

During the first quarter of 2003, the Company recognized a pretax gain of \$79.7 million resulting from the sale of approximately one-half of its ownership in Alliance Data Systems Corp. ("ADS") in a secondary offering. ADS is a provider of electronic transaction services, credit services and loyalty and database marketing services. Prior to the sale, the Company's ownership interest in ADS was approximately 20%. As of May 3, 2003, the Company owns approximately 7.7 million shares of ADS common stock, representing approximately a 10% ownership interest. The Company will continue to account for its investment in ADS using the equity method as the Company has the right to nominate two Company designees for election to

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ADS's Board of Directors and the Company continues to be a significant shareholder and the largest client of ADS.

### 7. Goodwill and Other Intangible Assets

The Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets" in the first quarter of 2002. Under SFAS 142, goodwill and intangible assets deemed to have indefinite lives are no longer amortized, but must be tested for impairment annually (or in interim periods if events indicate possible impairment). Other intangible assets will continue to be amortized over their useful lives.

Intangible assets, not subject to amortization, represent trade names that were recorded in connection with the IBI recombination and were \$411.0 million as of May 3, 2003, February 1, 2003 and May 4, 2002.

Intellectual property assets and other intangibles, subject to amortization, were as follows (in thousands):

	May 3, 2003	February 1, 2003	May 4, 2002
Gross carrying amount	\$ 54,300	\$ 54,300	\$ 54,300
Accumulated amortization	(19,634)	(18,055)	(11,694)
Intellectual property assets and other intangibles, net	\$ 34,666	\$ 36,245	\$ 42,606

The estimated annual amortization expense for intangibles each year through 2006 is approximately \$8.0 million.

There were no changes in the carrying amount of goodwill for the thirteen weeks ended May 3, 2003.

### 8. Inventories

The fiscal year of the Company and its subsidiaries is comprised of two principal selling seasons: spring (the first and second quarters) and fall (the third and fourth quarters). Inventories are principally valued at the lower of average cost or market, on a weighted average cost basis, using the retail method. Inventory valuation at the end of the first and third quarters reflects adjustments for estimated inventory markdowns for the total selling season.

### 9. Property and Equipment, Net

Property and equipment, net consisted of (thousands):

	May 3, 2003	February 1, 2003	May 4, 2002
Property and equipment, at cost	\$ 3,651,423	\$ 3,630,426	\$ 3,846,372
Accumulated depreciation and amortization	(2,193,171)	(2,139,579)	(2,273,045)
Property and equipment, net	\$ 1,458,252	\$ 1,490,847	\$ 1,573,327

### 10. Income Taxes

The provision for income taxes is based on the current estimate of the annual effective tax rate and, for the thirteen weeks ended May 3, 2003 and May 4, 2002, also reflects the nondeductible expense related to the exchange of vested IBI incentive stock options. Income taxes paid during the thirteen weeks ended May 3, 2003 and May 4, 2002 approximated \$155.3 million and \$269.6 million. Income taxes payable included net current deferred tax liabilities of \$56.4 million at May 3, 2003, \$55.7 million at February 1, 2003 and \$20.0 million at May 4, 2002.

The Company's effective tax rate has historically reflected and continues to reflect a provision related to the undistributed earnings of foreign affiliates. The Internal Revenue Service (IRS) has assessed the Company

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for additional taxes and interest for the years 1992 to 1998 relating to the undistributed earnings of foreign affiliates. On September 7, 1999, the United States Tax Court sustained the position of the IRS with respect to the 1992 year. In connection with an appeal of the Tax Court judgment, in 1999 the Company made a \$112 million payment of taxes and interest for the years 1992 to 1998 that reduced deferred tax liabilities.

On March 29, 2002, the U.S. Court of Appeals for the Sixth Circuit ruled in favor of the Company, reversing the previous Tax Court judgment relating to the 1992 year. This ruling will also apply to years 1993 and 1994. However, the amount of any payment the Company may receive related to the 1992 through 1994 years has not been finalized and the Company is pursuing additional actions to obtain any refunds related to the 1995 through 1998 years.

### 11. Long-Term Debt

Unsecured long-term debt consisted of (thousands):

	May 3, 2003	February 1, 2003	May 4, 2002
6 1/8% \$300 million Notes due December 2012, less unamortized discount	\$ 298,772	\$ 298,740	\$ —
6.95% \$350 million Debentures due March 2033, less unamortized discount	349,334	—	—
7 1/2% \$250 million Debentures due March 2023, less unamortized discount	—	248,080	248,008
7 4/5% Notes due May 15, 2002	—	—	150,000
	<u>648,106</u>	<u>546,820</u>	<u>398,008</u>
Less: current portion of long-term debt	—	—	150,000
	<u>\$ 648,106</u>	<u>\$ 546,820</u>	<u>\$ 248,008</u>

On February 13, 2003, the Company issued \$350 million of 6.95% debentures due March 1, 2033 under a 144A private placement. In connection with a registration statement filed with the Securities and Exchange Commission (“SEC”), the Company exchanged \$349.5 million of the privately held securities for \$349.5 million of securities registered with the SEC with identical terms through a non-taxable exchange offer. The \$0.5 million of securities that were not exchanged remain outstanding as privately held securities.

On March 28, 2003, the Company redeemed its 7 ½% debentures due 2023 at a redemption price equal to 103.16% of the principal amount, plus accrued interest through the call date. The early redemption of these securities resulted in a pretax charge of \$13.4 million, comprised of the call premium and the write-off of unamortized deferred financing fees and discounts. This charge was included in interest expense in the Consolidated Statements of Income for the thirteen weeks ended May 3, 2003.

The Company currently has a \$1.25 billion unsecured revolving credit facility (the “Facility”). The Facility is comprised of a \$500 million 364-day agreement and a \$750 million 5-year agreement. Borrowings outstanding under the Facility, if any, are due June 27, 2003 and July 13, 2006, respectively. The Facility has several borrowing and interest rate options. Fees payable under the Facility are based on the Company’s long-term credit ratings, and are currently 0.1% (for the 364-day agreement) and 0.125% (for the 5-year agreement) of the committed amount per year.

The Facility requires the Company to maintain certain specified fixed charge and debt to capital ratios. The Company was in compliance with these requirements at May 3, 2003.

The Facility supports the Company’s commercial paper and letter of credit programs, which are used from time to time to fund working capital and other general corporate requirements. The Company did not issue

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commercial paper or draw on the Facility during the first quarter of 2003. In addition, no commercial paper or amounts under the Facility were outstanding at May 3, 2003.

Interest paid during the thirteen weeks ended May 3, 2003 and May 4, 2002 was \$25.0 million and \$11.0 million, respectively.

### **12. Guarantees**

In connection with the disposition of certain subsidiaries, the Company has remaining guarantees of approximately \$534 million related to lease payments of Abercrombie & Fitch, Limited Too, Galyan's, Lane Bryant and Lerner under noncancelable leases expiring at various dates through 2014. These guarantees include minimum rent and additional payments covering taxes, common area costs and certain other expenses and relate only to leases that commenced prior to the disposition of the subsidiaries. The Company does not intend and is not required to renew its guarantees at the expiration of these leases. The Company believes the likelihood of material liability being triggered under these guarantees is remote.

In conjunction with the sale of Lerner, the Company recognized a liability of \$12 million representing the estimated fair value of the Company's obligation as guarantor in accordance with the provisions of SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections" effective for guarantees issued after May 15, 2002.

Also, in connection with the Company's investment in Easton Town Center, LLC ("ETC"), the Company has guaranteed \$25 million of ETC's \$210 million secured bank loan. Additionally, the Company has issued a \$30 million standby letter of credit, on which the City of Columbus, Ohio (the "City") can draw solely to pay principal and interest on public bonds issued by the City for infrastructure development at Easton. The Company does not currently anticipate that the City will be required to draw funds under the letter of credit.

### **13. Segment Information**

The Victoria's Secret segment derives its revenues from sales of women's intimate and other apparel, personal care products and accessories marketed under the Victoria's Secret brand name. Victoria's Secret merchandise is sold through its stores and direct response (catalog and e-commerce) businesses. The Bath & Body Works segment derives its revenues from the sale of personal care products and accessories and home fragrance products marketed under the Bath & Body Works and White Barn Candle Company brand names. The Apparel segment derives its revenues from sales of women's and men's apparel through Express and Limited Stores.

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Segment information as of and for the thirteen weeks ended May 3, 2003 and May 4, 2002 follows (in thousands):

2003	Victoria's Secret	Bath & Body Works	Apparel	Other(a)	Reconciling Items	Total
Net sales	\$ 791,260	\$ 321,354	\$ 615,613	\$ 360,592	\$ (246,522)(b)	\$ 1,842,297
Operating income (loss)	110,943	16,482	14,470	(32,844)	—	109,051
Total assets	2,036,379	1,456,895	657,357	2,959,452	—	7,110,083

  

2002	Victoria's Secret	Bath & Body Works	Apparel	Other(a)	Reconciling Items	Total
Net sales	\$ 762,042	\$ 320,277	\$ 637,969	\$ 321,380	\$ (242,961)(b)	\$ 1,798,707
Operating income (loss)	100,464	27,657	34,392	(34,370)	(33,808)(c)	94,335
Total assets	1,929,529	1,506,432	636,208	2,318,640	—	6,390,809

- (a) Includes Corporate (including non-core real estate and equity investments), Mast and Henri Bendel. In 2002, total assets include Lerner.
- (b) Represents the elimination of Mast sales to Victoria's Secret, Bath & Body Works and Apparel segments.
- (c) Represents a non-cash charge for the exchange of vested stock awards related to the IBI recombination.

### 14. Recently Issued Accounting Pronouncements

In November 2002, the EITF reached a consensus on two issues in EITF Issue No. 02-16 ("EITF 02-16"), "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor". The first issue addresses the income statement classification of cash consideration received from a vendor. The second issue addresses the measurement and timing of recognition of cash rebates or refunds that are payable only if the customer completes a specified cumulative level of purchases or remains a customer for a specified time period. The consensus on the first issue is effective for fiscal periods beginning after December 15, 2002 and may be applied either retroactively or through a cumulative effect adjustment. The consensus on the second issue is effective for arrangements entered into after November 21, 2002. The Company has adopted EITF 02-16, which did not have a material impact on its results of operations or its financial position.

In January 2003, the FASB issued Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities." This interpretation of Accounting Research Bulletin No. 51, "Consolidated Financial Instruments," establishes standards for determining under what circumstances a variable interest entity should be consolidated with its primary beneficiary. FIN 46 applies immediately to variable interest entities created after January 31, 2003. For variable interest entities acquired before February 1, 2003, this interpretation is effective in the third quarter of 2003. The Company is currently evaluating the effect of adopting FIN 46 on its results of operations, financial position and cash flows.

**15. Subsequent Event**

On May 22, 2003, the Company filed a shelf registration statement that became effective on June 6, 2003, under which up to \$500 million of debt securities, common and preferred stock, and other securities may be issued.

## Independent Accountants' Review Report

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

We have reviewed the accompanying consolidated balance sheet of Limited Brands, Inc. and its subsidiaries (the "Company") as of May 3, 2003, and the related consolidated statement of income and cash flows for the thirteen-week period then ended. These consolidated financial statements are the responsibility of the Company's management. The consolidated balance sheet of the Company as of May 4, 2002, and the related consolidated statement of income and cash flows for the thirteen-week period then ended were reviewed by other accountants whose report dated May 20, 2002 stated that they were not aware of any material modifications that should be made to those statements for them to be in conformity with accounting principles generally accepted in the United States.

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

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated financial statements at May 3, 2003, and for the thirteen week period then ended for them to be in conformity with accounting principles generally accepted in the United States.

The consolidated balance sheet of Limited Brands, Inc. as of February 1, 2003, and the related consolidated statements of income, shareholders' equity, and cash flows for the year then ended (not presented herein) were audited by other accountants, and in their report dated February 27, 2003, they expressed an unqualified opinion on those consolidated financial statements. Based on our review and reliance upon the report of other auditors, the accompanying consolidated balance sheet as of February 1, 2003, 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

May 19, 2003

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**Item 2. Management's Discussion and Analysis of Results of Operations and Financial Condition**

**Results of Operations**

Net sales for the first quarter of 2003 increased 2% to \$1.842 billion from \$1.799 billion for the first quarter of 2002. Comparable store sales decreased 1% for the quarter. Operating income increased to \$109.1 million from \$94.3 million in 2002. Net income increased to \$97.5 million from \$49.9 million in 2002, and earnings per share increased to \$0.19 from \$0.10 in 2002.

There were a number of items that impact the comparability of the Company's reported results. See "Note 1 to the Consolidated Financial Statements (Unaudited)," the "Special Item," "Gain on Investee's Stock" and "Adjusted Data" sections for a discussion of these items and the impact on 2003 and 2002 earnings.

*Financial Summary*

The following summarized financial and statistical data compares reported results for the thirteen week periods ended May 3, 2003 and May 4, 2002:

	First Quarter		
	2003	2002	Change
<i>(millions)</i>			
<b>Net Sales:</b>			
Victoria's Secret Stores	\$ 562	\$ 536	5%
Victoria's Secret Direct	229	226	2%
Total Victoria's Secret	\$ 791	\$ 762	4%
Bath & Body Works	\$ 321	\$ 320	0%
Express	\$ 473	\$ 482	(2)%
Limited Stores	143	156	(8)%
Total apparel businesses	\$ 616	\$ 638	(4)%
Other(a)	114	79	44%
Total net sales	\$ 1,842	\$ 1,799	2%
<b>Segment Operating Income (Loss):</b>			
Victoria's Secret	\$ 111	\$ 100	11%
Bath & Body Works	17	28	(39)%
Apparel	14	34	(59)%
Other(a)	(33)	(34)	(3)%
Sub-total	109	128	(15)%
Special item(b)	—	(34)	N/M
Total operating income	\$ 109	\$ 94	16%

N/M—not meaningful

(a) Includes Corporate, Mast third party sales and Henri Bendel.

(b) Represents a non-cash charge for the exchange of vested stock awards related to the IBI recombination.



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	First Quarter	
	2003	2002
<b>Comparable Store Sales (a):</b>		
Victoria's Secret	1 %	8 %
Bath & Body Works	(2)%	(8)%
Express	(2)%	7 %
Limited Stores	(5)%	10 %
Total apparel businesses	(3)%	8 %
Henri Bendel	(2)%	2 %
Total comparable store sales increase (decrease)	(1)%	4 %

	First Quarter		
	2003	2002	Change
<b>Segment Store Data:</b>			
Retail sales per average selling square foot:			
Victoria's Secret	\$ 121	\$ 120	1 %
Bath & Body Works	\$ 90	\$ 92	(2)%
Apparel	\$ 77	\$ 77	—
Retail sales per average store (thousands):			
Victoria's Secret	\$ 555	\$ 534	4 %
Bath & Body Works	\$ 197	\$ 198	(1)%
Apparel	\$ 448	\$ 436	3 %
Average store size at end of quarter (selling square feet):			
Victoria's Secret	4,603	4,454	3 %
Bath & Body Works	2,182	2,149	2 %
Apparel	5,772	5,612	3 %
Selling square feet at end of quarter (thousands):			
Victoria's Secret	4,654	4,481	4 %
Bath & Body Works	3,557	3,492	2 %
Apparel	7,901	8,160	(3)%

(a) A store is typically included in the calculation of comparable store sales when it has been open 12 months or more and it has not had a change in selling square footage of 20% or more. Additionally, stores of a given brand are excluded if total selling square footage for the brand in the mall changes by 20% or more through the opening or closing of a second store.

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**Number of Stores:**

	First Quarter	
	2003	2002
<b>Victoria's Secret</b>		
Beginning of period	1,014	1,002
Opened	1	6
Closed	(4)	(2)
End of period	<u>1,011</u>	<u>1,006</u>
<b>Bath &amp; Body Works</b>		
Beginning of period	1,639	1,615
Opened	1	15
Closed	(10)	(5)
End of period	<u>1,630</u>	<u>1,625</u>
<b>Apparel</b>		
Beginning of period	1,382	1,474
Opened	—	2
Closed	(13)	(22)
End of period	<u>1,369</u>	<u>1,454</u>

	Number of Stores			Selling Sq. Ft. (thousands)		
	May 3, 2003	May 4, 2002	Change	May 3, 2003	May 4, 2002	Change
Victoria's Secret	1,011	1,006	5	4,654	4,481	173
Bath & Body Works	1,630	1,625	5	3,557	3,492	65
Express Women's	620	667	(47)	3,868	4,221	(353)
Express Men's	350	424	(74)	1,416	1,718	(302)
Express Dual Gender	50	—	50	470	—	470
Total Express	<u>1,020</u>	<u>1,091</u>	<u>(71)</u>	<u>5,754</u>	<u>5,939</u>	<u>(185)</u>
Limited Stores	349	363	(14)	2,147	2,221	(74)
Total apparel	<u>1,369</u>	<u>1,454</u>	<u>(85)</u>	<u>7,901</u>	<u>8,160</u>	<u>(259)</u>
Henri Bendel	1	1	—	35	35	—
Total stores and selling sq. ft.	<u>4,011</u>	<u>4,086</u>	<u>(75)</u>	<u>16,147</u>	<u>16,168</u>	<u>(21)</u>

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### *Net Sales*

Net sales for the first quarter of 2003 increased 2% to \$1.842 billion from \$1.799 billion for the first quarter of 2002. The increase in sales was driven by Victoria's Secret and Mast, partially offset by declines at the apparel businesses.

At Victoria's Secret, net sales for the first quarter of 2003 increased 4% to \$791.3 million from \$762.0 million in 2002. The net sales increase was primarily driven by the net increase in sales associated with new, closed and non-comparable remodeled stores of \$20.0 million and an increase in comparable store sales of 1% or \$5.6 million. Net sales at Victoria's Secret Direct increased 2% or \$3.7 million driven by panty and sleepwear sales.

At Bath & Body Works, net sales of \$321.4 million for the first quarter of 2003 were flat compared to net sales of \$320.3 million for the first quarter of 2002. The net increase in sales associated with new, closed and non-comparable remodeled stores of \$6.7 million was substantially offset by the decline in comparable store sales of 2% or \$5.6 million. The decrease in comparable store sales was primarily driven by a decline in the core bath products line, partially offset by growth in the True Blue Spa product line and the home fragrance and gift set categories.

At the apparel businesses, net sales for the first quarter of 2003 decreased 4% to \$615.6 million from \$638.0 million in 2002. The net sales decline was due to the comparable store sales decrease of 3% or \$15.2 million and the net decrease in sales associated with closed, new and non-comparable remodeled stores of \$7.2 million. Comparable store sales at Express decreased 2% or \$7.8 million driven primarily by the women's business, where declines in sweaters, woven pants and denim were only partially offset by growth in knit pants, tops and dresses. Comparable stores sales at Limited Stores decreased 5% or \$7.4 million due to declines in sweaters, casual pants and accessories, which were partially offset by growth in tops, jackets and wear to work pants.

The net sales increase at Mast was primarily driven by sales to Lerner which became a third party customer upon its disposition in November 2002.

### *Gross Income*

For the first quarter of 2003, the gross income rate (expressed as a percentage of net sales) decreased to 33.2% from 34.6% for the same period in 2002. The gross income rate decline was principally the result of a decline in merchandise margin, driven by declines at Bath & Body Works, Express and Mast. These declines were partially offset by an improvement at Victoria's Secret.

The increase in the gross income rate at Victoria's Secret was driven by Victoria's Secret Direct, resulting from lower markdowns as compared to last year. The decrease in the merchandise margin rate at Bath & Body Works was driven by additional direct mail programs and higher percentage of lower margin giftset sales. The decrease in the merchandise margin rate at Express was driven by higher markdowns to sell through underperforming sweater and denim styles in the women's category. The decrease in the gross income rate at Mast was due in part to a decrease in joint venture income resulting from the sale of certain joint ventures since last year.

### *General, Administrative and Store Operating Expenses*

For the first quarter of 2003, the general, administrative and store operating expense rate (expressed as a percentage of net sales) of 27.3% was about flat compared to 27.4% last year. The slight rate improvement was driven by improved expense leverage on store selling costs and a decrease in home office incentive compensation reflecting a decline in operating results.

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### *Special Item*

In connection with the IBI recombination in March of 2002, vested IBI stock options and restricted stock were exchanged for Limited Brands stock awards with substantially similar terms. In accordance with Emerging Issues Task Force Issue No. 00-23, "Issues Related to the Accounting for Stock Compensation under APB Opinion No. 25 and FASB Interpretation No. 44," the exchange was accounted for as a modification of a stock-based compensation arrangement. As a result, the Company recorded a pretax, non-cash special charge of \$33.8 million in the first quarter of 2002.

### *Operating Income*

The operating income rate in the first quarter of 2003 (expressed as a percentage of net sales) was 5.9% versus 5.2% in 2002. Excluding the special charge of \$33.8 million described above, the operating income rate decreased to 5.9% from 7.1% in 2002. The decrease in the overall operating income rate was due to the decrease in the gross income rate partially offset by the slight decrease in the general, administrative and store operating expense rate.

### *Interest Expense*

	First Quarter	
	2003	2002
Average borrowings (millions)	\$ 815.0	\$ 400.0
Average effective interest rate	6.83%	7.60%

The Company incurred \$27.0 million in interest expense for the first quarter of 2003 compared to \$9.2 million for the same period in 2002. The increase in interest expense was primarily due to costs of \$13 million associated with the retirement of the Company's \$250 million 7 ½% notes due in 2023, which included the payment of a call premium and the write-off of unamortized discounts and fees. An increase in average daily borrowings, partially offset by a decrease in average borrowing rates, also contributed to the increase.

### *Other Non-operating Items*

For the first quarter of 2003, interest income was \$9.2 million compared to \$7.6 million in 2002. The increase was primarily driven by an increase in average invested cash balances, partially offset by a decrease in average effective interest rates.

For the first quarter of 2003, other loss was \$8.5 million compared to \$0.5 million for the first quarter of 2002. The increased loss in 2003 was driven by a \$6.9 million loss on the sale of certain Mast joint ventures.

### *Gain on Investee's Stock*

During the first quarter of 2003, the Company recognized a pretax gain of \$79.7 million resulting from the sale of approximately one-half of its ownership in Alliance Data Systems Corp. ("ADS") in a secondary offering. ADS is a provider of electronic transaction services, credit services and loyalty and database marketing services. Prior to the sale, the Company's ownership interest in ADS was approximately 20%. As of May 3, 2003, the Company owns approximately 7.7 million shares of ADS common stock, representing approximately a 10% ownership interest.

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### *Adjusted Data*

The adjusted income information provides non-GAAP financial measures and gives effect to the significant transactions and events that impact the comparability of the Company's results in 2003 and 2002. The following table adjusts net income for such transactions and events (as described in the following paragraph) to determine the adjusted results, and reconciles the adjusted results to net income reported in accordance with accounting principles generally accepted in the United States of America. Management believes that the adjusted results provide useful information as to the Company's underlying business performance and assessment of ongoing operations.

The gain on investee's stock in 2003 resulted from a transaction that does not relate to the core performance of the Company's business. The IBI recombination and sale of Lerner are transactions that occurred in prior periods and, therefore, affect the comparability of current period results and also do not relate to the core performance of the Company's business.

The adjusted income information should not be construed as an alternative to the reported results determined in accordance with generally accepted accounting principles. Further, the Company's definition of adjusted income information may differ from similarly titled measures used by other companies.

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Reconciliation of Adjusted Income Information (thousands except per share amounts):

	Thirteen Weeks Ended					
	May 3, 2003			May 4, 2002		
	Reported	Adjustments	Adjusted	Reported	Adjustments	Adjusted
Net sales	\$ 1,842,297	—	\$ 1,842,297	\$ 1,798,707	—	\$ 1,798,707
Gross income	612,063	—	612,063	621,661	—	621,661
General, administrative and store operating expenses	(503,012)	—	(503,012)	(493,518)	—	(493,518)
Special item	—	—	—	(33,808)	\$ 33,808	—
Operating income	109,051	—	109,051	94,335	33,808	128,413
Interest expense	(26,970)	—	(26,970)	(9,230)	—	(9,230)
Interest income	9,234	—	9,234	7,562	1,875	9,437
Other loss	(8,471)	—	(8,471)	(476)	—	(476)
Minority interest	—	—	—	(6,063)	6,063	—
Gain on investee's stock	79,686	\$ (79,686)	—	—	—	—
Income from continuing operations before income taxes	162,530	(79,686)	82,844	86,128	41,746	127,874
Income tax expense	65,000	(32,000)	33,000	42,000	9,000	51,000
Net income from continuing operations	97,530	(47,686)	49,844	44,128	32,746	76,874
Income from discontinued operations, net of tax	—	—	—	5,730	(5,730)	—
Net income	\$ 97,530	\$ (47,686)	\$ 49,844	\$ 49,858	\$ 27,016	\$ 76,874
Income per diluted share						
Continuing operations	\$ 0.19		\$ 0.09	\$ 0.09		\$ 0.14
Discontinued operations	—		—	0.01		—
Net income per diluted share	\$ 0.19		\$ 0.09	\$ 0.10		\$ 0.14
Weighted average shares outstanding	527,032		527,032	487,125		534,397

Notes to Reconciliation of Adjusted Income Information:

A) Excluded business:

As a result of its sale on November 27, 2002, Lerner's results have been reflected in discontinued operations and were excluded in determining adjusted results for 2002 (see Note 4 to the Consolidated Financial Statements). In addition, the adjusted results reflect the addition of interest income which would have been earned on the \$75 million note received from Lerner in connection with the sale.

B) Offer and merger:

On March 21, 2002, the Company completed a tender offer and merger that resulted in the acquisition of the IBI minority interest. The adjusted results:

- Eliminate the minority interest in earnings of Intimate Brands, Inc.; and
- Increase total weighted average Class A common stock outstanding, using the exchange rate of 1.1 share of Limited Brands common stock for each share of IBI Class A common stock.

C) Special item (see Note 5 to the Consolidated Financial Statements):

The 2002 adjusted results exclude a \$33.8 million non-cash charge for vested stock awards related to the IBI recombination.

D) Gain on investee's stock (see Note 6 to the Consolidated Financial Statements):

The 2003 adjusted results exclude a \$79.7 million pretax, non-operating gain resulting from the sale of approximately one-half of the Company's investment in Alliance Data Systems Corporation.

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### Financial Condition

#### Liquidity and Capital Resources

Cash provided by operating activities and funds available from commercial paper backed by bank credit agreements provide the resources to support current operations, projected growth, seasonal funding requirements and capital expenditures. Changes in consumer spending patterns, consumer preferences and overall economic conditions could impact the availability of future operating cash flows.

A summary of the Company's working capital position and capitalization follows (millions):

	May 3, 2003	February 1, 2003	May 4, 2002
Working capital	\$ 2,534	\$ 2,347	\$ 1,472
Capitalization:			
Long-term debt	\$ 648	\$ 547	\$ 248
Shareholders' equity	4,889	4,860	4,471
Total capitalization	\$ 5,537	\$ 5,407	\$ 4,719
Additional amounts available under credit agreements	\$ 1,250	\$ 1,250	\$ 1,250

The Company's operations are seasonal in nature, leading to significant fluctuations in certain asset and liability accounts between fiscal year-end and subsequent interim periods. Consequently, the Company believes the most meaningful analysis of operating cash flows is one that compares the current interim period changes to the prior interim period changes.

Net cash used for operating activities was \$104.5 million for the thirteen weeks ended May 3, 2003 versus \$127.6 million used for operating activities for the same period in 2002. The primary change in cash used for operating activities between 2003 and 2002 was a decrease in income tax payments, partially offset by additional net income, including the gain on sale of investee's stock in 2003 and the special item in 2002. The decrease in the cash used for income taxes in 2003 versus the same period in 2002 was due to the timing of payments and taxes paid on the Lane Bryant gain in 2002.

In 2003, investing activities included \$63.6 million in capital expenditures and a \$10.0 million capital contribution to an unconsolidated entity, partially offset by cash inflows of \$130.7 million from the sale of approximately one-half of the Company's investment in ADS and \$8.0 million from the sale of certain Mast joint ventures. Investing activities in 2002 included capital expenditures of \$55.4 million and cash inflows primarily resulting from the collection of a long-term note receivable.

Financing activities in 2003 consisted of the issuance of \$350 million in long-term debt substantially offset by the redemption of \$250 million in debentures, quarterly dividend payments of \$0.10 per share and the repurchase of 2.2 million shares of common stock for \$27.2 million. Financing activities in 2002 included the quarterly dividend payment of \$0.075 per share, substantially offset by proceeds from the exercise of stock options.

On May 22, 2003, the Company filed a shelf registration statement, under which up to \$500 million of debt securities, common and preferred stock, and other securities may be issued.

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### *Capital Expenditures*

Capital expenditures amounted to \$63.6 million for the thirteen weeks ended May 3, 2003 compared to \$55.4 million for the same period in 2002. The Company anticipates capital spending to be \$375 million or less in 2003, the majority of which will be for the remodeling of and improvements to existing stores and for new stores. Remaining capital expenditures are primarily related to information technology and distribution center projects. The Company expects that 2003 capital expenditures will be funded principally by net cash provided by operating activities.

### *Impact of Inflation*

The Company's results of operations and financial condition are presented based on historical cost. While it is difficult to accurately measure the impact of inflation due to the imprecise nature of the estimates required, the Company believes 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 make 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 on-going basis, management evaluates its estimates and judgments, including those related to inventories, long-lived assets, and contingencies. 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. Management believes the following assumptions and estimates are most significant to reporting our results of operations and financial position.

- *Inventories*—Inventories are valued at the lower of average cost or market, on a weighted average cost basis, using the retail method. The Company records a charge to cost of goods sold for all inventory on hand when a permanent retail price reduction is reflected in its stores. In addition, management makes estimates and judgments regarding, among other things, initial markup, markdowns, future demand and market conditions, all of which significantly impact the ending inventory valuation. Inventory valuation at the end of the first and third quarters reflects adjustments for estimated inventory markdowns for the spring (the first and second quarters) and fall (the third and fourth quarters) selling seasons. If actual future demand or market conditions are different than those projected by management, future period merchandise margin rates may be unfavorably or favorably affected. Other significant estimates related to inventory include shrink and obsolete and excess inventory which are also based on historical results and management's operating projections.
- *Valuation of Long-Lived Assets and Goodwill*—Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Trademarks are reviewed for impairment annually by comparing the fair value to the carrying value. Goodwill is reviewed annually for impairment by comparing each reporting unit's carrying value to its fair value. Factors used in the valuation of long-lived assets, trademarks and goodwill include, but are not limited to, management's plans for future operations, brand initiatives, recent operating results and projected cash flows. If future economic conditions are different than those projected by management, additional impairment charges may be required.
- *Claims and Contingencies*—The Company is subject to various claims and contingencies related to lawsuits, income taxes, insurance and other matters arising out of the normal course of business. The Company's determination of the treatment of claims and contingencies in the financial statements is based on management's view of the expected outcome of the applicable claim or contingency. The Company consults with legal counsel on matters related to litigation and seeks input from other experts both within and outside the Company with respect to matters in the ordinary course of business. The Company accrues a liability if the likelihood of an adverse outcome is probable and the amount is estimable. If the likelihood of an adverse outcome is only reasonably possible (as opposed to probable), or if an estimate is not determinable, disclosure of a material claim or contingency is made in the notes to the financial statements.
- *Revenue Recognition*—While the Company's recognition of revenue does not involve significant judgment, revenue recognition represents an important accounting policy of the Company. The Company recognizes revenue upon customer receipt of the merchandise and provides a reserve for projected merchandise returns based on prior experience.

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**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

The market risk of the Company's financial instruments as of May 3, 2003 has not significantly changed since February 1, 2003. Information regarding the Company's financial instruments and market risk as of February 1, 2003 is disclosed in the Company's 2002 Annual Report on Form 10-K.

**Item 4. Controls and Procedures**

- (a) *Explanation of disclosure controls and procedures.* Our chief executive officer and our chief financial officer, after evaluating the effectiveness of the Company's "disclosure controls and procedures" (as defined in Exchange Act Rules 13a-14(c) and 15d-14(c) and including our internal controls for financial reporting) as of a date (the "Evaluation Date") within 90 days of the filing date of this quarterly report, have concluded that as of the Evaluation Date, our disclosure controls and procedures were adequate and effective and designed to ensure that material information relating to us and our consolidated subsidiaries would be made known to them by others within those entities.
- (b) *Changes in internal controls.* There were no significant changes in our internal controls or in other factors that could significantly affect our internal controls subsequent to the Evaluation Date.

## **PART II—OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

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

On January 13, 1999, two lawsuits were filed against the Company, as well as other defendants, including many national retailers. Both lawsuits relate to labor practices allegedly employed on the island of Saipan, Commonwealth of the Northern Mariana Islands, by apparel manufacturers unrelated to the Company (some of which have sold goods to the Company) and seek injunctions, unspecified monetary damages, and other relief. One lawsuit, on behalf of a class of unnamed garment workers, was filed in the United States District Court for the Central District of California, Western Division and subsequently transferred to the United States District Court for the Northern Mariana Islands. It alleged violations of federal statutes, the United States Constitution, and international law. The second lawsuit was filed by a national labor union and other organizations in the Superior Court of the State of California, San Francisco County, and alleges unfair business practices under California law. On April 24, 2003, the United States District Court for the Northern Mariana Islands entered a Final Judgment and Order of Dismissal approving settlement and dismissing the action against the Company with prejudice. On May 29, 2003, the second lawsuit filed, in the Superior Court of the State of California, San Francisco County, was dismissed with prejudice.

In May and June 1999, purported shareholders of the Company filed three derivative actions in the Court of Chancery of the State of Delaware, naming as defendants the members of the Company's board of directors and the Company, as nominal defendant. The actions thereafter were consolidated. The operative complaint generally alleged that the rescission of the Contingent Stock Redemption Agreement previously entered into by the Company with Leslie H. Wexner and The Wexner Children's Trust (the "Contingent Stock Redemption Agreement") constituted a waste of corporate assets and a breach of the board members' fiduciary duties, and that the issuer tender offer completed on June 3, 1999 was a "wasteful transaction in its own right." On February 16, 2000, plaintiffs filed a first amended consolidated derivative complaint (the "amended complaint"), which made allegations similar to the first complaint but added allegations apparently intended to show that certain directors were not disinterested in those decisions. Defendants moved to dismiss the amended complaint on April 14, 2000 and oral argument was heard on March 28, 2001. On March 27, 2002, the Court granted the motion in part and denied the motion in part. On May 10, 2002, the Company's board of directors appointed a special litigation committee composed of directors Donald B. Shackelford and Raymond Zimmerman and granted that committee the authority to investigate the claims asserted in the amended complaint and to determine the Company's response to them. On October 31, 2002, the special litigation committee filed a motion on behalf of the Company to dismiss the action on the basis that pursuit of the claims was not in the best interests of the Company. The individual defendants also filed motions to dismiss on the basis of the Company's motion. Briefs on these motions are to be submitted to the Court.

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

**Item 6. EXHIBITS AND REPORTS ON FORM 8-K**

(a) *Exhibits.*

3. Amended and Restated Bylaws of Limited Brands, Inc.
15. Letter re: Unaudited Interim Financial Information to Securities and Exchange Commission re: Incorporation of Report of Independent Accountants.
- 99.1 Section 906 Certification

(b) *Reports on Form 8-K.*

The Company filed the following reports on Form 8-K during the quarter ended May 3, 2003:

1. Form 8-K dated February 12, 2003: The consolidated financial statements of the Company for the fiscal year ended February 2, 2002 were re-filed to reflect the reclassification of Note 13 to conform with new segment presentation resulting from the IBI recombination.
2. Form 8-K dated February 26, 2003: The Company announced its intention to request proposals for the independent audit of the Company's financial statements for the year ended January 31, 2004.
3. Form 8-K dated April 7, 2003: The Company announced that the Audit Committee of its Board of Directors had appointed Ernst & Young LLP as its independent auditor for the year ending January 31, 2004.
4. Form 8-K/A dated April 22, 2003: This Form 8-K/A amends the Form 8-K, dated February 26, 2003, to reflect the fact that, as anticipated, PricewaterhouseCoopers completed its audit of the Company's February 1, 2003 financial statements in conjunction with the filing on April 18, 2003 of the Company's Annual Report on Form 10-K for the fiscal year ended February 1, 2003. Accordingly, the Company's previously announced change in auditors became effective April 18, 2003.

**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/ V. ANN HAILEY

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

Date: June 16, 2003

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

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I, Leslie H. Wexner, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Limited Brands, Inc.;
2. Based on my knowledge, this quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - (a) designed such disclosure controls and procedures 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 quarterly report is being prepared;
  - (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - (c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ LESLIE H. WEXNER

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**Leslie H. Wexner**  
**Chairman and Chief Executive Officer**

Date: June 16, 2003

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I, V. Ann Hailey, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Limited Brands, Inc.;
2. Based on my knowledge, this quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - (a) designed such disclosure controls and procedures 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 quarterly report is being prepared;
  - (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - (c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ V. ANN HAILEY

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

Date: June 16, 2003

AMENDED AND RESTATED BYLAWS  
OF  
LIMITED BRANDS, INC.

Adopted January 31, 2003

ARTICLE I  
STOCKHOLDERS

Section 1.01. Annual Meeting. The annual meeting of the stockholders of this corporation, for the purpose of electing directors and transacting such other business as may come before the meeting, shall be held on such date, at such time, and at such place as may be designated by the Board of Directors.

Section 1.02. Special Meetings. Special meetings of the stockholders may be called at any time by the chairman of the board, any vice chairman of the board, or in case of the death, absence, or disability of the chairman (and, if elected, a vice chairman of the board), the president, or in case of the president's death, absence, or disability, the vice president, if any, authorized to exercise the authority of the president, or a majority of the Board of Directors acting with or without a meeting; provided, that if and to the extent that any special meeting of stockholders may be called by any other person or persons specified in any provision of the certificate of incorporation or any amendment thereto or any certificate filed under Section 151(g) of the Delaware General Corporation Law (or its successor statute as in effect from time to time), then such special meeting may also be called by such person or persons, in the manner, at the times, and for the purposes so specified.

Section 1.03. Place of Meetings. Meetings of stockholders shall be held at the principal office of the corporation in the State of Ohio, unless the Board of Directors decides that a meeting shall be held at some other place and causes the notice thereof to so state.

Section 1.04. Notices of Meetings. Unless waived, a written, printed, or typewritten notice of each annual or special meeting, stating the date, hour, and place and the purpose or purposes thereof shall be served upon or mailed to each stockholder of record entitled to vote or entitled to notice, not more than 60 days nor less than 10 days before any such meeting. If mailed, such notice shall be directed to a stockholder at his or her address as the same appears on the records of the corporation. If a meeting is adjourned to another time or place and such adjournment is for 30 days or less and no new record date is fixed for the adjourned meeting, no further notice as to such adjourned meeting need be given if the time and place to which it is adjourned are fixed and announced at such meeting. In the event of a transfer of shares after notice has been given and prior to the holding of the meeting, it shall not be necessary to serve notice on the transferee. Such notice shall specify the place where the stockholders list will be open for examination prior to the meeting if required by Section 1.08 hereof.

Section 1.05. Fixing Date for Determination of Stockholders of Record. In order that the corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any other change, conversion, or exchange of stock or for the purpose of any other lawful action, the Board of Directors may fix, in advance, a record date, which shall not be more than 60 nor less than 10 days before the date of such meeting, nor more than 60 days prior to any other action. If the Board shall not fix such a record date, (i) the



record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held, and (ii) in any case involving the determination of stockholders for any purpose other than notice of or voting at a meeting of stockholders, the record date for determining stockholders for such purpose shall be the close of business on the day on which the Board of Directors shall adopt the resolution relating thereto. Determination of stockholders entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of such meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

Section 1.06. Organization. At each meeting of the stockholders, the chairman of the board, or in the chairman's absence, any vice chairman of the board, or in the absence of any vice chairman, the president, or, in the president's absence, any vice president, or, in the absence of the chairman of the board, any vice chairman of the board, the president, and any vice president, a chairman chosen by a majority in interest of the stockholders present in person or by proxy and entitled to vote, shall act as chairman, and the secretary of the corporation, or, if the secretary of the corporation not be present, the assistant secretary, or if the secretary and the assistant secretary not be present, any person whom the chairman of the meeting shall appoint, shall act as secretary of the meeting.

Section 1.07. Quorum. A stockholders' meeting duly called shall not be organized for the transaction of business unless a quorum is present. Except as otherwise expressly provided by law, the certificate of incorporation, these bylaws, or any certificate filed under Section 151 (g) of the Delaware General Corporation Law (or its successor statute as in effect from time to time), (i) at any meeting called by the Board of Directors, the presence in person or by proxy of holders of record entitling them to exercise at least one-third of the voting power of the corporation shall constitute a quorum for such meeting, and (ii) at any meeting called other than by the Board of Directors, the presence in person or by proxy of holders of record entitling them to exercise at least a majority of the voting power of the corporation shall constitute a quorum for such meeting. The stockholders present at a duly organized meeting can continue to do business until adjournment, notwithstanding the withdrawal of enough stockholders to leave less than a quorum. If a meeting cannot be organized because a quorum has not attended, a majority in voting interest of the stockholders present may adjourn, or, in the absence of a decision by the majority, any officer entitled to preside at such meeting may adjourn the meeting from time to time to such time (not more than 30 days after the previously adjourned meeting) and place as they (or such officer) may determine, without notice other than by announcement at the meeting of the time and place of the adjourned meeting. At any such adjourned meeting at which a quorum is present any business may be transacted which might have been transacted at the meeting as originally called.

Section 1.08. List of Stockholders. The secretary of the corporation shall prepare and make a complete list of the stockholders of record as of the applicable record date entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least 10 days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present.

Section 1.09. Order of Business and Procedure. The order of business at all meetings of the stockholders and all matters relating to the manner of conducting the meeting shall be determined by the chairman of the meeting, whose decisions may be overruled only by majority vote of the stockholders present and entitled to vote at the meeting in person or by proxy. Meetings shall be conducted in a manner designed to accomplish the business of the meeting in a prompt and orderly fashion and to be fair and equitable to all stockholders, but it shall not be necessary to follow any manual of parliamentary procedure.

Section 1.10. Voting. (a) Each stockholder shall, at each meeting of the stockholders, be entitled to vote in person or by proxy each share or fractional share of the stock of the corporation having voting rights on the matter in question and which shall have been held by such person and registered in such person's name on the books of the corporation on the date fixed pursuant to Section 1.05 of these bylaws as the record date for the determination of stockholders entitled to notice of and to vote at such meeting.

(b) Shares of its own stock belonging to the corporation or to another corporation, if a majority of the shares entitled to vote in the election of directors in such other corporation is held, directly or indirectly, by the corporation, shall neither be entitled to vote nor be counted for quorum purposes.

(c) Any such voting rights may be exercised by the stockholder entitled thereto or by such person's proxy appointed by an instrument in writing or in any other manner then permitted by law, subscribed by such person or such person's attorney thereunto authorized in any manner then permitted by law and delivered to the secretary of the meeting in sufficient time to permit the necessary examination and tabulation thereof before the vote is taken; provided, however, that no proxy shall be valid after the expiration of three years after its date of execution, unless the stockholder executing it shall have specified therein the length of time it is to continue in force. At any meeting of the stockholders all matters, except as otherwise provided in the certificate of incorporation, in these bylaws, or by law, shall be decided by the vote of a majority in voting interest of the stockholders present in person or by proxy and voting thereon, a quorum being present. The vote at any meeting of the stockholders on any question need not be by ballot, unless so directed by the chairman of the meeting or required by the certificate of incorporation. On a vote by ballot, each ballot shall be signed by the stockholder voting, or by such person's proxy, if there be such proxy, and it shall state the number of shares voted.

Section 1.11. Inspectors. The Board of Directors, in advance of any meeting of the stockholders, may appoint one or more inspectors to act at the meeting. If inspectors are not so appointed, the person presiding at the meeting may appoint one or more inspectors. If any person so appointed fails to appear or act, the vacancy may be filled by appointment made by the Board of Directors in advance of the meeting or at the meeting by the person presiding thereat. Each inspector, before entering upon the discharge of his or her duties, shall take and sign an oath faithfully to execute the duties of inspector at the meeting with strict impartiality and according to the best of such person's ability. The inspectors so appointed shall determine the number of shares outstanding, the shares represented at the meeting, the existence of a quorum and the authenticity, validity, and effect of proxies and shall receive votes, ballots, waivers, releases, or consents, hear and determine all challenges and questions arising in connection with the right to vote, count and tabulate all votes, ballots, waivers, releases, or consents, determine and announce the results, and do such acts as are proper to conduct the election or vote with fairness to all stockholders. On request of the person presiding at the meeting, the inspectors shall make a report in writing of any challenge, question, or matter determined by them and execute a certificate of any

fact found by them. Any report or certificate made by them shall be prima facie evidence of the facts stated and of the vote as certified by them.

## ARTICLE II BOARD OF DIRECTORS

Section 2.01. General Powers of Board. The powers of the corporation shall be exercised, its business and affairs conducted, and its property controlled by the Board of Directors, except as otherwise provided by the law of Delaware or in the certificate of incorporation.

Section 2.02. Number of Directors. The number of directors of the corporation (exclusive of directors to be elected by the holders of any one or more series of Preferred Stock voting separately as a class or classes) shall not be less than 9 nor more than 15, the exact number of directors to be such number as may be set from time to time within the limits set forth above by resolution adopted by affirmative vote of a majority of the whole Board of Directors. As used in these Bylaws, the term "whole Board" means the total number of directors that the corporation would have if there were no vacancies.

Section 2.03. Election of Directors. At each meeting of the stockholders for the election of directors, the persons receiving the greatest number of votes shall be the directors.

Section 2.04. Nominations.

2.04.1. Nominations for the election of directors may be made by the Board of Directors, by its nominating committee, or by any stockholder entitled to vote for the election of directors.

2.04.2. Such nominations, if not made by the Board of Directors or its nominating committee, shall be made by notice in writing, delivered or mailed by first class United States mail, postage prepaid, to the secretary of the corporation not less than 14 days nor more than 50 days prior to any meeting of the stockholders called for the election of directors; provided, however, that if less than 21 days' notice of the meeting is given to stockholders, such written notice shall be delivered or mailed, as prescribed, to the secretary of the corporation not later than the close of the seventh day following the day on which notice of the meeting was mailed to stockholders. Each such notice shall set forth (i) the name, age, business address and, if known, residence address of each nominee proposed in such notice, (ii) the principal occupation or employment of each such nominee, and (iii) the number of shares of stock of the corporation beneficially owned by each such nominee.

2.04.3. Notice of nominations that are proposed by the Board of Directors or its nominating committee shall be given by the chairman of the meeting.

2.04.4. The chairman of the meeting may, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the foregoing procedure, and if the chairman should so determine, the chairman shall so declare to the meeting and the defective nomination shall be disregarded.

Section 2.05. Resignations. Any director of the corporation may resign at any time by giving written notice to the chairman of the board or the secretary of the corporation. Such resignation shall take effect at the time specified therein, and, unless otherwise

specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 2.06. Vacancies. In the event that any vacancy shall occur in the Board of Directors, whether because of death, resignation, removal, newly created directorships resulting from any increase in the authorized number of directors, the failure of the stockholders to elect the whole authorized number of directors, or any other reason, such vacancy may be filled by the vote of a majority of the directors then in office, although less than a quorum. A director elected to fill a vacancy, other than a newly created directorship, shall hold office for the unexpired term of such director's predecessor.

Section 2.07. Removal of Directors. Directors may be removed only as provided in the certificate of incorporation.

Section 2.08. Place of Meeting, etc. The Board of Directors may hold any of its meetings at the principal office of the corporation or at such other place or places as the Board of Directors may from time to time designate. Directors may participate in any regular or special meeting of the Board of Directors by means of conference telephone or similar communications equipment pursuant to which all persons participating in the meeting of the Board of Directors can hear each other and such participation shall constitute presence in person at such meeting.

Section 2.09. Annual Meeting. A regular annual meeting of the Board of Directors shall be held each year at the same place as and immediately after the annual meeting of stockholders, or at such other place and time as shall theretofore have been determined by the Board of Directors, and notice thereof need not be given. At its regular annual meeting the Board of Directors shall organize itself and elect the officers of the corporation for the ensuing year, and it may transact any other business.

Section 2.10. Regular Meetings. Regular meetings of the Board of Directors may be held at such intervals and at such times as shall from time to time be determined by the Board of Directors. After such determination and notice thereof has been once given to each person then a member of the Board of Directors, regular meetings may be held at such intervals and time and place without further notice being given.

Section 2.11. Special Meetings. Special meetings of the Board of Directors may be called at any time by the Board of Directors or by the chief executive officer or by a majority of directors then in office to be held on such day and at such time as shall be specified by the person or persons calling the meeting.

Section 2.12. Notice of Meetings. Notice of each special meeting or, where required, each regular meeting, of the Board of Directors shall be given to each director either by being mailed on at least the third day prior to the date of the meeting or by being delivered electronically or given personally or by telephone on at least 24 hours notice prior to the date of meeting. Such notice shall specify the place, date, and hour of the meeting and, if it is for a special meeting, the purpose or purposes for which the meeting is called. At any meeting of the Board of Directors at which every director shall be present, even though without such notice, any business may be transacted. Any acts or proceedings taken at a meeting of the Board of Directors not validly called or constituted may be made valid and fully effective by ratification at a subsequent meeting which shall be legally and validly called or constituted. Notice of any regular meeting of the Board of Directors need not state the purpose of the meeting and, at any regular meeting duly held, any business may be transacted. If the notice of a special meeting shall state as a purpose of the meeting the transaction of any business that may come before the meeting, then at the meeting any

business may be transacted, whether or not referred to in the notice thereof. A written waiver of notice of a special or regular meeting, signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be deemed the equivalent of such notice, and attendance of a director at a meeting shall constitute a waiver of notice of such meeting except when the director attends the meeting and prior to or at the commencement of such meeting protests the lack of proper notice.

Section 2.13. Quorum and Voting. At all meetings of the Board of Directors, the presence of a majority of the directors then in office shall constitute a quorum for the transaction of business. Except as otherwise required by law, the certificate of incorporation, or these bylaws, the vote of a majority of the directors present at any meeting at which a quorum is present shall be the act of the Board of Directors. At all meetings of the Board of Directors, each director shall have one vote.

Section 2.14. Committees. The Board of Directors may appoint an executive committee and any other committee of the Board of Directors, to consist of one or more directors of the corporation, and may delegate to any such committee any of the authority of the Board of Directors, however conferred, other than the power or authority in reference to amending the certificate of incorporation, adopting an agreement of merger or consolidation, recommending to the stockholders the sale, lease, or exchange of all or substantially all of the corporation's property and assets, recommending to the stockholders a dissolution of the corporation or a revocation of a dissolution, or amending the bylaws of the corporation. No committee shall have the power or authority to declare a dividend or to authorize the issuance of stock unless the resolution creating such committee expressly so provides. Each such committee shall serve at the pleasure of the Board of Directors, shall act only in the intervals between meetings of the Board of Directors, and shall be subject to the control and direction of the Board of Directors. Any such committee may act by a majority of its members at a meeting or by a writing or writings signed by all of its members. Any such committee shall keep written minutes of its meetings and report the same to the Board of Directors at the next regular meeting of the Board of Directors.

Section 2.15. Compensation. The Board of Directors may, by resolution passed by a majority of those in office, fix the compensation of directors for service in any capacity and may fix fees for attendance at meetings and may authorize the corporation to pay the traveling and other expenses of directors incident to their attendance at meetings, or may delegate such authority to a committee of the board.

Section 2.16. Action by Consent. Any action required or permitted to be taken at any meeting of the board or any committee thereof may be taken without a meeting if a written consent thereto is signed by all members of the board or of such committee, as the case may be, and such written consent is filed with the minutes of proceedings of the board or such committee.

### ARTICLE III OFFICERS

Section 3.01. General Provisions. The officers of the corporation shall include the following: a chairman of the board (who shall be a director); if elected, a vice chairman of the board (who shall be a director); a president; such number of vice presidents as the board may from time to time determine; a secretary; and a treasurer. Any person may hold any two or more offices and perform the duties thereof, except the offices of chairman of the board and vice chairman of the board, or the offices of president and vice president.

Section 3.02. Election, Terms of Office, and Qualification. The officers of the corporation named in Section 3.01 of this Article III shall be elected by the Board of Directors for an indeterminate term and shall hold office during the pleasure of the Board of Directors.

Section 3.03. Additional Officers, Agents, etc. In addition to the officers mentioned in Section 3.01 of this Article III, the corporation may have such other officers or agents as the Board of Directors may deem necessary and may appoint, each of whom or each member of which shall hold office for such period, have such authority, and perform such duties as may be provided in these bylaws or as the Board of Directors may from time to time determine. The Board of Directors may delegate to any officer the power to appoint any subordinate officers or agents. In the absence of any officer of the corporation, or for any other reason the Board of Directors may deem sufficient, the Board of Directors may delegate, for the time being, any or all of the powers and duties of such officer to any other officer or to any director.

Section 3.04. Removal. Any officer of the corporation may be removed, either with or without cause, at any time, by resolution adopted by the Board of Directors at any meeting, the notice (or waivers of notice) of which shall have specified that such removal action was to be considered. Any officer appointed not by the Board of Directors but by an officer or committee to which the Board of Directors shall have delegated the power of appointment may be removed, with or without cause, by the committee or superior officer (including successors) who made the appointment or by any committee or officer upon whom such power of removal may be conferred by the Board of Directors.

Section 3.05. Resignations. Any officer may resign at any time by giving written notice to the Board of Directors, or to the chairman of the board, the vice chairman of the board, the president, or the secretary of the corporation. Any such resignation shall take effect at the time specified therein, and unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 3.06. Vacancies. A vacancy in any office because of death, resignation, removal, disqualification, or otherwise shall be filled in the manner prescribed in these bylaws for regular appointments or elections to such office.

#### ARTICLE IV DUTIES OF THE OFFICERS

Section 4.01. The Chairman of the Board. The chairman of the board shall be the chief executive officer of the corporation and shall have general supervision over the property, business, and affairs of the corporation and over its several officers, subject, however, to the control of the Board of Directors. The chairman shall, if present, preside at all meetings of the stockholders and of the Board of Directors. The chairman may sign, with the secretary, treasurer, or any other proper officer of the corporation thereunto authorized by the Board of Directors, certificates for shares in the corporation. The chairman may sign, execute, and deliver in the name of the corporation all deeds, mortgages, bonds, leases, contracts, or other instruments, either when specially authorized by the Board of Directors or when required or deemed necessary or advisable by the chairman in the ordinary conduct of the corporation's normal business, except in cases where the signing and execution thereof shall be expressly delegated by these bylaws to some other officer or agent of the corporation or shall be required by law or otherwise to be signed or executed by some other officer or agent, and the chairman may cause the seal of the corporation, if any, to be affixed to any instrument requiring the same.

Section 4.02. Vice Chairman of the Board. If an individual is elected to such office, the vice chairman of the board shall perform such duties as are conferred upon such person by these bylaws or as may from time to time be assigned to such person by the chairman of the board or the Board of Directors. The authority of any vice chairman of the board to sign in the name of the corporation all certificates for shares and deeds, mortgages, leases, bonds, contracts, notes, and other instruments shall be coordinated with like authority of the chairman of the board. In the absence or disability of the chairman of the board, a vice chairman of the board designated by the Board of Directors shall perform all the duties of the chairman of the board, and when so acting, shall have all the powers of the chairman of the board.

Section 4.03. The President. The president shall perform such duties as are conferred upon such officer by these bylaws or as may from time to time be assigned to such officer by the chairman of the board or any vice chairman of the board or the Board of Directors.

Section 4.04. Vice presidents. The vice presidents shall perform such duties as are conferred upon them by these bylaws or as may from time to time be assigned to them by the Board of Directors, the chairman of the board, any vice chairman of the board or the president. At the request of the chairman of the board, in the absence or disability of the president, a vice president designated by the chairman of the board shall perform all the duties of the president, and when so acting, shall have all of the powers of the president.

Section 4.05. The Treasurer. The treasurer shall be the custodian of all funds and securities of the corporation. Whenever so directed by the Board of Directors, the treasurer shall render a statement of the cash and other accounts of the corporation, and the treasurer shall cause to be entered regularly in the books and records of the corporation to be kept for such purpose full and accurate accounts of the corporation's receipts and disbursements. The treasurer shall have such other powers and shall perform such other duties as may from time to time be assigned to such officer by the Board of Directors, the chairman of the board, or any vice chairman of the board.

Section 4.06. The Secretary. The secretary shall record and keep the minutes of all meetings of the stockholders and the Board of Directors in a book to be kept for that purpose. The secretary shall be the custodian of, and shall make or cause to be made the proper entries in, the minute book of the corporation and such other books and records as the Board of Directors may direct. The secretary shall be the custodian of the seal of the corporation, if any, and shall affix such seal to such contracts, instruments, and other documents as the Board of Directors or any committee thereof may direct. The secretary shall have such other powers and shall perform such other duties as may from time to time be assigned to such officer by the Board of Directors, the chairman of the board, or any vice chairman of the board.

ARTICLE V  
INDEMNIFICATION OF DIRECTORS AND OFFICERS

Section 5.01. Indemnification. The corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending, or completed action, suit, or proceeding, whether civil, criminal, administrative, or investigative, by reason of the fact that such person, or such person's testator or intestate, is or was a director or officer of the corporation, or is or was serving at the request of the corporation as a director, officer, employee, or agent of another corporation, partnership, joint venture, trust, or other enterprise, or as a member of any committee or similar body against all expenses (including attorneys' fees), judgments, penalties, fines, and amounts paid in

settlement actually and reasonably incurred by such person in connection with such action, suit, or proceeding (including appeals) or the defense or settlement thereof or any claim, issue, or matter therein, to the fullest extent permitted by the laws of Delaware as they may exist from time to time.

Section 5.02. Insurance. The proper officers of the corporation, without further authorization by the Board of Directors, may in their discretion purchase and maintain insurance on behalf of any person who is or was a director, officer, employee, or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee, or agent for another corporation, partnership, joint venture, trust, or other enterprise, against any liability.

Section 5.03. ERISA. To assure indemnification under this Article of all such persons who are or were "fiduciaries" of an employee benefit plan governed by the Act of Congress entitled "Employee Retirement Income Security Act of 1974", as amended from time to time, the provisions of this Article V shall, for the purposes hereof, be interpreted as follows: an "other enterprise" shall be deemed to include an employee benefit plan; the corporation shall be deemed to have requested a person to serve as an employee of an employee benefit plan where the performance by such person of duties to the corporation also imposes duties on, or otherwise involves services by, such person to the plan or participants or beneficiaries of the plan; excise taxes assessed on a person with respect to an employee benefit plan pursuant to said Act of Congress shall be deemed "fines"; and action taken or omitted by a person with respect to an employee benefit plan in the performance of such person's duties for a purpose reasonably believed by such person to be in the interest of the participants and beneficiaries of the plan shall be deemed to be for a purpose which is not opposed to the best interests of the corporation.

Section 5.04. Contractual Nature. The foregoing provisions of this Article V shall be deemed to be a contract between the corporation and each director and officer who serves in such capacity at any time while this Section is in effect, and any repeal or modification thereof shall not affect any rights or obligations then existing with respect to any state of facts then or theretofore existing or any action, suit, or proceeding theretofore or thereafter brought based in whole or in part upon any such state of facts.

Section 5.05. Construction. For the purposes of this Article V, references to "the corporation" include in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors, officers, employees or agents, so that any person who is or was a director or officer of such constituent corporation or is or was serving at the request of such constituent corporation as a director, officer, employee, or agent of another corporation, partnership, joint venture, trust, or other enterprise, or as a member of any committee or similar body, shall stand in the same position under the provisions of this Article with respect to the resulting or surviving corporation as such person would have with respect to such constituent corporation if its separate existence had continued.

Section 5.06. Non-Exclusive. The corporation may indemnify, or agree to indemnify, any person against any liabilities and expenses and pay any expenses, including attorneys' fees, in advance of final disposition of any action, suit, or proceeding, under any circumstances, if such indemnification and/or payment is approved by the vote of the stockholders or of the disinterested directors, or is, in the opinion of independent legal counsel selected by the Board of Directors, to be made on behalf of an indemnitee who acted in good faith and in a manner such person reasonably believed to be in, or not opposed to, the best interests of the corporation.



ARTICLE VI  
DEPOSITORIES, CONTRACTS AND OTHER INSTRUMENTS

Section 6.01. Depositories. The chairman of the board, any vice chairman of the board, the president, the treasurer, and any vice president of the corporation whom the Board of Directors authorizes to designate depositories for the funds of the corporation are each authorized to designate depositories for the funds of the corporation deposited in its name and the signatories and conditions with respect thereto in each case, and from time to time to change such depositories, signatories, and conditions with the same force and effect as if each such depository, signatory, and condition with respect thereto and changes therein had been specifically designated or authorized by the Board of Directors; and each depository designated by the Board of Directors or by the chairman of the board, any vice chairman of the board, the president, the treasurer, or any vice president of the corporation, shall be entitled to rely upon the certificate of the secretary or any assistant secretary of the corporation setting forth the fact of such designation and of the appointment of the officers of the corporation or of both or of other persons who are to be signatories with respect to the withdrawal of funds deposited with such depository, or from time to time the fact of any change in any depository or in the signatories with respect thereto.

Section 6.02. Execution of Instruments Generally. In addition to the powers conferred upon the chairman of the board in Section 4.01 and any vice chairman of the board in Section 4.02 and except as otherwise provided in Section 6.01 of this Article VI, all contracts and other instruments entered into in the ordinary course of business requiring execution by the corporation may be executed and delivered by the president, the treasurer, or any vice president, and authority to sign any such contracts or instruments, which may be general or confined to specific instances, may be conferred by the Board of Directors upon any other person or persons. Any person having authority to sign on behalf of the corporation may delegate, from time to time, by instrument in writing, all or any part of such authority to any person or persons if authorized so to do by the Board of Directors.

ARTICLE VII  
SHARES AND THEIR TRANSFER

Section 7.01. Certificate for Shares. Every owner of one or more shares in the corporation shall be entitled to a certificate, which shall be in such form as the Board of Directors shall prescribe, certifying the number and class of shares in the corporation owned by such person. When such certificate is counter-signed by an incorporated transfer agent or registrar, the signature of any of said officers may be facsimile, engraved, stamped, or printed. The certificates for the respective classes of such shares shall be numbered in the order in which they shall be issued and shall be signed in the name of the corporation by the chairman of the board or any vice chairman of the board, or the president or a vice president, and by the secretary or an assistant secretary or the treasurer or an assistant treasurer. A record shall be kept of the name of the person, firm, or corporation owning the shares represented by each such certificate and the number of shares represented thereby, the date thereof, and in case of cancellation, the date of cancellation. Every certificate surrendered to the corporation for exchange or transfer shall be cancelled, and no new certificate or certificates shall be issued in exchange for any existing certificates until such existing certificates shall have been so cancelled.

Section 7.02. Lost, Destroyed and Mutilated Certificates. If any certificates for shares in this corporation become worn, defaced, or mutilated but are still substantially intact and recognizable, the directors, upon production and surrender thereof, shall order the same cancelled and shall issue a new certificate in lieu of same. The holder of any shares in the corporation shall immediately notify the corporation if a certificate therefor

shall be lost, destroyed, or mutilated beyond recognition, and the corporation may issue a new certificate in the place of any certificate theretofore issued by it which is alleged to have been lost or destroyed or mutilated beyond recognition, and the Board of Directors may, in its discretion, require the owner of the certificate which has been lost, destroyed, or mutilated beyond recognition, or such owner's legal representative, to give the corporation a bond in such sum and with such surety or sureties as it may direct, not exceeding double the value of the stock, to indemnify the corporation against any claim that may be made against it on account of the alleged loss, destruction, or mutilation of any such certificate. The Board of Directors may, however, in its discretion, refuse to issue any such new certificate except pursuant to legal proceedings under the laws of the State of Delaware.

Section 7.03. Transfers of Shares. Transfers of shares in the corporation shall be made only on the books of the corporation by the registered holder thereof, such person's legal guardian, executor, or administrator, or by such person's attorney thereunto authorized by power of attorney duly executed and filed with the secretary of the corporation or with a transfer agent appointed by the Board of Directors, and on surrender of the certificate or certificates for such shares properly endorsed or accompanied by properly executed stock powers and evidence of the payment of all taxes imposed upon such transfer. The person in whose name shares stand on the books of the corporation shall, to the full extent permitted by law, be deemed the owner thereof for all purposes as regards the corporation.

Section 7.04. Regulations. The Board of Directors may make such rules and regulations as it may deem expedient but not inconsistent with these bylaws concerning the issue, transfer, and registration of certificates for shares in the corporation. It may appoint one or more transfer agents or one or more registrars, or both, and may require all certificates for shares to bear the signature of either or both.

#### ARTICLE VIII SECURITIES OF OTHER CORPORATIONS

Unless otherwise directed by the Board of Directors, the chairman of the board, any vice chairman, the president, and any vice president of the corporation shall have the power to vote and otherwise act on behalf of the corporation, in person or by proxy, at any meeting, or with respect to any action, of stockholders of any other corporation in which this corporation may hold securities and otherwise to exercise any and all rights and powers which this corporation may possess by reason of its ownership of securities in such other corporation.

#### ARTICLE IX SEAL

The Board of Directors may provide a corporate seal, which shall be circular and shall contain the name of the corporation engraved around the margin, the words "corporate seal", the year of its organization, and the word "Delaware".

May 19, 2003

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

Limited Brands, Inc.:

We are aware of the incorporation by reference in the Registration Statement Form S-3 No. 333-104633 and Form S-8 (Nos. 33-44041, 33-18533, 33-49871, 333-04927 and 333-04941) of Limited Brands, Inc. and its subsidiaries of our report dated May 19, 2003 relating to the unaudited condensed consolidated interim financial statements of Limited Brands, Inc. and its subsidiaries that are included in its Form 10-Q for the thirteen weeks ended May 3, 2003.

Very truly yours,

/s/ Ernst & Young LLP

Columbus, Ohio

Section 906 Certification

The certification set forth below is being submitted to the Securities and Exchange Commission solely for the purpose of complying with Section 1350 of Chapter 63 of Title 18 of the United States Code. This certification is not to be deemed filed pursuant to the Securities Exchange Act of 1934.

Leslie H. Wexner, the Chairman and Chief Executive Officer, and V. Ann Hailey, the Executive Vice President and Chief Financial Officer of Limited Brands, Inc., each certifies that, to the best of his or her knowledge:

1. The Quarterly Report on Form 10-Q of Limited Brands, Inc. for the quarter ended May 3, 2003 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Limited Brands, Inc.

A signed original of this written statement, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement, has been provided to Limited Brands, Inc. and will be retained by Limited Brands, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

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

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

Date: June 16, 2003