RBS Holdings N.V.
Form FWP
March 09, 2011

Term Sheet No. 158 Dated March 9, 2011 \
to Registration Statement Nos. 333-162193 and 333-162193-01
(To Product Supplement No. 2-III Dated April 2, 2010,
Underlying Supplement No. 2-IV,
Prospectus Supplement Dated April 2, 2010, and
Prospectus Dated April 2, 2010
Rule 433

THE ROYAL BANK OF SCOTLAND N.V.
Annual Reset Coupon Securities (ARCS) Linked to the S&P 500® Index

Issuer:	The Royal Bank of Scotland N.V.	Launch Date:	March 8, 2011
Lead Agent:	RBS Securities Inc.	Proposed Pricing Date:	March 28, 2011
Issue Price:	100%	Proposed Settlement Date:	March 31, 2011
CUSIP:	78009KRQ7	Determination Date:	March 28, 20161
ISIN:	US78009KRQ75	Maturity Date:	March 31, 2016

1Subject to certain adjustments as described in the Product Supplement No. 2-III.

Status and Guarantee:	Unsecured, unsubordinated obligations of the Issuer and fully and unconditionally guaranteed by the Issuer's parent company, RBS Holdings N.V.
Description of Offering:	Annual Reset Coupon Securities linked to the performance of the S&P 500® Index due March 31, 2016 (the "Securities")
Underlying Index:	The S&P 500® Index (Bloomberg ticker: SPX)
Annual Coupon:	For each Observation Period, if the Annual Index Return is 0% or positive, the Maximum Annual Index Return, if the Annual Index Return is less than 0%, the Minimum Annual Index Return.
Annual Index Return:	For each Observation Period, the Annual Index Return is the percentage change in the value of the Underlying Index, calculated as follows: $\frac{\text{Ending Annual Value} - \text{Starting Annual Value}}{\text{Starting Annual Value}}$
Starting Annual Value:	For any Observation Period, the closing value of the Underlying Index on the applicable Observation Date on which such Observation Period begins, subject to certain adjustments as described in Product Supplement No. 2-III; provided that the Starting Annual Value for the first Observation Period will be equal to the closing value of the Underlying Index on the Pricing Date.
Ending Annual Value:	For any Observation Period, the closing value of the Underlying Index on the applicable Observation Date on which such Observation Period ends, subject to certain adjustments as described in Product Supplement No. 2-III.
Observation Dates:	March 28, 2012, March 28, 2013, March 28, 2014, March 28, 2015 and March 28, 2016, subject to postponement upon the occurrence of a Market Disruption Event.
Observation Periods:	The following annual periods: (i) from and including March 28, 2011 to and including March 28, 2012, (ii) from and including March 28, 2012 to and

	including March 28, 2013, (iii) from and including March 28, 2013 to and including March 28, 2014, (iv) from and including March 28, 2014 to and including March 28, 2015, and (v) from and including March 28, 2015 to and including March 28, 2016.
Maximum Annual Index Return:	6.75%
Minimum Annual Index Return:	3.00%
Coupon Payment:	For each $1,000 principal amount of Securities, the Coupon Payment will be calculated for each Observation Period as follows: $1,000 x Annual Coupon. Interest will be paid in arrears.
Coupon Payment Dates:	Each year on the anniversary of the Settlement Date; provided that if any such day is not a business day, the relevant Coupon Payment will be made on the next succeeding business day but no interest will accrue from and after the scheduled Coupon Payment Date until the date on which interest is paid.

	Price to Public	Agent's Commission2	Proceeds to Issuer
Per Security	$1,000	$42.00	$958.00
Total	$	$	$

2For additional information see "Plan of Distribution (Conflicts of Interest)" in this Term Sheet.

(key terms continued on next page)

The Securities are not bank deposits and are not insured or guaranteed by the Federal Deposit Insurance Corporation, the Deposit Insurance Fund or any other governmental agency.

Investing in the Securities involves a number of risks. See "Risk Factors" beginning on page PS-7 of Product Supplement No. 2-III and "Risk Factors" beginning on page 9 of this Term Sheet. The Securities and Exchange Commission and state securities regulators have not approved or disapproved these Securities, or determined if this Term Sheet or the accompanying Product Supplement, Prospectus Supplement or Prospectus are truthful or complete. Any representation to the contrary is a criminal offense.

RBS Securities Inc.

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Payment at Maturity:	In addition to the final Coupon Payment, the payment at maturity for each Security is based on the performance of the Underlying Index. The cash payment at maturity is calculated as follows: (i) if the Index Return is 0% or positive, $1,000; (ii) if the Index Return is less than 0% down to and including -20%, $1,000; and (iii) if the Index Return is less than -20%, $1,000 plus (Index Return + 20%) × $1,000. If the Index Return is less than -20% you could lose at maturity up to 80% of your initial principal investment, and the coupon payments that you receive during the term of the Securities may not be sufficient to compensate you for such loss. In addition, if the Index Return is 0% or positive, you will never receive, other than the coupon payments, a payment at maturity greater than the principal amount of $1,000 per Security. Any payment at maturity is subject to the creditworthiness of The Royal Bank of Scotland N.V. and RBS Holdings N.V., as guarantor.
Index Return:	The Index Return is the percentage change in the value of the Underlying Index over the term of the Securities, calculated as follows: $\frac{\text{Final Value} - \text{Initial Value}}{\text{Initial Value}}$
Initial Value:	The closing value of the Underlying Index on the Pricing Date, subject to certain adjustments as described in Product Supplement No. 2-III.
Final Value:	The closing value of the Underlying Index on the Determination Date, subject to certain adjustments as described in Product Supplement No. 2-III.
Buffer Level:	20% buffer. An Index Return equal to or less than 0% down to and including –20% will not result in the loss of any principal. An Index Return of less than –20% will result in a loss of principal which could be up to 80% of your initial principal investment.
Trustee:	Wilmington Trust Company
Denomination:	$1,000 per Security

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WHERE YOU CAN FIND MORE INFORMATION

The Royal Bank of Scotland N.V., or RBS N.V., has filed a registration statement (including a Prospectus) with the Securities and Exchange Commission, or SEC, for the offering to which this Term Sheet relates. Before you invest, you should read the Prospectus and in that registration statement and other documents, including Product Supplement No. 2-III and Underlying Supplement No. 2-IV, related to this offering that RBS N.V. has filed with the SEC for more complete information about RBS N.V. and the offering of the Securities.

You may get these documents without cost by visiting EDGAR on the SEC website at www.sec.gov. Alternatively, RBS N.V., any underwriter or any dealer participating in the offering will arrange to send you the Prospectus, Prospectus Supplement, Underlying Supplement No. 2-IV and Product Supplement No. 2-III if you request by calling toll free (866) 747-4332.

You should read this Term Sheet together with the Prospectus dated April 2, 2010, as supplemented by the Prospectus Supplement dated April 2, 2010 relating to our Notes of which these Securities are a part, and the more detailed information contained in Product Supplement No. 2-III dated April 2, 2010 and in Underlying Supplement No. 2-IV dated April 2, 2010. This Term Sheet, together with the documents listed below, contains the terms of the Securities and supersedes all other prior or contemporaneous oral statements as well as any other written materials including preliminary or indicative pricing terms, correspondence, trade ideas, structures for implementation, sample structures, fact sheets, brochures or other educational materials of ours. You should carefully consider, among other things, the matters set forth in "Risk Factors" in this Term Sheet and in Product Supplement No. 2-III, as the Securities involve risks not associated with conventional debt securities. We urge you to consult your investment, legal, tax, accounting and other advisors before you invest in the Securities.

You may access these documents on the SEC website at www.sec.gov as follows (or if such address has changed, by reviewing our filings for the relevant date on the SEC website):

- Underlying Supplement No. 2-IV dated April 2, 2010:
http://www.sec.gov/Archives/edgar/data/897878/000095010310000973/crt_424b2.pdf

- Product Supplement No. 2-III dated April 2, 2010:
http://www.sec.gov/Archives/edgar/data/897878/000095010310000970/crt_424b2.pdf

- Prospectus Supplement dated April 2, 2010:
http://www.sec.gov/Archives/edgar/data/897878/000095010310001004/crt_dp17140-424b2.pdf

- Prospectus dated April 2, 2010:
http://www.sec.gov/Archives/edgar/data/897878/000095010310000965/crt_424b2.pdf

Our Central Index Key, or CIK, on the SEC website is 897878. As used in this Term Sheet, the "Company," "we," "us" or "our" refers to The Royal Bank of Scotland N.V.; "Holdings" refers to RBS Holdings N.V.

Capitalized terms used but not defined in this Term Sheet have the meanings set forth in Product Supplement No. 2-III.

These Securities may not be offered or sold (i) to any person/entity listed on sanctions lists of the European Union, United States or any other applicable local competent authority; (ii) within the territory of Cuba, Sudan, Iran and Myanmar; (iii) to residents of Cuba, Sudan, Iran or Myanmar; or (iv) to Cuban Nationals, wherever located.

We reserve the right to withdraw, cancel or modify any offering of the Securities and to reject orders in whole or in part prior to their issuance.

RBS NotesSM is a service mark of The Royal Bank of Scotland N.V.

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SUMMARY

The following summary does not contain all the information that may be important to you. You should read this summary together with the more detailed information that is contained in Product Supplement No. 2-III, in Underlying Supplement No. 2-IV, and in the accompanying Prospectus and Prospectus Supplement. You should carefully consider, among other things, the matters set forth in "Risk Factors" in the Product Supplement No. 2-III and the "Risk Factors" section beginning on page 9 of this Term Sheet. In addition, we urge you to consult with your investment, legal, accounting, tax and other advisors with respect to any investment in the Securities.

What are the Securities?

The Securities are unsecured and unsubordinated obligations issued by us, The Royal Bank of Scotland N.V., and are fully and unconditionally guaranteed by our parent company, RBS Holdings N.V. The Securities are linked to the performance of the S&P 500® Index, which we refer to as the Underlying Index. The Securities have a term of 5 years.

The Securities are annual reset coupon securities paying an annual coupon. When the Annual Index Return is 0% or positive, the annual coupon will be the Maximum Annual Index Return. If the Annual Index Return is less than 0%, the annual coupon will be the Minimum Annual Index Return, as described below.

The payment at maturity of the Securities is determined based on the performance of the Underlying Index, subject to a buffer, as described below. If the Index Return is less than 0% down to and including -20%, you will be entitled to receive, other than the coupon payments, only the principal amount of $1,000 per Security at maturity. In such a case, you will receive no return on your investment, other than the coupon payments, and you will not be compensated for any loss in value due to inflation and other factors relating to the value of money over time. If the Index Return is less than -20%, you will suffer a loss and you could lose at maturity up to 80% of your initial principal investment, and the coupon payments that you receive during the term of the Securities may not be sufficient to compensate you for such loss. If the Index Return is 0% or positive, you will receive, other than the coupon payments, only the principal amount of $1,000 per Security at maturity, regardless of how much or how little the value of the Underlying Index may appreciate above the Initial Value.

Any payment on the Securities is subject to the creditworthiness (ability to pay) of The Royal Bank of Scotland N.V., as issuer of the Securities, and RBS Holdings N.V., as guarantor of the issuer's obligations under the Securities.

What will I receive at maturity of the Securities and how is this amount calculated?

At maturity you will receive, for each $1,000 principal amount of Securities, a cash payment calculated as follows:

(1) If the Index Return is 0% or positive, $1,000; or

(2) If the Index Return is less than 0% down to and including -20%, $1,000; or

(3) If the Index Return is less than -20%, then $1,000 plus (Index Return + 20%) × 1,000.

Accordingly, if the Index Return is less than -20%, at maturity you will receive, other than the coupon payments, less than the principal amount of $1,000 per Security and you could lose at maturity up to 80% of your initial principal investment, and the coupon payments that you receive during the term of the Securities may not be sufficient to compensate you for such loss. If the Index Return is 0% or positive, you will never receive, other than the coupon payments, a payment at maturity greater than the principal amount of $1,000 per Security.

What is Index Return and how is it calculated?

The Index Return is the percentage change in the value of the Underlying Index calculated as:

$$\frac{\text{Final Value} - \text{Initial Value}}{\text{Initial Value}}$$

where,

- the Initial Value is the closing value of the Underlying Index on the Pricing Date; and
- the Final Value is the closing value of the Underlying Index on the Determination Date.

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What coupon payments can I expect on the Securities?

Each coupon payment will equal the product of the principal amount and the applicable coupon rate. Coupon payments will be made annually on the anniversary of the settlement date; provided that if any such day is not a business day, that coupon payment will be made on the next succeeding business day but no interest will accrue from and after the scheduled coupon payment date until the date on which interest is paid. Interest payable on any coupon payment date is payable in arrears.

How is the coupon rate calculated?

For each Observation Period, the coupon rate will be based on the performance of the Underlying Index. When the Annual Index Return is 0% or positive, the coupon rate will be equal to the Maximum Annual Index Return, which is 6.75%. When the Annual Index Return is less than 0%, the coupon rate is equal to the Minimum Annual Index Return, which is 3.00%. For each Observation Period, the Annual Index Return will be equal to:

$$\frac{\text{Ending Annual Value} - \text{Starting Annual Value}}{\text{Starting Annual Value}}$$

where,

- the Starting Annual Value is the closing value of the Underlying Index on the applicable Observation Date on which such Observation Period begins, subject to certain adjustments as described in Product Supplement No. 2-III; provided that the Starting Annual Value for the first Observation Period will be equal to the closing value of the Underlying Index on the Pricing Date; and

- the Ending Annual Value is the closing value of the Underlying Index on the applicable Observation Date on which such Observation Period ends, subject to certain adjustments as described in Product Supplement No. 2-III.

The coupon rate will always be positive and will equal either the Minimum Annual Index Return of 3.00%, or the Maximum Annual Index Return of 6.75%, regardless of how much the value of the Underlying Index may appreciate above the Starting Annual Value.

The Observation Periods are the following annual periods: (i) from and including March 28, 2011 to and including March 28, 2012, (ii) from and including March 28, 2012 to and including March 28, 2013, (iii) from and including March 28, 2013 to and including March 28, 2014, (iv) from and including March 28, 2014 to and including March 28, 2015, and (v) from and including March 28, 2015 to and including March 28, 2016.

The Observation Dates are March 28, 2012, March 28, 2013, March 28, 2014, March 28, 2015 and March 28, 2016, subject to postponement upon the occurrence of a Market Disruption Event.

If a scheduled Observation Date is not a Trading Day, or if a Market Disruption Event has occurred on such Trading Day, the Observation Date shall be the immediately succeeding Trading Day; provided that the Observation Date shall be no later than the second scheduled Trading Day prior to the end of the relevant Observation Period, notwithstanding the occurrence of a Market Disruption Event on such second scheduled Trading Day or such second scheduled Trading Day is not a Trading Day. For information about what constitutes a Market Disruption Event, see “Description of Securities — Market Disruption Events” in Product Supplement No. 2-III.

If a Market Disruption Event occurs on such second scheduled Trading Day prior to the end of the relevant Observation Period or such scheduled Trading Day is not a Trading Day, the calculation agent will determine the Ending Annual Value in accordance with the formula for calculating the value of the Underlying Index last in effect prior to the commencement of the Market Disruption Event, using the Ending Annual Value (or, if trading in the relevant securities has been materially suspended or materially limited, its good faith estimate of the Ending Annual Value that would have prevailed but for such suspension or limitation) on such Trading Day of each security most recently comprising the Underlying Index.

Will I get my principal back at maturity?

You could lose up to 80% of your principal investment in the Securities. Subject to the creditworthiness of The Royal Bank of Scotland N.V., as the issuer of the Securities, and RBS Holdings N.V., as the guarantor of the issuer’s obligations under the Securities, you will receive at maturity, other than the coupon payments, at least $200 per $1,000 principal amount of Securities, regardless of the closing value of the Underlying Index on the Determination Date. If the Index Return is less than -20% over the term of the Securities, you will lose some of your initial principal investment and you could lose at maturity as much as 80% of your initial principal investment, and the coupon payments that you receive during the term of the Securities may not be sufficient to compensate you for such loss.

However, if you sell the Securities prior to maturity, you will receive, other than the coupon payments, the market price for the Securities, which could be zero. There may be little or no secondary market for the Securities. Accordingly, you should be willing to hold your securities until maturity.

Can you give me examples of the payment at maturity?

Example 1: If, for example, in a hypothetical offering, the Initial Value is 1,100 and the Final Value is 1,760, then the Index Return would be calculated as follows:

Final Value – Initial Value
Initial Value

or

1,760 – 1,100 = 60.00%

1,100

In this hypothetical example, the Index Return is positive. Therefore, the payment at maturity will be the principal amount of $1,000 per Security. In this hypothetical example, the Index Return was 60.00% but you would have received, other than the coupon payments, no return over the term of the Securities and you would not be compensated for any loss in value due to inflation and other factors relating to the value of money over time.

Example 2: If, for example, in a hypothetical offering, the Initial Value is 1,100 and the Final Value is 1,045, then the Index Return would be calculated as follows:

Final Value – Initial Value
Initial Value

or

1,045 – 1,100 = -5.00%

1,100

In this hypothetical example, the Index Return is negative. Since the Index Return is less than 0% but more than -20% you would receive, other than the coupon payments, the principal amount of $1,000 per Security at maturity.

In this hypothetical example, the Index Return was -5.00% and you would not have lost any of your initial principal investment because the Index Return was negative but not less than -20%. In this hypothetical example you would not have received, other than the coupon payments, any return on your initial principal investment and you would not be compensated for any loss in value due to inflation and other factors relating to the value of money over time.

Example 3: If, for example, in a hypothetical offering, the Initial Value is 1,100 and the Final Value is 655, then the Index Return would be calculated as follows:

Final Value – Initial Value
Initial Value

or

655 – 1,100 = -40.45%

1,100

In this hypothetical example, the Index Return is negative and is less than -20%. Therefore, payment at maturity will be calculated as:

$1,000 + [(Index Return + 20%) × $1,000]; or

$$\$1{,}000 + [(-40.45\% + 20\%) \times \$1{,}000] = \$795.50$$

Therefore, in this hypothetical example, you would receive at maturity, other than the coupon payments, a total payment of $795.50 for each $1,000 principal amount of Securities. In this hypothetical example, the Index Return was -40.45% but you would have lost 20.45% of your initial principal investment over the term of the Securities, and the coupon payments that you would receive during the term of the Securities may not be sufficient to compensate you for such loss.

These examples are for illustrative purposes only. It is not possible to predict the Final Value of the Underlying Index on the Determination Date or at any other time during the term of the Securities. The Final Value is subject to adjustment as set forth in "Description of Securities — Discontinuance of the Underlying Index; Alteration of Method of Calculation" in the related Product Supplement.

In this Term Sheet, we have also provided under the heading "Hypothetical Return Analysis of the Securities – Payment at Maturity" the total return of owning the Securities through maturity for various closing values of the Underlying Index on the Determination Date.

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Can you give me examples of the coupon payments?

We have provided examples of hypothetical coupon payments payable on the Securities under the heading "Hypothetical Return Analysis of the Securities – Coupon Payments."

Is there a limit on how much I can earn over the term of the Securities?

Yes. If the Securities are held to maturity and the Underlying Index is unchanged or appreciates, the total amount payable at maturity per Security, other than the coupon payments, is $1,000.00. This means no matter how much the Underlying Index may appreciate above the Initial Value, you will receive, other than the coupon payments, no return.

What is the minimum required purchase?

You may purchase Securities in minimum denominations of $1,000 or in integral multiples thereof.

Is there a secondary market for Securities?

The Securities will not be listed on any securities exchange. Accordingly, there may be little or no secondary market for the Securities and, as such, information regarding independent market pricing for the Securities may be extremely limited. You should be willing to hold your Securities until the maturity date.

Although it is not required to do so, we have been informed by our affiliate that when this offering is complete, it intends to make purchases and sales of the Securities from time to time in off-exchange transactions. If our affiliate does make such a market in the Securities, it may stop doing so at any time.

In connection with any secondary market activity in the Securities, our affiliate may post indicative prices for the Securities on a designated website or via Bloomberg. However, our affiliate is not required to post such indicative prices and may stop doing so at any time. Investors are advised that any prices shown on any website or Bloomberg page are indicative prices only and, as such, there can be no assurance that any trade could be executed at such prices. Investors should contact their brokerage firm for further information.

In addition, the issue price of the Securities includes the selling agents' commissions paid with respect to the Securities and certain costs associated with hedging our obligations under the Securities. The cost of hedging includes the profit component built into the price we paid for the hedge. The fact that the issue price of the Securities includes these commissions and hedging costs is expected to adversely affect the secondary market prices of the Securities. See "Risk Factors — The Inclusion of Commissions and Cost of Hedging in the Issue Price is Likely to Adversely Affect Secondary Market Prices" and "Use of Proceeds" in Product Supplement No. 2-III.

What is the relationship between The Royal Bank of Scotland N.V., RBS Holdings N.V. and RBS Securities Inc.?

RBS Securities Inc., which we refer to as RBSSI, is an affiliate of The Royal Bank of Scotland N.V. and RBS Holdings N.V. RBSSI will act as calculation agent for the Securities, and is acting as agent for this offering. RBSSI will conduct this offering in compliance with the requirements of FINRA 5121 of the Financial Industry Regulatory Authority, Inc., which is commonly referred to as FINRA, regarding a FINRA member firm's distribution of the securities of an affiliate. See "Risk Factors — Potential Conflicts of Interest between Holders of Securities and the Calculation Agent" and "Plan of Distribution (Conflicts of Interest)" in Product Supplement No. 2-III.

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Tell me more about The Royal Bank of Scotland N.V. and RBS Holdings N.V.

The Royal Bank of Scotland N.V. is the new name of ABN AMRO Bank N.V.

RBS Holdings N.V. is the new name of ABN AMRO Holding N.V.

On February 6, 2010, ABN AMRO Bank N.V. changed its name to The Royal Bank of Scotland N.V. and on April 1, 2010 ABN AMRO Holding N.V. changed its name to RBS Holdings N.V.

The name changes are not changes of the legal entities that will issue and guarantee, respectively, the Securities referred to herein, and the name changes do not affect any of the terms of the Securities. The Securities will continue to be issued by The Royal Bank of Scotland N.V. and to be fully and unconditionally guaranteed by The Royal Bank of Scotland N.V.'s parent company, RBS Holdings N.V.

While the name "ABN AMRO Bank N.V." is used by a separate legal entity, which is owned by the State of the Netherlands (the "Dutch State"), neither the separate legal entity named ABN AMRO Bank N.V. nor the Dutch State will, in any way, guarantee or otherwise support the obligations under the Securities.

The Royal Bank of Scotland N.V. and RBS Holdings N.V. are both affiliates of The Royal Bank of Scotland plc and The Royal Bank of Scotland Group plc; however, none of The Royal Bank of Scotland plc, The Royal Bank of Scotland Group plc or the UK government, in any way, guarantees or otherwise supports the obligations under the Securities.

For additional information, see "The Royal Bank of Scotland N.V. and RBS Holdings N.V." in the accompanying prospectus dated April 2, 2010.

What if I have more questions?

You should read "Description of Securities" in Product Supplement No. 2-III for a detailed description of the terms of the Securities. RBS N.V. has filed a registration statement (including a Prospectus and Prospectus Supplement) with the SEC for the offering to which this communication relates. Before you invest, you should read the Prospectus and Prospectus Supplement in that registration statement and other documents RBS N.V. has filed with the SEC for more complete information about RBS N.V. and the offering of the Securities. You may get these documents for free by visiting EDGAR on the SEC web site at www.sec.gov. Alternatively, RBS N.V., any underwriter or any dealer participating in the offering will arrange to send you the Prospectus and Prospectus Supplement if you request it by calling toll free (866) 747-4332.

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RISK FACTORS

There are important differences between the Securities and a conventional debt security. An investment in the Securities involves significant risks, including those listed below. You should carefully review the more detailed explanation of risks relating to the securities in the "Risk Factors" sections beginning on page PS-7 of Product Supplement No. 2-III. We also urge you to consult with your investment, legal, accounting, tax, and other advisors before you invest in the securities.

Market Risk, Capped Principal Return

Other than the coupon payments payable on the coupon payment dates, the only return, if any, that you will be entitled to receive on the Securities will be the payment at maturity. If the Index Return is less than 0% down to -20%, you will be entitled to receive, other than the coupon payments, only the principal amount of $1,000 per Security at maturity. In such a case, you will receive no return on your principal investment, other than the coupon payments, and you will not be compensated for any loss in value due to inflation and other factors relating to the value of money over time. If the Index Return decreases more than 20%, you could lose up to 80% of your initial principal investment, and the coupon payments that you receive during the term of the Securities may not be sufficient to compensate you for such loss. If the Index Return is zero (0%) or positive, you will receive, other than the coupon payments, no return regardless of how much the Underlying Index may appreciate above its Initial Value.

Your Yield May Be Less Than the Yield on a Conventional Debt Security of Comparable Maturity

The yield that you will receive on the Securities on the coupon payment dates, together with any payment that you receive at maturity, may be less than the return you would earn if you purchased a conventional debt security with the same maturity date. As a result, your investment in the Securities may not reflect the full opportunity cost to you when you consider factors that affect the time value of money, including inflation.

Credit Risk

The Securities are issued by RBS N.V. and guaranteed by RBS Holdings N.V., RBS N.V.'s parent company. As a result, investors in the Securities assume the credit risk of RBS N.V. and that of RBS Holdings N.V. in the event that RBS N.V. defaults on its obligations under the Securities. This means that if RBS N.V. and RBS Holdings N.V. fail, become insolvent, or are otherwise unable to pay their obligations under the Securities, you could lose some or all of your initial principal investment.

Although We Are a Bank, the Securities Are Not Bank Deposits and Are Not Insured or Guaranteed by the Federal Deposit Insurance Corporation, The Deposit Insurance Fund or any Other Government Agency

The Securities are our obligations but are not bank deposits. In the event of our insolvency the Securities will rank equally with our other unsecured, unsubordinated obligations and will not have the benefit of any insurance or guarantee of the Federal Deposit Insurance Corporation, The Deposit Insurance Fund or any other governmental

agency.

Principal Risk

Return of principal on the Securities is only guaranteed up to $200 per $1,000 principal amount of Securities. Any payment required by the terms of the Securities is subject to our creditworthiness and the creditworthiness of Holdings. If the Index Return decreases by more than 20% during the term of the Securities, the amount of cash paid to you at maturity will be less than the principal amount of the Securities, subject to a minimum return of $200 per $1,000 principal amount of Securities.

Liquidity Risk

The Securities will not be listed on any securities exchange. Accordingly, there may be little or no secondary market for the Securities and information regarding independent market pricing of the Securities may be very limited or non-existent. The value of the Securities in the secondary market, if any, will be subject to many unpredictable factors, including then prevailing market conditions.

It is important to note that many factors will contribute to the secondary market value of the Securities, and you may not receive your full principal back if the Securities are sold prior to maturity. Such factors include, but are not limited to, time to maturity, the level of the Underlying Index, volatility and interest rates.

In addition, the price, if any, at which our affiliate or another party is willing to purchase Securities in secondary market transactions will likely be lower than the issue price, since the issue price included, and secondary market prices are likely to exclude, commissions, discounts or mark-ups paid with respect to the Securities, as well as the cost of hedging our obligations under the Securities.

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Holdings of the Securities by Our Affiliates and Future Sales

Certain of our affiliates may purchase for investment the portion of the Securities that has not been purchased by investors in a particular offering of Securities, which initially they intend to hold for investment purposes. As a result, upon completion of such an offering, our affiliates may own up to 15% of the aggregate face amount of the Securities. Circumstances may occur in which our interests or those of our affiliates could be in conflict with your interests. For example, our affiliates may attempt to sell the Securities that they had been holding for investment purposes at the same time that you attempt to sell your Securities, which could depress the price, if any, at which you can sell your Securities. Moreover, the liquidity of the market for the Securities, if any, could be substantially reduced as a result of our affiliates holding the Securities. In addition, our affiliates could have substantial influence over any matter subject to consent of the security holders.

Potential Conflicts of Interest

We and our affiliates play a variety of roles in connection with the issuance of the Securities, including acting as calculation agent. In performing these duties, the economic interests of the calculation agent and other affiliates of ours are potentially adverse to your interests as an investor in the Securities. While the Securities are outstanding, we or any of our affiliates may carry out hedging activities related to the Securities, including in the stocks that comprise the Underlying Index or instruments related to the Underlying Index. We or our affiliates may also trade in the stocks that comprise the Underlying Index or instruments related to the Underlying Index or the stocks that comprise the Underlying Index from time to time. Any of these activities could affect the value of the Underlying Index and, therefore, the value of the Securities.

You Will Not Have Rights in the Stocks that Comprise the Underlying Index

As an owner of the Securities, you will not have rights that holders of the stocks that comprise the Underlying Index have, including the right to vote or receive dividends.

Uncertain Tax Treatment

Please read carefully the section in this Term Sheet entitled “United States Federal Income Taxation.” Although the tax consequences of an investment in the Securities are uncertain, we believe it is reasonable to treat the Securities as prepaid financial contracts for U.S. federal income tax purposes. Due to the absence of authorities that directly address instruments that are similar to the Securities, significant aspects of the U.S. federal income tax consequences of an investment in the Securities are uncertain. We do not plan to request a ruling from the Internal Revenue Service (the “IRS”), and the IRS or a court might not agree with the treatment described herein. Accordingly, you should consult your tax adviser regarding the U.S. federal income tax consequences of an investment in the Securities (including possible alternative treatments, some of which are discussed below) and with respect to any tax consequences arising under the laws of any state, local or non-U.S. taxing jurisdiction.

Recent Tax Developments

Recently enacted legislation requires certain individuals who hold “debt or equity interests” in any “foreign financial institution” that are not “regularly traded on an established securities market” to report information about such holdings on their U.S. federal income tax returns, generally for tax years beginning in 2011, unless a regulatory exemption is provided. Prospective investors should consult their tax advisors regarding this legislation.

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HYPOTHETICAL RETURN ANALYSIS OF THE SECURITIES

Payment at Maturity

The following table and examples illustrate potential return scenarios, with respect to the payment at maturity, on a Security that is held to maturity by an investor who purchases the Securities on the original issue date. These examples are based on various assumptions, including hypothetical values of the Underlying Index, set forth below. We cannot, however, predict the value of the Underlying Index on the Determination Date or at any other time in the future. Therefore, the table and examples set forth below are for illustrative purposes only and the returns, with respect to the payment at maturity, set forth may not be the actual returns applicable to a holder of the Securities. Moreover, the Underlying Index may not appreciate or depreciate over the term of the Securities in accordance with any of the hypothetical examples below, and the size and frequency of any fluctuations in the value of the Underlying Index over the term of the Securities, which we refer to as the volatility of the Underlying Index, may be significantly different than the volatility implied by any of these examples.

Assumptions

Hypothetical Initial Value:	1,310.13, the closing value of the Underlying Index on March 7, 2011. This is a hypothetical Initial Value to demonstrate the hypothetical payment at maturity only. The actual payment at maturity will depend on the actual Initial Value, which will be set on the Pricing Date.
Term of the Securities:	5 years
Principal Amount per Security:	$1,000
Annual Coupon	For each Observation Period, if the Annual Index Return is 0% or positive, the Maximum Annual Index Return of 6.75%, if the Annual Index Return is less than 0%, the Minimum Annual Index Return of 3.00%.
Buffer Level:	20%

Hypothetical Final Value	Hypothetical Index Return(a)	Hypothetical Payment at Maturity without Annual Coupon or Buffer(b)(c)	Hypothetical Total Coupon Payments(f)	Hypothetical Total Return on each Security with Annual Coupon and Buffer	
				($) (c) (d)	(%)(e)
2620.26	100.00%	$2,000.00	$187.50	$1,187.50	18.75%
2489.25	90.00%	$1,900.00	$187.50	$1,187.50	18.75%
2358.23	80.00%	$1,800.00	$187.50	$1,187.50	18.75%
2227.22	70.00%	$1,700.00	$187.50	$1,187.50	18.75%

2096.21	60.00%	$1,600.00	$187.50	$1,187.50	18.75%
1965.20	50.00%	$1,500.00	$187.50	$1,187.50	18.75%
1834.18	40.00%	$1,400.00	$187.50	$1,187.50	18.75%
1703.17	30.00%	$1,300.00	$187.50	$1,187.50	18.75%
1572.16	20.00%	$1,200.00	$187.50	$1,187.50	18.75%
1310.13	0.00%	$1,000.00	$187.50	$1,187.50	18.75%
1179.12	-10.00%	$900.00	$150.00	$1,150.00	15.00%
1048.10	-20.00%	$800.00	$150.00	$1,150.00	15.00%
917.09	-30.00%	$700.00	$150.00	$1,050.00	5.00%
786.08	-40.00%	$600.00	$150.00	$950.00	-5.00%
655.07	-50.00%	$500.00	$150.00	$850.00	-15.00%
524.05	-60.00%	$400.00	$150.00	$750.00	-25.00%
393.04	-70.00%	$300.00	$150.00	$650.00	-35.00%
262.03	-80.00%	$200.00	$150.00	$550.00	-45.00%
131.01	-90.00%	$100.00	$150.00	$450.00	-55.00%
0.00	-100.00%	$0.00	$150.00	$350.00	-65.00%

Please see footnotes on next page.

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(a) The Index Return for each $1,000 principal amount of Securities will be equal to:

Final Value – Initial Value
Initial Value

where,

- the Initial Value is the closing value of the Underlying Index on the Pricing Date; and
- the Final Value is the closing value of the Underlying Index on the Determination Date.

(b) This column shows the cash return you would receive if there was no annual coupon or buffer and your payment at maturity directly reflected the performance of the Underlying Index. The buffer is 20% and the annual coupon is a minimum of 3.00% and a maximum of 6.75%.

(c) At maturity you will receive, other than the coupon payments, for each $1,000 principal amount of Securities, a cash payment calculated as follows:

(1) if the Index Return is 0% or positive, $1,000;

(2) if the Index Return is less than 0% and down to and including -20%, $1,000; and

(3) if the Index Return is less than -20%, $1,000 plus [(Index Return + 20%) x $1,000].

You could lose a substantial portion of your principal investment in the Securities. If the Index Return is less than -20% you could lose at maturity up to 80% of your initial principal investment, and the coupon payments that you receive during the term of the Securities may not be sufficient to compensate you for such loss. In addition, you will never receive, other than the coupon payments, a payment at maturity greater than the principal amount of $1,000 per Security.

(d) The total return presented is exclusive of any tax consequences of owning the Securities. You should consult your tax advisor regarding whether owning the Securities is appropriate for your tax situation. See the sections titled "Risk Factors" and "Taxation" in this Term Sheet.

(e) Represents the percentage total return on each Security.

(f) In this hypothetical example where the hypothetical Final Value is equal to or above the hypothetical Initial Value we have assumed that the hypothetical Annual Index Return was (1) less than 0% for the first four Observation Periods resulting in a 3.00% Annual Index Return, and (2) 0% or positive for the fifth Observation Period resulting in an 6.75% Annual Index Return, for a total payment of $187.50 over the term of the Notes. Where the hypothetical Final Value fell below the hypothetical Initial Value, we have assumed that the hypothetical Annual Index Return was less than 0% for all five Observation Periods resulting in a 3.00% Annual Index Return for a total

payment of $150.00 over the term of the Notes.

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Coupon Payments

Example 1: If, for example, in a hypothetical offering, for the first Observation Period, the Starting Annual Value is 1,100 and the Ending Annual Value is 1,300, then the Annual Index Return would be calculated as follows:

$$\frac{\text{Ending Annual Value} - \text{Starting Annual Value}}{\text{Starting Annual Value}}$$

or

$$\frac{1{,}300 - 1{,}100}{1{,}100} = 18.18\%$$

In this hypothetical example, the Annual Index Return is positive. Therefore, the coupon payment for the Observation Period will be $1,000 times the Maximum Annual Index Return of 6.75%, which is $67.50.

In this hypothetical example, the Annual Index Return was 18.18% but you would have received only an annual coupon of 6.75% for the Observation Period. If the Annual Index Return is greater than the Maximum Annual Index Return, you will receive only the Maximum Annual Index Return regardless of how much or how little the Underlying Index appreciates over the Starting Annual Value.

Example 2: If, for example, in the same hypothetical offering, for the second Observation Period, the Starting Annual Value is 1,300 and the Ending Annual Value is 1,365, then the Annual Index Return would be calculated as follows:

$$\frac{\text{Ending Annual Value} - \text{Starting Annual Value}}{\text{Starting Annual Value}}$$

or

$$\frac{1{,}365 - 1{,}300}{1{,}300} = 5.00\%$$

In this hypothetical example, the Annual Index Return is positive. Therefore, the coupon payment for the Observation Period will be $1,000 times the Maximum Annual Index Return of 6.75%, which is $67.50.

Example 3: If, for example, in the same hypothetical offering, for the third Observation Period, the Starting Annual Value is 1,365 and the Ending Annual Value is 1,365, then the Annual Index Return would be calculated as follows:

$$\frac{\text{Ending Annual Value} - \text{Starting Annual Value}}{\text{Starting Annual Value}}$$

or

$$\frac{1{,}365 - 1{,}365}{1{,}365} = 0.00\%$$

In this hypothetical example, the Annual Index Return is 0%. Therefore, the coupon payment for the Observation Period will be $1,000 times the Maximum Annual Index Return of 6.75%, which is $67.50.

Example 4: If, for example, in the same hypothetical offering, for the fourth Observation Period, the Starting Annual Value is 1,365, the Ending Annual Value is 975, then the Annual Index Return would be calculated as follows:

$$\frac{\text{Ending Annual Value} - \text{Starting Annual Value}}{\text{Starting Annual Value}}$$

or

$$\frac{975 - 1{,}365}{1{,}365} = -28.57\%$$

In this hypothetical example, the Annual Index Return is negative. Therefore, the coupon payment for the Observation Period will be $1,000 times the Minimum Annual Index Return of 3.00%, which is $30.00.

In this hypothetical example, the Annual Index Return was -28.57% but you would have received an annual coupon of 3.00% for the Observation Period. If the Annual Index Return is less than the Minimum Annual Index Return, you will receive the Minimum Annual Index Return regardless of how much or how little the Underlying Index depreciates over the Starting Annual Value.

These examples are for illustrative purposes only. It is not possible to predict the Final Value of the Underlying Index on the Determination Date or at any other time during the term of the Securities. The Final Value is subject to adjustment as set forth in “Description of Securities — Discontinuance of the Underlying Index; Alteration of Method of Calculation” in the related Product Supplement.

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THE UNDERLYING INDEX

The S&P 500® Index

The S&P 500® Index, which is calculated, maintained and published by Standard & Poor's, a Division of The McGraw-Hill Companies, Inc., or S&P, consists of 500 component stocks selected to provide a performance benchmark for the U.S. equity markets. The calculation of the S&P 500® Index is based on the relative value of the float adjusted aggregate market capitalization of the 500 component companies as of a particular time as compared to the aggregate average market capitalization of the 500 similar companies during the base period of the years 1941 through 1943. For more information on the S&P 500® Index, see the information set forth under "The S&P 500® Index" in the accompanying Underlying Supplement No. 2-IV.

License Agreement

S&P has entered into a non-transferable, non-exclusive license agreement granting us and certain of our affiliated or subsidiary companies, in exchange for a fee, the right to use the S&P 500® Index, which is owned and published by S&P, in connection with certain securities, including the securities.

The license agreement between S&P and us provides that the following language must be set forth in this Term Sheet:

The securities are not sponsored, endorsed, sold or promoted by Standard & Poor's Financial Services, LLC. S&P makes no representation or warranty, express or implied, to the owners of the securities or any member of the public regarding the advisability of investing in securities generally or in the securities particularly or the ability of the S&P 500® Index to track general stock market performance. S&P's only relationship to us is the licensing of certain trademarks and trade names of S&P and of the S&P 500® Index which is determined, composed and calculated by S&P without regard to us or the securities. S&P has no obligation to take our needs or the needs of the owners of the securities into consideration in determining, composing or calculating the S&P 500® Index. S&P is not responsible for and has not participated in the determination of the prices and amount of the securities or the timing of the issuance or sale of the securities or in the determination or calculation of the equation by which the securities are to be converted into cash. S&P has no obligation or liability in connection with the administration, marketing or trading of the securities.

NEITHER S&P NOR ITS AFFILIATES GUARANTEE THE ADEQUACY, ACCURACY, TIMELINESS OR COMPLETENESS OF THE S&P 500® INDEX OR ANY DATA INCLUDED THEREIN OR ANY COMMUNICATIONS, INCLUDING BUT NOT LIMITED TO, ORAL OR WRITTEN COMMUNICATIONS (INCLUDING ELECTRONIC COMMUNICATIONS) WITH RESPECT THERETO. S&P AND ITS AFFILIATES SHALL NOT BE SUBJECT TO ANY DAMAGES OR LIABILITY FOR ANY ERRORS, OMISSIONS OR DELAYS THEREIN. S&P MAKES NO EXPRESS OR IMPLIED WARRANTIES, AND EXPRESSLY DISCLAIMS ALL WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE WITH RESPECT TO THE MARKS, THE S&P 500® INDEX OR ANY DATA INCLUDED THEREIN. WITHOUT LIMITING ANY OF THE FOREGOING, IN NO EVENT WHATSOEVER SHALL S&P

OR ITS AFFILIATES BE LIABLE FOR ANY INDIRECT, SPECIAL, INCIDENTAL, PUNITIVE OR CONSEQUENTIAL DAMAGES, INCLUDING BUT NOT LIMITED TO, LOSS OF PROFITS, TRADING LOSSES, LOST TIME OR GOODWILL, EVEN IF THEY HAVE BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES, WHETHER IN CONTRACT, TORT, STRICT LIABILITY OR OTHERWISE.

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HISTORICAL INFORMATION

The following chart sets forth the weekly historical performance of the S&P 500® Index in the period from March 4, 2006 through March 7, 2011. The closing level of the S&P 500® Index on March 7, 2011 was 1310.13. We obtained the closing levels below from Bloomberg, without independent verification. We make no representation or warranty as to the accuracy or completeness of the information obtained from Bloomberg.

These historical values for the S&P 500® Index are not indicative of the future performance of the S&P 500® Index or what the value of the securities will be. Any historical upward or downward trend in the value of the S&P 500® Index during any period set forth below is not an indication that the S&P 500® Index is more or less likely to increase or decrease at any time during the term of the securities. You cannot predict the future performance of the securities or the S&P 500® Index based on the historical performance of the S&P 500® Index. Neither we nor RBS Holdings can guarantee that the value of the S&P 500® Index will increase.

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UNITED STATES FEDERAL INCOME TAXATION

The following is a summary of the material U.S. federal income tax consequences of ownership and disposition of the Securities. It applies only to an investor who holds the Securities as capital assets within the meaning of Section 1221 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"). This discussion is based on the Code, administrative pronouncements, judicial decisions and currently effective and proposed Treasury regulations, changes to any of which subsequent to the date of this Term Sheet may affect the tax consequences described below, possibly with retroactive effect. It does not address all aspects of U.S. federal income taxation that may be relevant to an investor in light of the investor's particular circumstances or to certain types of investors subject to special treatment under the U.S. federal income tax laws, such as certain former citizens or residents of the United States, certain financial institutions, real estate investment trusts, regulated investment companies, tax-exempt entities, dealers and certain traders in securities, partnerships or other entities classified as partnerships for U.S. federal income tax purposes, persons who hold the Securities as a part of a hedging transaction, straddle, conversion or integrated transaction, U.S. holders (as defined below) who have a "functional currency" other than the U.S. dollar, or individual non-U.S. investors who are present in the United States for 183 days or more in the taxable year in which their Securities are sold or retired.

In addition, we will not attempt to ascertain whether any entity included in the Underlying Index would be treated as a "passive foreign investment company" (a "PFIC") within the meaning of Section 1297 of the Code or as a "United States real property holding corporation" (a "USRPHC") within the meaning of Section 897 of the Code. If any such entity were so treated, certain adverse U.S. federal income tax consequences might apply, to a U.S. holder in the case of a PFIC and to a non-U.S. holder in the case of a USRPHC, upon the sale, exchange or retirement of a Security. You should refer to information filed with the Securities and Exchange Commission or the equivalent governmental authority by such entities and consult your tax adviser regarding the possible consequences to you if any such entity is or becomes a PFIC or a USRPHC.

Tax Treatment of the Securities

Although the tax consequences of an investment in the Securities are uncertain, we believe it is reasonable to treat the Securities as prepaid financial contracts for U.S. federal income tax purposes, with the consequences described below. Due to the absence of authorities that directly address instruments that are similar to the Securities, significant aspects of the U.S. federal income tax consequences of an investment in the Securities are uncertain. We do not plan to request a ruling from the IRS, and the IRS or a court might not agree with the treatment described herein. Accordingly, you should consult your tax adviser regarding the U.S. federal income tax consequences of an investment in the Securities (including possible alternative treatments, some of which are discussed below) and with respect to any tax consequences arising under the laws of any state, local or non-U.S. taxing jurisdiction. Unless otherwise stated, the following discussion assumes that the treatment of the Securities as prepaid financial contracts will be respected.

Tax Consequences to U.S. Holders

You are a "U.S. holder" if, for U.S. federal income tax purposes, you are a beneficial owner of the Securities who is: (i) a citizen or resident of the United States; (ii) a corporation created or organized under the laws of the United States or any political subdivision thereof; or (iii) an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

Tax Treatment Prior to Maturity. You should be taxable on the annual coupon payments as they are received or accrued in accordance with your normal method of accounting for such payments for U.S. federal income tax purposes.

Sale, Exchange or Retirement of the Securities. Upon a sale, exchange or retirement of the Securities, you will recognize taxable gain or loss equal to the difference between the amount realized on such sale, exchange or retirement and your tax basis in the Securities. The amount realized may not include the portion of the payment you receive for accrued but unpaid annual coupon payments, which may be treated like a payment of such amounts. Your tax basis in the Securities should equal the amount you paid to acquire them. This gain or loss generally should be capital gain or loss and should be long-term capital gain or loss if you have held the Securities for more than one year, subject to the potential application of the "constructive ownership" regime discussed below. The deductibility of capital losses is subject to certain limitations.

Possible Alternative Tax Treatments of an Investment in the Securities. Due to the absence of authorities that directly address the proper tax treatment of the Securities, the IRS or a court might not uphold the treatment described above. Alternative U.S. federal income tax treatments of the Securities are possible that, if applied, could materially and adversely affect the timing and/or character of income or loss with respect to the Securities. It is possible, for example, that the Securities could be treated as debt instruments issued by us. Under this treatment, the Securities would be governed by Treasury regulations relating to the taxation of contingent payment debt instruments. In that event, even if you are a cash-method taxpayer, in each year that you held the Securities you would be required to accrue into income "original issue discount" based on our comparable yield for similar non-contingent debt, determined as of the time of issuance of the Securities, and then make adjustments as actual payments are received. In addition, any income on the sale, exchange or retirement of the Securities would be treated as ordinary in character. Moreover, if you were to recognize a loss above certain thresholds, you could be required to file a disclosure statement with the IRS.

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Alternatively, if a "pass-thru entity" (such as a Fund) is included in the Underlying Index, the Securities could be treated as "constructive ownership transactions" within the meaning of Section 1260 of the Code, in which case the tax consequences of sale, exchange or retirement of the Security could be affected materially and adversely. If a Security were treated in whole or in part as a constructive ownership transaction, all or a portion of any long-term capital gain you would otherwise recognize on a sale, exchange or retirement of the Security would be recharacterized as ordinary income to the extent such gain exceeded the "net underlying long-term capital gain." Under Section 1260, the net underlying long-term capital gain is generally the net long-term capital gain a taxpayer would have recognized by investing in the underlying pass-thru entity at the inception of the constructive ownership transaction and selling that investment on the date the constructive ownership transaction is closed (i.e., at maturity or earlier disposition). Assuming Section 1260 were to apply to a Security, it is unclear how the net underlying long-term capital gain would be computed. Unless otherwise established by clear and convincing evidence, the net underlying long-term capital gain is treated as zero. Any long-term capital gain recharacterized as ordinary income under Section 1260 would be treated as accruing at a constant rate over the period you held the Security, and you would be subject to an interest charge in respect of the deemed tax liability on the income treated as accruing in prior tax years.

Other U.S. federal income tax characterizations of the Securities might also require you to include amounts in income during the term of the Securities and/or might treat all or a portion of the gain or loss on the sale or settlement of the Securities as ordinary income or loss or as short-term capital gain or loss, without regard to how long you held the Securities. For instance, in the case of any reconstitution, rebalancing or recomposition of the Underlying Index, change in methodology of calculating the index or substitution of a successor index could be treated as a "deemed" taxable exchange that could cause you to recognize gain or loss (subject, in the case of loss, to possible application of the "wash sale" rules) as if you had sold or exchanged the Securities.

In December 2007, Treasury and the IRS released a notice requesting comments on various issues regarding the U.S. federal income tax treatment of "prepaid forward contracts" and similar instruments, such as the Securities. The notice focuses in particular on whether to require holders of these instruments to accrue income over the term of their investment. It also asks for comments on a number of related topics, including the character of income or loss with respect to these instruments; the relevance of factors such as the nature of the underlying property to which the instruments are linked; and whether these instruments are or should be subject to the "constructive ownership" regime discussed above. While the notice requests comments on appropriate transition rules and effective dates, any Treasury regulations or other guidance promulgated after consideration of these issues could materially and adversely affect the tax consequences of an investment in the Securities, possibly with retroactive effect.

You should consult your tax adviser regarding the U.S. federal income tax consequences of an investment in the Securities, including possible alternative treatments and the issues presented by this notice, as well as any tax consequences arising under the laws of any state, local or non-U.S. taxing jurisdiction.

Recent Tax Developments

Recently enacted legislation requires certain individuals who maintain certain "financial accounts" with a "foreign financial institution" to report information about such holdings on their U.S. federal income tax returns, unless a

regulatory exemption is provided. Prospective investors should consult their tax advisors regarding this legislation.

Tax Consequences to Non-U.S. Holders

You are a "non- U.S. holder" if, for U.S. federal income tax purposes, you are a beneficial owner of the Securities who is: (i) a nonresident alien individual, (ii) a foreign corporation or (iii) a foreign estate or trust.

Tax Treatment Prior to Maturity. Subject to the discussion regarding possible alternative treatments and the backup withholding and information reporting rules below, you should not be subject to U.S. federal income tax with respect to the annual coupon payments, though you may be required to establish you are not a U.S. person, unless such payments are effectively connected with your conduct of a trade or business in the United States.

Sale, Exchange or Retirement of the Securities. Any gain from the sale, exchange or retirement of the Securities should not be subject to U.S. federal income tax, including withholding tax, unless such gain is effectively connected with your conduct of a trade or business in the United States, as described below.

Tax Consequences under Possible Alternative Treatments. If the Securities were treated as indebtedness, any income from the Securities would not be subject to U.S. federal income tax, including withholding tax, provided generally that (i) you certified on IRS Form W-8BEN, under penalties of perjury, that you are not a United States person and otherwise satisfied applicable requirements, and (ii) any income from the Securities was not effectively connected with your conduct of a trade or business in the United States.

Trade receivables	(24,344)	(25,787)
Inventories	(4,585)	14,434
Other current assets	13,192	9,148
Accounts payable	(2,863)	(3,876)
Accrued liabilities	11,573	(3,216)
Current income taxes payable	28	2,710
Other non-current assets	4,267	1,429
Other non-current liabilities	(3,077)	(1,430)
Net cash provided by operating activities from continuing operations	17,851	4,311
Net cash (used in) operating activities from discontinued operations	(12,923)	(6,118)
Net cash provided by / (used in) operating activities	4,928	(1,807)
Cash flows from investing activities:		
Capital expenditures	(4,903)	(3,373)
Trademarks	(230)	(382)
Net cash (used in) investing activities from continuing operations		

	(5,133)	(3,755)
Net cash (used in) investing activities from discontinued operations	(100)	-
Net cash (used in) investing activities	(5,233)	(3,755)
Cash flows from financing activities:		
Proceeds from bank borrowings	30,000	55,909
Repayments of bank borrowings	(40,000)	(89,928)
Stock options exercised and other changes	468	203
Excess tax from stock-based compensation	-	(478)
Financing fee	-	(2,751)
Dividends paid	-	(1,220)
Net cash (used in) financing activities from continuing operations	(9,532)	(38,265)
Net cash (used in) financing activities from discontinued operations	-	-
Net cash (used in) financing activities	(9,532)	(38,265)
Effect of exchange rate changes on cash and cash equivalents	2,105	6,684
Net decrease in cash and cash equivalents	(7,732)	(37,143)
Cash and cash equivalents at beginning of period	70,975	86,621
Cash and cash equivalents at end of period	$63,243	$49,478

See Notes to Consolidated Financial Statements

MOVADO GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared by Movado Group, Inc. (the "Company") with information derived from the consolidated financial statements included in the Company's fiscal 2010 Annual Report filed on Form 10-K. In the opinion of management, the accompanying consolidated financial statements reflect all adjustments, consisting of only normal and recurring adjustments, necessary for a fair statement of the financial position and results of operations for the periods presented. These consolidated financial statements should be read in conjunction with the aforementioned Annual Report. Operating results for the interim periods presented are not necessarily indicative of the results that may be expected for the full year.

As announced on May 27, 2010, the Company's subsidiary, Movado Retail Group, Inc., closed its Movado boutique division during its second quarter ending July 31, 2010. All of the Movado boutiques were located in the United States. Beginning in the second quarter of fiscal 2011, the financial results of the boutiques were reported as discontinued operations and presented in a separate section on the face of the Consolidated Statements of Operations and the Consolidated Statements of Cash Flows for all periods presented.

NOTE 1 – RECLASSIFICATIONS

Certain reclassifications were made to prior year's financial statement amounts and related note disclosures to conform to the fiscal 2011 presentation.

NOTE 2 – DISCONTINUED OPERATIONS

The Company closed its Movado boutique division effective the second quarter of fiscal 2011. As a result of that action, the Company is reporting the Movado boutiques' financial activity as discontinued operations for all periods presented.

The following is a summary of the operating results of the Company's discontinued operations:

	Three Months Ended October 31, 2010			Three Months Ended October 31, 2009		
(In thousands)	Net Sales	Pretax Loss	Net Loss	Net Sales	Pretax Loss	Net Loss
Movado Boutiques	$-	$-	$-	$5,523	$3,370	$1,491

	Nine Months Ended October 31, 2010			Nine Months Ended October 31, 2009		
(In thousands)	Net Sales	Pretax Loss	Net Loss	Net Sales	Pretax Loss	Net Loss
Movado Boutiques	$14,252	$23,675	$23,675	$18,613	$9,374	$6,234

For the three months ended October 31, 2010, the Company had no tax provision for its discontinued operations. For the three months ended October 31, 2009, the Company recorded a tax benefit of $1.9 million related to discontinued operations. The effective tax rate for the three months ended October 31, 2009 was 55.8%.

For the nine months ended October 31, 2010, the Company had no tax provision for its discontinued operations. For the nine months ended October 31, 2009, the Company recorded a tax benefit of $3.1 million related to discontinued operations. The effective tax rate for the nine month period ended October 31, 2009 was 33.5%.

As a result of the Movado boutiques closing, the Company recorded $20.0 million of expenses primarily for occupancy charges, asset impairments, inventory reserves and severance. The Company expects that, with the exception of inventory reserves, the majority of the remaining liabilities will be paid by fourth quarter of fiscal 2011.

A summary rollforward of costs related to the closing of the Movado boutiques is as follows (in thousands):

	Fiscal 2011 charges	Cash payments	Non-cash adjustments	Accrued balance at October 31, 2010
Occupancy charges (1)	$ 12,915	$ (13,438)	$ 1,284	$ 761
Asset impairments	3,432	-	(3,432)	-
Inventory reserves	1,892	-	(37)	1,855
Severance	1,756	(1,583)	-	173
Total	$ 19,995	$ (15,021)	$ (2,185)	$ 2,789

(1) Occupancy charges include expenses for lease buyouts, moving and legal expenses and reductions for the reversal of deferred rent accruals.

NOTE 3 – FAIR VALUE MEASUREMENTS

As of February 1, 2008, the Company adopted accounting guidance related to fair value measurements for financial assets and liabilities that are recognized or disclosed at fair value in the Company’s consolidated financial statements and on February 1, 2009, the Company adopted fair value measurements for non-recurring financial assets and liabilities. The adoption did not have a material effect on the Company’s consolidated financial statements. The guidance defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The guidance establishes a fair value hierarchy which prioritizes the inputs used in measuring fair value into three broad levels as follows:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly.
- Level 3 - Unobservable inputs based on the Company’s assumptions.

The guidance requires the use of observable market data if such data is available without undue cost and effort. The Company’s adoption of the guidance did not result in any changes to the accounting for its financial assets and liabilities. Therefore, the primary impact to the Company upon its adoption of this guidance was to expand its fair value measurement disclosures.

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The following table presents the fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of October 31, 2010 (in thousands):

	Fair Value at October 31, 2010			
	Level 1	Level 2	Level 3	Total
Assets:				
Available-for-sale securities	$ 227	$ -	$ -	$ 227
SERP assets - employer	446	-	-	446
SERP assets - employee	13,717	-	-	13,717
Hedge derivatives	-	2,916	-	2,916
Total	$ 14,390	$ 2,916	$ -	$ 17,306
Liabilities:				
SERP liabilities - employee	$ 13,717	$ -	$ -	$ 13,717
Hedge derivatives	-	243	-	243
Total	$ 13,717	$ 243	$ -	$ 13,960

The fair values of the Company's available-for-sale securities are based on quoted prices. The hedge derivatives are entered into by the Company principally to reduce its exposure to the Swiss franc exchange rate risk. Fair values of the Company's hedge derivatives are calculated based on quoted foreign exchange rates, quoted interest rates and market volatility factors. The assets related to the Company's defined contribution supplemental executive retirement plan ("SERP") consist of both employer (employee unvested) and employee assets which are invested in investment funds with fair values calculated based on quoted market prices. The SERP liability represents the Company's liability to the employees in the plan for their vested balances.

NOTE 4 – EQUITY AND COMPREHENSIVE INCOME / (LOSS)

The components of equity for the nine months ended October 31, 2010 and 2009 are as follows (in thousands):

	Movado Group, Inc. Shareholders' Equity							
	Common Stock	Class A Common Stock	Capital in Excess of Par Value	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income	Noncontrolling Interests	Total
Balance, January 31, 2010	$ 251	$ 66	[illegible]	[illegible]	[illegible]	$67,390	[illegible]	[illegible]
Net (loss) / income					(13,614)		[illegible]	[illegible]
Stock options exercised, net of tax	2		[illegible]	[illegible]				472
Stock-based compensation expense			1,178					1,178
Supplemental executive retirement plan			(5)					(5)
						97		97

Net unrealized gain on investments, net of tax					
Effective portion of unrealized gain on hedging contracts, net of tax				609	609
Foreign currency translation adjustment (1)				15,150	[illegible]
Balance, October 31, 2010	$253	$ 66	[illegible]	$83,246	[illegible]

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	Movado Group, Inc. Shareholders' Equity							
	Common Stock	Class A Common Stock	Capital in Excess of Par Value	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Noncontrolling Interests	Total
Balance, January 31, 2009	$246	$ 66	$131,496	$320,781	($97,371)	$44,041	$1,506	$400,765
Net (loss) / income				(31,067)			232	(30,835)
Stock options exercised, net of tax	5		4,618		(4,700)			(77)
Stock-based compensation expense			862					862
Supplemental executive retirement plan			(198)					(198)
Net unrealized gain on investments, net of tax						81		81
Effective portion of unrealized loss on hedging contracts, net of tax						(738)		(738)
Foreign currency translation adjustment (1)						32,730	232	32,962
Balance, October 31, 2009	$251	$ 66	$136,778	$289,714	($102,071)	$76,114	$1,970	$402,822

The components of comprehensive income / (loss) for the three months and nine months ended October 31, 2010 and 2009 are as follows (in thousands):

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2010	2009	2010	2009
Net income / (loss)	$ 17,130	$ (20,644)	$ (13,128)	$ (30,835)
Net unrealized gain / (loss) on investments, net of tax	16	(16)	97	81
	(93)	(491)	609	(738)

Effective portion of unrealized gain / (loss) on hedging contracts, net of tax				
Foreign currency translation adjustments (1)	13,463	16,616	15,147	32,962
Comprehensive income / (loss)	30,516	(4,535)	2,725	1,470
Less: Comprehensive income attributable to noncontrolling interests	366	270	483	464
Total comprehensive income / (loss) attributable to Movado Group, Inc.	$ 30,150	$ (4,805)	$ 2,242	$ 1,006

(1) The foreign currency translation adjustments are tax-effected to the extent they relate to non-permanent investments in foreign subsidiaries.

NOTE 5 – SEGMENT INFORMATION

The Company follows accounting guidance related to disclosures about segments of an enterprise and related information. This guidance requires disclosure of segment data based on how management makes decisions about allocating resources to segments and measuring their performance.

With the exception of Total Assets and Long-Lived Assets, the Retail segment and United States segment information presented below no longer includes amounts related to the Movado boutiques, which were closed during the second quarter of fiscal 2011 and subsequently reported as discontinued operations.

The Company conducts its business primarily in two operating segments: Wholesale and Retail. The Company's Wholesale segment includes the designing, manufacturing and distribution of quality watches, in addition to revenue generated from after sales service activities and shipping. The retail segment includes the Company's outlet stores and the Movado brand flagship store.

The Company divides its business into two major geographic segments: United States operations, and International, which includes the results of all other Company operations. The allocation of geographic revenue is based upon the location of the customer. The Company's international operations are principally conducted in Europe, Asia, Canada, the Middle East, South America and the Caribbean. The Company's international assets are substantially located in Switzerland.

Operating Segment Data for the Three Months Ended October 31, 2010 and 2009 (in thousands):

	Net Sales		Operating Income (1)	
	2010	2009	2010	2009
Wholesale	$ 110,154	$ 110,987	$ 16,534	$ 4,208
Retail	12,848	12,456	1,662	2,101
Consolidated total	$ 123,002	$ 123,443	$ 18,196	$ 6,309

Operating Segment Data for the Nine Months Ended October 31, 2010 and 2009 (in thousands):

	Net Sales		Operating Income (Loss) (1)	
	2010	2009	2010	2009
Wholesale	$ 245,962	$ 232,396	$ 9,018	$ (4,176)
Retail	35,232	35,233	4,681	6,150
Consolidated total	$ 281,194	$ 267,629	$ 13,699	$ 1,974

	Total Assets		
	October 31, 2010	January 31, 2010	October 31, 2009
Wholesale	$ 444,819	$ 435,432	$ 472,845
Retail	21,604	33,945	43,383
Consolidated total	$ 466,423	$ 469,377	$ 516,228

(1) Fiscal 2011 Wholesale Operating Income includes the reversal of a $4.3 million previously recorded liability for a retirement agreement with the Company's late Chairman. See note 12 to the consolidated financial statements for further details.

Geographic Segment Data for the Three Months Ended October 31, 2010 and 2009 (in thousands):

	Net Sales		Operating Income (Loss) (2)	

	2010	2009	2010	2009
United States	$ 66,105	$ 74,092	$ 6,604	$ (1,513)
International	56,897	49,351	11,592	7,822
Consolidated total	$ 123,002	$ 123,443	$ 18,196	$ 6,309

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United States and International net sales are net of intercompany sales of $64.3 million and $56.7 million for the three months ended October 31, 2010 and 2009, respectively.

Geographic Segment Data for the Nine Months Ended October 31, 2010 and 2009 (in thousands):

	Net Sales		Operating (Loss) Income (2)	
	2010	2009	2010	2009
United States	$ 148,505	$ 152,726	$ (941)	$ (13,245)
International	132,689	114,903	14,640	15,219
Consolidated total	$ 281,194	$ 267,629	$ 13,699	$ 1,974

United States and International net sales are net of intercompany sales of $149.9 million and $159.8 million for the nine months ended October 31, 2010 and 2009, respectively.

(2) Fiscal 2011 United States Operating (Loss) includes the reversal of a $4.3 million previously recorded liability for a retirement agreement with the Company's late Chairman. See note 12 to the consolidated financial statements for further details.

	Total Assets		
	October 31, 2010	January 31, 2010	October 31, 2009
United States	$ 203,256	$ 204,836	$ 249,161
International	263,167	264,541	267,067
Consolidated total	$ 466,423	$ 469,377	$ 516,228

	Long-Lived Assets		
	October 31, 2010	January 31, 2010	October 31, 2009
United States	$ 30,869	$ 36,000	$ 42,842
International	9,087	11,394	15,300
Consolidated total	$ 39,956	$ 47,394	$ 58,142

NOTE 6 – INVENTORIES, NET

Inventories consist of the following (in thousands):

	October 31, 2010	January 31, 2010	October 31, 2009
Finished goods	$ 124,977	$ 128,334	$ 144,287
Component parts	60,333	55,077	63,104
Work-in-process	21,239	20,685	21,375
	$ 206,549	$ 204,096	$ 228,766

NOTE 7 – DEBT AND LINES OF CREDIT

On July 17, 2009, the Company, together with Movado Group Delaware Holdings Corporation, Movado Retail Group, Inc. and Movado LLC (together with the Company, the "Borrowers"), each a wholly owned domestic subsidiary of the Company, entered into an Amended and Restated Loan and Security Agreement (the "Loan Agreement") with Bank of America, N.A. and Bank Leumi USA, as lenders, and Bank of America, N.A., as agent (in such capacity, the "Agent"). The Loan Agreement provides a $55.0 million asset based senior secured revolving credit facility (the "Facility"), including a $15.0 million letter of credit subfacility. The maturity date of the Facility is June 5, 2012.

Availability under the Facility is determined by reference to a borrowing base which is based on the sum of a percentage of eligible accounts receivable and eligible inventory of the Borrowers. $10.0 million in availability is blocked until the date (the "Block Release Date") on which the Borrowers have achieved for a four fiscal quarter period a consolidated fixed charge coverage ratio of at least 1.25 to 1.0 and have domestic EBITDA greater than $10.0 million. The availability block must remain in place for at least one year. The amount of the availability block will be reduced by the amount by which the borrowing base exceeds $55.0 million, up to a maximum reduction of $5.0 million. Availability under the Facility may be further reduced by certain reserves established by the Agent in its good faith credit judgment. As of October 31, 2010, total availability under the Facility, giving effect to the availability block, no outstanding borrowings and the letters of credit outstanding under the subfacility, was $49.3 million.

The initial applicable margin for LIBOR rate loans was 4.25% and for base rate loans was 3.25%. After July 17, 2010, the applicable margins decrease or increase by 0.25% per annum from the initial applicable margins depending on whether average availability for the most recently completed fiscal quarter is either greater than $12.5 million, or is $5.0 million or less, respectively. Beginning in the third quarter of fiscal year 2011, the applicable margin decreased by 0.25% per annum. The Company has also agreed to pay certain fees and expenses and provide certain indemnities, all of which are customary for such financings.

Prior to the Block Release Date, if borrowing availability is less than $10.0 million (which threshold may be reduced to the extent the borrowing base exceeds $55.0 million, up to a maximum $5.0 million reduction), the Borrowers will be subject to a minimum EBITDA covenant. After the Block Release Date, the Borrowers will be subject to a minimum EBITDA covenant if borrowing availability is less than $15.0 million. As of October 31, 2010, the Borrowers were not subject to the minimum EBITDA covenant.

In addition, after the Block Release Date, if borrowing availability is less than $15.0 million, the Borrowers will be subject to a minimum fixed charge coverage ratio.

The Borrowers' deposit accounts will be subject to cash dominion prior to the Block Release Date if borrowing availability is less than $7.5 million, but such threshold may be reduced to the extent the borrowing base exceeds $55.0 million, up to a maximum $5.0 million reduction. After the Block Release Date, cash dominion will be imposed if borrowing availability is less than $15.0 million. As of October 31, 2010, the Borrowers were not subject to cash dominion nor do the Borrowers expect to be subject to such a requirement in the foreseeable future.

The Loan Agreement contains affirmative and negative covenants binding on the Borrowers and their subsidiaries that are customary for asset based facilities, including, but not limited to, restrictions and limitations on the incurrence of debt for borrowed money and liens, dispositions of assets, capital expenditures, dividends and other payments in respect of equity interests, the making of loans and equity investments, prepayments of subordinated and certain other debt, mergers, consolidations, liquidations and dissolutions, and transactions with affiliates.

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The Loan Agreement contains events of default that are customary for facilities of this type, including, but not limited to, nonpayment of principal, interest, fees and other amounts when due, failure of any representation or warranty to be true in any material respect when made or deemed made, violation of covenants, cross default, material judgments, material ERISA liability, bankruptcy events, material loss of collateral in excess of insured amounts, asserted or actual revocation or invalidity of the loan documents, change of control and events or circumstances having a material adverse effect. The borrowings under the Facility are joint and several obligations of the Borrowers and also cross-guaranteed by each Borrower. In addition, the Borrowers' obligations under the Facility are secured by first priority liens, subject to permitted liens, on substantially all of the Borrowers' U.S. assets (other than certain excluded assets).

A Swiss subsidiary of the Company maintains unsecured lines of credit with an unspecified length of time with a Swiss bank. As of October 31, 2010 and 2009, these lines of credit totaled 10.0 million Swiss francs and 8.0 million Swiss francs, respectively, with U.S. dollar equivalents of $10.2 million and $7.9 million, respectively. As of October 31, 2010, two European banks have guaranteed obligations to third parties on behalf of two of the Company's foreign subsidiaries with U.S. dollar equivalents of $1.7 million in various foreign currencies. As of October 31, 2010, there were no outstanding borrowings against these lines.

NOTE 8 – EARNINGS PER SHARE

The Company presents net income per share on a basic and diluted basis. Basic earnings per share are computed using weighted-average shares outstanding during the period. Diluted earnings per share are computed using the weighted-average number of shares outstanding adjusted for dilutive common stock equivalents.

The weighted-average number of shares outstanding for basic earnings per share was 24,772,000 and 24,558,000 for the three months ended October 31, 2010 and 2009, respectively. For the three months ended October 31, 2010, diluted earnings per share was increased by 135,000, due to potentially dilutive common stock equivalents issuable under the Company's stock compensation plans. For the three months ended October 31, 2009, the number of shares outstanding for diluted earnings per share was the same as the basic earnings per share because the Company generated a net loss.

For the three months ended October 31, 2010 and October 31, 2009, approximately 605,000 and 730,000, respectively, of common stock equivalents were excluded from the computation of diluted earnings per share because their effect would have been antidilutive.

The weighted-average number of shares outstanding for basic earnings per share was 24,730,000 and 24,509,000 for the nine months ended October 31, 2010 and 2009, respectively. For the nine months ended October 31, 2010, diluted earnings per share was increased by 258,000, due to potentially dilutive common stock equivalents issuable under the Company's stock compensation plans. For the nine months ended October 31, 2009, the number of shares outstanding for diluted earnings per share was the same as the basic earnings per share because the Company generated a net loss.

For the nine months ended October 31, 2010 and October 31, 2009, approximately 513,000 and 1,080,000, respectively, of common stock equivalents were excluded from the computation of diluted earnings per share because their effect would have been antidilutive.

NOTE 9 – COMMITMENTS AND CONTINGENCIES

At October 31, 2010, one bank in the domestic bank group has issued five irrevocable standby letters of credit for retail and operating facility leases to various landlords, for the administration of the Movado boutique

private-label credit card and Canadian payroll to the Royal Bank of Canada. The Company had outstanding letters of credit totaling $0.7 million with expiration dates through March 10, 2013.

As of October 31, 2010, two European banks have guaranteed obligations to third parties on behalf of two of the Company's foreign subsidiaries in the amount of $1.7 million in various foreign currencies.

The Company is involved from time to time in legal claims involving trademarks and other intellectual property, contracts, employee relations and other matters incidental to the Company's business. Although the outcome of such matters cannot be determined with certainty, the Company's general counsel and management believe that the final outcome would not have a material effect on the Company's consolidated financial position, results of operations or cash flows.

NOTE 10 – INCOME TAXES

The Company recorded a tax expense of $0.8 million and $24.4 million for the three months ended October 31, 2010 and 2009, respectively. The effective tax rate for the three month period ended October 31, 2010 was 4.4%. Actual taxes in the current period include adjustments for a non-cash charge to record changes in the valuation allowances on the Company's net deferred tax assets, taxes on repatriated foreign dividends and the application of interim tax reporting guidelines. For the three months ended October 31, 2009, the Company determined that it was appropriate to record a full valuation allowance against its net deferred tax assets in the U.S., primarily due to the Company's U.S. loss position in recent years, and the Company recognized a non-cash deferred tax expense of $20.8 million. In addition, for the three months ended October 31, 2009, a non-cash provision of $2.2 million was recorded for net federal income tax on the future remittance of earnings of a foreign subsidiary.

The Company recorded a tax expense of $1.6 million and $22.9 million for the nine months ended October 31, 2010 and 2009, respectively. The effective tax rate for the nine month period ended October 31, 2010 was 13.0%. Actual taxes in the current period include adjustments for a non-cash charge to record changes in the valuation allowances on the Company's net deferred tax assets, taxes on repatriated foreign dividends and the application of interim tax reporting guidelines. The tax expense for the nine months ended October 31, 2009 included charges regarding the above mentioned non-cash deferred tax expense related to valuation allowances and the non-cash provision on future remittance of earnings of a foreign subsidiary.

NOTE 11 – DERIVATIVE FINANCIAL INSTRUMENTS

The Company accounts for its derivative financial instruments in accordance with guidance which requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial condition and measure those instruments at fair value. A significant portion of the Company's purchases are denominated in Swiss francs. The Company reduces its exposure to the Swiss franc exchange rate risk through a hedging program. Under the hedging program, the Company manages most of its foreign currency exposures on a consolidated basis, which allows it to net certain exposures and take advantage of natural offsets. In the event these exposures do not offset, the Company uses various derivative financial instruments to further reduce the net exposures to currency fluctuations, predominately forward and option contracts. When entered into, the Company designates and documents these derivative instruments as a cash flow hedge of a specific underlying exposure, and sets forth the risk management objectives and strategies for undertaking the hedge transactions. Changes in the fair value of a derivative that is designated and documented as a cash flow hedge, and which is highly effective, are recorded in other comprehensive income until the underlying transaction affects earnings, and then are later reclassified into earnings in the same account as the hedged transaction. The Company formally assesses, both at the inception and at each financial quarter thereafter, the effectiveness of the derivative instrument hedging the underlying forecasted cash flow transaction. Any ineffectiveness related to

the derivative financial instruments' change in fair value will be recognized in the period in which the ineffectiveness was calculated.

The Company uses forward exchange contracts to offset its exposure to certain foreign currency receivables and liabilities. These forward contracts are not designated as qualified hedges and, therefore, changes in the fair value of these derivatives are recognized into earnings, thereby offsetting the current earnings effect of the related foreign currency receivables and liabilities.

All of the Company's derivative instruments have liquid markets to assess fair value. The Company does not enter into any derivative instruments for trading purposes.

As of October 31, 2010, the Company's entire net forward contracts hedging portfolio consisted of 50.0 million Swiss francs equivalent for various expiry dates ranging through April 26, 2011.

The following table summarizes the fair value and presentation in the consolidated balance sheets for derivatives designated as hedging instruments and derivatives not designated as hedging instruments under the relevant guidance as of October 31, (in thousands):

	Asset Derivatives			Liability Derivatives		
	Balance Sheet Location	2010 Fair Value	2009 Fair Value	Balance Sheet Location	2010 Fair Value	2009 Fair Value
Derivatives designated as hedging instruments:						
Foreign Exchange Contracts	Other Current Assets	$ -	$ -	Accrued Liabilities	$ -	$ -
Derivatives not designated as hedging instruments:						
Foreign Exchange Contracts	Other Current Assets	2,916	1,919	Accrued Liabilities	243	152
Total Derivative Instruments		$ 2,916	$ 1,919		$ 243	$ 152

As of October 31, 2010, the balance of deferred net gains on derivative financial instruments documented as cash flow hedges included in accumulated other comprehensive income ("AOCI") was $0.4 million in net gains, net of tax of $1.0 million, compared to $0.7 million in net gains, net of tax of $0.5 million at October 31, 2009. The Company estimates that a substantial portion of the deferred net gains at October 31, 2010 will be realized into earnings over the next 12 to 24 months as a result of transactions that are expected to occur over that period. The primary underlying transaction which will cause the amount in AOCI to affect cost of goods sold consists of the Company's sell through of inventory purchased in Swiss francs. The maximum length of time the Company is hedging its exposure to the fluctuation in

future cash flows for forecasted transactions is 24 months. For the three months ended October 31, 2010 and 2009, the Company reclassified from AOCI to earnings $0.4 million of net gains, net of tax of $0.3 million and $0.5 million of net gains, net of tax of $0.3 million, respectively. For the nine months ended October 31, 2010 and 2009, the Company reclassified from AOCI to earnings $0.6 million of net gains, net of tax of $0.4 million and $1.3 million of net gains, net of tax of $0.7 million, respectively.

During the three and nine months ended October 31, 2010 and 2009, the Company recorded no charge related to its assessment of the effectiveness of its derivative hedge portfolio because of the high degree of effectiveness between the hedging instrument and the underlying exposure being hedged. Changes in the contracts' fair value

due to spot-forward differences are excluded from the designated hedge relationship. The Company records these transactions in the cost of sales of the Consolidated Statements of Income.

NOTE 12 - OTHER

In fiscal 1996, the Company entered into an agreement with a trust which owned an insurance policy issued on the lives of the Company's former Chairman, Mr. Gedalio Grinberg (“Mr. Grinberg”), and his spouse (“Mrs. Grinberg”). Under this agreement, the trust assigned the insurance policy to the Company as collateral to secure repayment by the trust of interest-free loans made by the Company to the trust in amounts equal to the premiums on said insurance policy (approximately $0.7 million per annum). The agreement required the trust to repay the loans from the proceeds of the policy. At January 31, 2003, the Company had outstanding loans from the trust of $5.2 million. On April 4, 2003, the agreement was amended and restated to transfer the policy from the trust to the Company in partial repayment of the loan balance. The Company is the beneficiary of the policy insofar as upon the death of Mr. Grinberg and Mrs. Grinberg, the proceeds of the policy would first be distributed to the Company to repay the premiums paid by the Company with the remaining proceeds distributed to the trust. On January 5, 2009, the Company announced the passing of Mr. Grinberg. During fiscal 2010, the Company borrowed approximately $11.0 million against the cash surrender value of this insurance policy. On August 9, 2010, Mrs. Grinberg passed away. As of this date, the Company had a balance of $5.0 million in Other Current Assets, consisting of $11.1 million of premiums paid on the policy, net of the outstanding loan balance of $6.1 million. The Company received approximately $4.8 million in the third quarter of fiscal 2011, which represented the net balance due from the trust and accrued interest owed as of August 9, 2010.

On December 19, 2008, the Company entered into a Transition and Retirement Agreement (the “Agreement”) with the Company’s former Chairman, Mr. Grinberg. The Agreement stipulated that upon his retirement on January 31, 2009, Mr. Grinberg, or Mrs. Grinberg if he predeceases her, would receive a payment of $0.6 million for the year ended January 31, 2010, and annual payments of $0.5 million for each year thereafter through the life of Mr. Grinberg and, if he predeceases Mrs. Grinberg, through the life of Mrs. Grinberg. On January 5, 2009, the Company announced the passing of Mr. Grinberg. As of July 31, 2010, a $4.3 million liability was recorded in the Company’s Consolidated Balance Sheets related to the Agreement, of which $0.5 million was recorded in Accrued Liabilities, and $3.8 million was recorded in Other Non-Current Liabilities. In the third quarter of fiscal 2011, due to the passing of Mrs. Grinberg, the Company reversed the $4.3 million liability as a reduction of SG&A expenses.

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

FORWARD-LOOKING STATEMENTS

Statements in this Quarterly Report on Form 10-Q, including, without limitation, statements under Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this report, as well as statements in future filings by the Company with the Securities and Exchange Commission, in the Company's press releases and oral statements made by or with the approval of an authorized executive officer of the Company, which are not historical in nature, are intended to be, and are hereby identified as, "forward-looking statements" for purposes of the safe harbor provided by the Private Securities Litigation Reform Act of 1995. These statements are based on current expectations, estimates, forecasts and projections about the Company, its future performance, the industry in which the Company operates and management's assumptions. Words such as "expects", "anticipates", "targets", "goals", "projects", "intends", "plans", "believes", "seeks", "estimates", "may", "will", "should" and words and similar expressions are also intended to identify such forward-looking statements. The Company cautions readers that forward-looking statements include, without limitation, those relating to the Company's future business prospects, projected operating or financial results, revenues, working capital, liquidity, capital needs, plans for future operations, expectations regarding capital expenditures and operating expenses, effective tax rates, margins, interest costs, and income as well as assumptions relating to the foregoing. Forward-looking statements are subject to certain risks and uncertainties, some of which cannot be predicted or quantified. Actual results and future events could differ materially from those indicated in the forward-looking statements, due to several important factors herein identified, among others, and other risks and factors identified from time to time in the Company's reports filed with the SEC including, without limitation, the following: general economic and business conditions which may impact disposable income of consumers in the United States and the other significant markets where the Company's products are sold, uncertainty regarding such economic and business conditions, trends in consumer debt levels and bad debt write-offs, general uncertainty related to possible terrorist attacks and the impact on consumer spending, changes in consumer preferences and popularity of particular designs, new product development and introduction, competitive products and pricing, seasonality, availability of alternative sources of supply in the case of the loss of any significant supplier or any supplier's inability to fulfill the Company's orders, the loss of or curtailed sales to significant customers, the Company's dependence on key employees and officers, the ability to successfully integrate the operations of acquired businesses without disruption to other business activities, the continuation of licensing arrangements with third parties, the ability to secure and protect trademarks, patents and other intellectual property rights, the ability to lease new stores on suitable terms in desired markets and to complete construction on a timely basis, the ability of the Company to successfully manage its expenses on a continuing basis, the continued availability to the Company of financing and credit on favorable terms, business disruptions, disease, general risks associated with doing business outside the United States including, without limitation, import duties, tariffs, quotas, political and economic stability, and success of hedging strategies with respect to currency exchange rate fluctuations.

These risks and uncertainties, along with the risk factors discussed under Item 1A "Risk Factors" in the Company's Annual Report on Form 10-K, should be considered in evaluating any forward-looking statements contained in this Quarterly Report on Form 10-Q or incorporated by reference herein. All forward-looking statements speak only as of the date of this report or, in the case of any document incorporated by reference, the date of that document. All subsequent written and oral forward-looking statements attributable to the Company or any person acting on its behalf are qualified by the cautionary statements in this section. The Company undertakes no obligation to update or publicly release any revisions to forward-looking statements to reflect events, circumstances or changes in expectations after the date of this report.

Critical Accounting Policies and Estimates and Newly Adopted Accounting Pronouncements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. These estimates and assumptions also affect the reported amounts of revenues and expenses. Estimates by their nature are based on judgments and available information. Therefore, actual results could materially differ from those estimates under different assumptions and conditions.

Critical accounting policies are those that are most important to the portrayal of the Company's financial condition and the results of operations and require management's most difficult, subjective and complex judgments as a result of the need to make estimates about the effect of matters that are inherently uncertain. The Company's most critical accounting policies have been discussed in the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2010.

As of October 31, 2010, there have been no material changes to any of the critical accounting policies as disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2010.

In the first quarter of 2010, the Company adopted FASB issued accounting guidance that requires the gross presentation of activity within the Level 3 fair value measurement roll forward and details of transfers in and out of Level 1 and 2 fair value measurements. It also clarifies existing disclosure requirements regarding the level of disaggregation of fair value measurements and disclosures on inputs. The adoption of this guidance did not have a material impact on the Company's financial statements.

In the first quarter of 2010, the Company adopted new standards for determining whether to consolidate a variable interest entity. These new standards eliminated a mandatory quantitative approach to determine whether a variable interest gives the entity a controlling financial interest in a variable interest entity in favor of a qualitatively focused analysis, and require an ongoing reassessment of whether an entity is the primary beneficiary. The adoption of these new standards did not impact the Company's consolidated statements of operations or balance sheets.

Recent Developments

Economic conditions around the world began to deteriorate in fiscal 2009. Global economic conditions are showing signs of recovery, particularly in the watch category. The Company believes that the U.S. economy will continue to show moderate growth, yet it remains conservative on the outlook in the European market. The Asia market remains strong but currently represents only a small part of the Company's business. As the Company continues to manage its way through these uncertain times, it is taking, and will continue to take, appropriate actions to address challenges in the marketplace and more strongly position the Company for the future, including:

- proactively managing sales to limit credit risk and future potential liquidations,
- continuing to control spending in accordance with the Company's expense reduction program implemented in fiscal 2009,
- further strengthening its balance sheet and liquidity, continuing to tightly manage cash and inventory levels,
- increasing investments in certain of the Company's brands to elevate their connection with consumers and drive top-line growth,

- building the business for its core portfolio of brands with a renewed focus on product innovation and improved execution of product segmentation and pricing,
- maintaining the Company’s strong licensed brand business, and

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- reducing the negative contribution from areas of its business that are underperforming.

As announced on May 27, 2010, the Company's subsidiary, Movado Retail Group, Inc., closed its Movado boutique division during its second quarter ending July 31, 2010. All of the Movado boutiques were located in the United States. The Company incurred a charge of approximately $20 million in connection with the closing of the boutiques. This charge was primarily comprised of occupancy charges, asset impairments, inventory reserves and severance. Beginning in the second quarter of fiscal 2011, the financial results of the boutiques are being reported as discontinued operations and presented in a separate section on the face of the Consolidated Statements of Operations and the Consolidated Statements of Cash Flows for all periods presented.

Overview

The Company conducts its business primarily in two operating segments: Wholesale and Retail. The Company's wholesale segment includes the designing, manufacturing and distribution of quality watches. The retail segment includes the Company's outlet stores and the Movado brand flagship store. The following discussion of retail segment and United States segment operating results no longer includes amounts related to the Movado boutiques as a result of closing the Movado boutique division during the second quarter of fiscal 2011. The financial results of the Movado boutiques are classified as discontinued operations for all periods presented.

The Company divides its watch business into distinct categories. The luxury category consists of the Ebel® and Concord® brands. The accessible luxury category consists of the Movado® and ESQ® by Movado brands. The licensed brands category represents brands distributed under license agreements and includes Coach®, HUGO BOSS®, Juicy Couture®, Lacoste® and Tommy Hilfiger®.

Results of operations for the three months ended October 31, 2010 as compared to the three months ended October 31, 2009

Net Sales: Comparative net sales by business segment were as follows (in thousands):

	Three Months Ended October 31,	
	2010	2009
Wholesale:		
United States	$ 53,257	$ 61,636
International	56,897	49,351
Total Wholesale	110,154	110,987
Retail	12,848	12,456
Net Sales	$ 123,002	$ 123,443

Net sales for the three months ended October 31, 2010 were $123.0 million, below prior year by $0.4 million or 0.4%. Net sales for the three months ended October 31, 2009 included $8.4 million of liquidation of excess discontinued inventory. Excluding the liquidation of excess discontinued inventory in the prior year period, net sales for the three months ended October 31, 2010 were above the prior year period by $8.0 million or 6.9%. The Company is presenting net sales excluding sales of excess discontinued inventory because the Company believes that it is useful to eliminate the effect of this item in order to improve the comparability of the Company's results for the periods presented. For the three months ended October 31, 2010, fluctuations in

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foreign currency exchange rates unfavorably impacted net sales by $0.6 million when compared to the prior year period.

Net sales for the three months ended October 31, 2010 in the wholesale segment were $110.2 million, below the prior year period by $0.8 million or 0.8%. Excluding $8.4 million of liquidation of excess discontinued inventory in the prior year period, net sales in the wholesale segment for the current period were above the prior year period by $7.6 million or 7.4%. The increase in wholesale net sales was driven by growth in the international segment. Sales in the U.S. segment were flat year-over-year.

Net sales for the three months ended October 31, 2010 in the U.S. wholesale segment were $53.3 million, below the prior year period by $8.4 million or 13.6%. Excluding $8.4 million of liquidation of excess discontinued inventory in the prior year period, net sales in the U.S. wholesale segment for the current period were flat to the prior year period. (The remaining discussion in this paragraph excludes the impact of the liquidation sales of excess discontinued inventory.) Net sales in the licensed brands category were above the prior year period by $0.9 million or 5.5%, primarily due to better performance resulting from improved economic conditions when compared to the prior year period. The licensed brand category has favorable pricing when compared to the luxury and the accessible luxury categories, making the licensed brand category watches more attractive to consumers who continue to manage their spending. Net sales in the luxury category were below prior year by $0.3 million, or 23.1%, as the relatively high priced watch offerings of the category continued to be negatively affected by the difficult U.S. economic environment. Net sales in the accessible luxury category were below prior year by $0.2 million, or 0.7%, resulting from the Company's decision to continue to control distribution in the current year period, as well as the decision to limit sales to customers which the Company believed to have credit risk. These decreases were partially offset by higher demand as customers began to replenish their inventories after significant destocking in the prior year when they slowed replenishment and reduced open-to-buy levels as a result of the unfavorable economic conditions.

Net sales for the three months ended October 31, 2010 in the international wholesale segment were $56.9 million, above the prior year period by $7.5 million or 15.3%, with increases recorded in all watch brand categories. Net sales in the licensed brands category were above the prior year period by $5.1 million or 17.9%, primarily due to market expansion and better performance resulting from improved economic conditions when compared to prior year period. Net sales in the luxury category were above the prior year period by $2.6 million, or 37.6%. Net sales in the accessible luxury category were above the prior year period by $1.0 million, or 8.5%. The increase in net sales for both the luxury and accessible luxury categories was primarily due to better performance resulting from improved economic conditions when compared to the prior year period. For the three months ended October 31, 2010, fluctuations in foreign currency exchange rates unfavorably impacted net sales by $0.6 million when compared to the prior year period.

Net sales for the three months ended October 31, 2010 in the retail segment were $12.8 million, above the prior year period by $0.4 million or 3.2%. As of October 31, 2010, the Company operated 32 outlet stores and the Movado brand flagship store.

Gross Profit. Gross profit for the three months ended October 31, 2010 was $68.6 million or 55.8% of net sales as compared to $56.7 million or 45.9% of net sales for the three months ended October 31, 2009. The increase in gross profit of $11.9 million was primarily attributed to the increase in gross margin percentage. The gross margin percentage for the three months ended October 31, 2010 was favorably impacted by approximately 90 basis points resulting from a shift in channel and product mix. For the three months ended October 31, 2009, both the gross profit and gross margin percentage were unfavorably impacted by currency and unfavorable inventory overhead absorption. The gross margin percentage for the three months ended October 31, 2009 was unfavorably impacted by approximately 150 basis points by fluctuations in foreign currency due to losses on the un-hedged portion of the Company's Swiss franc liabilities, predominantly in the United States. The unfavorable overhead absorption in the

prior year period was primarily attributed to abnormally low production

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levels associated with the decline in sales volume which unfavorably impacted the gross margin percentage by approximately 210 basis points. In addition, the gross margin percentage during the three months ended October 31, 2009 was unfavorably impacted by approximately 540 basis points resulting from the $8.4 million of sales of excess discontinued inventory.

Selling, General and Administrative ("SG&A"). SG&A expenses for the three months ended October 31, 2010 were $50.4 million, or flat to the prior year period. Higher marketing expense of $2.5 million was recorded during the three months ending October 31, 2010 when compared to the prior year period, resulting from the Company's decision to increase investment in this area to elevate its brands' connection with consumers and to drive sales growth. Additionally, performance based compensation was higher by $3.4 million year-over-year, resulting from expense recorded for the current period due to the expected achievement of performance goals, as well as the reversal of previously recorded expenses in the prior year due to goals not being met in light of the challenging global economy at that time. These expense increases were offset by lower expenses of $1.0 million associated with tradeshows as the Company reduced participation in these events. Additionally, the Company recorded a benefit of $4.3 million in the current year period resulting from the reversal of a previously recorded liability for a retirement agreement with the Company's late Chairman. The effect of fluctuations in foreign currency exchange rates favorably impacted SG&A for the three months ended October 31, 2010 by $0.6 million, primarily due to the transactional effect of foreign denominated assets held in strengthening currencies.

Wholesale Operating Income. Operating income of $16.5 million and $4.2 million was recorded in the wholesale segment for the three months ended October 31, 2010 and 2009, respectively. The $12.3 million increase in profit was the result of an increase in gross profit of $11.7 million, and a decrease in SG&A expenses of $0.6 million. The increase in gross profit of $11.7 million was primarily attributed to the increase in gross margin percentage achieved year-over-year. The decrease in SG&A expenses of $0.6 million was driven by a reduction in expenses associated with tradeshows of $1.0 million, the $4.3 million benefit recorded in the current period resulting from the reversal of a previously recorded liability for a retirement agreement, as well as the favorable impact of foreign currency fluctuations of $0.6 million when compared to the prior year period. These decreases were partially offset by higher marketing expenses of $2.6 million and higher performance based compensation of $3.4 million.

Retail Operating Income. Operating income of $1.7 million and $2.1 million was recorded in the retail segment for the three months ended October 31, 2010 and 2009, respectively. The $0.4 million decrease in profit was primarily the result of an increase in SG&A expenses of $0.6 million, partially offset by an increase in gross profit of $0.2 million. The increase in gross profit of $0.2 million was primarily attributed to the increase in sales volume year-over-year. The increase in SG&A expenses of $0.6 million was primarily due to higher occupancy and payroll related expenses in the current year period.

Interest Expense. Interest expense for the three months ended October 31, 2010 and 2009 was $0.5 million and $1.1 million, respectively. The decrease in interest expense of $0.6 million was primarily due to lower average borrowings year-over-year.

Interest Income. Interest income was $0.2 million and $0.1 million for the three month periods ended October 31, 2010 and 2009, respectively.

Income Taxes. The Company recorded a tax expense of $0.8 million and a tax expense of $24.4 million for the three months ended October 31, 2010 and 2009, respectively. The effective tax rate for the three month period ended October 31, 2010 was 4.4%. Actual taxes in the current period include adjustments for a non-cash charge to record changes in the valuation allowances on the Company's net deferred tax assets, taxes on repatriated foreign dividends and the application of interim tax reporting guidelines. For the three months ended October 31, 2009, the Company determined that it was appropriate to record a full valuation allowance against its net deferred tax assets in the U.S.,

primarily due to the Company’s U.S. loss position in recent years,

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and the Company recognized a non-cash deferred tax expense of $20.8 million. In addition, for the three months ended October 31, 2009, a non-cash provision of $2.2 million was recorded for net federal income tax on the future remittance of earnings of a foreign subsidiary.

Loss From Discontinued Operations. The Company records the financial results of its Movado boutique division as discontinued operations, which ceased doing business during the quarter ended July 31, 2010. For the three months ended October 31, 2009, the Company recorded a loss from discontinued operations of $1.5 million.

Net Income / (Loss) Attributed to Movado Group, Inc. For the three months ended October 31, 2010, the Company recorded net income of $16.9 million, as compared to a net loss of $20.9 million recorded for the three months ended October 31, 2009.

Results of operations for the nine months ended October 31, 2010 as compared to the nine months ended October 31, 2009

Net Sales: Comparative net sales by business segment were as follows (in thousands):

	Nine Months Ended October 31,	
	2010	2009
Wholesale:		
United States	$ 113,273	$ 117,493
International	132,689	114,903
Total Wholesale	245,962	232,396
Retail	35,232	35,233
Net Sales	$ 281,194	$ 267,629

Net sales for the nine months ended October 31, 2010 were $281.2 million, above the prior year period by $13.6 million or 5.1%. Net sales for the nine months ended October 31, 2009 included $13.6 million of liquidation of excess discontinued inventory. Excluding the liquidation of excess discontinued inventory in the prior year period, net sales for the nine months ended October 31, 2010 were above the prior year period by $27.2 million or 10.7%. For the nine months ended October 31, 2010, fluctuations in foreign currency exchange rates unfavorably impacted net sales by $0.4 million when compared to the prior year period.

Net sales for the nine months ended October 31, 2010 in the wholesale segment were $246.0 million, above the prior year period by $13.6 million or 5.8%. Excluding $13.6 million of liquidation of excess discontinued inventory in the prior year period, net sales in the wholesale segment for the current period were above the prior year period by $27.2 million or 12.4%. Excluding the liquidation sales of excess discontinued inventory, increases in wholesale net sales were recorded in both the U.S. and international segments.

Net sales for the nine months ended October 31, 2010 in the U.S. wholesale segment were $113.3 million, below the prior year period by $4.2 million or 3.6%. Excluding $13.6 million of liquidation of excess discontinued inventory in the prior year period, net sales in the U.S. wholesale segment for the current period were above the prior year period by $9.4 million or 9.1%. (The remaining discussion in this paragraph excludes the impact of the liquidation sales of excess discontinued inventory.) The increase in U.S. wholesale net sales of $9.4 million was driven by increases in both the licensed brand and accessible luxury brand categories. Net sales in the licensed brands category were above

the prior year period by $4.6 million or 14.4%, primarily due

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to better performance resulting from improved economic conditions when compared to prior year period. Net sales in the accessible luxury category were above the prior year period by $4.9 million or 8.0%, resulting from higher demand as customers began to replenish their inventories after significant destocking in the prior year when they slowed replenishment and reduced open-to-buy levels as a result of the unfavorable economic conditions. These increases were partially offset by the Company's decision to continue to control distribution in the current year period, as well as the decision to limit sales to customers which the Company believed to have credit risk. Net sales in the luxury category were relatively flat year-over-year.

Net sales for the nine months ended October 31, 2010 in the international wholesale segment were $132.7 million, above the prior year period by $17.8 million or 15.5%, with increases recorded in all watch brand categories. Net sales in the licensed brands category were above the prior year period by $15.0 million or 23.5%, primarily due to market expansion and better performance resulting from improved economic conditions when compared to prior year period. Net sales in the accessible luxury category were above the prior year period by $1.6 million, or 6.7%. Net sales in the luxury category were above the prior year period by $1.2 million, or 5.4%. The increase in net sales for both the accessible luxury and luxury categories was primarily due to better performance resulting from improved economic conditions when compared to the prior year period. For the nine months ended October 31, 2010, fluctuations in foreign currency exchange rates unfavorably impacted net sales by $0.4 million when compared to the prior year period.

Net sales for the nine months ended October 31, 2010 in the retail segment were $35.2 million, or flat to the prior year period.

Gross Profit. Gross profit for the nine months ended October 31, 2010 was $154.3 million or 54.9% of net sales as compared to $135.9 million or 50.8% of net sales for the nine months ended October 31, 2009. The increase in gross profit of $18.4 million was primarily attributed to the increase in sales volume year-over-year. The gross margin percentage for the nine months ended October 31, 2010 was unfavorably impacted by approximately 150 basis points resulting from a shift in channel and product mix. For the three months ended October 31, 2009, both the gross profit and gross margin percentage were unfavorably impacted by currency and unfavorable inventory overhead absorption. The gross margin percentage for the nine months ended October 31, 2009 was unfavorably impacted by approximately 70 basis points by fluctuations in foreign currency due to losses on the un-hedged portion of the Company's Swiss franc liabilities, predominantly in the United States. The unfavorable overhead absorption in the prior year period was primarily attributed to abnormally low production levels associated with the decline in sales volume which unfavorably impacted the gross margin percentage by approximately 100 basis points. In addition, the gross margin percentage during the nine months ended October 31, 2009 was unfavorably impacted by approximately 390 basis points resulting from the $13.6 million of sales of excess discontinued inventory.

Selling, General and Administrative ("SG&A"). SG&A expenses for the nine months ended October 31, 2010 were $140.6 million as compared to $133.9 million for the nine months ended October 31, 2009, representing an increase of $6.7 million or 5.0%. The increase in SG&A expenses included higher marketing expense of $8.1 million resulting from the Company's decision to increase investment in this area to elevate its brands' connection with consumers and to drive sales growth. Also contributing to the increase, performance based compensation was higher by $3.0 million year-over-year, resulting from expense recorded for the current period due to the expected achievement of performance goals, as well as the reversal of previously recorded expenses in the prior year due to goals not being met in light of the challenging global economy at that time. Additionally, fluctuations in foreign currency exchange rates unfavorably impacted SG&A for the nine months ended October 31, 2010 by $4.0 million, primarily due to the transactional effect of foreign denominated assets held in weakening currencies during the first half of the current fiscal year. These expense increases were partially offset by a reduction in consulting and professional fees of $1.4 million, primarily as a result of reduced outside services related to the implementation of SAP in the prior year, and a reduction in expenses of $0.6 million associated with tradeshows as the Company reduced participation in these

events. In the current

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year, the Company also recorded lower depreciation expense of $1.1 million, primarily due to the impairment of certain assets in the prior fiscal year, and lower bad debt expense of $0.5 million resulting from higher estimated collection exposure in the prior year period due to the challenging economic conditions at the time. Additionally, the Company recorded a benefit of $4.3 million in the current year period resulting from the reversal of a previously recorded liability for a retirement agreement with the Company's late Chairman.

Wholesale Operating Income / (Loss). Operating income of $9.0 million was recorded in the wholesale segment for the nine months ended October 31, 2010, compared to an operating loss of $4.2 million for the nine months ended October 31, 2009. The $13.2 million increase in profit was the net result of an increase in gross profit of $19.1 million, partially offset by an increase in SG&A expenses of $5.9 million. The increase in gross profit of $19.1 million was primarily attributed to the increase in sales volume, as well as an increase in gross margin percentage. The increase in SG&A expenses of $5.9 million was driven by higher marketing expenses of $8.0 million, the unfavorable impact of foreign currency of $4.0 million when compared to the prior year period and higher performance based compensation of $3.0 million. These increases were partially offset by reductions in consulting and professional fees of $1.4 million, lower depreciation expense of $1.1 million, reduced spending related to tradeshows of $0.6 million, and lower bad debt expense of $0.5 million. Additionally, the Company recorded a benefit of $4.3 million in the current year period resulting from the reversal of a previously recorded liability for a retirement agreement.

Retail Operating Income. Operating income of $4.7 million and $6.1 million was recorded in the retail segment for the nine months ended October 31, 2010 and 2009, respectively. The $1.4 million decrease in profit was primarily the result of a decrease in gross profit of $0.6 million and an increase in SG&A expenses of $0.8 million. The decrease in gross profit of $0.6 million was primarily attributed to the decrease in gross margin percentage achieved year-over-year. The increase in SG&A expenses of $0.8 million was primarily due to higher occupancy and payroll related expenses in the current period.

Interest Expense. Interest expense for the nine months ended October 31, 2010 and 2009 was $1.8 million and $3.8 million, respectively. The decrease in interest expense of $2.0 million was primarily due to expenses and fees associated with the refinancing and repayment of the Company's former credit and note agreements in the prior year period of $1.3 million. Additionally, lower interest expense was recorded in the current year resulting from lower average borrowings outstanding during the period.

Interest Income. Interest income was $0.2 million and $0.1 million for the nine month periods ended October 31, 2010 and 2009, respectively.

Income Taxes. The Company recorded a tax expense of $1.6 million and $22.9 million for the nine months ended October 31, 2010 and 2009, respectively. The effective tax rate for the nine month period ended October 31, 2010 was 13.0%. Actual taxes in the current period include adjustments for a non-cash charge to record changes in the valuation allowances on the Company's net deferred tax assets, taxes on repatriated foreign dividends and the application of interim tax reporting guidelines. The tax expense for the nine months ended October 31, 2009 included charges regarding the aforementioned non-cash deferred tax expense related to valuation allowances and the non-cash provision on the future remittance of earnings of a foreign subsidiary.

Loss From Discontinued Operations. The Company records the financial results of its Movado boutique division as discontinued operations, which ceased doing business during the quarter ended July 31, 2010. For the nine months ended October 31, 2010 and 2009, the Company recorded a loss from discontinued operations of $23.7 million and $6.2 million, respectively. The increase in the loss is primarily due to expenses associated with the closing of all Movado boutique locations during the six months ended July 31, 2010, including costs associated with occupancy charges, asset impairments, inventory reserves and severance.

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Net Loss Attributed to Movado Group, Inc. For the nine months ended October 31, 2010 and 2009, the Company recorded a net loss of $13.6 million and $31.1 million, respectively.

LIQUIDITY AND CAPITAL RESOURCES

Cash provided by operating activities was $4.9 million for the nine months ended October 31, 2010, resulting from cash provided by continuing operations of $17.8 million, partially offset by $12.9 million of cash used in discontinued operations related to the Movado boutiques. Cash used in operating activities for the nine months ended October 31, 2009 was $1.8 million, resulting from cash used of $6.1 million attributed to discontinued operations, partially offset by cash provided by continuing operations of $4.3 million. The cash provided by continuing operating activities of $17.8 million for the nine months ended October 31, 2010 was primarily the result of the income for the period of $10.5 million, favorable non-cash items of $13.1 million, partially offset by unfavorable changes in working capital of $7.0 million. The cash provided by continuing operating activities of $4.3 million for the nine months ended October 31, 2009 was the result of the net loss for the period of $24.6 million, offset by favorable non-cash items of $35.5 million and unfavorable changes in working capital of $6.6 million.

Cash used in investing activities amounted to $5.2 million and $3.8 million for the nine months ended October 31, 2010 and 2009, respectively. The cash used during both periods consisted of capital expenditures which included the acquisition and integration of computer hardware and software in conjunction with the SAP enterprise resource planning system, as well as spending for tooling and design.

Cash used in financing activities amounted to $9.5 million and $38.3 for the nine months ended October 31, 2010 and 2009, respectively. Cash used in financing activities for the current and prior period was primarily to pay down long-term debt. In the prior period cash used also was the result of payment of financing fees related to the new loan agreement and to pay dividends that were declared in the fourth quarter of fiscal 2009.

On July 17, 2009, the Company, together with Movado Group Delaware Holdings Corporation, Movado Retail Group, Inc. and Movado LLC (together with the Company, the “Borrowers”), each a wholly- owned domestic subsidiary of the Company, entered into an Amended and Restated Loan and Security Agreement (the “Loan Agreement”) with Bank of America, N.A. and Bank Leumi USA, as lenders, and Bank of America, N.A., as agent (in such capacity, the “Agent”). The Loan Agreement provides a $55.0 million asset based senior secured revolving credit facility (the “Facility”), including a $15.0 million letter of credit subfacility. The maturity date of the Facility is June 5, 2012.

Availability under the Facility is determined by reference to a borrowing base which is based on the sum of a percentage of eligible accounts receivable and eligible inventory of the Borrowers. $10.0 million in availability is blocked until the date (the “Block Release Date”) on which the Borrowers have achieved for a four fiscal quarter period a consolidated fixed charge coverage ratio of at least 1.25 to 1.0 and have domestic EBITDA greater than $10.0 million. The availability block must remain in place for at least one year. The amount of the availability block will be reduced by the amount by which the borrowing base exceeds $55.0 million, up to a maximum reduction of $5.0 million. Availability under the Facility may be further reduced by certain reserves established by the Agent in its good faith credit judgment. As of October 31, 2010, total availability under the Facility, giving effect to the availability block, no outstanding borrowings and the letters of credit outstanding under the subfacility, was $49.3 million.

The initial applicable margin for LIBOR rate loans was 4.25% and for base rate loans