UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2010

OR

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

For the transition period from ____________ to ____________

001-32492

(Commission File Number)

LAZARD LTD

(Exact name of registrant as specified in its charter)

Bermuda	**98-0437848**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**

Clarendon House

2 Church Street

Hamilton HM11, Bermuda

(Address of principal executive offices)

Registrant s telephone number: (441) 295-1422

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨	Smaller reporting company ¨

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of October 25, 2010, there were 116,604,467 shares of the Registrant s Class A common stock (including 5,679,587 shares held by a subsidiary) and one share of the Registrant s Class B common stock outstanding.

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When we use the terms Lazard , we , us , our and the Company , we mean Lazard Ltd, a company incorporated under the laws of Bermuda, and its subsidiaries, including Lazard Group LLC, a Delaware limited liability company (Lazard Group), that is the current holding company for our businesses. Lazard Ltd has no operating assets other than indirect ownership as of September 30, 2010 of approximately 91.5% of the common membership interests in Lazard Group and its controlling interest in Lazard Group.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

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LAZARD LTD

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

SEPTEMBER 30, 2010 AND DECEMBER 31, 2009

(UNAUDITED)

(dollars in thousands, except for per share data)

	September 30, 2010	December 31, 2009
ASSETS		
Cash and cash equivalents	$ 847,431	$ 917,329
Cash deposited with clearing organizations and other segregated cash	24,449	20,217
Receivables-net:		
Fees	463,718	437,532
Banks	179,112	143,778
Customers and other	137,818	73,750
Related parties	6,829	14,415
	787,477	669,475
Investments:		
Debt:		
U.S. Government and agencies (includes $126,547 and $126,413 of securities at amortized cost at September 30, 2010 and December 31, 2009, respectively)	148,177	147,507
Other (includes $10,135 and $10,217 of securities at amortized cost at September 30, 2010 and December 31, 2009, respectively)	264,490	313,342
Equities	85,215	82,442
Other	214,401	264,402
	712,283	807,693
Property (net of accumulated amortization and depreciation of $248,690 and $239,603 at September 30, 2010 and December 31, 2009, respectively)	154,177	166,913
Goodwill and other intangible assets (net of accumulated amortization of $12,398 and $7,140 at September 30, 2010 and December 31, 2009, respectively)	318,541	317,780
Other assets	279,340	248,355
Total assets	$ 3,123,698	$ 3,147,762

See notes to condensed consolidated financial statements.

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LAZARD LTD

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (Continued)

SEPTEMBER 30, 2010 AND DECEMBER 31, 2009

(UNAUDITED)

(dollars in thousands, except for per share data)

	September 30, 2010	December 31, 2009
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Deposits and other customer payables	$ 408,768	$ 322,101
Accrued compensation and benefits	320,663	515,033
Senior debt	1,076,850	1,086,850
Capital lease obligations	21,749	24,628
Related party payables	564	17,450
Other liabilities	509,110	508,603
Subordinated debt	150,000	150,000
Total liabilities	2,487,704	2,624,665
Commitments and contingencies		
STOCKHOLDERS EQUITY		
Preferred stock, par value $.01 per share; 15,000,000 shares authorized:		
Series A - 22,021 and 26,883 shares issued and outstanding at September 30, 2010 and December 31, 2009, respectively		
Series B - no shares issued and outstanding		
Common stock:		
Class A, par value $.01 per share (500,000,000 shares authorized; 116,604,467 and 92,165,912 shares issued at September 30, 2010 and December 31, 2009, respectively, including shares held by a subsidiary as indicated below)	1,166	922
Class B, par value $.01 per share (1 share authorized, issued and outstanding at September 30, 2010 and December 31, 2009)		
Additional paid-in-capital	666,705	549,931
Retained earnings	83,348	52,726
Accumulated other comprehensive income (loss), net of tax	(70,519)	(57,048)
	680,700	546,531
Class A common stock held by a subsidiary, at cost (5,865,580 and 5,850,775 shares at September 30, 2010 and December 31, 2009, respectively)	(192,129)	(191,140)
Total Lazard Ltd stockholders equity	488,571	355,391
Noncontrolling interests	147,423	167,706
Total stockholders equity	635,994	523,097
Total liabilities and stockholders equity	$ 3,123,698	$ 3,147,762

See notes to condensed consolidated financial statements.

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LAZARD LTD

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE THREE MONTH AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2010 AND 2009

(UNAUDITED)

(dollars in thousands, except for per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
REVENUE				
Investment banking and other advisory fees	$ 245,294	$ 252,538	$ 759,785	$ 650,327
Money management fees	202,662	149,102	560,664	368,346
Interest income	5,430	8,642	16,037	21,954
Other	23,924	27,992	47,785	76,232
Total revenue	477,310	438,274	1,384,271	1,116,859
Interest expense	24,073	26,559	73,788	81,124
Net revenue	453,237	411,715	1,310,483	1,035,735
OPERATING EXPENSES				
Compensation and benefits	282,528	250,914	845,926	693,725
Occupancy and equipment	22,414	23,690	65,004	63,774
Marketing and business development	17,503	14,070	51,358	43,311
Technology and information services	18,904	17,592	53,552	49,670
Professional services	10,731	11,823	29,716	31,883
Fund administration and outsourced services	12,037	10,272	34,407	26,075
Amortization of intangible assets related to acquisitions	1,719	2,032	5,258	2,720
Restructuring			87,108	62,550
Other	7,934	8,157	26,117	22,685
Total operating expenses	373,770	338,550	1,198,446	996,393
OPERATING INCOME	79,467	73,165	112,037	39,342
Provision for income taxes	9,113	19,968	29,049	29,312
NET INCOME	70,354	53,197	82,988	10,030
LESS - NET INCOME (LOSS) ATTRIBUTABLE TO NONCONTROLLING INTERESTS	6,263	15,779	7,859	(2,079)
NET INCOME ATTRIBUTABLE TO LAZARD LTD	$ 64,091	$ 37,418	$ 75,129	$ 12,109
ATTRIBUTABLE TO LAZARD LTD CLASS A COMMON STOCKHOLDERS:				

WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING:				
Basic	111,059,071	80,756,718	101,440,741	75,278,905
Diluted	138,094,101	131,468,085	135,554,131	75,278,905
NET INCOME PER SHARE OF COMMON STOCK:				
Basic	$0.58	$0.47	$0.74	$0.16
Diluted	$0.51	$0.41	$0.58	$0.16
DIVIDENDS DECLARED PER SHARE OF COMMON STOCK	$0.125	$0.125	$0.375	$0.325

See notes to condensed consolidated financial statements.

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LAZARD LTD

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE NINE MONTH PERIODS ENDED SEPTEMBER 30, 2010 AND 2009

(UNAUDITED)

(dollars in thousands)

	Nine Months Ended September 30,	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 82,988	$ 10,030
Adjustments to reconcile net income to net cash provided by operating activities:		
Noncash items included in net income:		
Depreciation and amortization of property	16,131	16,781
Amortization of deferred expenses, share-based incentive compensation and interest rate hedge	257,840	224,797
Amortization of intangible assets related to acquisitions	5,258	2,720
(Gain) loss on extinguishment of debt	424	(258)
(Increase) decrease in operating assets:		
Cash deposited with clearing organizations and other segregated cash	(4,824)	(4,267)
Receivables - net	(129,364)	196,158
Investments	(38,902)	(40,830)
Other assets	(35,174)	13,508
Increase (decrease) in operating liabilities:		
Deposits and other payables	83,741	(280,858)
Accrued compensation and benefits and other liabilities	(191,480)	(9,886)
Net cash provided by operating activities	46,638	127,895
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of businesses, net of cash acquired of $23,280, and equity method investments		(22,500)
Disposition of and distributions from equity method investments	51,437	
Additions to property	(10,073)	(8,579)
Disposals of property	301	896
Purchases of held-to-maturity securities		(135,950)
Purchases of available-for-sale securities		(3,399)
Proceeds from sales and maturities of available-for-sale securities	71,579	54,467
Net cash provided by (used in) investing activities	113,244	(115,065)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from:		
Contribution from noncontrolling interests	3,005	1,474
Other financing activities	6,638	56
Payments for:		
Senior borrowings	(10,375)	(635)
Capital lease obligations	(1,626)	(2,084)

Distributions to noncontrolling interests	(20,315)	(47,507)
Repurchase of common membership interests from members of LAZ-MD Holdings	(5,072)	(13,285)
Purchase of Class A common stock	(106,316)	(50,479)
Class A common stock dividends	(36,714)	(23,216)
Settlement of vested share-based incentive compensation	(54,947)	(12,291)
Other financing activities	(53)	(27)
Net cash used in financing activities	(225,775)	(147,994)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(4,005)	20,531
NET DECREASE IN CASH AND CASH EQUIVALENTS	(69,898)	(114,633)
CASH AND CASH EQUIVALENTS - January 1	917,329	909,707
CASH AND CASH EQUIVALENTS - September 30	$ 847,431	$ 795,074
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Supplemental investing non-cash transaction:		
Class A common stock issued/issuable in connection with business acquisitions	$	$ 4,390

See notes to condensed consolidated financial statements.

LAZARD LTD

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2010

(UNAUDITED)

(dollars in thousands)

	Series A Preferred Stock		Common Stock					Class A Common Stock Held by a Subsidiary				
	Shares	$	Shares (*)	$	Additional Paid-In-Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Tax	Shares	$	Total Lazard Ltd Stockholders Equity	Noncontrolling Interests	Total Stockholders Equity
Balance January 1, 2010	**26,883**	**$**	**92,165,913**	**$ 922**	**$ 549,931**	**$ 52,726**	**$ (57,048)**	**5,850,775**	**$ (191,140)**	**$ 355,391**	**$ 167,706**	**$ 523,097**
Comprehensive income (loss):												
Net income						75,129				75,129	7,859	82,988
Other comprehensive income (loss) - net of tax:												
Currency translation adjustments							(3,829)			(3,829)	(292)	(4,121)
Amortization of interest rate hedge							823			823	76	899
Available-for-sale securities:												
Net unrealized gain							2,272			2,272	211	2,483
Adjustments for items reclassified to earnings							2,372			2,372	219	2,591
Employee benefit plans:												
Net actuarial loss							(5,999)			(5,999)	(556)	(6,555)
Adjustments for items reclassified to earnings							888			888	82	970
Comprehensive income										71,656	7,599	79,255
Class A common stock issued/issuable in connection with business acquisitions and LAM Merger and related amortization			315,617	3	2,064					2,067	2,119	4,186
Conversion of Series A preferred stock into Class A common stock	(4,862)		572,988	6	(6)							
Amortization of share-based incentive compensation					228,668					228,668	21,185	249,853
Dividend-equivalents					7,758	(7,793)				(35)	(3)	(38)
Class A common stock dividends						(36,714)				(36,714)		(36,714)
Purchase of Class A common stock								3,466,178	(106,316)	(106,316)		(106,316)
Delivery of Class A common stock in connection with share-based incentive compensation awards					(276,374)			(6,451,373)	221,427	(54,947)		(54,947)

Repurchase of common membership interests from LAZ-MD Holdings				(4,642)					(4,642)	(430)	(5,072)
Issuance of Class A common stock		3,000,000	30	116,070			3,000,000	(116,100)			
Class A common stock issued in exchange for Lazard Group common membership interests, including in connection with secondary offerings		20,549,950	205	(205)							
Distributions to noncontrolling interests										(17,310)	(17,310)
Adjustments related to noncontrolling interests				43,441		(9,998)			33,443	(33,443)	
Balance September 30, 2010	**22,021 $**	**116,604,468**	**$ 1,166**	**$ 666,705**	**$ 83,348**	**$ (70,519)**	**5,865,580**	**$ (192,129)**	**$ 488,571**	**$ 147,423**	**$ 635,994**

(*) Includes 92,165,912 and 116,604,467 shares of the Company s Class A common stock issued at January 1, 2010 and September 30, 2010, respectively, and 1 share of the Company s Class B common stock at each such date.

See notes to condensed consolidated financial statements.

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LAZARD LTD

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2009

(UNAUDITED)

(dollars in thousands)

	Series A Preferred Stock		Common Stock				Accumulated Other Comprehensive Income (Loss),	Class A Common Stock Held By A Subsidiary		Total Lazard Ltd		Total
	Shares	$	Shares(*)	$	Additional Paid-in-Capital	Retained Earnings	Net of Tax	Shares	$	Stockholders Equity	Noncontrolling Interests	Stockholders Equity
Balance January 1, 2009	**31,745**	**$**	**76,294,913**	**$ 763**	**$ 429,694**	**$ 221,410**	**$ (79,435)**	**9,376,162**	**$(321,852)**	**$ 250,580**	**$ 61,172**	**$ 311,752**
Comprehensive income (loss):												
Net income (loss)						12,109				12,109	(2,079)	10,030
Other comprehensive income (loss) - net of tax:												
Currency translation adjustments							48,074			48,074	16,450	64,524
Amortization of interest rate hedge							602			602	206	808
Available-for-sale securities:												
Net unrealized gain							17,479			17,479	5,983	23,462
Adjustment for items reclassified to earnings							894			894	306	1,200
Employee benefit plans:												
Net actuarial gain							841			841	288	1,129
Adjustment for items reclassified to earnings							(278)			(278)	(95)	(373)
Comprehensive income										79,721	21,059	100,780
Class A common stock issued/issuable in connection with business acquisitions and LAM Merger and related amortization			1,473,866	15	20,190					20,205	10,531	30,736
Conversion of Series A preferred stock into Class A common stock	(4,862)		479,732	5	(5)							
Amortization of share-based incentive compensation					162,318					162,318	55,112	217,430
Dividend-equivalents					4,793	(4,820)				(27)		(27)
Class A common stock dividends						(23,216)				(23,216)		(23,216)
Purchase of Class A common stock								1,984,997	(50,479)	(50,479)		(50,479)
Delivery of Class A common stock in connection with share-based incentive compensation awards					(47,142)			(1,030,960)	34,851	(12,291)		(12,291)
Repurchase of common membership interests from LAZ-MD Holdings					(9,898)					(9,898)	(3,387)	(13,285)

Class A common stock issued in exchange for Lazard Group common membership interests, including in connection with secondary offerings			13,907,140	139	(139)							
Acquisitions of and distributions to noncontrolling interests											63,193	63,193
Adjustments related to noncontrolling interests					25,435		(14,678)			10,757	(10,757)	
Balance September 30, 2009	**26,883**	**$**	**92,155,651**	**$ 922**	**$ 585,246**	**$ 205,483**	**$ (26,501)**	**10,330,199**	**$ (337,480)**	**$ 427,670**	**$ 196,923**	**$ 624,593**

(*) Includes 76,294,912 and 92,155,650 shares of the Company s Class A common stock issued at January 1, 2009 and September 30, 2009, respectively, and 1 share of the Company s Class B common stock at each such date.

See notes to condensed consolidated financial statements.

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LAZARD LTD

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(dollars in thousands, except for per share data, unless otherwise noted)

1. ORGANIZATION AND BASIS OF PRESENTATION

Organization

Lazard Ltd, a Bermuda holding company, and its subsidiaries (collectively referred to as Lazard Ltd , Lazard or the Company), including Lazard Ltd s indirect investment in Lazard Group LLC, a Delaware limited liability company (collectively referred to, together with its subsidiaries, as Lazard Group), is one of the world s preeminent financial advisory and asset management firms and has long specialized in crafting solutions to the complex financial and strategic challenges of our clients. We serve a diverse set of clients around the world, including corporations, partnerships, institutions, governments and high net worth individuals.

Lazard Ltd indirectly held approximately 91.5% and 74.5% of all outstanding Lazard Group common membership interests as of September 30, 2010 and December 31, 2009, respectively. Lazard Ltd, through its control of the managing members of Lazard Group, controls Lazard Group. Lazard Group is governed by an Operating Agreement dated as of May 10, 2005, as amended (the Operating Agreement).

The Company s sole operating asset is its indirect ownership of common membership interests of Lazard Group and its managing member interest of Lazard Group, whose principal operating activities are included in two business segments:

Financial Advisory, which includes providing advice on mergers and acquisitions (M&A) and strategic advisory matters, restructurings and capital structure advisory services, capital raising and other transactions, and

Asset Management, which includes the management of equity and fixed income securities, alternative investments and private equity funds.

In addition, the Company records selected other activities in its Corporate segment, including management of cash, certain investments and the commercial banking activities of Lazard Group s Paris-based Lazard Frères Banque SA (LFB). The Company also allocates outstanding indebtedness to its Corporate segment.

LFB is a registered bank regulated by the Banque de France and its primary operations include asset and liability management for Lazard Group s businesses in France through its money market desk and commercial banking operations, deposit taking and, to a lesser extent, financing activities and custodial oversight over assets of various clients. LFB also engages in underwritten offerings of securities in France.

Basis of Presentation

The accompanying condensed consolidated financial statements of Lazard Ltd have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (the SEC) regarding interim financial reporting. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States of America (U.S. GAAP) for complete financial statements and should be read in conjunction with the audited consolidated financial statements and notes thereto included in Lazard Ltd s annual report on Form 10-K for the year ended December 31, 2009 (the Form 10-K). The accompanying December 31, 2009 unaudited condensed consolidated statement of financial condition data was derived from audited consolidated financial statements, but does not include all disclosures required by U.S. GAAP for annual financial statement purposes. The accompanying condensed consolidated financial statements reflect all adjustments, which are, in the opinion of management, necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods presented. Preparing financial statements

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LAZARD LTD

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

(dollars in thousands, except for per share data, unless otherwise noted)

requires management to make estimates and assumptions that affect the amounts that are reported in the financial statements and the accompanying disclosures. Although these estimates are based on management s knowledge of current events and actions that Lazard may undertake in the future, actual results may differ materially from the estimates. The consolidated results of operations for the three month and nine month periods ended September 30, 2010 are not necessarily indicative of the results to be expected for any future period or the full fiscal year. Any material events or transactions that occurred subsequent to September 30, 2010 through the date of filing of this Quarterly Report on Form 10-Q were reviewed for purposes of determining whether any adjustments or additional disclosures were required to be made to the accompanying condensed consolidated financial statements.

The condensed consolidated financial statements include Lazard Ltd, Lazard Group and Lazard Group s principal operating subsidiaries: Lazard Frères & Co. LLC (LFNY), a New York limited liability company, along with its subsidiaries, including Lazard Asset Management LLC and its subsidiaries (collectively referred to as LAM); its French limited liability companies Compagnie Financière Lazard Frères SAS (CFLF) along with its subsidiaries, LFB and Lazard Frères Gestion SAS (LFG) and Maison Lazard SAS and its subsidiaries; and Lazard & Co., Limited (LCL), through Lazard & Co., Holdings Limited, an English private limited company (LCH), together with their jointly owned affiliates and subsidiaries.

The Company s policy is to consolidate (i) entities in which it has a controlling financial interest, (ii) variable interest entities (VIEs) where the Company has a variable interest and is deemed to be the primary beneficiary and (iii) limited partnerships where the Company is the general partner, unless the presumption of control is overcome. When the Company does not have a controlling interest in an entity, but exerts significant influence over the entity s operating and financial decisions, the Company applies the equity method of accounting in which it records in earnings its share of earnings or losses of the entity. All material intercompany transactions and balances have been eliminated.

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

2. RECENT ACCOUNTING DEVELOPMENTS

Fair Value Measurements On April 1, 2009, the Company adopted, on a prospective basis, additional accounting guidance issued by the FASB on fair value measurements. The additional accounting guidance assists in the determination of fair value for securities or other financial assets when the volume and level of activity for such items have significantly decreased when compared with normal market activity and there is no longer sufficient frequency or volume to provide pricing information on an ongoing basis. The additional accounting guidance also assists in determining whether or not a transaction is orderly and whether or not a transaction or quoted price can be considered in the determination of fair value. Accordingly, the additional accounting guidance does not apply to quoted prices for identical assets or liabilities in active markets categorized as Level 1 in the fair value measurement hierarchy, and also requires that additional fair value disclosures be included on an interim basis. See Note 5 of Notes to Condensed Consolidated Financial Statements for the additional disclosures provided pursuant to the additional accounting guidance. The adoption of additional guidance regarding fair value measurements did not materially impact the Company s

consolidated financial statements.

In January 2010, the FASB amended its fair value measurement disclosure guidance to require disclosure of significant transfers into and out of the Level 1 and Level 2 categories in the fair value measurement hierarchy, as well as separate disclosures about purchases, sales, issuances and settlements relating to Level 3 fair value

LAZARD LTD

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

(dollars in thousands, except for per share data, unless otherwise noted)

measurements. In addition, the FASB also clarified its existing fair value measurement disclosure guidance regarding the level of disaggregation required and disclosures about inputs and valuation techniques used to measure fair value. The new disclosure requirements and clarifications of existing fair value measurement disclosure guidance are effective for interim and annual reporting periods beginning after December 15, 2009, except for the requirement to provide disclosures about purchases, sales, issuances and settlements on a gross basis in the roll forward of activities in Level 3 fair value measurements, which becomes effective for interim and annual reporting periods beginning after December 15, 2010. On January 1, 2010, the Company adopted, on a prospective basis, the applicable new disclosure requirements and clarifications of existing fair value measurement disclosure guidance, which did not have a material impact on the Company s consolidated financial statements. The Company does not anticipate that the adoption of the remaining new disclosure requirements that are effective for interim and annual reporting periods beginning after December 15, 2010 will have a material impact on its consolidated financial statements.

Other-Than-Temporary Impairments of Debt Securities On April 1, 2009, the Company adopted, on a prospective basis, new accounting guidance issued by the FASB with respect to the recognition and presentation of other-than-temporary impairments pertaining to debt securities. The new accounting guidance requires greater clarity about the credit and non-credit components of debt securities that are not expected to be sold and whose fair value is below amortized cost, and also requires increased disclosures regarding expected cash flows, credit losses and an aging of securities with unrealized losses. The adoption of the new accounting guidance did not materially impact the Company s consolidated financial statements. See Note 4 of Notes to Condensed Consolidated Financial Statements.

VIEs In June 2009, the FASB amended its guidance on VIEs, which changes how a company determines whether an entity in which it is involved with is insufficiently capitalized or is not controlled through voting (or similar rights) and whether or not such entity should be consolidated. It also requires a company to provide additional disclosures about its involvement with VIEs and any significant changes in risk exposure due to that involvement. The requirements of the amended accounting guidance were to be effective for interim and annual periods beginning after November 15, 2009. On January 27, 2010, the FASB voted to defer the application of its guidance on consolidation of a reporting enterprise s interest in an entity when certain conditions are met. This deferral, which affects interests in mutual funds, hedge funds, private equity funds and other types of funds, is effective for interim and annual periods beginning after November 15, 2009. The adoption of the amended guidance for which the deferral provisions do not apply and related disclosures did not have a material impact on the Company s consolidated financial statements.

3. RECEIVABLES NET

Receivables net is comprised of receivables from fees, banks, customers and other and related parties.

Receivables from banks represent those related to LFB s short-term deposits in the inter-bank market and with the Banque de France. The level of these deposits may be driven by the level of LFB customer and bank-related interest-bearing time and demand deposits (which can fluctuate significantly on a daily basis) and by changes in asset allocation.

Customers and other receivables at September 30, 2010 and December 31, 2009 include $2,175 and $4,466, respectively, of loans by LFB to managing directors and employees in France that are made in the ordinary course of business at market terms.

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Receivables are stated net of an estimated allowance for doubtful accounts of $17,000 and $11,575 at September 30, 2010 and December 31, 2009, respectively, for past due amounts and for specific accounts deemed uncollectible, which may include situations where a fee is in dispute. The Company recorded bad debt expense of $226 and $9,416 for the three month and nine month periods ended September 30, 2010, respectively, and $1,148 and $4,770 for the three month and nine month periods ended September 30, 2009, respectively. In addition, the Company recorded charge-offs, foreign currency translation and other adjustments, which resulted in a net decrease to the allowance for doubtful accounts of $2,097 and $3,991 for the three month and nine month periods ended September 30, 2010 and $2,043 and $6,538 for the three month and nine month periods ended September 30, 2009, respectively. At September 30, 2010 and December 31, 2009, the Company had $21,224 and $14,150, respectively, of receivables deemed past due or uncollectible.

4. INVESTMENTS

The Company s investments and securities sold, not yet purchased, consist of the following at September 30, 2010 and December 31, 2009:

	September 30, 2010	December 31, 2009
Debt:		
U.S. Government and agencies	$ 148,177	$ 147,507
Other:		
Non-U.S. Government and agencies	69,208	43,501
U.S. states and municipals	11,232	15,728
Corporates	184,050	254,113
	264,490	313,342
Total debt securities	412,667	460,849
Equities	85,215	82,442
Other:		
Interest in LAM alternative asset management funds:		
General Partner (GP) interests owned	50,859	50,080
GP interests consolidated but not owned	7,514	13,038
Private equity:		
Investments owned	99,349	102,983
Investments consolidated but not owned	44,464	35,743
Equity method investments	12,215	62,558

	214,401	264,402
Total investments	712,283	807,693
Less:		
Debt at amortized cost	136,682	136,630
Equity method investments	12,215	62,558
Investments, at fair value	$ 563,386	$ 608,505
Securities sold, not yet purchased, at fair value (included in other liabilities)	$ 2,868	$ 5,179

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Debt investments at September 30, 2010 and December 31, 2009 were categorized as follows:

	September 30, 2010	December 31, 2009
Trading securities:		
U.S. Government and agencies	$ 21,630	$ 21,094
Non-U.S. Government and agencies	59,073	33,284
U.S. states and municipals	11,232	15,728
Corporates	9,186	450
	101,121	70,556
Available-for-sale securities:		
Corporates	174,864	253,663
Held-to-maturity securities:		
U.S. Government and agencies	126,547	126,413
Non-U.S. Government and agencies	10,135	10,217
	136,682	136,630
Total debt securities	$ 412,667	$ 460,849

Substantially all of the corporate and non-U.S. Government and agency debt securities are held by LFB and primarily consist of fixed and floating rate European corporate and French government debt securities.

The fair value and amortized cost basis pertaining to debt securities classified as available-for-sale at September 30, 2010, by maturity date/first call date, are as follows:

Maturity Date/First Call Date	Fair Value	Amortized Cost Basis

Within one year	$ 15,132	$ 14,900
After 1 year through 5 years	99,418	105,503
After 5 years through 10 years	45,975	50,758
After 10 years	14,339	15,287
	$174,864	$ 186,448

Debt investments include corporate perpetual securities that are callable. Such securities are listed in the table above based on their respective first call dates. All other available-for-sale securities are listed in the table based on their contractual maturities.

Debt securities classified as available-for-sale at September 30, 2010 and December 31, 2009 that are in an unrealized loss position are as follows:

September 30, 2010				**December 31, 2009**			
Securities in a Continuous Loss Position for Less than 12 Months		**Securities in a Continuous Loss Position for 12 Months or Longer**		**Securities in a Continuous Loss Position for Less than 12 Months**		**Securities in a Continuous Loss Position for 12 Months or Longer**	
Fair Value	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**
$9,561	$1,026	$77,757	$11,964	$	$	$166,094	$21,381

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LFB does not intend to sell its debt securities classified as available-for-sale that are in an unrealized loss position, nor is it more likely than not that LFB will be required to sell such debt securities before their anticipated recovery. In addition, no credit loss was required to be recognized for these debt securities during the three month and nine month periods ended September 30, 2010 based on the qualitative and quantitative analysis performed by the Company. During the three month and nine month periods ended September 30, 2009, other-than-temporary impairment charges of $528 and $1,444, respectively, were recognized in other-revenue on the condensed consolidated statements of operations, representing the credit loss component of debt securities whose fair value was below amortized cost.

The fair value and amortized cost basis pertaining to debt securities classified as held-to-maturity at September 30, 2010, by maturity date, are as follows:

Maturity Date	Fair Value	Amortized Cost Basis
Within one year	$ 10,248	$ 10,135
After 1 year through 5 years	132,896	126,547
	$ 143,144	$ 136,682

There were no debt securities classified as held-to-maturity at September 30, 2010 and December 31, 2009 that were in an unrecognized loss position.

Equities principally represent the Company s investments in marketable equity securities of large-, mid- and small-cap domestic, international and global companies to seed new Asset Management products and includes investments in public and private asset management funds managed both by LAM and third-party asset managers.

In 2008, LFNY was a party to a Prime Brokerage Agreement with Lehman Brothers Inc. (LBI) for certain accounts involving investment strategies managed by LAM. On September 9, 2008, LAM requested a transfer of such accounts, of which $11,368 was not received. On September 15, 2008, Lehman Brothers Holdings, Inc., the ultimate parent company in the Lehman Group, filed for protection under Chapter 11 of the United States Bankruptcy Code and a number of Lehman Group entities in the UK entered into administration proceedings under the Insolvency Act 1986. In addition, the Securities Investor Protection Corporation (SIPC) commenced liquidation proceedings on September 19, 2008 pursuant to the Securities Investor Protection Act of 1970, as amended, with respect to LBI. The Chapter 11 filing, Insolvency Act Administration and SIPC proceedings exposed Lazard to possible loss due to counterparty credit and other risk. During 2008, the Company

provided for the entire amount of such possible loss, and, through September 30, 2010, $649 has been recovered by the Company. We continue to actively seek recovery of all amounts.

Interests in LAM alternative asset management funds represent (i) GP interests owned by Lazard in LAM-managed alternative asset management funds and (ii) GP interests consolidated by the Company pertaining to noncontrolling interests in LAM alternative asset management funds. Such noncontrolling interests in LAM alternative asset management funds, which represent GP interests held directly by certain of our LAM managing directors or employees of the Company, are deemed to be controlled by, and therefore consolidated by, the Company in accordance with U.S. GAAP. Noncontrolling interests are presented within stockholders equity on the condensed consolidated statements of financial condition (see Note 12 of Notes to Condensed Consolidated Financial Statements).

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Private equity investments owned by Lazard are primarily comprised of investments in private equity funds and direct private equity interests. Such investments primarily include (i) a mezzanine fund, which invests in mezzanine debt of a diversified selection of small- to mid-cap European companies; (ii) Corporate Partners II Limited (CP II), a private equity fund targeting significant noncontrolling-stake investments in established public and private companies and (iii) Lazard Senior Housing Partners LP (Senior Housing), which acquires companies and assets in the senior housing, extended-stay hotel and shopping center sectors. Senior Housing is managed by Lazard Alternative Investments Holdings LLC (LAI), a subsidiary of LFCM Holdings LLC (LFCM Holdings). LAI owns and operates the alternative investments of LFCM Holdings. CP II was managed by a subsidiary of LAI until February 16, 2009. Effective February 17, 2009, ownership and control of CP II was transferred to the investment professionals who manage CP II.

Private equity investments consolidated but not owned by Lazard are related solely to Lazard s establishment of a private equity business with the Edgewater Funds (Edgewater), a Chicago-based private equity firm, through the acquisition of Edgewater s management vehicles on July 15, 2009. The acquisition was structured as a purchase by Lazard of interests in a holding company that owns interests in the general partner and management company entities of the current Edgewater private equity funds (the Edgewater Acquisition). Edgewater is focused on buyout and growth equity investments in middle market companies. The economic interests that the Company does not own are owned by the current leadership team and other investors in the Edgewater management vehicles. See Note 8 of Notes to Condensed Consolidated Financial Statements.

Equity method investments at December 31, 2009 primarily consisted of our investment in Sapphire Industrials Corp. (Sapphire). On January 24, 2008, Sapphire, a then newly-organized special purpose acquisition company formed by the Company, completed an initial public offering (the Sapphire IPO). Sapphire was formed for the purpose of effecting a business combination within a 24-month period (the Business Combination) and net proceeds from the Sapphire IPO were placed in a trust account by Sapphire (the Trust Account) pending consummation of the Business Combination. In connection with the Sapphire IPO, the Company purchased warrants from Sapphire for a total purchase price of $12,500 and Sapphire common stock for an aggregate purchase price of $50,000.

On January 6, 2010, Sapphire announced that it had not completed the Business Combination and it would dissolve and distribute the funds in the Trust Account to all its public shareholders, to the extent they were holders of shares issued in the Sapphire IPO. Pursuant to such dissolution, on January 26, 2010, Sapphire distributed an initial distribution to the Company aggregating $50,319. All Sapphire warrants expired without value. During the fourth quarter of 2009, the Company recognized a loss of approximately $13,000 principally related to its investment in warrants of Sapphire.

The Company recognized gross investment gains and losses on investments measured at fair value for the three month and nine month periods ended September 30, 2010 and 2009, in revenue-other on its condensed consolidated statement of operations as follows:

	Three Month Period Ended September 30,		Nine Month Period Ended September 30,	
	2010	2009	2010	2009
Gross investment gains	$ 17,306	$ 20,489	$ 26,690	$ 41,419
Gross investment losses	$	$	$ 7,031	$ 5,371

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The table above includes gross unrealized investment gains and losses pertaining to trading securities as follows:

	Three Month Period Ended September 30,		Nine Month Period Ended September 30,	
	2010	2009	2010	2009
Gross unrealized investment gains	$ 1,187	$ 2,297	$	$ 3,021
Gross unrealized investment losses	$ 101	$	$ 138	$ 17

In addition, within accumulated other comprehensive income (loss), net of tax (AOCI), the Company recorded gross pre-tax unrealized investment gains of $8,672 and $41,281 during the nine month periods ended September 30, 2010 and 2009, respectively, and gross pre-tax unrealized investment losses of $1,950 and $364 during the nine month periods ended September 30, 2010 and 2009, respectively, pertaining to debt securities held at LFB that are designated as available-for-sale. With respect to adjustments for items reclassified to earnings, the average cost basis is utilized for purposes of calculating realized investment gains and losses.

5. *FAIR VALUE MEASUREMENTS*

Lazard categorizes its investments and certain other assets and liabilities recorded at fair value into a three-level fair value hierarchy as follows:

Level 1. Assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that Lazard has the ability to access.

Level 2. Assets and liabilities whose values are based on quoted prices for similar assets or liabilities in an active market, quoted prices for identical or similar assets or liabilities in non-active markets or inputs other than quoted prices that are directly observable or derived principally from or corroborated by market data.

Level 3. Assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management s own assumptions about the assumptions a market participant would use in pricing the asset or liability. Items included in Level 3 include securities or other financial assets whose volume and level of activity have significantly decreased when compared with normal market activity and there is no longer sufficient frequency or volume to provide pricing information on an ongoing basis.

Most of the Company s investments in corporate debt securities are considered Level 2 investments with such fair value based on observable data, principally broker quotes as provided by external pricing services. The Company s other debt securities at fair value are considered Level 1 investments with such fair value based on unadjusted quoted prices in active markets.

The fair value of equities is principally classified as Level 1 or Level 2 as follows: marketable equity securities are classified as Level 1 and are valued based on the last trade price on the primary exchange for that security; public asset management funds are classified as Level 1 and are valued based on the reported closing price for the fund; and investments in private asset management funds are classified as Level 2 and are primarily valued based on information provided by fund managers and, secondarily, from external pricing services to the extent managed by LAM.

The fair value of interests in LAM alternative asset management funds is classified as Level 2 and is based on information provided by external pricing services.

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The fair value of private equity investments is classified as Level 3 and is based on financial statements provided by fund managers, appraisals and internal valuations.

Where information reported is based on broker quotes, the Company generally obtains one quote/price per instrument. In some cases, quotes related to corporate bonds obtained through external pricing services represent the average of several broker quotes.

Where information reported is based on data received from fund managers or from external pricing services, the Company reviews such information to ascertain at which level within the fair value hierarchy to classify the investment.

The following tables present the categorization of investments and certain other assets and liabilities measured at fair value on a recurring basis as of September 30, 2010 and December 31, 2009 into a three-level fair value hierarchy in accordance with fair value measurement disclosure requirements:

	As of September 30, 2010			
	Level 1	Level 2	Level 3	Total
Assets:				
Investments:				
Debt (excluding securities at amortized cost)	$ 101,121	$ 174,864	$	$ 275,985
Equities	69,206	15,696	313	85,215
Other (excluding equity method investments):				
Interest in LAM alternative asset management funds:				
GP interests owned		50,859		50,859
GP interests consolidated but not owned		7,514		7,514
Private equity:				
Investments owned			99,349	99,349
Investments consolidated but not owned			44,464	44,464
Derivatives		1,335		1,335
Total Assets	$ 170,327	$ 250,268	$ 144,126	$ 564,721
Liabilities:				
Securities sold, not yet purchased	$ 2,868	$	$	$ 2,868
Derivatives		29,027		29,027

Total Liabilities	$ 2,868	$ 29,027	$	$ 31,895

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	As of December 31, 2009			
	Level 1	Level 2	Level 3	Total
Assets:				
Investments:				
Debt (excluding securities at amortized cost)	$ 70,556	$ 253,663	$	$ 324,219
Equities	65,932	16,205	305	82,442
Other (excluding equity method investments):				
Interest in LAM alternative asset management funds:				
GP interests owned		50,080		50,080
GP interests consolidated but not owned		13,038		13,038
Private equity:				
Investments owned		2,812	100,171	102,983
Investments consolidated but not owned			35,743	35,743
Derivatives	5	916		921
Total Assets	$ 136,493	$ 336,714	$ 136,219	$ 609,426
Liabilities:				
Securities sold, not yet purchased	$ 5,179	$	$	$ 5,179
Derivatives		17,383		17,383
Total Liabilities	$ 5,179	$ 17,383	$	$ 22,562

There were no transfers into and out of the Level 1, 2 and 3 categories in the fair value measurement hierarchy for the three month and nine month periods ended September 30, 2010.

The following tables provide a summary of changes in fair value of the Company s Level 3 assets for the three month and nine month periods ended September 30, 2010 and 2009:

	Three Months Ended September 30, 2010				
	Beginning Balance	Net Unrealized/ Realized Gains (Losses)	Net Purchases, Issuances	Foreign Currency Translation Adjustments	Ending Balance

		Included In Revenue-Other	and Settlements/ Acquisitions		
Investments:					
Equities	$ 299	$ 18	$ 2	$ (6)	$ 313
Private equity:					
Investments owned	94,303	961	(103)	4,188	99,349
Investments consolidated but not owned	44,106	(362)	720		44,464
Total Level 3 Assets	$ 138,708	$ 617	$ 619	$ 4,182	$ 144,126

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	Three Months Ended September 30, 2009				
	Beginning Balance	Net Unrealized/ Realized Gains (Losses) Included In Revenue-Other	Net Purchases, Issuances and Settlements/ Acquisitions	Foreign Currency Translation Adjustments	Ending Balance
Investments:					
Equities	$ 297	$	$ 3	$ 4	$ 304
Private equity:					
Investments owned	93,530	1,773	3,344	1,509	100,156
Investments consolidated but not owned		1,976	33,416		35,392
Total Level 3 Assets	$93,827	$ 3,749	$ 36,763	$ 1,513	$ 135,852

	Nine Months Ended September 30, 2010				
	Beginning Balance	Net Unrealized/ Realized Gains (Losses) Included In Revenue-Other	Net Purchases, Issuances and Settlements/ Acquisitions	Foreign Currency Translation Adjustments	Ending Balance
Investments:					
Equities	$ 305	$ 6	$ 8	$ (6)	$ 313
Private equity:					
Investments owned	100,171	1,715	(106)	(2,431)	99,349
Investments consolidated but not owned	35,743	3,637	5,084		44,464
Total Level 3 Assets	$ 136,219	$ 5,358	$ 4,986	$ (2,437)	$ 144,126

	Nine Months Ended September 30, 2009				
	Beginning Balance	Net Unrealized/ Realized Gains (Losses)	Net Purchases, Issuances and	Foreign Currency Translation Adjustments	Ending Balance

		Included In Revenue-Other	Settlements/ Acquisitions		
Investments:					
Equities	$ 2,453	$ (5)	$ (2,053)	$ (91)	$ 304
Private equity:					
Investments owned	83,931	1,665	11,957	2,603	100,156
Investments consolidated but not owned		1,976	33,416		35,392
Total Level 3 Assets	$ 86,384	$ 3,636	$ 43,320	$ 2,512	$ 135,852

There were no realized gains or losses included in income for the three month and nine month periods ended September 30, 2010 with respect to Level 3 assets. There were net realized gains of $595 and $616 included in income for the three month and nine month periods ended September 30, 2009, respectively, with respect to such Level 3 assets.

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6. DERIVATIVES

The Company enters into forward foreign currency exchange rate contracts, interest rate swaps, interest rate futures, equity swaps and other derivative contracts to hedge exposures to fluctuations in interest rates, currency exchange rates and equity markets. The Company reports its derivative instruments separately as assets and liabilities unless a legal right of set-off exists under a master netting agreement enforceable by law. The Company s derivative instruments are recorded at their fair value, and are included in other assets and other liabilities on the consolidated statements of financial condition. Except for derivatives hedging available-for-sale securities, the Company elected to not apply hedge accounting to its other derivative instruments held. Gains and losses on the Company s derivatives not designated as hedging instruments, as well as gains and losses on derivatives accounted for as fair value hedges, are included in interest income and interest expense , respectively, or revenue-other , depending on the nature of the underlying item, on the consolidated statements of operations. Furthermore, with respect to derivatives designated as fair value hedges, the hedged item is required to be adjusted for changes in fair value of the risk being hedged, with such adjustment accounted for in the consolidated statements of operations.

The table below presents the fair values of the Company s derivative assets and liabilities reported within other assets and other liabilities on the accompanying condensed consolidated statements of financial condition as of September 30, 2010 and December 31, 2009:

	Designated as Hedging Instruments		Not Designated as Hedging Instruments		Total	
	September 30, 2010	December 31, 2009	September 30, 2010	December 31, 2009	September 30, 2010	December 31, 2009
Derivative Assets:						
Forward foreign currency exchange rate contracts	$	$	$ 1,260	$836	$ 1,260	$836
Interest rate swaps			63	80	63	80
Equity swaps and other			12	5	12	5
	$	$	$ 1,335	$921	$ 1,335	$921
Derivative Liabilities:						
Forward foreign currency exchange rate contracts	$	$	$ 10,547	$ 2,213	$ 10,547	$ 2,213
Interest rate swaps	15,283	14,147	2	56	15,285	14,203
Equity swaps			3,195	967	3,195	967
	$ 15,283	$ 14,147	$ 13,744	$ 3,236	$ 29,027	$ 17,383

Gains (losses) with respect to derivatives not designated as hedging instruments on the accompanying condensed consolidated statements of operations for the three month and nine month periods ended September 30, 2010 and 2009 (predominantly reflected in revenue-other), by type of derivative, were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Forward foreign currency exchange rate contracts	$ (11,884)	$ (699)	$ 467	$ 2,951
Interest rate swaps	2	82	36	564
Equity swaps and other	(6,900)	(7,847)	(2,850)	(11,110)
	$ (18,782)	$ (8,464)	$ (2,347)	$ (7,595)

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Derivatives designated as hedging instruments relate to interest rate swaps that hedge available-for-sale securities and are being accounted for as fair value hedges. For the three month and nine month periods ended September 30, 2010, the Company recognized net pre-tax losses pertaining to interest rate swaps of $332 and $4,088, respectively, and for the three month and nine month periods ended September 30, 2009, recognized net pre-tax losses pertaining to interest rate swaps of $1,597 and $1,787, respectively. These losses were substantially offset by amounts recognized on the hedged risk portion of such available-for-sale securities.

7. *LAM MERGER TRANSACTION*

On September 25, 2008, the Company, LAM and LAZ Sub I, LLC, a then newly-formed subsidiary of LFNY, completed the merger of LAZ Sub I, LLC with and into LAM (the LAM Merger). Prior to the LAM Merger, the common equity interests of LAM were held by LFNY, and certain other equity interests of LAM, representing contingent payments should certain specified fundamental transactions occur, were held by present and former employees of LAM. Following the LAM Merger, all equity interests of LAM are owned directly or indirectly by LFNY.

The aggregate non-contingent consideration relating to the equity interests of LAM held by present and former employees of LAM and its subsidiaries (the Transaction Consideration) consists of (i) cash payments made from the closing of the LAM Merger through January 2, 2009 of approximately $60,100, (ii) a cash payment on October 31, 2011 of approximately $90,300 and (iii) an issuance on October 31, 2011 of 2,201,457 shares of Lazard Ltd s Class A common stock (Class A common stock) (plus additional shares of Class A common stock in an amount determined by reference to the cash dividends paid on Class A common stock since the closing of the LAM Merger), subject, in the case of clauses (ii) and (iii) and with respect to certain present employees of LAM and its subsidiaries, to delayed payment/issuance until the eighth anniversary of the closing of the LAM Merger if the applicable employee is no longer employed by Lazard or its affiliates on October 31, 2011, subject to certain exceptions. The merger agreement also generally provides that if there is a change in control of the Company or a sale of LAM, any and all of the Transaction Consideration will be payable as of the date of such change in control. The related liabilities for the present value of the unpaid cash consideration have been recorded in the accompanying condensed consolidated statements of financial condition in accrued compensation and benefits and other liabilities , and amounted to $14,929 and $70,215, respectively, as of September 30, 2010 and $14,252 and $65,308, respectively, as of December 31, 2009.

8. *BUSINESS ACQUISITIONS*

On July 15, 2009, the Company established a private equity business with Edgewater, a private equity firm based in Chicago, Illinois, through the Edgewater Acquisition. Following such acquisition, Edgewater s current leadership team retained a substantial economic interest in such entities. Edgewater primarily manages two middle market funds, Edgewater Growth Capital Partners, L.P. and Edgewater Growth Capital Partners II, L.P. (the underlying funds), with an aggregate of approximately $700,000 of capital raised. The acquisition was structured as a purchase by Lazard Group of interests in a holding company that in turn owns interests in the general partner and management company entities of the current Edgewater private equity funds.

The aggregate fair value of the consideration recognized by the Company at the acquisition date was $61,624. Such consideration consisted of (i) a one-time cash payment, (ii) 1,142,857 shares of Class A common stock (the Initial Shares) and (iii) up to 1,142,857 additional shares of Class A common stock subject to

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earnout criteria and payable over time (the Earnout Shares). The Initial Shares are subject to transfer restrictions and forfeiture provisions that lapse only upon the achievement of certain performance thresholds for

the next Edgewater fund that must be met by July 15, 2011. The Earnout Shares will be issued only if certain performance thresholds for the next two Edgewater funds are met.

The Edgewater Acquisition was accounted for under the acquisition method of accounting, whereby the results of the acquired business are included in our consolidated financial results from July 15, 2009, the effective date of the acquisition. As a result of the acquisition, we recorded net tangible assets, identifiable intangible assets and goodwill of $53,635 (consisting primarily of Edgewater s investments in their underlying funds and cash), $56,200 and $61,630, respectively, which include amounts for Edgewater s noncontrolling interests held (whose economic interests approximate 50%) aggregating $109,841. Goodwill pertaining to this acquisition is deductible for income tax purposes. See Note 9 of Notes to Condensed Consolidated Financial Statements for additional information relating to goodwill and other intangible assets. The operating results relating to Edgewater are included in the Company s Asset Management segment.

In 2007, the Company acquired Goldsmith, Agio, Helms & Lynner, LLC (GAHL), a Minneapolis-based investment bank specializing in financial advisory services to mid-sized private companies, and Carnegie, Wylie & Company (Holdings) PTY LTD (CWC), an Australia-based financial advisory firm. These purchases were affected through an exchange of a combination of cash, Class A common stock, and by Lazard Ltd issuing shares of non-participating convertible Series A and Series B preferred stock, which are or were each convertible into Class A common stock. In connection with such acquisitions, as of September 30, 2010 and December 31, 2009, 346,398 and 662,015 shares of Class A common stock were issuable on a non-contingent basis, respectively. Additionally, at September 30, 2010 and December 31, 2009, 2,431 and 7,293 shares of Series A preferred stock, respectively, were convertible into Class A common shares on a non-contingent basis, with the number of Class A common shares dependent, in part, upon future prices of the Class A common stock. At both September 30, 2010 and December 31, 2009, 948,631 shares of Class A common stock were contingently issuable and, at both such dates, 19,590 shares of Series A preferred stock were contingently convertible into shares of Class A common stock, dependent upon the future performance of GAHL and CWC. The Class A common stock described above related to the GAHL and CWC acquisitions is issuable over multi-year periods.

9. GOODWILL AND OTHER INTANGIBLE ASSETS

The components of goodwill and other intangible assets at September 30, 2010 and December 31, 2009 are presented below:

	September 30, 2010	December 31, 2009
Goodwill	$ 267,722	$ 261,703

Other intangible assets (net of accumulated amortization)	50,819	56,077
	$ 318,541	$ 317,780

At September 30, 2010 and December 31, 2009, goodwill of $206,092 and $200,073, respectively, was attributable to the Company s Financial Advisory segment and, at each such date, $61,630 of goodwill was attributable to the Company s Asset Management segment.

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Changes in the carrying amount of goodwill for the nine month periods ended September 30, 2010 and 2009 are as follows:

	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Balance, January 1	$ 261,703	$ 170,277
Business acquisitions, including additional contingent consideration earned		62,693
Foreign currency translation adjustments	6,019	19,288
Balance, September 30	$ 267,722	$ 252,258

The gross cost and accumulated amortization of other intangible assets as of September 30, 2010 and December 31, 2009, by major intangible asset category, are as follows:

	September 30, 2010			December 31, 2009		
	Gross Cost	Accumulated Amortization	Net Carrying Amount	Gross Cost	Accumulated Amortization	Net Carrying Amount
Success/performance fees	$ 30,740	$	$ 30,740	$ 30,740	$	$ 30,740
Management fees, customer relationships and non-compete agreements	32,477	12,398	20,079	32,477	7,140	25,337
	$ 63,217	$ 12,398	$ 50,819	$ 63,217	$ 7,140	$ 56,077

Amortization expense of intangible assets for the three month and nine month periods ended September 30, 2010 was $1,719 and $5,258, respectively, and for the three month and nine month periods ended September 30, 2009 was $2,032 and $2,720, respectively. Estimated future amortization expense is as follows:

Year Ending December 31,	Amortization Expense (a)
2010 (October 1 through December 31)	$ 1,730
2011	5,718

2012		6,302
2013		13,022
2014		10,083
Thereafter		13,964
Total amortization expense	$	50,819

(a) Approximately 47% of intangible asset amortization is attributable to a noncontrolling interest.

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10. SENIOR AND SUBORDINATED DEBT

Senior Debt Senior debt is comprised of the following as of September 30, 2010 and December 31, 2009:

	Initial Principal Amount	Maturity Date	Annual Interest Rate	Outstanding As Of	
				September 30, 2010	December 31, 2009
Lazard Group 7.125% Senior Notes (a)	$ 550,000	5/15/15	7.125%	$ 528,500	$ 538,500
Lazard Group 6.85% Senior Notes (b)	600,000	6/15/17	6.85%	548,350	548,350
Lazard Group Credit Facility	150,000	4/29/13	2.23%		
Total				$ 1,076,850	$ 1,086,850

(a) During the second quarter of 2010, the Company repurchased $10,000 principal amount of the 7.125% Senior Notes at a cost, excluding accrued interest, of $10,375 and, after the write-off of applicable unamortized debt issuance costs of $49, the Company recognized a pre-tax loss of $424.

(b) During the first quarter of 2009, the Company repurchased $900 principal amount of the 6.85% Senior Notes at a cost, excluding accrued interest, of $635 and, after the write-off of unamortized debt issuance costs of $7, recognized a pre-tax gain of $258.

Subordinated Debt Subordinated debt at September 30, 2010 and December 31, 2009 amounted to $150,000 at each date and represents a note which is convertible into a maximum of 2,631,570 shares of Class A common stock at an effective conversion price of $57 per share. The note matures on September 30, 2016 and has a fixed interest rate of 3.25% per annum. One-third in principal amount became convertible on and after each of July 1, 2008, July 1, 2009 and July 1, 2010, and no principal amount is convertible after June 30, 2011. As of September 30, 2010, there have been no conversions of the note.

On April 29, 2010, Lazard Group entered into a $150,000, three-year senior revolving credit facility with a group of lenders (the Credit Facility). The Credit Facility replaced the prior revolving credit facility, which was terminated as a condition to effectiveness of the Credit Facility. Interest rates under the Credit Facility vary and are based on either a Federal Funds rate or a Eurodollar rate, in each case plus an applicable margin. As of September 30, 2010, the annual interest rate for a loan accruing interest (based on the Federal Funds overnight rate), including the applicable margin, was 2.23%. The Credit Facility contains customary terms and conditions substantially similar to the prior revolving credit facility, including certain financial covenants. In addition, the Credit Facility, the indenture and supplemental indentures relating to Lazard Group s senior notes as well as its subordinated convertible note contain certain covenants (none of which relate to financial condition), events of

default and other customary provisions, including a customary make-whole provision in the event of early redemption where applicable. As of September 30, 2010, the Company was in compliance with all of these provisions. All of the Company s senior and subordinated debt obligations are unsecured.

As of September 30, 2010, the Company had approximately $235,000 in unused lines of credit available to it, including the Credit Facility and approximately $40,000 and $23,000 of unused lines of credit available to LFB and Edgewater, respectively. In addition, LFB has access to the Eurosystem Covered Bond Purchase Program of the Banque de France.

The Company s senior and subordinated debt are recorded at historical amounts. At September 30, 2010 and December 31, 2009, the fair value of the Company s senior and subordinated debt was $1,294,732 and

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$1,255,254, respectively, and exceeded the aggregate carrying value by $67,882 and $18,404, respectively. The fair value of the Company s senior and subordinated debt was estimated using a discounted cash flow analysis based on the Company s current borrowing rates for similar types of borrowing arrangements or based on market quotations where available.

11. COMMITMENTS AND CONTINGENCIES

Leases Lazard has various leases and other contractual commitments arising in the ordinary course of business. In the opinion of management, the fulfillment of such commitments, in accordance with their terms, will not have a material adverse effect on Lazard s consolidated financial position, results of operations or cash flows.

Guarantees In the normal course of business, LFB provides indemnifications to third parties to protect them in the event of non-performance by its clients. At September 30, 2010, LFB had $6,807 of such indemnifications and held $5,337 of collateral/counter-guarantees to secure these commitments. The Company believes the likelihood of loss with respect to these indemnities is remote. Accordingly, no liability is recorded in the consolidated statement of financial condition.

Private Equity Funding Commitments At September 30, 2010, the principal unfunded commitments by the Company for capital contributions to private equity investment funds related to CP II, in an amount not to exceed $6,694 for potential follow-on investments and/or for CP II expenses through the earlier of (i) February 25, 2017 or (ii) the liquidation of the fund.

Other Commitments In the normal course of business, LFB enters into commitments to extend credit, predominantly at variable interest rates. Outstanding commitments at September 30, 2010 were $9,693. Such commitments have varying expiration dates and are fully collateralized and generally contain requirements for the counterparty to maintain a minimum collateral level. These commitments may not represent future cash requirements as they may expire without being drawn upon.

See Notes 7, 8 and 14 of Notes to Condensed Consolidated Financial Statements for information regarding commitments relating to the LAM Merger, business acquisitions and obligations to fund our pension plans, respectively.

The Company has various other contractual commitments arising in the ordinary course of business. In the opinion of management, the consummation of such commitments will not have a material adverse effect on the Company s consolidated financial position or results of

operations. In addition, from time to time, LFB enters into underwriting commitments in which it participates as a joint underwriter. The settlement of such transactions are not expected to have a material adverse effect on the Company s consolidated financial position or results of operations.

Legal The Company s businesses, as well as the financial services industry generally, are subject to extensive regulation throughout the world. The Company is involved from time to time in a number of judicial, regulatory and arbitration proceedings and inquiries concerning matters arising in connection with the conduct of our businesses, including proceedings initiated by former employees alleging wrongful termination. The

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Company reviews such matters on a case-by-case basis and establishes any required reserves if a loss is probable and the amount of such loss can be reasonably estimated. Management believes, based on currently available information, that the results of such matters, in the aggregate, will not have a material adverse effect on its financial condition but might be material to its operating results or cash flows for any particular period, depending upon the operating results for such period.

12. STOCKHOLDERS EQUITY

At September 30, 2010 and 2009, Lazard Group common membership interests held by subsidiaries of Lazard Ltd amounted to 91.5% and 74.5%, respectively, and by LAZ-MD Holdings LLC, an entity owned by Lazard Group s current and former managing directors (LAZ-MD Holdings), amounted to 8.5% and 25.5%, respectively. Pursuant to provisions of its Operating Agreement, Lazard Group distributions in respect of its common membership interests are allocated to the holders of such interests on a pro rata basis. Such distributions represent amounts necessary to fund (i) any dividends Lazard Ltd may declare on its Class A common stock and (ii) tax distributions in respect of income taxes that Lazard Ltd s subsidiaries and the members of LAZ-MD Holdings incur as a result of holding Lazard Group common membership interests. During the nine month periods ended September 30, 2010 and 2009, Lazard Group distributed $8,453 and $13,462, respectively, to LAZ-MD Holdings and $36,714 and $23,216, respectively, to the subsidiaries of Lazard Ltd, which latter amounts were used by Lazard Ltd to pay dividends to third-party stockholders of its Class A common stock. In addition, during the nine month period ended September 30, 2009, Lazard Group made tax distributions of $67,360, including $25,316 paid to LAZ-MD Holdings and $42,044 paid to subsidiaries of Lazard Ltd. During the nine month period ended September 30, 2010, Lazard Group made no such tax distributions.

On October 26, 2010, the Board of Directors of Lazard Ltd declared a quarterly dividend of $0.125 per share on its Class A common stock, totaling $14,576, payable on November 26, 2010 to stockholders of record on November 3, 2010.

Issuance of Class A Common Shares During the first quarter of 2010, 3,000,000 shares of Class A common stock were newly issued to Lazard Group in connection with the settlement of vested restricted stock unit grants (RSUs). Such shares were authorized as part of the 25,000,000 shares of Class A common stock that may be issued under the Lazard Ltd 2005 Equity Incentive Plan (the 2005 Plan). In addition, during the third quarter of 2010, the Company issued an aggregate of 888,605 shares of Class A common stock in connection with the GAHL and CWC acquisitions (see Note 8 of Notes to Condensed Consolidated Financial Statements).

Secondary Offerings In March 2010, pursuant to a Prospectus Supplement dated March 16, 2010, certain selling shareholders of Lazard Ltd (which include current and former managing directors of Lazard and a former executive officer) and their permitted transferees, sold 7,869,311 shares of Class A common stock (including (i) 7,262 shares of Class A common stock previously received upon the exchange of a like number of LAZ-MD Holdings exchangeable interests, (ii) 6,180,639 shares of Class A common stock received upon a simultaneous exchange of a like number of LAZ-MD Holdings exchangeable interests (including 5,958,000 shares held by the Estate of Lazard s former Chairman and Chief Executive Officer and related trusts (collectively, the Estate)) and (iii) 1,681,410 shares held by the Estate) at a price of $35.90 per share (collectively, the March 2010 Secondary Offering).

In August 2010, pursuant to a Prospectus Supplement dated August 3, 2010, certain selling shareholders of Lazard Ltd (which include current and former managing directors of Lazard) and their permitted transferees (the August 2010 Selling Shareholders) sold 7,397,837 shares of Class A common stock at a price of $30.32 per share (the August 2010 Secondary Offering , and together with the March 2010 Secondary Offering, the 2010

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Secondary Offerings). Separately, in connection with the August 2010 Secondary Offering, Lazard Group agreed to purchase from the August 2010 Selling Shareholders 2,500,000 shares of Class A common stock for an aggregate cost of $75,800 ($30.32 per share), with such purchase being part of the share repurchase program in effect during 2010. In the aggregate, the August 2010 Selling Shareholders sold a total of 9,897,837 shares of Class A common stock (including 7,194,144 shares of Class A common stock previously received upon the exchange of a like number of LAZ-MD Holdings exchangeable interests and 2,703,693 shares of Class A common stock received upon a simultaneous exchange of a like number of LAZ-MD Holdings exchangeable interests).

In June 2009, pursuant to a Prospectus Supplement dated June 2, 2009, certain selling shareholders of Lazard Ltd (which include current and former managing directors of Lazard (including certain of our executive officers)) and their permitted transferees (the June 2009 Selling Shareholders) sold 4,000,000 shares of Class A common stock at a price of $26.00 per share (the June 2009 Secondary Offering). Separately, in connection with the June 2009 Secondary Offering, Lazard Group agreed to purchase from the June 2009 Selling Shareholders 1,700,000 shares of Class A common stock for an aggregate cost of $44,200 ($26.00 per share), with such purchase being part of the share repurchase program in effect during 2009. In the aggregate, the June 2009 Selling Shareholders sold a total of 5,700,000 shares of Class A common stock (including 2,110,754 shares of Class A common stock previously received upon the exchange of a like number of LAZ-MD Holdings exchangeable interests and 3,589,246 shares of Class A common stock received upon a simultaneous exchange of a like number of LAZ-MD Holdings exchangeable interests).

In September 2009, pursuant to a Prospectus Supplement dated September 8, 2009, certain selling shareholders of Lazard Ltd (which include current and former managing directors of Lazard (including certain of our executive officers)) and their permitted transferees (the September 2009 Selling Shareholders) sold 5,215,921 shares of Class A common stock (including 2,411,001 shares of Class A common stock previously received upon the exchange of a like number of LAZ-MD Holdings exchangeable interests and 2,804,920 shares of Class A common stock received upon a simultaneous exchange of a like number of LAZ-MD Holdings exchangeable interests) at a price of $37.00 per share (the September 2009 Secondary Offering , and together with the June 2009 Secondary Offering, the 2009 Secondary Offerings).

Lazard Ltd did not receive any net proceeds from the sales of Class A common stock from the 2010 Secondary Offerings or the 2009 Secondary Offerings.

Exchanges of Lazard Group Common Membership Interests In addition to the simultaneous exchanges that occurred in connection with the secondary offerings discussed above, during the nine month periods ended September 30, 2010 and 2009, Lazard Ltd issued 11,665,618 and 7,512,974 shares of Class A common stock, respectively, in connection with the exchange of a like number of common membership interests of Lazard Group (received from members of LAZ-MD Holdings in exchange for a like number of LAZ-MD Holdings exchangeable interests).

See Noncontrolling Interests below for additional information regarding Lazard Ltd s and LAZ-MD Holdings ownership interests in Lazard Group.

Share Repurchase Program On January 27, 2010, the Board of Directors of Lazard Ltd authorized, on a cumulative basis, the repurchase of up to $200,000 in aggregate cost of its Class A common stock and Lazard Group common membership interests through December 31, 2011. The Company expects that the share repurchase program, with respect to the Class A common stock, will continue to be used primarily to offset a

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portion of the shares that have been or will be issued under the 2005 Plan and the Lazard Ltd 2008 Incentive Compensation Plan (the 2008 Plan). The Company s prior share repurchase program expired on December 31, 2009, with $62,542 of the initial $500,000 repurchase authorization unused. Pursuant to such authorizations, purchases have been made in the open market or through privately negotiated transactions, and since inception of the program in February 2006 through September 30, 2010, Lazard Group purchased an aggregate of 15,552,945 shares of Class A common stock at an average price of $32.54 per share, and an aggregate of 1,323,961 Lazard Group common membership interests at an average price of $32.29 per common membership interest. As a result of (i) Lazard Group s delivery of shares of Class A common stock for the settlement of vested RSUs and deferred stock unit grants (DSUs) during the three year period ended December 31, 2009 and the nine month period ended September 30, 2010, (ii) the incentive plan share award of shares of restricted Class A common stock granted during the second quarter of 2010, and (iii) the issuance of shares of restricted Class A common stock in exchange for RSUs during the third quarter of 2010, there were 5,865,580 and 5,850,775 shares of Class A common stock held by Lazard Group at September 30, 2010 and December 31, 2009, respectively. Such Class A common shares are reported, at cost, as Class A common stock held by a subsidiary on the condensed consolidated statements of financial condition.

As of September 30, 2010, $88,612 of the $200,000 share repurchase authorization remained available under the share repurchase program. In addition, under the terms of the 2005 Plan and the 2008 Plan, upon the vesting of RSUs, shares of Class A common stock may be withheld by the Company to cover estimated income taxes. During the nine month period ended September 30, 2010, the Company withheld 1,602,999 shares to cover estimated taxes upon the vesting of 7,938,606 RSUs (see Note 13 of Notes to Condensed Consolidated Financial Statements).

Preferred Stock Lazard Ltd has 15,000,000 authorized shares of preferred stock, par value $0.01 per share, inclusive of its Series A preferred stock and Series B preferred stock. The Series A and Series B preferred shares are each non- participating securities that are or were each convertible into Class A common stock, and have no voting or dividend rights. As of September 30, 2010 and December 31, 2009, 22,021 and 26,883 shares of Series A preferred stock were outstanding, respectively, and no shares of Series B preferred stock were outstanding at such respective dates.

At September 30, 2010 and December 31, 2009, 2,431 and 7,293 shares of the Series A preferred shares outstanding, respectively, were convertible into shares of Class A common stock. The remaining 19,590 shares of Series A preferred stock outstanding at September 30, 2010 and December 31, 2009, may become convertible into shares of Class A common stock upon completion or satisfaction of specified obligations in the CWC acquisition agreement (see Note 8 of Notes to Condensed Consolidated Financial Statements). The initial conversion rate, at the time of the acquisition of CWC, was 100 shares of Class A common stock to one share of Series A preferred stock, with the ultimate conversion rate dependent on certain variables, including the value of the Class A common stock, as defined, and the currency exchange rate on the date of conversion.

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Accumulated Other Comprehensive Income (Loss), Net of Tax The components of AOCI at September 30, 2010 and December 31, 2009 are as follows:

	September 30, 2010	December 31, 2009
Currency translation adjustments	$ 18,529	$ 22,650
Interest rate hedge	(4,875)	(5,774)
Available-for-sale securities	(7,556)	(12,630)
Employee benefit plans	(81,664)	(76,079)
Total AOCI	(75,566)	(71,833)
Less amount attributable to noncontrolling interests	(5,047)	(14,785)
Total Lazard Ltd AOCI	$ (70,519)	$ (57,048)

Noncontrolling Interests Noncontrolling interests principally represent interests held in Lazard Group by LAZ-MD Holdings and noncontrolling interests in various LAM-related GP interests and Edgewater s management vehicles that the Company is deemed to control but does not own.

As of September 30, 2010 and December 31, 2009, LAZ-MD Holdings held approximately 8.5% and 25.5%, respectively, of the outstanding Lazard Group common membership interests. Additionally, LAZ-MD Holdings was the sole owner of the one issued and outstanding share of Lazard Ltd s Class B common stock, which provided LAZ-MD Holdings with approximately 8.5% and 25.5%, of the voting power but no economic rights in the Company as of September 30, 2010 and December 31, 2009, respectively. Subject to certain limitations, LAZ-MD Holdings interests in Lazard Group are exchangeable for Class A common stock.

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The following tables summarize the changes in ownership interests in Lazard Group held by Lazard Ltd and LAZ-MD Holdings during the nine month periods ended September 30, 2010 and 2009:

	Lazard Ltd		LAZ-MD Holdings		Total Lazard Group Common Membership Interests
	Common Membership Interests	% Ownership	Common Membership Interests	% Ownership	
Balance, January 1, 2009	76,294,912	62.4%	45,938,752	37.6%	122,233,664
Activity January 1, 2009 to September 30, 2009:					
Common membership interest activity in connection with:					
2009 Secondary Offerings	6,394,166		(6,394,166)		
Exchanges for Class A common stock	7,512,974		(7,512,974)		
Business acquisitions	1,953,598				1,953,598
Repurchase of common membership interests from LAZ-MD Holdings			(500,924)		(500,924)
Balance, September 30, 2009	92,155,650	74.5%	31,530,688	25.5%	123,686,338
Balance, January 1, 2010	92,165,912	74.5%	31,520,426	25.5%	123,686,338
Activity January 1, 2010 to September 30, 2010:					
Common membership interest activity in connection with:					
Equity compensation	3,000,000				3,000,000
2010 Secondary Offerings	8,884,332		(8,884,332)		
Exchanges for Class A common stock	11,665,618		(11,665,618)		
Business acquisitions	888,605				888,605
Repurchase of common membership interests from LAZ-MD Holdings			(167,286)		(167,286)
Balance, September 30, 2010	116,604,467	91.5%	10,803,190	8.5%	127,407,657

The change in Lazard Ltd s ownership in Lazard Group in the nine month periods ended September 30, 2010 and 2009 did not materially impact Lazard Ltd s stockholders equity.

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The tables below summarize net income (loss) attributable to noncontrolling interests for the three month and nine month periods ended September 30, 2010 and 2009 and noncontrolling interests as of September 30, 2010 and December 31, 2009 in the Company s condensed consolidated financial statements:

	Net Income (Loss) Attributable To Noncontrolling Interests			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
LAZ-MD Holdings	$ 6,152	$ 13,749	$ 4,909	$ (3,297)
LAM GPs	879	1,184	151	372
Edgewater	(366)	845	3,511	845
Other	(402)	1	(712)	1
Total	$ 6,263	$ 15,779	$ 7,859	$ (2,079)

	Noncontrolling Interests As Of	
	September 30, 2010	December 31, 2009
LAZ-MD Holdings	$ 24,969	$ 39,407
LAM GPs	7,514	13,409
Edgewater	112,932	112,158
Other	2,008	2,732
Total	$ 147,423	$ 167,706

13. INCENTIVE PLANS

Share-Based Incentive Compensation Awards

A description of Lazard Ltd s 2005 Plan and 2008 Plan, and activity with respect thereto during the nine month periods ended September 30, 2010 and 2009, is presented below.

Shares Available Under the 2005 Plan and 2008 Plan

The 2005 Plan authorizes the issuance of up to 25,000,000 shares of Class A common stock pursuant to the grant or exercise of stock options, stock appreciation rights, restricted stock, stock units and other equity-based awards. Each stock unit granted under the 2005 Plan represents a contingent right to receive one share of Class A common stock, at no cost to the recipient. The fair value of such stock unit awards is determined based on the closing market price of Lazard Ltd s Class A common stock at the date of grant.

In addition to the shares available under the 2005 Plan, additional shares of Class A common stock are available under the 2008 Plan, which was approved by the stockholders of Lazard Ltd on May 6, 2008. The maximum number of shares available under the 2008 Plan is based on a formula that limits the aggregate number of shares that may, at any time, be subject to awards that are considered outstanding under the 2008 Plan to 30% of the then-outstanding shares of Class A common stock (treating, for this purpose, the then-outstanding exchangeable interests of LAZ-MD Holdings on a fully-exchanged basis as described in the 2008 Plan).

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Restricted and Deferred Stock Units

RSUs require future service as a condition for the delivery of the underlying shares of Class A common stock (unless the recipient is then eligible for retirement under the Company s retirement policy) and convert into Class A common stock on a one-for-one basis after the stipulated vesting periods. The grant date fair value of the RSUs, net of an estimated forfeiture rate, is amortized over the vesting periods or requisite service periods, and, for purposes of calculating diluted net income per share, are included in the diluted weighted average shares of Class A common stock outstanding using the treasury stock method. Expense relating to RSUs is charged to compensation and benefits expense (and, as applicable, in restructuring expense, with respect to the expense associated with the acceleration of unrecognized expense pertaining to RSUs granted previously to individuals who were terminated in the restructuring programs during 2009 and 2010) as follows within the Company s condensed consolidated statements of operations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Compensation and benefits (including $24,860 in the nine month period ended September 30, 2010 relating to the amendment of the Company s retirement policy(a))	$ 46,814	$ 63,392	$ 201,157	$ 191,951
Restructuring			46,880	24,239
Total	$ 46,814	$ 63,392	$ 248,037	$ 216,190

(a) As described below, the Company amended its retirement policy during the first quarter of 2010 to modify the retirement eligibility vesting requirement with respect to RSU awards.

RSUs issued subsequent to December 31, 2005 generally include a dividend participation right that provides that during vesting periods each RSU is attributed additional RSUs (or fractions thereof) equivalent to any ordinary quarterly dividends paid on Class A common stock during such period. During the nine month periods ended September 30, 2010 and 2009, dividend participation rights required the issuance of 244,754 and 249,048 RSUs, respectively, and resulted in a charge to retained earnings and a credit to additional paid-in-capital, net of estimated forfeitures, of $6,963 and $4,793 during the respective periods.

In January 2010, the Company amended its retirement policy with respect to RSU awards. Such amendment served to modify the retirement eligibility vesting requirements of existing and future RSU awards, and, as noted above, Lazard accelerated the recognition of compensation

expense for the affected RSU awards. Accordingly, the Company recorded a non-cash charge to compensation and benefits expense of $24,860 in the first quarter of 2010 relating to prior years awards.

Non-executive members of the Board of Directors receive approximately 55% of their annual compensation for service on the Board of Directors and its committees in the form of DSUs which resulted in 31,588 and 36,627 DSUs granted during the nine month periods ended September 30, 2010 and 2009, respectively. Their remaining compensation is payable in cash, which they may elect to receive in the form of additional DSUs under the Directors Fee Deferral Unit Plan described below. DSUs are convertible into Class A common stock at the time of cessation of service to the Board. The DSUs include a cash dividend participation right equivalent to any ordinary quarterly dividends paid on Class A common stock, and resulted in nominal cash payments for the nine month periods ended September 30, 2010 and 2009. DSU awards are expensed at their fair value on their date of grant, which, inclusive of amounts related to the Directors Fee Deferral Unit Plan, totaled $58 and

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$1,173 during the three month and nine month periods ended September 30, 2010, respectively, and $157 and $1,240 during the three month and nine month periods ended September 30, 2009, respectively.

On May 9, 2006, the Board of Directors adopted the Directors Fee Deferral Unit Plan, which allows the Company s Non-Executive Directors to elect to receive additional DSUs pursuant to the 2005 Plan in lieu of some or all of their cash fees. The number of DSUs that shall be granted to a Non-Executive Director pursuant to this election will equal the value of cash fees that the applicable Non-Executive Director has elected to forego pursuant to such election, divided by the market value of a share of Class A common stock on the date on which the foregone cash fees would otherwise have been paid. During the nine month periods ended September 30, 2010 and 2009, 5,912 and 6,963 DSUs, respectively, had been granted pursuant such Plan.

The following is a summary of activity relating to RSUs and DSUs during the nine month periods ended September 30, 2010 and 2009:

	RSUs		DSUs	
	Units	Weighted Average Grant Date Fair Value	Units	Weighted Average Grant Date Fair Value
Balance, January 1, 2010	23,367,813	$ 37.01	103,146	$ 35.75
Granted (including 244,754 RSUs relating to dividend participation)	7,730,444	$ 35.66	37,500	$ 31.27
Forfeited	(726,948)	$ 36.21		
Vested/Converted/Exchanged	(7,979,501)	$ 39.86	(20,435)	$ 35.38
Balance, September 30, 2010	22,391,808	$ 35.57	120,211	$ 34.42

	RSUs		DSUs	
	Units	Weighted Average Grant Date Fair Value	Units	Weighted Average Grant Date Fair Value
Balance, January 1, 2009	22,141,468	$ 39.17	65,256	$ 40.32
Granted (including 249,048 RSUs relating to dividend participation)	7,504,232	$ 31.00	43,590	$ 28.45
Forfeited	(805,721)	$ 36.92		
Vested	(1,446,827)	$ 38.81		
Balance, September 30, 2009	27,393,152	$ 37.02	108,846	$ 35.57

In connection with the vested RSUs above, and after considering the withholding tax obligations pertaining thereto, 6,335,607 and 1,030,960 shares of Class A common stock held by Lazard Group were delivered during the nine month periods ended September 30, 2010 and 2009, respectively.

As of September 30, 2010, unrecognized RSU compensation expense, adjusted for estimated forfeitures, was approximately $286,000, with such unrecognized compensation expense expected to be recognized over a weighted average period of approximately 1.6 years subsequent to September 30, 2010. The ultimate amount of such expense is dependent upon the actual number of RSUs that vest. The Company periodically assesses the forfeiture rates used for such estimates. A change in estimated forfeiture rates would cause the aggregate amount of compensation expense recognized in future periods to differ from the estimated unrecognized compensation expense described herein.

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Restricted Stock

During the second quarter of 2010, 54,437 shares of restricted Class A common stock were awarded under the 2008 Plan at a grant date fair value of $38.78 per share. Such award will vest and will no longer be subject to any restrictions on August 31, 2012. The aggregate grant date fair value of the award is being amortized over the vesting period.

During the third quarter of 2010, 40,895 shares of restricted Class A common stock were issued in exchange for 40,895 RSUs previously granted on February 11, 2010 at a grant date fair value of $36.10 per share. The vesting terms of such restricted Class A common stock issued are the same as that of the original award exchanged. There was no incremental compensation cost incurred as a result of the exchange.

At September 30, 2010, unrecognized restricted stock expense was approximately $2,500, with such unrecognized compensation expense to be recognized over a weighted average period of approximately 2.0 years.

For purposes of calculating diluted net income per share, such awards are included in the diluted weighted average shares of Class A common stock outstanding using the treasury stock method. Expense relating to such restricted stock awards is charged to compensation and benefits expense within the Company s condensed consolidated statements of operations, and amounted to $483 and $643 for the three month and nine month periods ended September 30, 2010, respectively. The awards include a cash dividend participation right equivalent to any ordinary quarterly dividends paid on Class A common stock during the period, which will vest concurrently with the underlying restricted stock award.

14. EMPLOYEE BENEFIT PLANS

The Company provides retirement and other post-retirement benefits to certain of its employees through defined contribution and defined benefit pension plans and other post-retirement plans. These plans generally provide benefits to participants based on average levels of compensation. Expense related to the Company s employee benefit plans are included in compensation and benefits expense on the consolidated statements of operations. The Company uses December 31 as the measurement date for its employee benefit plans.

Employer Contributions to Pension Plans In accordance with agreements reached with the Trustees of certain non-U.S. pension plans in 2005, the Company is obligated to make further contributions to such pension plans based upon the cumulative performance of the plans assets against

specific benchmarks as measured on June 1, 2009 (the measurement date) and subsequently remeasured on June 1, 2010 (the remeasurement date). As of September 30, 2010, the remaining obligation related to the cumulative underperformance of the plans assets (the underperformance obligation) was approximately 3.7 million British pounds ($5,868 at September 30, 2010 exchange rates) which is payable in equal monthly installments through May 2013.

In addition, on June 30, 2009 the Company and Trustees concluded the December 31, 2007 triennial valuation of the non-U.S. pension plans discussed above, pursuant to which: (i) the Company agreed to contribute, in addition to amounts to cover administrative expenses under the plans, 2.3 million British pounds ($3,650 at September 30, 2010 exchange rates), during each year from 2011 to 2018 inclusive, subject to adjustment resulting from the December 31, 2010 triennial valuation, which the Company expects to have concluded prior to the contribution payment scheduled for 2011, and (ii) to secure the Company s obligations thereunder, on July 15, 2009 the Company placed in escrow 12.5 million British pounds, with a final redemption

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date of December 31, 2018. This amount is subject to adjustment based on the results of the December 31, 2010 triennial valuation and subsequent triennial valuations. The escrow balance has been recorded in cash deposited with clearing organizations and other segregated cash and investments: debt-other in the amounts of 6.25 million British pounds and 6.25 million British pounds, respectively, at each of September 30, 2010 and December 31, 2009 ($9,919 and $9,919 at September 30, 2010 exchange rates and $10,138 and $10,138 at December 31, 2009 exchange rates), respectively, on the accompanying condensed consolidated statements of financial condition. Income on the escrow balance accretes to the Company and is recorded in interest income.

During the nine month period ended September 30, 2010, the Company contributed approximately $2,900 primarily with respect to the underperformance obligation discussed above, and during such period there were no other contributions made to other pension plans.

The following table summarizes the components of total benefit cost (credit) for the three month and nine month periods ended September 30, 2010 and 2009:

	Pension Plans		Post-Retirement Medical Plans	
	Three Months Ended September 30,			
	2010	2009	2010	2009
Components of Net Periodic Benefit Cost (Credit):				
Service cost	$ 160	$	$ 20	$ 25
Interest cost	6,921	6,232	73	78
Expected return on plan assets	(7,372)	(6,922)		
Amortization of:				
Prior service cost (credit)	632		(332)	(345)
Net actuarial loss	203	227		
Net periodic benefit cost (credit)	$ 544	$ (463)	$ (239)	$ (242)

	Pension Plans		Post-Retirement Medical Plans	
	Nine Months Ended September 30,			
	2010	2009	2010	2009
Components of Net Periodic Benefit Cost (Credit):				
Service cost	$ 420	$	$ 60	$ 74
Interest cost	20,708	17,652	219	233
Expected return on plan assets	(21,801)	(19,622)		
Amortization of:				

Prior service cost (credit)	2,108		(1,023)	(1,036)
Net actuarial loss	602	663		
Net periodic benefit cost (credit)	$ 2,037	$ (1,307)	$ (744)	$ (729)

15. RESTRUCTURING PLANS

In each of the first quarters of 2010 and 2009, the Company announced a restructuring plan which included certain staff reductions and realignments of personnel (the 2010 Restructuring Plan and the 2009

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Restructuring Plan , respectively, and collectively the 2010 and 2009 Restructuring Plans). In connection with the 2010 Restructuring Plan, the Company recorded a pre-tax charge in the first quarter of 2010 of $87,108, inclusive of $46,880 relating to the acceleration of RSUs (in aggregate, the 2010 Restructuring Charge), with this charge partially offset by associated income tax benefits and noncontrolling interest credits of $9,276 and $18,400, respectively, and, in connection with the 2009 Restructuring Plan, the Company recorded a charge in the first quarter of 2009 of $62,550, inclusive of $24,239 relating to the acceleration of RSUs (in aggregate, the 2009 Restructuring Charge), with this charge partially offset by associated income tax benefits and noncontrolling interest credits of $6,401 and $21,075, respectively (collectively, the 2010 and 2009 Restructuring Charges).

The 2010 and 2009 Restructuring Charges primarily consisted of compensation-related expenses, including the acceleration of unrecognized expenses pertaining to RSUs previously granted to individuals who were terminated pursuant to the restructuring, severance and benefit payments and other costs. As of September 30, 2010, the remaining liability associated with the 2010 Restructuring Plan was $21,561 and, as of September 30, 2010 and December 31, 2009, the remaining liability associated with the 2009 Restructuring Plan was $5,579 and $11,500, respectively. During the nine month period ended September 30, 2010, other than cash payments of $18,667 and $5,921 for the 2010 Restructuring Plan and the 2009 Restructuring Plan, respectively, and an adjustment of $3,596 to the estimated tax benefit relating to the 2010 Restructuring Charge, there were no adjustments to the amounts relating to the 2010 and 2009 Restructuring Plans. Liabilities relating to the 2010 and 2009 Restructuring Plans are reported within accrued compensation and benefits and other liabilities on the accompanying condensed consolidated statements of financial condition.

16. INCOME TAXES

Lazard Ltd is subject to U.S. federal income taxes on its portion of Lazard Group s operating income. Lazard Group primarily operates in the U.S. as a limited liability company that is treated as a partnership for U.S. federal income tax purposes. As a result, Lazard Group s income from its U.S. operations is generally not subject to U.S. federal income taxes, because such income is attributable to the partners. In addition, Lazard Group is subject to New York City Unincorporated Business Tax (UBT), which is attributable to Lazard Group s operations apportioned to New York City. UBT is incremental to the U.S. federal statutory tax rate. Outside the U.S., Lazard Group operates principally through subsidiary corporations that are subject to local income taxes.

The Company recorded income tax provisions of $9,113 and $29,049 for the three month and nine month periods ended September 30, 2010, respectively, and $19,968 and $29,312 for the three month and nine month periods ended September 30, 2009, respectively, representing effective tax rates of 11.5%, 25.9%, 27.3% and 74.5%, respectively. Excluding (i) the income tax benefits of $3,596 and $9,276 for the three month and nine month periods ended September 30, 2010 related to the 2010 Restructuring Charge and $3,472 and $4,835 for the three month and nine month periods ended September 30, 2010 related to the charge incurred in connection with the amendment of Lazard s retirement policy with respect to RSU awards, and (ii) the income tax benefit of $6,401 related to the 2009 Restructuring Charge, the Company had income tax provisions of $16,181 and $43,160 for the three month and nine month periods ended September 30, 2010, respectively, and $19,968 and $35,713 for the three month and nine month periods ended September 30, 2009, respectively, representing effective tax rates of 20.4%, 19.3%, 27.3% and 35.0%, respectively. The effective tax rates herein for the nine month period ended September 30, 2010 reflect a benefit from reductions in unrecognized tax benefits of $6,629 relating to settlements with taxing authorities and other adjustments pertaining to certain prior

years.

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The difference between the U.S. federal statutory rate of 35.0% and the effective tax rates described above principally relates to (i) Lazard Group primarily operating as a limited liability company in the U.S., (ii) foreign source income (loss) not subject to U.S. income taxes, (iii) Lazard Group s income from U.S. operations attributable to noncontrolling interests, (iv) valuation allowance changes affecting the provision for income taxes and (v) U.S. state and local taxes, which are incremental to the U.S. federal statutory tax rate.

Tax Receivable Agreement

The redemption of historical partner interests in connection with the Company s separation and recapitalization that occurred in May 2005 and subsequent exchanges of LAZ-MD Holdings exchangeable interests for shares of Class A common stock have resulted, and future exchanges of LAZ-MD Holdings exchangeable interests for shares of Class A common stock may result, in increases in the tax basis of the tangible and/or intangible assets of Lazard Group. The tax receivable agreement dated as of May 10, 2005 with LFCM Holdings requires the Company to pay LFCM Holdings 85% of the cash savings, if any, in U.S. federal, state and local income tax or franchise tax that the Company actually realizes as a result of the above-mentioned increases in tax basis. The Company calculates this provision annually and includes such amounts in operating expenses on its consolidated statements of operations once the results of operations for the full year are known. As a result, there is no provision for such payments in the three month and nine month periods ended September 30, 2010 and 2009. If any provision is required pursuant to the tax receivable agreement, such amount would be fully offset by a reduction in the Company s income tax expense.

17. NET INCOME PER SHARE OF CLASS A COMMON STOCK

The Company s basic and diluted net income per share calculations for the three month and nine month periods ended September 30, 2010 and 2009 are computed as described below.

Basic Net Income Per Share

Numerator utilizes net income attributable to Lazard Ltd for the three month and nine month periods ended September 30, 2010 and 2009, plus applicable adjustments to such net income associated with the inclusion of shares of Class A common stock issuable on a non-contingent basis.

Denominator utilizes the weighted average number of shares of Class A common stock outstanding for the three month and nine month periods ended September 30, 2010 and 2009, plus applicable adjustments to such shares associated with shares of Class A common stock issuable on a non-contingent basis.

Diluted Net Income Per Share

Numerator utilizes net income attributable to Lazard Ltd for the three month and nine month periods ended September 30, 2010 and 2009 as in the basic net income per share calculation described above, plus, to the extent applicable and dilutive, (i) interest expense on convertible debt, (ii) changes in net income (loss) attributable to noncontrolling interests resulting from assumed Class A common stock issuances in connection with share-based incentive compensation, convertible debt and convertible preferred stock and, on an as-if-exchanged basis, amounts applicable to LAZ-MD Holdings exchangeable interests and (iii) income tax related to (i) and (ii) above.

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Denominator utilizes the weighted average number of shares of Class A common stock outstanding for the three month and nine month periods ended September 30, 2010 and 2009 as in the basic net income per share calculation described above, plus, to the extent dilutive, the incremental number of shares of Class A common stock to settle share-based incentive compensation, convertible debt, convertible preferred stock and LAZ-MD Holdings exchangeable interests, using the treasury stock method, the if converted method or the as-if-exchanged basis, as applicable.

The calculations of the Company s basic and diluted net income per share and weighted average shares outstanding for the three month and nine month periods ended September 30, 2010 and 2009 are presented below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Net income attributable to Lazard Ltd	$64,091	$37,418	$75,129	$12,109
Add - adjustment associated with Class A common stock issuable on a non-contingent basis	116	349	95	(125)
Net income attributable to Lazard Ltd - basic	64,207	37,767	75,224	11,984
Add - dilutive effect, as applicable, of:				
Adjustments to income relating to interest expense and changes in net income attributable to noncontrolling interests resulting from assumed Class A common stock issuances in connection with share-based incentive compensation, convertible debt, convertible preferred stock and exchangeable interests, net of tax	5,992	15,518	3,988	
Net income attributable to Lazard Ltd - diluted	$70,199	$53,285	$79,212	$11,984
Weighted average number of shares of Class A common stock outstanding	108,302,438	77,707,395	98,579,076	72,124,816
Add - adjustment for shares of Class A common stock issuable on a non-contingent basis	2,756,633	3,049,323	2,861,665	3,154,089
Weighted average number of shares of Class A common stock outstanding - basic	111,059,071	80,756,718	101,440,741	75,278,905
Add - dilutive effect, as applicable, of:				
Weighted average number of incremental shares of Class A common stock issuable from share-based incentive compensation, convertible debt, convertible preferred stock and exchangeable interests	27,035,030	50,711,367	34,113,390	

Weighted average number of shares of Class A common stock outstanding - diluted	138,094,101	131,468,085	135,554,131	75,278,905
Net income attributable to Lazard Ltd per share of Class A common stock:				
Basic	$0.58	$0.47	$0.74	$0.16
Diluted	$0.51	$0.41	$0.58	$0.16

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18. RELATED PARTIES

Amounts receivable from, and payable to, related parties as of September 30, 2010 and December 31, 2009 are set forth below:

	September 30, 2010	December 31, 2009
Receivables		
LFCM Holdings	$ 5,818	$ 14,212
Other	1,011	203
Total	$ 6,829	$ 14,415
Payables		
LFCM Holdings	$ 564	$ 17,431
Other		19
Total	$ 564	$ 17,450

LFCM Holdings

LFCM Holdings owns and operates the capital markets business and fund management activities, as well as other specified non-operating assets and liabilities, that were transferred to it by Lazard Group (referred to as the separated businesses) in May 2005 and is owned by various current and former working members, including certain of Lazard s current and former managing directors (which also include our executive officers) who are also members of LAZ-MD Holdings. In addition to the master separation agreement, which effected the separation and recapitalization that occurred in May 2005, LFCM Holdings entered into certain agreements that addressed various business matters associated with the separation, including agreements related to administrative and support services (the administrative services agreement), employee benefits, insurance matters and licensing. In addition, LFCM Holdings and Lazard Group entered into a business alliance agreement. Certain of these agreements are described in more detail in the Company s Form 10-K.

For the three month and nine month periods ended September 30, 2010, amounts recorded by Lazard Group relating to the administrative services agreement amounted to $557 and $1,616, respectively, and net referral fees for underwriting, private placement, M&A and restructuring

transactions under the business alliance agreement amounted to $2,779 and $9,508, respectively. For the three month and nine month periods ended September 30, 2009, amounts recorded by Lazard Group relating to the administrative services agreement amounted to $1,287 and $3,779, respectively, and net referral fees for underwriting, private placement, M&A and restructuring transactions under the business alliance agreement amounted to $3,077 and $9,665, respectively. Amounts relating to the administrative services agreement are reported as reductions to operating expenses. Net referral fees for underwriting transactions under the business alliance agreement are reported in revenue-other . Net referral fees for private placement, M&A and restructuring transactions under the business alliance agreement are reported in advisory fee revenue.

Receivables from LFCM Holdings and its subsidiaries as of September 30, 2010 and December 31, 2009 primarily include $890 and $5,891, respectively, related to administrative and support services and reimbursement of expenses incurred on behalf of LFCM Holdings and $4,530 and $6,202, respectively, related to referral fees for underwriting and private placement transactions. Payables to LFCM Holdings and its subsidiaries at December 31, 2009 relate primarily to obligations pursuant to the tax receivable agreement of $15,684 (see Note 16 of Notes to Condensed Consolidated Financial Statements).

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LAZ-MD Holdings

Lazard Group provides selected administrative and support services to LAZ-MD Holdings through the administrative services agreement as discussed above, with such services generally to be provided until December 31, 2014 unless terminated earlier because of a change in control of either party. Lazard Group charges LAZ-MD Holdings for these services based on Lazard Group s cost allocation methodology and, for the three month and nine month periods ended September 30, 2010, such charges amounted to $188 and $563, respectively. For the three month and nine month periods ended September 30, 2009, such charges amounted to $188 and $563, respectively.

19. REGULATORY AUTHORITIES

LFNY is a U.S. registered broker-dealer and is subject to the net capital requirements of Rule 15c3-1 under the Securities Exchange Act of 1934 (the Exchange Act). Under the basic method permitted by this rule, the minimum required net capital, as defined, is a specified fixed percentage of total aggregate indebtedness recorded in LFNY s Financial and Operational Combined Uniform Single (FOCUS) report filed with the Financial Industry Regulatory Authority (FINRA), or $100, whichever is greater. At September 30, 2010, LFNY s regulatory net capital was $130,748, which exceeded the minimum requirement by $123,348.

Certain U.K. subsidiaries of the Company, including LCL, Lazard Fund Managers Limited and Lazard Asset Management Limited (the U.K. Subsidiaries) are regulated by the Financial Services Authority. At September 30, 2010, the aggregate regulatory net capital of the U.K. Subsidiaries was $147,248, which exceeded the minimum requirement by $103,865.

CFLF, through which non-corporate finance advisory activities are carried out in France, is subject to regulation by the Autorité de Contrôle Prudentiel for its banking activities conducted through its subsidiary, LFB. In addition, the investment services activities of the Paris group, exercised through LFB and other subsidiaries of CFLF, primarily LFG (asset management), are subject to regulation and supervision by the Autorité des Marchés Financiers. At September 30, 2010, the consolidated regulatory net capital of CFLF was $199,284, which exceeded the minimum requirement set for regulatory capital levels by $99,414.

Certain other U.S. and non-U.S. subsidiaries are subject to various capital adequacy requirements promulgated by various regulatory and exchange authorities in the countries in which they operate. At September 30, 2010, for those subsidiaries with regulatory capital requirements, their aggregate net capital was $91,255, which exceeded the minimum required capital by $68,349.

At September 30, 2010, each of these subsidiaries individually was in compliance with its regulatory capital requirements.

Lazard Ltd is currently subject to supervision by the SEC as a Supervised Investment Bank Holding Company (SIBHC). As a SIBHC, Lazard Ltd is subject to group-wide supervision, which requires it to compute allowable capital and risk allowances on a consolidated basis. However, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), which was signed into law on July 21, 2010, provides for the eventual elimination of the SEC s SIBHC program. The Dodd-Frank Act also allows entities seeking consolidated supervision to elect to be regulated by the Federal Reserve. The Dodd-Frank Act could have other impacts on us, which we are currently in the process of examining, including the impact of the elimination of the SIBHC program.

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20. SEGMENT INFORMATION

The Company s reportable segments offer different products and services and are managed separately as different levels and types of expertise are required to effectively manage the segments transactions. Each segment is reviewed to determine the allocation of resources and to assess its performance. The Company s principal operating activities are included in two business segments: Financial Advisory (which includes providing general strategic and transaction-specific advice on M&A and other strategic matters, restructurings, capital structure, capital raising and various other corporate finance matters), and Asset Management (which includes the management of equity and fixed income securities and alternative investment and private equity funds). In addition, the Company records selected other activities in its Corporate segment, including management of cash, certain investments and the commercial banking activities of LFB. The Company also allocates outstanding indebtedness to its Corporate segment.

The Company s segment information for the three month and nine month periods ended September 30, 2010 and 2009 is prepared using the following methodology:

Revenue and expenses directly associated with each segment are included in determining operating income.

Expenses not directly associated with specific segments are allocated based on the most relevant measures applicable, including headcount, square footage and other factors.

Segment assets are based on those directly associated with each segment, and include an allocation of certain assets relating to various segments, based on the most relevant measures applicable, including headcount, square footage and other factors.

The Company allocates investment gains and losses, interest income and interest expense among the various segments based on the segment in which the underlying asset or liability is reported.

Each segment s operating expenses include (i) compensation and benefits expenses incurred directly in support of the businesses and (ii) other operating expenses, which include directly incurred expenses for occupancy and equipment, marketing and business development, technology and information services, professional services, fund administration and outsourced services and indirect support costs (including compensation and other operating expenses related thereto) for administrative services. Such administrative services include, but are not limited to, accounting, tax, legal, facilities management and senior management activities.

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Management evaluates segment results based on net revenue and operating income and believes that the following information provides a reasonable representation of each segment s contribution with respect to net revenue, operating income (loss) and total assets:

		Three Months Ended September 30,		Nine Months Ended September 30,	
		2010	2009	2010	2009
Financial Advisory	Net Revenue	$ 254,012	$ 259,221	$ 768,481	$ 674,222
	Operating Expenses	215,838	212,543	667,538	595,649
	Operating Income (a)	$ 38,174	$ 46,678	$ 100,943	$ 78,573
Asset Management	Net Revenue	$ 210,132	$ 160,744	$ 587,299	$ 393,810
	Operating Expenses	150,515	117,728	416,841	312,141
	Operating Income (a)	$ 59,617	$ 43,016	$ 170,458	$ 81,669
Corporate	Net Revenue	$ (10,907)	$ (8,250)	$ (45,297)	$ (32,297)
	Operating Expenses	7,417	8,279	114,067	88,603
	Operating Loss (a)	$ (18,324)	$ (16,529)	$ (159,364)	$ (120,900)
Total	Net Revenue	$ 453,237	$ 411,715	$ 1,310,483	$ 1,035,735
	Operating Expenses	373,770	338,550	1,198,446	996,393
	Operating Income (a)	$ 79,467	$ 73,165	$ 112,037	$ 39,342

	As of	
	September 30, 2010	December 31, 2009
Total Assets:		
Financial Advisory	$ 728,215	$ 706,785
Asset Management	768,029	702,775
Corporate	1,627,454	1,738,202
Total	$ 3,123,698	$ 3,147,762

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(a) Operating income (loss) for the nine month periods ended September 30, 2010 and 2009 was significantly impacted by certain special items related to the three month periods ended March 31, 2010 and 2009, respectively. Such impact, including the amounts attributable to each of the Company s business segments, is described in the table below:

	Nine Months Ended September 30,	
	2010	2009
Financial Advisory		
Operating income, as reported above	$ 100,943	$ 78,573
Special item:		
Acceleration of amortization expense pertaining to the amendment of Lazard s retirement policy with respect to RSU awards	19,571	
Operating income, excluding impact of special item	$ 120,514	$ 78,573
Asset Management		
Operating income, as reported above	$170,458	$ 81,669
Special item:		
Acceleration of amortization expense pertaining to the amendment of Lazard s retirement policy with respect to RSU awards	2,902	
Operating income, excluding impact of special item	$ 173,360	$ 81,669
Corporate		
Operating loss, as reported above	$ (159,364)	$ (120,900)
Special items:		
Restructuring expense	87,108	62,550
Acceleration of amortization expense pertaining to the amendment of Lazard s retirement policy with respect to RSU awards	2,387	
Operating loss, excluding impact of special items	$ (69,869)	$ (58,350)
Consolidated		
Operating income, as reported above	$ 112,037	$ 39,342
Special items:		
Restructuring expense	87,108	62,550
Acceleration of amortization expense pertaining to the amendment of Lazard s retirement policy with respect to RSU awards	24,860	

Operating income, excluding impact of special items	$ 224,005	$ 101,892

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

The following discussion should be read in conjunction with Lazard Ltd s condensed consolidated financial statements and the related notes included elsewhere in this Quarterly Report on Form 10-Q (the Form 10-Q), as well as Management s Discussion and Analysis of Financial Condition and Results of Operations (the MD&A) included in our Annual Report on Form 10-K for the year ended December 31, 2009 (the Form 10-K). All references to 2010 , 2009 , third quarter , nine months , or the period refer to, as the context requires, the three month and nine month periods ended September 30, 2010 and September 30, 2009.

Forward-Looking Statements and Certain Factors that May Affect Our Business

Management has included in Parts I and II of this Form 10-Q, including in its MD&A, statements that are forward-looking statements. In some cases, you can identify these statements by forward-looking words such as may, might, will, should, expect, plan, anticipate, believe, predict, potential or continue, and the negative of these terms and other comparable terminology. These forward-looking statements, which are subject to known and unknown risks, uncertainties and assumptions about us, may include projections of our future financial performance based on our growth strategies and anticipated trends in our business. These statements are only predictions based on our current expectations and projections about future events. There are important factors that could cause our actual results, level of activity, performance or achievements to differ materially from the results, level of activity, performance or achievements expressed or implied by the forward-looking statements. These factors include, but are not limited to, those discussed in our Form 10-K under the caption Risk Factors, including the following:

- a decline in general economic conditions or the global financial markets,
- losses caused by financial or other problems experienced by third parties,
- losses due to unidentified or unanticipated risks,
- a lack of liquidity, *i.e.*, ready access to funds, for use in our businesses, and
- competitive pressure on our businesses and on our ability to retain our employees.

These risks and uncertainties are not exhaustive. Other sections of the Form 10-K may include additional factors, which could adversely impact our business and financial performance. Moreover, we operate in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time, and it is not possible for our management to predict all risks and uncertainties, nor can management assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

Although we believe the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, level of activity, performance or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy or completeness of any of these forward-looking statements. You should not rely upon forward-looking statements as predictions of future events. We are under no duty to update any of these forward-looking statements after the date of this Form 10-Q to conform our prior statements to actual results or revised expectations and we do not intend to do so.

Forward-looking statements include, but are not limited to, statements about the:

business possible or assumed future results of operations and operating cash flows,

business strategies and investment policies,

business financing plans and the availability of short-term borrowing,

business competitive position,

future acquisitions, including the consideration to be paid and the timing of consummation,

- potential growth opportunities available to our businesses,
- recruitment and retention of our managing directors and employees,
- target levels of compensation expense,
- business potential operating performance, achievements, productivity improvements, efficiency and cost reduction efforts,
- likelihood of success and impact of litigation,
- expected tax rates,
- changes in interest and tax rates,
- expectations with respect to the economy, securities markets, the market for mergers, acquisitions and strategic advisory and restructuring activity, the market for asset management activity and other industry trends,
- effects of competition on our business, and
- impact of future legislation and regulation on our business.

The Company is committed to providing timely and accurate information to the investing public, consistent with our legal and regulatory obligations. To that end, the Company uses its websites to convey information about our businesses, including the anticipated release of quarterly financial results, quarterly financial, statistical and business-related information and the posting of updates of assets under management (AUM) in various mutual funds, hedge funds and other investment products managed by Lazard Asset Management LLC and its subsidiaries (LAM). Monthly updates of these funds are posted to the LAM website *(www.lazardnet.com)* on the third business day following the end of each month. Investors can link to Lazard Ltd, Lazard Group and their operating company websites through *http://www.lazard.com*. Our websites and the information contained therein or connected thereto shall not be deemed to be incorporated into this Form 10-Q.

Business Summary

The Company s principal sources of revenue are derived from activities in the following business segments:

- Financial Advisory, which includes providing general strategic and transaction-specific advice on mergers and acquisitions (M&A) and other strategic matters, restructurings, capital structure, capital raising and various other corporate finance matters, and

Asset Management, which includes strategies for the management of equity and fixed income securities and alternative investment and private equity funds.

In addition, the Company records selected other activities in its Corporate segment, including management of cash, certain investments and the commercial banking activities of Lazard Group s Paris-based Lazard Frères Banque SA (LFB). The Company also allocates outstanding indebtedness to its Corporate segment.

LFB is a registered bank regulated by the Banque de France and its primary operations include asset and liability management for Lazard Group s businesses in France through its money market desk and commercial banking operations, deposit taking and, to a lesser extent, financing activities and custodial oversight over assets of various clients. LFB engages in underwritten offerings of securities in France and we expect that it may expand its scope to include placements elsewhere in Europe.

Lazard also has a long history of making alternative investments with its own capital, usually alongside capital of qualified institutional and individual investors. At the time of Lazard Ltd s equity public offering and as a part of the separation, we transferred to LFCM Holdings LLC (LFCM Holdings) all of our alternative investment activities, except for Fonds Partenaires Gestion SA (FPG), our private equity business in France. Such activities

transferred to LFCM Holdings represented the alternative investment activities of Lazard Alternative Investments Holdings LLC (LAI) and included private equity investments of Corporate Partners II Limited (CP II) and Lazard Senior Housing Partners LP. CP II was managed by a subsidiary of LAI until February 16, 2009. Effective February 17, 2009, ownership and control of CP II was transferred to the investment professionals who manage CP II. We also transferred to LFCM Holdings certain principal investments by Lazard Group in the funds managed by the separated businesses, subject to certain options by us to reacquire such investments, while we retained our investment in our French private equity funds. Since 2005, consistent with our obligations to LFCM Holdings, we have engaged in a number of alternative investments and private equity activities. Effective September 30, 2009, the Company sold FPG to a fund management company forming part of a group that manages investment companies and funds, in some of which Lazard could earn carried interests. The managing directors and staff conducting this activity were accordingly transferred to the buyer. The sale of FPG did not have a material impact on our financial condition or results of operations. Operating results of FPG have been included in our consolidated financial statements through the effective date of sale.

We continue to explore and discuss opportunities to expand the scope of our alternative investment and private equity activities in Europe, the U.S. and elsewhere. These opportunities could include internal growth of new funds and direct investments by us, partnerships or strategic relationships, investments with third parties or acquisitions of existing funds or management companies. In that regard, on July 15, 2009, the Company established a private equity business with The Edgewater Funds (Edgewater), a Chicago-based private equity firm, through the acquisition of Edgewater s management vehicles. The acquisition was structured as a purchase by Lazard of interests in a holding company that owns interests in the general partner and management company entities of the current Edgewater private equity funds (the Edgewater Acquisition) (see Note 8 of Notes to Condensed Consolidated Financial Statements). Also, consistent with our obligations to LFCM Holdings, we may explore discrete capital markets opportunities.

The Company s consolidated net revenue was derived from the following segments:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Financial Advisory	56%	63%	59%	65%
Asset Management	46	39	45	38
Corporate	(2)	(2)	(4)	(3)
Total	100%	100%	100%	100%

Business Environment

In the first nine months of 2010, economic and market conditions in general in the U.S. and globally have shown signs of a gradual, but uneven recovery, with the respective equity markets generally experiencing modest increases, albeit with significant volatility in the second and third quarters. Also contributing to the recovery in the first nine months of 2010 were healthier credit markets, improved corporate earnings and continued low interest rates. When compared to the first nine months of 2009, economic and market conditions have improved, which contributed to the improvement in our operating performance in both Financial Advisory and Asset Management during 2010.

Lazard operates in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time, and it is not possible for Lazard s management to predict all risks and uncertainties, nor can Lazard assess the impact of all potentially applicable factors on its business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. See the section entitled Risk Factors in our Form 10-K. Furthermore, net income

and revenue in any period may not be indicative of full-year results or the results of any other period and may vary significantly from year to year and quarter to quarter.

Financial Advisory

Global and trans-atlantic completed and announced M&A transactions for the third quarter and the first nine months of 2010 increased versus the corresponding prior year periods, as shown in the following table, which sets forth industry statistics regarding the value of such transactions in the periods:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2010	2009	% Incr/(Decr)	2010	2009	% Incr/(Decr)
			($ in billions)			
Completed M&A Transactions:						
Global	$ 420	$ 388	8 %	$ 1,290	$ 1,190	8%
Trans-Atlantic	22	23	(4)%	92	84	10%
Announced M&A Transactions:						
Global	607	436	39 %	1,648	1,379	20%
Trans-Atlantic	74	58	28 %	148	86	72%

Source: Thomson Financial as of October 25, 2010.

We believe that in the current environment we are relatively well positioned as our clients refinance, restructure and position their asset portfolios for growth. While overall M&A industry statistics regarding the number and size of announced transactions increased in the first nine months of 2010 as compared to the 2009 period, we continue to remain cautious with respect to the overall economic environment and its impact on the M&A business. Generally, during periods of unfavorable market or economic conditions, the volume and value of M&A transactions may decrease, thereby reducing the demand for our advisory services and increasing competition among financial services companies seeking such engagements.

Global restructuring activity during the first nine months of 2010 decreased from record levels in 2009 due to the decelerating pace of corporate debt defaults, partially resulting from the strengthening of the high yield and leveraged loan markets. According to Moody s Investors Service, Inc., in the first nine months of 2010, a total of 40 issuers defaulted as compared to 237 in the corresponding 2009 period. While we believe that the number and value of corporate defaults will continue to decline throughout the balance of 2010 and in 2011, we expect, due to our Restructuring assignments currently in progress, that our Restructuring business will remain active, albeit at a lower level, from advising companies during this period on matters relating to debt and financing restructuring and other on- and off-balance sheet assignments. Our Restructuring assignments are generally executed over a six- to twelve-month period.

Our Private Fund Advisory Group, which is part of our Financial Advisory segment and is conducted in the U.S. through Lazard Frères & Co. LLC, an SEC-registered broker-dealer and member of FINRA, acts as placement agent for investment funds, including investment funds that have historically received capital from certain public pension funds. In April 2009, governmental officials in New York announced a new policy banning the use of placement agents by funds seeking investment contributions from the New York State and New York City public pension funds. The use of placement agents has also been prohibited or otherwise restricted with respect to investments by public pension funds in Illinois, Ohio, California and New Mexico, and similar measures are being considered or have been implemented in other jurisdictions. On June

30, 2010, the SEC approved a rule that, among other things, will prohibit investment advisors from paying a third-party placement agent for soliciting investment advisory business from a U.S. governmental entity, unless the placement agent is (i) an SEC-registered investment advisor or (ii) an SEC-registered broker-dealer that is a member of FINRA and thus subject to FINRA s forthcoming pay-to-play rule. We are continuing to evaluate the potential impact of state, local and other restrictions on our Private Fund Advisory Group.

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Asset Management

As shown in the table below, major global market indices at September 30, 2010 increased in most markets as compared to such indices at June 30, 2010, December 31, 2009, and September 30, 2009.

	Percentage Change September 30, 2010 vs.		
	June 30, 2010	December 31, 2009	September 30, 2009
MSCI World Index	13%	1 %	5 %
CAC 40	8%	(6)%	(2)%
DAX	4%	5 %	10 %
FTSE 100	13%	3 %	8 %
TOPIX 100	%	(10)%	(8)%
MSCI Emerging Market	17%	9 %	18 %
Dow Jones Industrial Average	10%	4 %	11 %
NASDAQ	12%	4 %	12 %
S&P 500	11%	2 %	8 %

The fees that we receive for providing investment management and advisory services are primarily driven by the level of AUM. Accordingly, since market movements and foreign currency volatility impact the level of our AUM, such items will impact the level of revenues we receive from our Asset Management business. A substantial portion of our AUM is invested in equities, and market movements reflected in the changes in Lazard s AUM during the period generally corresponded to the changes in global market indices. Our AUM at September 30, 2010 increased 11% versus AUM at December 31, 2009, with average AUM for the third quarter and first nine months of 2010 increasing 22% and 36%, respectively, as compared to our average AUM for the corresponding periods of 2009, reflecting significant market appreciation as well as net inflows over the twelve month period ended September 30, 2010. Such increased AUM contributed to significantly higher management fee revenues in the 2010 periods.

Financial Statement Overview

Net Revenue

The majority of Lazard s Financial Advisory net revenue is earned from the successful completion of M&A transactions, strategic advisory matters, restructuring and capital structure advisory services, capital raising and similar transactions. The main drivers of Financial Advisory net revenue are overall M&A activity, the level of corporate debt defaults and the environment for capital raising activities, particularly in the industries and geographic markets in which Lazard focuses. In some client engagements, often those involving financially distressed companies, revenue is earned in the form of retainers and similar fees that are contractually agreed upon with each client for each assignment and are not necessarily linked to the completion of a transaction. In addition, Lazard also earns fees from providing strategic advice to clients, with such fees not being dependent on a specific transaction, and from public and private securities offerings for referring opportunities to LFCM Holdings for underwriting and distribution of securities. The referral fees received from LFCM Holdings are generally one-half of the revenue recorded by LFCM Holdings in respect of such activities. Significant fluctuations in Financial Advisory net revenue can occur over the course of any given year because a significant portion of such net revenue is earned upon the successful completion of a transaction, restructuring or capital raising activity, the timing of which is uncertain and is not subject to Lazard s control.

Lazard s Asset Management segment principally includes LAM, Lazard Frères Gestion SAS, FPG (through its disposition on September 30, 2009) and, effective July 15, 2009, Edgewater. Asset Management net revenue is derived from fees for investment management and advisory services provided to institutional and private clients. The main driver of Asset Management net revenue is the level of AUM, which is influenced by Lazard s investment performance, its ability to successfully attract and retain assets, the broader performance of the global equity markets and, to a lesser extent, fixed income markets. As a result, fluctuations in financial markets and

client asset inflows and outflows have a direct effect on Asset Management net revenue and operating income. Asset Management fees are generally based on the level of AUM measured as of the end of a quarter or month, and an increase or reduction in AUM at such dates, due to market price fluctuations, currency fluctuations, net client asset flows or otherwise, will result in a corresponding increase or decrease in management fees. The majority of our investment advisory contracts are generally terminable at any time or on notice of 30 days or less. Institutional and individual clients, and firms with which we have strategic alliances, can terminate their relationship with us, reduce the aggregate amount of AUM or shift their funds to other types of accounts with different rate structures for a number of reasons, including investment performance, changes in prevailing interest rates and financial market performance. In addition, as Lazard s AUM includes significant assets that are denominated in currencies other than U.S. dollars, changes in the value of the U.S. dollar relative to foreign currencies will impact the value of Lazard s AUM. Fees vary with the type of assets managed, with higher fees earned on equity assets, alternative investments (such as hedge funds) and private equity investments, and lower fees earned on fixed income and cash management products.

The Company earns performance-based incentive fees on various investment products, including traditional products and alternative investment funds such as hedge funds and private equity funds.

For hedge funds, incentive fees are calculated based on a specified percentage of a fund s net appreciation, in some cases in excess of established benchmarks. The Company records incentive fees on traditional products and hedge funds at the end of the relevant performance measurement period, when potential uncertainties regarding the ultimate realizable amounts have been determined. The incentive fee measurement period is generally an annual period (unless an account terminates during the year), and therefore such incentive fees are usually recorded in the fourth quarter of Lazard s fiscal year. These incentive fees received at the end of the measurement period are not subject to reversal or payback. Incentive fees on hedge funds generally are subject to loss carryforward provisions in which losses incurred by the funds in any year are applied against certain future period net appreciation before any incentive fees can be earned.

For private equity funds, incentive fees may be earned in the form of a carried interest if profits arising from realized investments exceed a specified threshold. Typically, such carried interest is ultimately calculated on a whole-fund basis and, therefore, clawback of carried interests during the life of the fund can occur. As a result, incentive fees earned on our private equity funds are not recognized until potential uncertainties regarding the ultimate realizable amounts have been determined, including any potential for clawback.

Corporate segment net revenue consists primarily of net interest income, including amounts earned at LFB, and investment gains and losses on the Company s investment portfolio of LAM-managed equity funds and principal investments in equities, debt securities at LFB and alternative investment funds. Interest expense is also included in Corporate net revenue. Corporate net revenue can fluctuate due to changes in the fair value of investments classified as trading , and with respect to available-for-sale , when realized, or when a decline is determined to be other than temporary with respect to available-for-sale and held-to-maturity investments, as well as due to changes in interest and currency exchange rates and in the levels of cash, investments and indebtedness.

Although Corporate segment net revenue during the first nine months of 2010 represented (4)% of Lazard s net revenue, total assets in Corporate represented 52% of Lazard s consolidated total assets as of September 30, 2010, which is attributable to assets associated with LFB, investments in government bonds, LAM-managed funds, other securities and cash.

Operating Expenses

The majority of Lazard s operating expenses relate to compensation and benefits for employees and managing directors. Our compensation and benefits expense includes amortization of the relevant portion of our share-based incentive compensation under the Lazard Ltd 2005 Equity

Incentive Plan (2005 Plan) and the Lazard Ltd 2008 Incentive Compensation Plan (the 2008 Plan), with such amortization generally determined on a straight-line basis over the vesting periods and not on the basis of revenue recognition. Compensation

expense in any given period is dependent on many factors, including general economic and market conditions, our operating and financial performance, staffing levels and competitive pay conditions, the nature of revenues earned, as well as the mix between current and deferred compensation. Our compensation expense-to-operating revenue ratio for the nine month periods of 2010 and 2009 was 60.0% and 62.9%, respectively (with such ratio in the nine month period of 2010 excluding the compensation charge of approximately $25 million in connection with the accelerated vesting of restricted stock unit awards (RSUs) related to the Company s change in retirement policy), and was 59.7% and 58.2% for the third quarters of 2010 and 2009, respectively. See Note 13 of Notes to Condensed Consolidated Financial Statements for additional information regarding the Company s incentive plans.

Lazard s operating expenses also include non-compensation expense (which includes costs for occupancy and equipment, marketing and business development, technology and information services, professional services, fund administration and outsourced services, and other expenses), amortization of intangible assets related to acquisitions and, in the nine month periods of 2010 and 2009, restructuring expense. Amortization of intangible assets related to acquisitions relates primarily to the July 2009 acquisition of Edgewater. Restructuring expense relates to certain staff reductions and realignment of personnel in the first quarters of 2010 and 2009, and includes severance and related benefits expense, the acceleration of unrecognized expense pertaining to RSUs previously granted to individuals who were terminated and certain other costs related to these initiatives.

Provision for Income Taxes

Lazard Group primarily operates in the U.S. as a limited liability company that is treated as a partnership for U.S. federal income tax purposes. As a result, Lazard Group s income pertaining to the limited liability company is not subject to U.S. federal income taxes because taxes associated with such income represent obligations of the individual partners. Outside the U.S., Lazard Group operates principally through corporations and is subject to local income taxes. Income taxes shown on Lazard s consolidated statements of operations are related to non-U.S. entities and to New York City Unincorporated Business Tax (UBT) attributable to Lazard s operations apportioned to New York City. The Company s provision for income taxes also includes a U.S. income tax provision attributable to Lazard Ltd s ownership interest in Lazard Group s operating income.

Noncontrolling Interests

Noncontrolling interests primarily relate to the charge (credit) attributable to LAZ-MD Holdings ownership interest in the net income (loss) attributable to Lazard Group, amounts related to Edgewater and various LAM-related general partnership interests (GPs) held directly by certain of our LAM managing directors. See Note 12 of Notes to Condensed Consolidated Financial Statements for information regarding the Company s noncontrolling interests.

Consolidated Results of Operations

Lazard s consolidated financial statements are presented in U.S. dollars. Many of our non-U.S. subsidiaries have a functional currency (*i.e.*, the currency in which operational activities are primarily conducted) that is other than the U.S. dollar, generally the currency of the country in which the subsidiaries are domiciled. Such subsidiaries assets and liabilities are translated into U.S. dollars using exchange rates as of the respective balance sheet date while revenue and expenses are translated at average exchange rates during the respective periods based on the daily closing exchange rates. Adjustments that result from translating amounts from a subsidiary s functional currency are reported as a component of stockholders equity. Foreign currency remeasurement gains and losses on transactions in non-functional currencies are included in the consolidated statements of operations.

During the first quarters of 2010 and 2009 the Company reported certain charges (the 2010 special items and the 2009 special item, respectively, and collectively, the 2010 and 2009 special items) that adversely impacted operating results for the nine month periods. The impact of such special items on the Company s

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condensed consolidated statements of operations for the 2010 and 2009 nine month periods is described in more detail in the table below.

	Nine Months Ended September 30,			
	2010			2009
	Restructuring (a)	RSU Retirement Amendment (b)	Total	Restructuring (a)
	($ in thousands)			
Compensation		$ 24,860	$ 24,860	
Restructuring	$ 87,108		87,108	$ 62,550
Operating Income (Loss)	(87,108)	(24,860)	(111,968)	(62,550)
Income Tax Benefit	9,276 (c)	4,835 (c)	14,111 (c)	6,401
Noncontrolling Interest Benefit	18,400	5,988	24,388	21,075
Net Income (Loss) Attributable to Lazard Ltd.	$ (59,432)	$ (14,037)	$ (73,469)	$ (35,074)

(a) Restructuring plans announced in the first quarters of 2010 and 2009, respectively.
(b) Additional amortization expense in connection with the accelerated vesting of RSUs related to the amendment of the Company s retirement policy.
(c) Inclusive of an adjustment in the third quarter of 2010 to increase the estimated tax benefit relating to the 2010 restructuring charge and the amendment of Lazard s retirement policy with respect to RSU awards of $3,596 and $3,472, respectively.

A discussion of the Company s consolidated results of operations for the 2010 and 2009 periods is set forth below, followed by a more detailed discussion of business segment results. For comparability purposes in the discussion that follows, the results for the three month and nine month periods in 2010 and 2009 are shown in tables below, as applicable, on both an as reported U.S. GAAP and excluding special items non-U.S. GAAP basis.

	Three Months Ended September 30,			
	2010			2009
	U.S. GAAP As Reported	Impact of Special Items (a)	Non-U.S. GAAP Excluding Special Items (b)	U.S. GAAP As Reported
	($ in thousands)			
Net Revenue	$ 453,237		$ 453,237	$ 411,715
Operating Expenses:				
Compensation and benefits	282,528		282,528	250,914
Non-compensation expense	89,523		89,523	85,604
Amortization of intangible assets related to acquisitions	1,719		1,719	2,032
Total operating expenses	373,770		373,770	338,550

Operating Income	79,467		79,467	73,165
Provision (benefit) for income taxes	9,113	$ (7,068)	16,181	19,968
Net Income	70,354		63,286	53,197
Less Net Income Attributable to Noncontrolling Interests	6,263		6,263	15,779
Net Income Attributable to Lazard Ltd	$ 64,091		$ 57,023	$ 37,418
Operating Income, As A % Of Net Revenue	18%		18%	18%

(a) Represents an adjustment to increase the estimated tax benefit relating to the previously described 2010 special items. See Notes 15 and 16 of Notes to Condensed Consolidated Financial Statements.

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(b) A non-U.S. GAAP measure that management believes provides the most meaningful comparison between historical, present and future periods.

	Nine Months Ended September 30,					
	2010			2009		
	U.S. GAAP As Reported	Impact of Special Items (a)	Non-U.S. GAAP Excluding Special Items (b)	U.S. GAAP As Reported	Impact of Special Item (a)	Non-U.S. GAAP Excluding Special Item (b)
	($ in thousands)					
Net Revenue	$ 1,310,483		$ 1,310,483	$ 1,035,735		$ 1,035,735
Operating Expenses:						
Compensation and benefits	845,926	$ 24,860	821,066	693,725		693,725
Non-compensation expense	260,154		260,154	237,398		237,398
Amortization of intangible assets related to acquisitions	5,258		5,258	2,720		2,720
Restructuring	87,108	87,108		62,550	$ 62,550	
Total operating expenses	1,198,446		1,086,478	996,393		933,843
Operating Income	112,037		224,005	39,342		101,892
Provision (benefit) for income taxes	29,049	(14,111)	43,160	29,312	(6,401)	35,713
Net Income	82,988		180,845	10,030		66,179
Less Net Income (Loss) Attributable to Noncontrolling Interests	7,859	(24,388)	32,247	(2,079)	(21,075)	18,996
Net Income Attributable to Lazard Ltd	$ 75,129		$ 148,598	$ 12,109		$ 47,183
Operating Income, As A % Of Net Revenue	9%		17%	4%		10%

(a) Represents charges related to the previously described special items. See Notes 13, 15 and 20 of Notes to Condensed Consolidated Financial Statements.

(b) A non-U.S. GAAP measure that management believes provides the most meaningful comparison between historical, present and future periods.

The table below describes the components of operating revenue, a non-U.S. GAAP measure used by the Company to manage total compensation and benefits expense to managing directors and employees. Management believes operating revenue provides the most meaningful basis for comparison between present, historical and future periods.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	($ in thousands)			
Operating revenue				
Total revenue	$ 477,310	$ 438,274	$ 1,384,271	$ 1,116,859
Add (deduct):				

LFB interest expense (a)	(2,145)	(3,075)	(6,691)	(10,721)
Revenue related to noncontrolling interests (b)	(2,000)	(3,716)	(9,137)	(2,903)
Operating revenue	$ 473,165	$ 431,483	$ 1,368,443	$ 1,103,235

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(a) The interest expense incurred by LFB is deducted from total revenue because LFB is a commercial bank and we consider its interest expense to be a cost directly related to the conduct of its business.
(b) Revenue related to the consolidation of noncontrolling interests is excluded from operating revenue because the Company has no economic interest in such amount. Further, such revenue is offset by a charge or credit to noncontrolling interests.

Certain key ratios, statistics and headcount information for the 2010 and 2009 periods are set forth below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
As a % of Net Revenue, By Revenue Category:				
Investment banking and other advisory fees	54%	61%	58%	63%
Money management fees	45	36	43	36
Interest income	1	2	1	2
Other	5	7	4	7
Interest expense	(5)	(6)	(6)	(8)
Net Revenue	100%	100%	100%	100%

	As of September 30,	
	2010	2009
Headcount:		
Managing Directors:		
Financial Advisory	130	146
Asset Management	64	53
Corporate	9	7
Other Employees:		
Business segment professionals	1,002	993
All other professionals and support staff	1,112	1,085
Total	2,317	2,284

Operating Results

The Company s quarterly revenue and profits can fluctuate materially depending on the number, size and timing of completed transactions on which it advised, as well as seasonality and other factors. Accordingly, the revenue and profits in any particular quarter may not be indicative of future results. Lazard management believes that annual results are the most meaningful basis for comparison among present, historical and future periods. As reflected in the table of consolidated results of operations above, charges related to the 2010 and 2009 special items had a significant impact on the Company s reported operating results for the three month and nine month periods in the respective years. Lazard management believes that comparisons between periods are most meaningful after excluding the impact of such items.

Three Months Ended September 30, 2010 versus September 30, 2009

The Company reported net income attributable to Lazard Ltd of $64 million, as compared to net income of $37 million in the 2009 period. The Company s results in the 2010 period were impacted by an adjustment to the estimated tax benefit related to the 2010 special items, which served to increase net income attributable to Lazard Ltd in the 2010 period by $7 million. Excluding such adjustment, net income attributable to Lazard Ltd in the 2010 period was $57 million, an increase of $20 million as compared to the 2009 period. The changes in the Company s operating results during the periods are described below.

Net revenue and operating revenue each increased $42 million, or 10%, as compared to the 2009 period. Fees from investment banking and other advisory activities declined $7 million, or 3%, principally due to lower Restructuring fees, reflecting the decelerating pace of corporate debt defaults in the 2010 period. Principally offsetting such decline were increases in fees from M&A and Strategic Advisory and Capital Markets and Other Advisory, largely from our Private Fund Advisory Group business, with the latter due to an increase in the value and number of fund closings. Money management fees, including incentive fees, increased $54 million, or 36%, due to a $24 billion, or 22%, increase in average AUM for the 2010 period, primarily as the result of market appreciation and net inflows during the last twelve months, as well as a favorable change in the mix of AUM into higher margin global equity products. Interest income decreased $3 million, or 37%. Other revenue decreased $4 million, or 15%, principally due to a decrease in underwriting fees as a result of a decline in equity capital markets transactions, and a $2 million net reduction in investment income. Interest expense decreased $2 million, or 9%.

Compensation and benefits expense for the 2010 period increased $32 million, or 13%, principally reflecting an increase in the provision for discretionary compensation and profit pools relating to the increase in operating revenue, partially offset by a decline in the amortization of share-based and deferred cash incentive compensation awards. Compensation and benefits expense was 59.7% and 58.2% of operating revenue for the 2010 and 2009 periods, respectively.

Non-compensation expense increased $4 million, or 5%. Factors contributing to the increase were increased spending on travel and other business development activities, and increased fund administration expenses related to the increased level of business activity and AUM. The ratio of non-compensation expense to operating revenue was 18.9% as compared to 19.8% in the 2009 period.

Amortization of intangible assets was unchanged from the 2009 period.

Operating income for the 2010 period was $79 million, as compared to operating income of $73 million in the prior year period and, as a percentage of net revenue, was 18% in both the 2010 and 2009 periods.

The provision for income taxes was $9 million, a decrease of $11 million, as compared to $20 million in the 2009 period. When excluding the tax benefits of $7 million relating to the 2010 special items, the income tax provision was $16 million in the 2010 period compared to $20 million in the 2009 period.

Net income attributable to noncontrolling interests decreased $10 million, as compared to the 2009 period, principally reflecting a decrease in LAZ-MD Holdings ownership interests, partially offset by an increase in Lazard Group s net income.

Nine Months Ended September 30, 2010 versus September 30, 2009

The Company reported net income attributable to Lazard Ltd of $75 million, as compared to net income of $12 million in the 2009 period. The Company s results in both periods were adversely affected by the 2010 and the 2009 special items, which served to decrease the net income attributable to Lazard Ltd in the 2010 and 2009 periods by $73 million and $35 million, respectively. Excluding the after-tax impact of the 2010 and 2009 special items in each year, net income attributable to Lazard Ltd in the 2010 period was $149 million, an increase of $101 million as

compared to the 2009 period. The changes in the Company s operating results during the period are described below.

Net revenue increased $275 million, or 27%, as compared to the 2009 period, with operating revenue increasing $265 million, or 24%. Fees from investment banking and other advisory activities increased $109 million, or 17%, including increases of $98 million, or 28%, in M&A and Strategic Advisory fees, as well as higher Capital Markets and Other Advisory fees, principally from our Private Fund Advisory Group business, with the latter due to an increase in the value and number of fund closings, partially offset by a $27 million, or 10%, decline in Restructuring fees reflecting a sequential quarterly reduction in restructuring activity as the economy improves and the number of corporate debt defaults decelerates. Money management fees, including

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incentive fees, increased $192 million, or 52%, due to a $35 billion, or 36%, increase in average AUM for the 2010 period, primarily as the result of market appreciation and net inflows during the last twelve months, a favorable change in the mix of AUM into higher margin global equity products, as well as higher incentive fees earned in the 2010 period. Interest income decreased $6 million, or 27%, due primarily to the lower interest rate environment. Other revenue decreased $28 million, or 37%, primarily due to a $14 million, or 70%, decline in underwriting fees as a result of a lower level of equity capital markets transactions, an $8 million net reduction in investment income, and foreign exchange losses as compared to gains in the 2009 period. Interest expense decreased $7 million, or 9%, due to the lower interest rate environment and reduced levels of LFB s customer deposits.

Compensation and benefits expense for the 2010 period, including the 2010 special item of $25 million, increased $152 million, or 22%. When excluding the 2010 special item, compensation and benefits expense increased $127 million, or 18%, which includes an increase in the provision for discretionary compensation and profit pools relating to the increase in operating revenue and a reduction in the amortization of share-based and deferred cash incentive compensation. Compensation and benefits expense, excluding the 2010 special item, was 60.0% and 62.9% of operating revenue for the 2010 and 2009 periods, respectively. The reduction in the compensation ratio for the first nine months of 2010 is due primarily to execution of our previously announced goal to grow annual compensation expense at a slower rate than operating revenue.

Non-compensation expense increased $23 million, or 10%. Factors contributing to this increase include higher spending on travel and other business development activities, technology and fund administration expenses related to a higher level of business activity and AUM. The ratio of non-compensation expense to operating revenue was 19.0% as compared to 21.5% of operating revenue for the 2009 period.

Amortization of intangible assets increased $3 million principally due to the Edgewater acquisition in July 2009.

In the first quarters of 2010 and 2009, the Company announced plans to reduce certain staff and realign personnel. As a result, the 2010 and 2009 special items include restructuring charges of $87 million and $63 million, respectively, in connection with severance and benefit payments, the acceleration of unrecognized expense pertaining to share-based incentive compensation previously granted to individuals who were terminated and certain other costs related to the restructuring initiatives.

Operating income for the 2010 period was $112 million, as compared to operating income of $39 million in the prior year period (with such amounts including the impact of the 2010 and 2009 special items) and, as a percentage of net revenue, was 9% as compared to 4% in the 2009 period. Excluding the impact of the 2010 and 2009 special items in each period, operating income was $224 million, an increase of $122 million, as compared to operating income of $102 million in 2009, and, as a percentage of net revenue, was 17%, as compared to 10%, respectively.

The provision for income taxes was $29 million in both the 2010 and 2009 periods. When excluding the tax benefits of $14 million and $6 million relating to the 2010 and 2009 special items, respectively, the income tax provision was $43 million in the 2010 period compared to $36 million in the 2009 period, representing effective tax rates of 19.3% and 35.0% in the 2010 and 2009 periods, respectively. The reduction in the effective tax rate in the 2010 period is principally due to a change in the geographic mix of operating income between the respective periods.

Net income attributable to noncontrolling interests increased $10 million, as compared to the 2009 period. When excluding the impact of the 2010 and 2009 special items, net income attributable to noncontrolling interests increased $13 million, with such increase principally reflecting LAZ-MD Holdings ownership interest in the increased net income of Lazard Group, partially offset by a decrease in its ownership interest.

Business Segments

The following is a discussion of net revenue and operating income for the Company s business segments - Financial Advisory, Asset Management and Corporate. Each segment s operating expenses include (i) compensation and benefits expenses that are incurred directly in support of the segment and (ii) other

operating expenses, which include directly incurred expenses for occupancy and equipment, marketing and business development, technology and information services, professional services, fund administration and outsourcing, and indirect support costs (including compensation and benefits expense and other operating expenses related thereto) for administrative services. Such administrative services include, but are not limited to, accounting, tax, legal, facilities management and senior management activities. Such support costs are allocated to the relevant segments based on various statistical drivers such as, among other items, headcount, square footage and transactional volume. As reflected in the tables below, each segment s operating results are presented, as applicable, on an as reported and excluding special items basis (see Note 20 of Notes to Condensed Consolidated Financial Statements).

Financial Advisory

The following table summarizes the operating results of the Financial Advisory segment:

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009
	($ in thousands)	
M&A and Strategic Advisory	$ 160,662	$ 124,691
Restructuring	66,000	119,101
Capital Markets and Other Advisory	27,350	15,429
Net Revenue	254,012	259,221
Operating Expenses	215,838	212,543
Operating Income	$ 38,174	$ 46,678
Operating Income, As A Percentage Of		
Net Revenue	15%	18%

	Nine Months Ended September 30, 2010			2009
	U.S. GAAP As Reported	Impact of Special Item (a)	Non-U.S. GAAP Excluding Special Item (b)	U.S. GAAP As Reported
	($ in thousands)			
M&A and Strategic Advisory	$ 454,073		$ 454,073	$ 356,020
Restructuring	246,066		246,066	273,261
Capital Markets and Other Advisory	68,342		68,342	44,941
Net Revenue	768,481		768,481	674,222
Operating Expenses (c)	667,538	$ 19,571	647,967	595,649
Operating Income	$ 100,943		$ 120,514	$ 78,573
Operating Income, As A Percentage Of	13%		16%	12%

Net Revenue

	As of September 30,	
	2010	**2009**
Headcount (d):		
Managing Directors	130	146
Other Employees:		
Business segment professionals	679	686
All other professionals and support staff	208	215
Total	1,017	1,047

(a) Represents the portion of the 2010 special item attributable to the Financial Advisory segment (see Note 20 of Notes to Condensed Consolidated Financial Statements).
(b) A non-U.S. GAAP measure that management believes provides the most meaningful comparison between historical, present and future periods.
(c) Includes indirect support costs (including compensation and benefits expense and other operating expenses related thereto).
(d) Excludes headcount related to indirect support functions, with such headcount being included in the Corporate segment.

Net revenue trends in Financial Advisory for M&A and Strategic Advisory and Restructuring are generally correlated to the volume of completed industry-wide M&A transactions and restructurings occurring subsequent to corporate debt defaults, respectively. However, deviations from this relationship can occur in any given year for a number of reasons. For instance, our results can diverge from industry-wide activity where there are material variances from the level of industry-wide M&A activity in a particular market where Lazard has significant market share, or regarding the relative number of our advisory engagements with respect to larger-sized transactions, and where we are involved in significant non-public assignments. Certain Lazard client statistics and global industry statistics are set forth below:

	Nine Months Ended September 30,	
	2010	2009
Lazard Statistics:		
Number of Clients:		
Total	475	478
With Fees Greater than $1 million	177	188
Percentage of Total Financial Advisory Revenue from Top 10 Clients	22%	19%
Number of M&A Transactions Completed Greater than $1 billion (a)	18	28

(a) Source: Thomson Financial as of October 25, 2010.

The geographical distribution of Financial Advisory net revenue is set forth below in percentage terms and is based on the Lazard offices that generate Financial Advisory net revenue, which are located in the U.S., Europe (principally in the U.K., France, Italy, Spain and Germany) and the rest of the world (principally in Australia). However, such distribution is not reflective of the geography in which the clients are located.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
United States	62%	47%	56%	51%
Europe	29	45	39	43
Rest of World	9	8	5	6
Total	100%	100%	100%	100%

The Company s managing directors and many of its professionals have significant experience, and many of them are able to use this experience to advise on M&A, strategic advisory matters and restructuring transactions, depending on clients needs. This flexibility allows Lazard to better match its professionals with the counter-cyclical business cycles of mergers and acquisitions and restructurings. While Lazard measures revenue by practice area, Lazard does not separately measure the costs or profitability of M&A services as compared to restructuring services. Accordingly, Lazard measures performance in its Financial Advisory segment based on overall segment net revenue and operating income margins.

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Financial Advisory Results of Operations

Financial Advisory s quarterly revenue and profits can fluctuate materially depending on the number, size and timing of completed transactions on which it advised, as well as seasonality and other factors. Accordingly, the revenue and profits in any particular quarter or period may not be indicative of future results. Lazard management believes that annual results are the most meaningful basis for comparison among present, historical and further periods. As reflected in the table of operating results of the Financial Advisory segment above, the portion of the 2010 special item attributable to the Financial Advisory segment had a significant impact on the segment s reported operating results for the nine month period ended September 30, 2010. Lazard management believes that comparisons between periods are most meaningful after excluding the impact of such item.

Three Months Ended September 30, 2010 versus September 30, 2009

Financial Advisory net revenue decreased $5 million, or 2%, as compared to the 2009 period, with increases in M&A and Strategic Advisory revenue of $36 million, or 29% and Capital Markets and Other Advisory net revenue of $12 million, or 77%, being offset by decreases in Restructuring revenue of $53 million, or 45%.

The increase in M&A and Strategic Advisory revenue was principally due to an increase in completed assignments in which we were engaged and higher average fees per M&A and Strategic Advisory assignment. Our major clients, which in the aggregate represented a significant portion of our M&A and Strategic Advisory revenue for the third quarter of 2010 included Coca-Cola Enterprises, Continental Airlines, Creative Artists Agency, DeCrane Aerospace, Deutsche Bahn, Healthscope, Honeywell, Micrus Endovascular, Newcrest Mining and Silpada Designs.

Restructuring revenue is derived from various activities, including bankruptcy assignments, global debt and financing restructurings, distressed asset sales and advice on complex on- and off-balance sheet assignments, such as retiree health care obligations. The decrease in Restructuring revenue was principally driven by declines in both retainer and completion fees. The decline in retainer fees is related to a lower number of active deals versus that in the 2009 period, consistent with the decelerating pace of corporate debt defaults previously described. Notable assignments completed in the third quarter of 2010 included BNP Paribas, BTA Bank JSC, LNR Property, The Trump Group and U.S. Concrete. Several of these assignments that were completed in the third quarter of 2010 began in the fourth quarter of 2009.

The increase in Capital Markets and Other Advisory net revenue principally reflected increased revenue in our Private Fund Advisory Group resulting from an increase in the number and value of fund closings, partially offset by decreases in underwriting fees from public offerings.

Operating expenses increased $3 million, or 2%, as compared to the 2009 period, principally due to higher business development expenses.

Financial Advisory operating income was $38 million, a decrease of $9 million, as compared to the 2009 period, and represented 15% of segment net revenues in the 2010 period as compared to 18% in the 2009 period.

Nine Months Ended September 30, 2010 versus September 30, 2009

Financial Advisory net revenue increased approximately $94 million, or 14%, as compared to the 2009 period, reflecting increases in M&A and Strategic Advisory revenue of $98 million, or 28% and Capital Markets and Other Advisory net revenue of $23 million, or 52%, partially offset by declines in Restructuring revenue of $27 million, or 10%.

The increase in M&A and Strategic Advisory revenue was principally due to higher average fees per M&A and Strategic Advisory assignment.

The decrease in Restructuring revenue was principally driven by a decline in retainer fees earned, which was partially offset by an increase in completion fees. While the number of completed restructurings increased as compared to the 2009 period, the average fee per completed transaction declined. The decrease in retainer fees was due to a decline in the number of active assignments in the 2010 period as compared to the 2009 period.

The increase in Capital Markets and Other Advisory net revenue principally reflected increased revenue in our Private Fund Advisory Group, resulting from an increase in the number and value of fund closings, and was partially offset by decreases in underwriting fees from public offerings.

Operating expenses increased $72 million, or 12%, as compared to the 2009 period. Excluding the impact of the portion of the 2010 special item attributable to the Financial Advisory segment, operating expenses increased $52 million, or 9%. Contributing to the increase was a higher provision for discretionary compensation related to the increase in operating revenue, partially offset by a decline in the amortization of share-based and deferred cash incentive compensation awards, and higher costs related to travel and other business development expenses and technology expenses.

Financial Advisory operating income was $101 million, an increase of $22 million, as compared to the 2009 period, and represented 13% of segment net revenues in the 2010 period. Excluding the impact of the portion of the 2010 special item attributable to the Financial Advisory segment, operating income in the 2010 period increased $42 million, and represented 16% of segment net revenues, as compared to 12% in the 2009 period.

Asset Management

The following table shows the composition of AUM for the Asset Management segment:

	As of	
	September 30, 2010	**December 31, 2009**
	($ in millions)	
AUM:		
International Equities	$ 30,831	$ 32,268
Global Equities	71,283	58,332
U.S. Equities	18,424	16,003
Total Equities	120,538	106,603
European and International Fixed Income	12,467	13,763
Global Fixed Income	1,840	1,794
U.S. Fixed Income	3,178	2,499
Total Fixed Income	17,485	18,056

Alternative Investments	4,603	3,936
Private Equity	864	839
Cash Management	83	109
Total AUM	$ 143,573	$ 129,543

Average AUM for the 2010 and 2009 periods is set forth below. Average AUM is based on an average of quarterly ending balances for the respective periods.

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2010	**2009**	**2010**	**2009**
	($ in millions)			
Average AUM	$ 133,528	$ 109,102	$ 132,893	$ 97,599

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Total AUM at September 30, 2010 increased $14 billion, or 11%, as compared to that at December 31, 2009. Average AUM for the three month and nine month periods in 2010 was 22% and 36% higher, respectively, than the average AUM for the corresponding 2009 periods, principally the result of market appreciation (which was generally consistent with the industry as a whole) and net inflows occurring over the last twelve month period. International, Global and U.S. equities represented 21%, 50% and 13% of total AUM at September 30, 2010, respectively, versus 25%, 45% and 12% of total AUM at December 31, 2009, respectively.

As of September 30, 2010 and December 31, 2009, approximately 90% and 89% of our AUM, respectively, was managed on behalf of institutional clients, including corporations, labor unions, public pension funds, insurance companies and banks, and through sub-advisory relationships, mutual fund sponsors, broker-dealers and registered advisors and, as of such dates, 10% and 11% of our AUM, respectively, was managed on behalf of individual client relationships, which are principally with family offices and high-net worth individuals.

As of September 30, 2010, AUM denominated in foreign currencies represented approximately 41% of our total AUM, as compared to 45% at December 31, 2009. Foreign denominated AUM declines in value with the strengthening of the U.S. dollar and increases in value as the U.S. dollar weakens.

The following is a summary of changes in AUM for the 2010 and 2009 periods.

	Three Months Ended September 30,		Nine Months Ended September 30,		
Net Sales	$ -	$ 361	$ 894,317	$ -	$ 894,678
Other Revenue	-	112	7,168	-	7,280
Total Revenue	-	473	901,485	-	901,958
COSTS AND EXPENSES:		347	552,006	-	552,353
Cost of Sales	-	42,620	235,908	-	278,528
Selling and Administrative Expenses	-	867	96	-	963
Restructuring and Separation Costs	-	3,763	32,966	-	36,729
Depreciation and Amortization	-	23,095	4,270	-	27,365
Interest Expense	-	-	185	-	185
Impairment Charges – Long-Lived Assets	-	-	-	-	-
Other Income, Net	-	(2,121)	(845)	-	(2,966)
Earnings (Loss) from Equity Investment	(5,213)	(45,545)	-	50,758	-
Total Costs and Expenses	(5,213)	23,026	824,586	50,758	893,157
Income (Loss) Before Income Tax (Benefit) Expense	5,213	(22,553)	76,899	(50,758)	8,801
Income Tax (Benefit) Expense	-	(27,766)	31,354	-	3,588

Net Income (Loss)	$	5,213	$	5,213	$	45,545	$	(50,758)	$	5,213

Burlington Coat Factory Investments Holdings, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations
(All amounts in thousands)

	For the Three Months Ended May 2, 2009				
	Investments	BCFWC	Guarantors	Eliminations	Consolidated
REVENUES:					
Net Sales	$ -	$ 458	$ 829,585	$ -	$ 830,043
Other Revenue	-	128	6,932	-	7,060
Total Revenue	-	586	836,517	-	837,103
COSTS AND EXPENSES:					
Cost of Sales	-	305	553,906	-	554,211
Selling and Administrative Expenses	-	42,535	219,573	-	262,108
Restructuring and Separation Costs		4,383	640		5,023
Depreciation and Amortization	-	6,493	33,186	-	39,679
Interest Expense	-	19,210	1,708	-	20,918
Impairment Charges-Long Lived Assets		-	9,386		9,386
Impairment Charges-Tradenames		15,250	-		15,250
Other (Income) Expense, Net	-	(389)	3,310	-	2,921
Earnings (Loss) from Equity Investment	36,916	(7,551)	-	(29,365)	-
	36,916	80,236	821,709	(29,365)	909,496
(Loss) Income Before Income Tax (Benefit) Expense	(36,916)	(79,650)	14,808	29,365	(72,393)
Income Tax (Benefit) Expense	-	(42,734)	7,257	-	(35,477)
Net (Loss) Income	$ (36,916)	$ (36,916)	$ 7,551	$ 29,365	$ (36,916)

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Burlington Coat Factory Investments Holdings, Inc. and Subsidiaries
Condensed Consolidating Statements of Cash Flows
(All amounts in thousands)

	For the Three Months Ended May 1, 2010				
	Holdings	BCFW	Guarantors	Elimination	Consolidated
OPERATING ACTIVITIES					
Net Cash Provided by Operating Activities	$ -	$ 139,945	$ 229,194	$ -	$ 369,139
INVESTING ACTIVITIES					
Cash Paid For Property and Equipment	-	(3,411)	(18,749)	-	(22,160)
Investing Activity-Other	-	9	(30)	-	(21)
Net Cash (Used in) Investing Activities	-	(3,402)	(18,779)	-	(22,181)
FINANCING ACTIVITIES					
Proceeds from Long Term Debt - ABL Line of Credit	-	-	-	-	-
Principal Payments on Long Term Debt	-	-	(193)	-	(193)
Principal Payments on Long Term Debt - Term Loan	-	(12,202)	--	-	(12,202)
Principal Payments on Long Term Debt - ABL Line of Credit	-	(121,200)	-	-	(121,200)
Debt Issuance Cost	-	(934)	-		(934)
Net Cash (Used In) Financing Activities	-	(134,336)	(193)	-	(134,529)
Increase in Cash and Cash Equivalents	-	2,207	210,222	-	212,429
Cash and Cash Equivalents at Beginning of Period	-	4,176	20,574	-	24,750
Cash and Cash Equivalents at End of Period	$ -	$ 6,383	$ 230,796	$ -	$ 237,179

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Burlington Coat Factory Investments Holdings, Inc. and Subsidiaries
Condensed Consolidating Statements of Cash Flows
(All amounts in thousands)

	For the Three Months Ended May 2, 2009				
	Holdings	BCFWC	Guarantors	Elimination	Consolidated
OPERATING ACTIVITIES					
Net Cash Provided by Operating Activities	$-	$67,898	$9,639	$-	$ 77,537
INVESTING ACTIVITIES					
Acquisition of Property and Equipment - Continuing Operations	-	(6,861)	(16,008)	-	(22,869)
Proceeds Received from Sale of Fixed Assets	-	-	217	-	217
Lease Rights Acquired	-	-	(1,337)		(1,337)
Investment in Money Market			6,271		6,271
Redemption of Money Market Fund		-	-		-
Change in Restricted Cash and Cash Equivalents	-	-	(332)		(332)
Purchase of Tradenames Rights		(6,250)			(6,250)
Investing Activity-Other	-	28	-	-	26
Net Cash (Used in) Investing Activities	-	(13,083)	(11,189)	-	(24,274)
FINANCING ACTIVITIES					
Proceeds from Long - Term Debt	-	-	-	-	-
Proceeds from Long - ABL Line of Credit	-	69,700	-	-	69,700
Principal Payments on Long Term Debt	-	-	(183)	-	(183)
Principal Payments on Long Term Loan	-	-	-	-	-
Principal Payments on ABL Line of Credit	-	(99,700)	-	-	(99,700)
Equity Investment	-	-	-	-	-
Purchase of Interest Rate Cap	-	-	-	-	-
Payment of Dividends	(3,000)	(3,000)	-	3,000	(3,000)
Receipt of Dividends	3,000	-	-	(3,000)	-
Net Cash (Used in) Financing Activities	-	(33,000)	(183)	-	(33,183)
Increase (Decrease) in Cash and Cash Equivalents	-	21,815	(1,733)	-	20,080
	-	2,595	39,110	-	41,707

Cash and Cash Equivalents at Beginning of Period					
Cash and Cash Equivalents at End of Period	$-	$24,410	$37,377	$-	$ 61,787

BURLINGTON COAT FACTORY INVESTMENTS HOLDINGS, INC. AND SUBSIDIARIES

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

The Company’s management intends for this discussion to provide the reader with information that will assist in understanding the Company’s financial statements, the changes in certain key items in those financial statements from period to period, and the primary factors that accounted for those changes, as well as how certain accounting principles affect our financial statements. All discussions of operations in this report relate to Burlington Coat Factory Warehouse Corporation and its subsidiaries, which are reflected in the financial statements of Burlington Coat Factory Investments Holdings, Inc. and its subsidiaries (hereinafter we or our or Holdings). The following discussion contains forward-looking information and should be read in conjunction with the Condensed Consolidated Financial Statements and notes thereto included elsewhere in this report and in our Transition Report on Form 10-K/T related to the 35 week period ended January 30, 2010. Our actual results could differ materially from the results contemplated by these forward-looking statements due to various factors, including those discussed under the section of this Item 2 entitled “Safe Harbor Statement.”

Fiscal Year

In order to conform to the predominant fiscal calendar used within the retail industry, on February 25, 2010 our Board of Directors approved a change in our fiscal year from a fiscal year comprised of the twelve consecutive fiscal months ending on the Saturday closest to May 31 to a fiscal year comprised of the twelve consecutive fiscal months ending on the Saturday closest to January 31. The Transition Report on Form 10-K/T was for the 35 week transition period beginning on May 31, 2009, the day following the end of our 2009 fiscal year, and ended on January 30, 2010 (the Transition Period).

Statements that we make about fiscal year 2010 refer to our first full fiscal year after the Transition Period, which is the 52 week period commencing on January 31, 2010 and ending on January 29, 2011 (Fiscal 2010). Fiscal 2009 ended on May 30, 2009 and was a 52 week year (Fiscal 2009). Fiscal 2008 ended on May 31, 2008 and was a 52 week year (Fiscal 2008).

As a result of our fiscal year end change and the seasonality of our business, we recast our interim financial information for the last four quarters of the twelve month period ended January 30, 2010 on the basis of the new fiscal year for comparative purposes.

Overview

We experienced an increase in net sales for the three months ended May 1, 2010 compared with the three months ended May 2, 2009. Consolidated net sales increased $64.7 million, or 7.8%, to $894.7 million for the three months ended May 1, 2010 from $830.0 million for the three months ended May 2, 2009. This increase was primarily attributable to an increase in comparative store sales and an increase in new stores and stores previously opened that are not included in our comparative store sales. We believe the comparative store sales increase was due primarily to our ongoing initiatives to improve our comparative store sales, as discussed in further detail below (refer to the section below entitled “Three Month Period Ended May 1, 2010 compared with Three Month Period Ended May 2, 2009” for further explanation).

Our gross margin as a percentage of sales increased to 38.3% during the three month period ended May 1, 2010 compared with 33.2% for the three month period ended May 2, 2009. The improvement in gross margin as a percentage of sales was due primarily to fewer markdowns in the three months ended May 1, 2010 compared with the three months ended May 2, 2009.

Selling and administrative expenses as a percentage of sales decreased to 31.1% during the three months ended May 1, 2010 from 31.6% during the three months ended May 2, 2009. This decrease was due to our ongoing initiative to reduce our cost structure, as further discussed below.

Total selling and administrative expenses increased $16.4 million, or 6.3%, during the three months ended May 1, 2010 compared with the three months ended May 2, 2009. The increase in our selling and administrative expenses of $16.4 million was primarily due to the operation of new stores. At May 1, 2010, we operated 449 stores compared with 433 stores at May 2, 2010.

We recorded net income of $5.2 million for the three month period ended May 1, 2010 compared with a net loss of $36.9 million for the three month period ended May 2, 2009. The improvement in our operating results during the three months ended May 1, 2010 compared with the three months ended May 2, 2009 was primarily attributable to the results discussed above, as well as fewer impairment charges during the three months ended May 1, 2010 compared with the three months ended May 2, 2009.

Current Conditions

Store Openings, Closings, and Relocations.

During the three months ended May 1, 2010, we opened ten Burlington Coat Factory Warehouse Stores (BCF Stores) and closed three BCF stores, two of which were in locations within the same trading market as two of the new stores that we opened during the Transition Period, and one was located within the same trading market as one of the new stores that we opened during the three month period ended May 1, 2010. As of May 1, 2010, we operated 449 stores under the names "Burlington Coat Factory Warehouse" (431 stores), "Cohoes Fashions" (two stores), "MJM Designer Shoes" (15 stores) and "Super Baby Depot" (one store).

We continue to pursue our growth plans and invest in capital projects that meet our financial requirements. We currently plan to open between ten and 14 new stores (inclusive of one relocation) during the remainder of Fiscal 2010.

Ongoing Initiatives for Fiscal 2010

We continue to focus on a number of ongoing initiatives aimed at increasing our overall profitability by improving our comparative store sales trends and reducing expenses. These initiatives include, but are not limited to:

- Improving comparative store sales:

o Enhancing our merchandise content. We are focused on our core female customer who shops for herself and her family. We are working toward building assortments that better address her needs – trend right, desirable brands at great everyday low prices. We plan on delivering exceptional values that fit within a good, better, and best pricing strategy. By maximizing our in-season buys, we believe that we are able to take advantage of known trends and in-season buying opportunities.

o Refining our store experience through the eyes of the customer. We have empowered our store teams to provide an outstanding customer experience for every customer in every store, every day. We have, and will continue to strive, to streamline processes to create opportunities for fast and effective customer interactions. Our stores must reflect clean, organized merchandise presentations that highlight the brands, value and diversity of our selection within our assortments. Through proper staffing flexibility we provide sales floor coverage during peak shopping hours to better serve the customer on the sales floor and at the check-out.

We plan to execute these initiatives during Fiscal 2010 by:

o Continuing to allocate incremental payroll to stores for such things as additional receiving and early morning and overnight stocking crews to ensure goods are moved quickly from the store docks to the selling floor.

o Continuing the chain wide store housekeeping initiative to ensure our stores reflect clean organized merchandise presentation and are easier and more comfortable to shop.

o Continuing the implementation of a store refresh program with respect to stores that we have identified as having certain needs such as new carpet, painting, fitting room improvements and various other improvements. We have

completed store refreshes at 23 stores to date. We are in the process of identifying additional stores to refresh through the end of Fiscal 2010.

- Continuing the implementation of upgraded lighting retrofits in our stores which will make the stores more energy efficient while improving the lighting within the stores, making it easier for customers to navigate the stores. All of the original 70 stores initially identified for lighting retrofits have been completed. We are in the process of identifying additional stores to upgrade the lighting retrofits through the end of Fiscal 2010.

o Continuing the implementation of a new way-finding signing program in all our stores that will make them easier to navigate and shop. New signage has been installed at all existing stores and we are planning to install such signage at all new stores going forward.

o Keeping inventory fresh through improved receipt management. This initiative is targeted to ensure that we have the right goods, in the right store, at the right time. We are working to better develop and tailor assortments regionally to address seasonal and lifestyle differences. We are continuing to refine our processes supporting consistent merchandise flow by continuing to better align receipts with sales. In addition, we believe we can improve receipt management by incorporating flow, inventory turnover, and exit strategies for fashion and seasonal product into the day-to-day business process.

- The continued reduction of our cost structure:

o Reduce store payroll costs. We introduced a new store management model during the beginning of the 2009 calendar year. This new model was designed to provide more consistent management coverage by sales volume. During the same period, we began to allocate payroll to our stores based primarily on an expected sales per labor hour metric, and to closely monitor new hire wage rates to ensure that new hires commenced employment at rates commensurate with their experience. We believe that these actions have allowed us to operate our business more efficiently without sacrificing our ability to serve our customers. We intend to continue to refine our processes regarding payroll management during Fiscal 2010.

o Supply chain efficiencies. We continue to work on several logistics initiatives which we expect will result in reduced logistics cost and improved service levels. We have consolidated our Burlington, New Jersey distribution center into our Edgewater Park, NJ distribution center and have implemented a new warehouse management system within the Edgewater Park, NJ and San Bernardino, CA distribution centers which will allow for further improvements in productivity by providing functionality not previously available and will allow flexibility in processing any goods received at either of the two facilities. In turn, as both facilities will be able to process all receipts in an efficient manner, we expect to be able to reduce the amount of transportation miles required to service our stores. Finally, we have implemented a performance management program designed to drive productivity improvements within the four walls of our distribution centers. We intend to reinvest a portion of these logistics savings in resources that will focus on evaluating and enhancing existing procedures intended to improve efficiencies at the store level.

- Deliver Consistent Gross Margin. We continue to focus on having stable gross margin as a percentage of net sales.

We plan to execute this initiative during Fiscal 2010 by:

o Continuing to manage our receipt to reduction ratio. By matching receipt dollars to sales and markdown dollars we will continue to be able to take advantage of in season buying opportunities and to capitalize on those businesses that are trending well.

o Continuing to ensure adequate open to buy and buying more opportunistically in season. By staying liquid, we put ourselves in a position to be able to take advantage of opportunistic in-season buys that will maximize our sales.

- o Continuing to improve the amount of current inventory as a percentage of our total inventory. By having more current inventory in our merchandise mix, we will take fewer markdowns, and have more pricing flexibility to provide great value to our customers without reducing our overall margins.

- o Reducing our shrink as a percentage of net sales. We are adding additional resources to help improve existing controls and processes to reduce our shrink as a percentage of net sales without impacting the store experience. We expect results to occur over time with most of these shrink reductions becoming apparent in the fiscal year ended January 28, 2012.

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Uncertainties and Challenges

As management strives to increase profitability through achieving positive comparative store sales and leveraging productivity initiatives focused on improving the in-store experience, more efficient movement of products from the vendors to the selling floors, and modifying our marketing plans to increase our core customer base and increase our share of our current customer's spending, there are uncertainties and challenges that we face as a value department store of apparel and accessories for men, women and children and home furnishings that could have a material impact on our revenues or income.

General Economic Conditions. Consumer spending habits, including spending for the merchandise that we sell, are affected by, among other things, prevailing economic conditions, inflation, levels of employment, salaries and wage rates, prevailing interest rates, housing costs, energy costs, income tax rates and policies, consumer confidence and consumer perception of economic conditions. In addition, consumer purchasing patterns may be influenced by consumers' disposable income, credit availability and debt levels. A continued or incremental slowdown in the U.S. economy, an uncertain economic outlook or an expanded credit crisis could continue to adversely affect consumer spending habits resulting in lower net sales and profits than expected on a quarterly or annual basis. Beginning in Fiscal 2009, there was significant deterioration in the global financial markets and economic environment, which we believe continues to negatively impact consumer spending at many retailers, including us. In response to the ongoing economic crisis, we continue to take steps to increase opportunities to profitably drive sales and to curtail operating expenses where prudent. Where appropriate, we have reinvested some of these savings back into our business and store experience.

We closely monitor our net sales, gross margin, expenses and working capital. We have performed scenario planning such that if our net sales decline, we have identified variable costs that could be reduced to partially mitigate the impact of these declines. If adverse economic trends continue to deteriorate, or if our efforts to counteract the impacts of these trends are not sufficiently effective, there could be a negative impact on our financial performance and position in future fiscal periods. For further discussion of the risks to us regarding general economic conditions, please refer to the section below entitled "Liquidity and Capital Resources" and Part II, Item 1A of this report entitled "Risk Factors."

Key Performance Measures

We consider numerous factors in assessing our performance. Key performance measures used by management include comparative store sales, gross margin, inventory levels, receipt-to-reduction ratio, liquidity and comparative store payroll.

Comparative Store Sales. Comparative store sales measure performance of a store during the current reporting period against the performance of the same store in the corresponding period of the previous year. The method of calculating comparative store sales varies across the retail industry. As a result, our definition of comparative store sales may differ from other retailers.

During the Transition Period, we changed our definition of comparative store sales. We now define comparative store sales as sales of those stores commencing on the first day of the fiscal month one year after the end of their grand opening activities, which normally conclude within the first two months of operations. Previously, we defined comparative store sales as sales of those stores (net of sales discounts) following their four hundred and twenty-fifth day of operation (approximately one year and two months). This change aligns our external reporting of comparative store sales with how the metric is reviewed internally by senior management. For the three months ended May 1, 2010, we experienced an increase in comparative store sales of 3.3%.

Various factors affect comparative store sales, including, but not limited to, weather conditions, current economic conditions, the timing of our releases of new merchandise and promotional events, the general retail sales environment, consumer preferences and buying trends, changes in sales mix among distribution channels, competition, and the success of marketing programs.

Gross Margin. Gross margin is a measure used by management to indicate whether we are selling merchandise at an appropriate gross profit. Gross margin is the difference between net sales and the cost of sales. Our cost of sales and gross margin may not be comparable to those of other entities, since some entities include all of the costs related to their buying and distribution functions in cost of sales. We include certain of these costs in the "Selling and Administrative Expenses" and "Depreciation and Amortization" line items in our Condensed Consolidated Statements of Operations and Comprehensive Income (Loss). We include in our "Cost of Sales" line item all costs of merchandise (net of purchase discounts and certain vendor allowances), inbound freight, distribution center outbound freight and certain merchandise acquisition costs, primarily commissions and import fees. Gross margin as a percentage of net sales increased to 38.3% during the three months ended May 1, 2010 from 33.2% during the three months ended May 2, 2009 due to fewer markdowns taken as a result of our ongoing initiatives to improve the amount of current inventory as a percentage of our total inventory, as further discussed above under the heading “Ongoing Initiatives For Fiscal 2010.”

Inventory Levels. Inventory at May 1, 2010 was $634.0 million compared to $613.3 million at January 30, 2010. The increase of $20.7 million was the result of the seasonality of our business, as inventory is typically at its lowest levels in January, after the holiday selling season. The increase in inventory resulted in an increase of average store inventory at May 1, 2010 of approximately 1.8% to $1.4 million per store compared with average store inventory at January 30, 2010.

Inventory at May 1, 2010 decreased $38.2 million from $672.2 million at May 2, 2009. This decrease was a result of our initiatives to manage our receipt to reduction initiatives as described in further detail below. Average store inventory at May 1, 2010 decreased approximately 9.0% to $1.4 million per store compared with average store inventory at May 2, 2009.

In order to better serve our customers, and maximize sales, we continue to refine our merchandising mix and inventory levels within our stores. Our efforts to date have resulted in a 9.0% reduction in average store inventory at May 1, 2010 compared with May 2, 2009. By managing our inventories conservatively we believe we will be better able to deliver a continual flow of fresh merchandise to our customers. We continue to move toward more productive inventories by increasing the amount of current inventory as a percent of total inventory.

Receipt-to-Reduction Ratio. We are in the process of developing a more consistent merchandise flow based on a receipt-to-reduction ratio. We are attempting to match forecasted levels of receipts to forecasted sales, taking into consideration the levels of markdown dollars on a monthly basis. We believe this will result in a more normalized receipt cadence and minimize peaks and valleys in our receiving process, ultimately leading to an improved inventory turnover ratio.

Inventory turnover is a measure that indicates how efficiently inventory is bought and sold. It measures the length of time that we own our inventory. This is significant because usually the longer the inventory is owned, the more likely markdowns may be required to sell the inventory. Inventory turnover is calculated by dividing retail sales before sales discounts by the average retail value of the inventory for the period being measured. Our annualized inventory turnover rate as of May 1, 2010 of 2.8 turns per year has increased over the annualized inventory turnover rate as of May 2, 2009 of 2.6 turns per year.

Liquidity. Liquidity measures our ability to generate cash. Management measures liquidity through cash flow and working capital position. Cash flow is the measure of cash generated from operating, financing, and investing activities. We experienced an increase in cash flow of $192.3 million during the three month period ended May 1, 2010 compared with the three month period ended May 2, 2009. This increase was primarily due to increased accounts payable at May 1, 2010 compared with January 30, 2010 related to our working capital management strategy at the end of the Transition Period. As a result of this strategy we accelerated certain payments that typically would

not have been made until the first quarter of Fiscal 2010, which lowered our accounts payable balance at the end of the Transition Period. As our accounts payable balance returned to historical levels at May 1, 2010, this created additional cash flow. Partially offsetting this increase were increased net repayments on our ABL Line of Credit. During the three months ended May 1, 2010 and May 2, 2009, we made net repayments on our ABL Line of Credit of $121.2 million and $30.0 million, respectively. Cash and cash equivalents increased $212.4 million from January 30, 2010 to $237.2 million at May 1, 2010 (discussed in more detail under the caption below entitled "Liquidity and Capital Resources").

Changes in working capital also impact our cash flows. Working capital equals current assets (exclusive of restricted cash and cash equivalents) minus current liabilities. Working capital at May 1, 2010 was $244.2 million compared with $349.7 million at January 30, 2010. The decrease in working capital from January 30, 2010 was primarily attributable to an increase in accounts payable related to the Company's year end working capital management strategy.

Working capital at May 1, 2010 increased $56.3 million from $187.9 million at May 2, 2009. The increase in working capital was primarily attributable to increased cash and cash equivalents as a result of increased sales during the quarter.

Comparative Store Payroll. Comparative store payroll measures a store's payroll during the current reporting period against the payroll of the same store in the corresponding period of the previous year. The method of calculating comparative store payroll varies across the retail industry. As a result, our definition of comparative store payroll may differ from other retailers.

During the three months ended May 1, 2010, we changed our definition of comparative store payroll to be in line with our definition of comparative store sales. We now define comparative store payroll as payroll of those stores commencing on the first day of the fiscal month one year after the end of their grand opening activities, which normally conclude within the first two months of operations. Previously, we defined comparative store payroll as the aggregate payroll of all stores which were opened for an entire week both in the previous fiscal year (or period, as applicable) and the current fiscal year (or period, as applicable). Under the current definition, comparative store payroll increased 5.2% during the three months ended May 1, 2010 compared with the three months ended May 2, 2009. Under the previous definition, comparative store payroll decreased 0.5% during the three months ended May 1, 2010 compared with the three months ended May 2, 2009. This difference is due to the inclusion of grand opening payroll under the previous calculation, which is excluded from the calculation under the current definition.

Critical Accounting Policies and Estimates

Our Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and assumptions that affect (i) the reported amounts of assets and liabilities; (ii) the disclosure of contingent assets and liabilities at the date of the consolidated financial statements; and (iii) the reported amounts of revenues and expenses during the reporting period. On an on-going basis, management evaluates its estimates and judgments, including those related to inventories, long lived assets, intangible assets, goodwill impairment, insurance, sales returns, allowances for doubtful accounts and income taxes. Historical experience and various other factors, that are believed to be reasonable under the circumstances, form the basis for making estimates and judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Our critical accounting policies and estimates are consistent with those disclosed in our Transition Report on Form 10-K/T.

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Results of Operations

The following table sets forth certain items in the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) as a percentage of net sales for the three month periods ended May 1, 2010 and May 2, 2009.

	Percentage of Net Sales Three Months Ended	
	May 1, 2010	May 2, 2009
Net Sales	100%	100%
Other Revenue	0.8	0.9
Total Revenue	100.8	100.9
Cost of Sales	61.7	66.8
Selling and Administrative Expenses	31.1	31.6
Restructuring and Separation Costs	0.1	0.6
Depreciation and Amortization	4.1	4.8
Interest Expense	3.1	2.5
Impairment Charges – Long-Lived Assets	0.0	1.1
Impairment Charges – Tradenames	0.0	1.8
Other (Income) Expense, Net	(0.3)	0.4
Total Expense	99.8	109.6
Income (Loss) before Income Tax Expense (Benefit)	1.0	(8.7)
Income Tax Expense (Benefit)	0.4	(4.3)
Net Income (Loss)	0.6%	(4.4)%

Three Month Period Ended May 1, 2010 compared with Three Month Period Ended May 2, 2009

Net Sales

We experienced an increase in net sales for the three months ended May 1, 2010 compared with the three months ended May 2, 2009. Consolidated net sales increased $64.7 million, or 7.8%, to $894.7 million for the three months

ended May 1, 2010 from $830.0 million for the three months ended May 2, 2009. This increase was primarily attributable to a combination of the following:

- an increase in comparative store sales of $27.3 million, or 3.3%, to $856.4 million of comparative store sales,
- an increase in net sales of $20.2 million related to ten new stores opened during the three months ended May 1, 2010,
- an increase in net sales of $16.4 million for stores previously opened that were not included in our comparative store sales, and
- an increase as a result of changes in sales allowances, layaways and other sales of $3.2 million, partially offset by
  - a decrease in net sales of $2.4 million from stores closed since the comparable period last year.

We believe the comparative store sales increase was due primarily to our ongoing initiatives to improve our comparative store sales, as discussed previously under the caption entitled "Ongoing Initiatives for Fiscal 2010."

Other Revenue

Other revenue (consisting of rental income from leased departments, sublease rental income, layaway, alteration and other service charges, and miscellaneous revenue items) increased to $7.3 million for the three month period ended May 1, 2010 compared with $7.1 million for the three month period ended May 2, 2009. This increase was primarily related to an increase in layaway service charges due to increased layaway transactions.

Cost of Sales

Cost of sales decreased $1.8 million, or 0.3%, for the three month period ended May 1, 2010 compared with the three month period ended May 2, 2009. Cost of sales as a percentage of net sales decreased to 61.7 % during the three months ended May 1, 2010 compared with the three months ended May 2, 2009 of 66.8%. The overall decrease in cost of sales was a function of fewer markdowns in the three months ended May 1, 2010 compared with the three months ended May 2, 2009 pursuant to our ongoing initiatives to increase the percentage of current inventory as previously discussed under the caption entitled “Ongoing Initiatives for Fiscal 2010.”

Selling and Administrative Expenses

Selling and administrative expenses increased $16.4 million, or 6.3%, for the three month period ended May 1, 2010 compared with the three month period ended May 2, 2009. The increase in selling and administrative expenses is summarized in the table below:

	(in thousands)			
	Three Months Ended			
	May 1, 2010	May 2, 2009	$ Variance	% Change
Payroll and Payroll Related	$ 130,455	$ 122,836	$ 7,619	6.2%
Benefit Costs	4,032	(362)	4,394	1,213.8
Advertising	16,817	14,541	2,276	15.7
Occupancy	88,895	87,227	1,668	1.9
Business Insurance	7,270	6,599	671	10.2
Other	31,059	31,267	(208)	(0.6)
Selling & Administrative Expenses	$ 278,528	$ 262,108	$ 16,420	6.3%

The increase in payroll and payroll related expense of $7.6 million during the three months ended May 1, 2010 compared with the three months ended May 2, 2009 was primarily related to an increase in our comparative store payroll of $4.4 million and an increase in new store payroll of $2.6 million.

Benefit costs increased $4.4 million during the three months ended May 1, 2010 compared with the three months ended May 2, 2009. During the three months ended May 1, 2010, we recognized a 401(k) Plan matching contribution of $0.7 million. In contrast, during the three months ended May 2, 2009, we recorded a reversal of previously recognized expense related to our 401(k) Plan matching contribution of $4.1 million. Under our 401(k) Plan, we are able to utilize monies recovered through forfeitures to fund some or all of our annual matching contribution obligations. “Forfeiture” is the portion of our matching contribution that is lost by a 401(k) Plan participant who terminates employment prior to becoming fully vested in such matching contribution. The reversal of the previously

recognized expense recorded during the three months ended May 2, 2009 represents forfeitures that were used by the Company to offset our 401(k) Plan matching contribution. Fewer forfeitures were available to offset the expense during the three months ended May 1, 2010.

The increase in advertising expense of $2.3 million during the three months ended May 1, 2010 compared with the three months ended May 2, 2009 was primarily related to an increased investment in Easter holiday advertising, improved programming and an incremental investment to support our dress initiative. These increases were partially funded by the savings realized during the Transition Period related to cost efficiencies realized by our internal performance of an increasing number of production and creative functions.

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The increase in occupancy related costs of $1.7 million during the three months ended May 1, 2010 compared with the three months ended May 2, 2009 was primarily related to new store increases of $1.8 million.

Restructuring and Separation Costs

Restructuring and separation costs totaled $1.0 million during the three months ended May 1, 2010 compared with $5.0 million during the three months ended May 2, 2009. During the third and fourth quarters of Fiscal 2009, in an effort to better align our resources with our business objectives, we reviewed all areas of the business to identify efficiency opportunities to enhance our performance. That process has continued through the first quarter of Fiscal 2010. During the three months ended May 1, 2010, we recorded $1.0 million of severance expense related to the elimination of certain positions and other terminations in our corporate office as part of this ongoing effort.

Depreciation and Amortization

Depreciation and amortization expense related to the depreciation of fixed assets and the amortization of favorable and unfavorable leases amounted to $36.7 million during the three month period ended May 1, 2010 compared with $39.7 million during the three month period ended May 2, 2009. The decrease in depreciation and amortization expense during the three months ended May 1, 2010 compared with the three months ended May 2, 2009 was primarily a result of various assets that were recorded during purchase accounting in conjunction with our acquisition by Bain Capital in April of 2006. These assets were established with useful lives of less than three years. As a result, they became fully depreciated during Fiscal 2009, which has resulted in less depreciation and amortization expense during the three months ended May 1, 2010 compared with the three months ended May 2, 2009.

Interest Expense

Interest expense was $27.4 million compared with $20.9 million for the three month periods ended May 1, 2010 and May 2, 2009, respectively. The increase in interest expense was primarily driven by an increase in our interest rate cap expense. As discussed in detail in Note 8 to our Condensed Consolidated Financial Statements entitled “Derivative Instruments and Hedging Activities,” at May 1, 2010, we were party to four outstanding interest rate cap agreements to manage the interest rate risk associated with future interest payments on variable rate debt. Adjustments of the interest rate cap agreements to fair value, which are recorded in the line item “Interest Expense” in our Condensed Consolidated Statements of Operations and Comprehensive Income (Loss), contributed $6.6 million to the total increase in interest expense for the three months ended May 1, 2010 compared with the three months ended May 2, 2009. Adjustments of the interest rate cap agreements to fair value amounted to a loss of $4.6 million for the three months ended May 1, 2010 compared with a gain of $2.0 million for the three months ended May 2, 2009. The loss recognized during the three months ended May 1, 2010 was primarily the result of a decrease in the underlying market rates, which in turn, decreased the value of the interest rate cap agreements.

Also contributing to the increase in interest expense was increased amortization of deferred financing fees and increased commitment fees. The amortization of deferred financing fees increased from $2.5 million during the three months ended May 2, 2009 to $3.1 million for the three months ended May 1, 2010. This increase is the result of increased deferred financing fees as a result of the new ABL Line of Credit in January of 2010. The increase in commitment fees was due to a higher commitment fee charge based on the terms of the new ABL agreement.

These increases are partially offset by decreased interest expense associated with our Term Loan and our ABL Line of Credit. Our average interest rates related to our Term Loan and our ABL Line of Credit, as well as the average

balances on our ABL Line of Credit, for the three months ended May 1, 2010 compared with the three months ended May 2, 2009 are summarized in the table below:

	Three Months Ended	
	May 1, 2010	May 2, 2009
Average Interest Rate – ABL Line of Credit	2.9 %	3.0 %
Average Interest Rate – Term Loan	2.5 %	3.3 %
Average Balance – ABL Line of Credit (in millions)	$ 19.5 million	$ 21.2 million

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Impairment Charges - Long-Lived Assets

Impairment charges of $0.2 million and $9.4 million were incurred during the three month periods ended May 1, 2010 and May 2, 2009, respectively. During the three months ended May 1, 2010, the impairment charge was related to fixed asset additions at stores that had been previously impaired and therefore could not support the additional asset value. There was no triggering event during the three months ended May 1, 2010 that would have required us to perform additional impairment testing.

Due to the declining macroeconomic conditions that were negatively impacting our comparative store sales during the three months ended May 2, 2009, the Company was required to perform additional impairment testing. As a result of a decline in the operating performance of 28 stores, identified as part of this impairment testing, we recorded an impairment charge of $9.4 million. This charge was primarily related to our favorable leases in the amount of $5.2 million.

The recoverability assessment related to these store-level assets requires judgments and estimates of future revenues, gross margin rates and store expenses. We base these estimates upon our past and expected future performance. We believe our estimates are appropriate in light of current market conditions. However, future impairment charges could be required if we do not achieve our current revenue or cash flow projections for each store.

Impairment Charges – Tradenames

There was no impairment charge related to our tradenames during the three months ended May 1, 2010. Impairment charges related to our tradenames during the three months ended May 2, 2009 amounted to $15.3 million. In accordance with ASC Topic No. 350, "Intangibles – Goodwill and Other," (Topic 350), we have historically and will continue to perform our annual impairment testing of goodwill and indefinite-lived assets at the beginning of each May.

In connection with the preparation of our Condensed Consolidated Financial Statements for the third quarter of Fiscal 2009, we concluded that it was appropriate to test our goodwill and indefinite-lived intangible assets for recoverability in light of the following factors:

- Then recent significant declines in the U.S. and international financial markets and the resulting impact of such events on current and anticipated future macroeconomic conditions and customer behavior;
- The determination that these macroeconomic conditions were impacting our then current sales trends as evidenced by the decreases in comparative store sales that we were experiencing;
- Decreased comparative store sales results for the peak holiday and winter selling seasons in the third quarter which were significant to our financial results for the year;
- Declines in market valuation multiples of peer group companies used in the estimate of our business enterprise value; and
- Our expectation that then current comparative store sales trends would continue for an extended period. As a result, we revised our plans to a more moderate store opening plan which reduced our future projections of revenue and

operating results offset by initiatives that have been implemented to reduce our cost structure.

The recoverability assessment with respect to the tradenames used in our operations requires us to estimate the fair value of the tradenames as of the assessment date. Such determination is made using the "relief from royalty" valuation method. Inputs to the valuation model include:

- Future revenue and profitability projections associated with the tradenames;
- Estimated market royalty rates that could be derived from the licensing of our tradenames to third parties in order to establish the cash flows accruing to our benefit as a result of ownership of the tradenames; and
- The rate used to discount the estimated royalty cash flow projections to their present value (or estimated fair value) based on the risk and nature of our cash flows.

During the three months ended May 2, 2009, we recorded an impairment charge related to our tradenames in the amount of $15.3 million. Of this amount, $9.0 million was attributable to lower revenues and profitability projections associated with our tradenames in the near term and lower estimated market royalty rate expectations in light of the then current general economic conditions compared with the analysis we performed during Fiscal 2008. Our projected revenues within the model were based on comparative store sales and new store assumptions over a nine year period. A less aggressive new store opening plan combined with revised comparative store sales assumptions for the first fiscal year of the projection had a significant negative impact on the valuation. We believe our estimates were appropriate based upon the then current market conditions.

The remaining $6.3 million of the $15.3 million impairment was related to our acquisition of certain tradename rights during the three months ended May 2, 2009. During the three months ended May 2, 2009, we purchased $6.3 million of tradename rights based on our belief that these trade name rights would ultimately provide us with substantial marketing benefits. Historically, we were restricted in our advertising campaigns such that we could only refer to the Company as Burlington Coat Factory and were required to note that we were not affiliated with Burlington Industries. The purchase of these tradename rights allow us to shorten the Company name as appropriate based on the current marketing campaign and eliminates the requirement to note that we are not affiliated with Burlington Industries. Based on our tradenames impairment assessment, we could not support an increase in the asset value of our tradenames related to this acquisition on our Condensed Consolidated Balance Sheets. As a result, we immediately impaired the acquired asset.

Other (Income) Expense, Net

Other (Income) Expense, Net (consisting of investment income, gains and losses on disposition of assets, breakage income and other miscellaneous items) increased $5.9 million to $3.0 million for the three month period ended May 1, 2010 compared with the three month period ended May 2, 2009. This increase was primarily due to the fact that the results for the three months ended May 2, 2009 included a $3.0 million loss on investment and a $0.9 million payment of an insurance deductible relating to a store claim, both of which were one time charges.

Income Tax Expense (Benefit)

Income tax expense was $3.6 million for the three month period ended May 1, 2010. For the three months ended May 2, 2009 we recorded an income tax benefit of $35.5 million. The effective tax rates for the three month periods ended May 1, 2010 and May 2, 2009 were 40.8% and 49.0% respectively. In accordance with ASC Topic No. 220, "Interim Financial Reporting" (Topic No. 220) and ASC Topic No. 740, "Accounting for Income Taxes in Interim Periods" (Topic No. 740), at the end of each interim period the Company is required to determine the best estimate of its annual effective tax rate and then apply that rate in providing for income taxes on a current year-to-date (interim period) basis. We used this methodology during the first quarter of Fiscal 2010, resulting in the annual effective income tax rate of 37.8% (before discrete items) being our best estimate. The effective tax rate for the three months ended May 1, 2010 was impacted by one discrete adjustment that increased tax expense by $0.3 million related to the accrual of interest related to unrecognized tax benefits established in prior years in accordance with Topic No. 740.

In accordance with Topic No. 740, in certain circumstances where a reliable estimate cannot be made, Topic No. 740 recognizes that "the actual effective tax rate for the year-to-date may be the best estimate of the annual effective tax rate" and allows for its use in the current interim period. The effective tax rate for the three months ended May 2, 2009 was impacted by one discrete adjustment that increased tax expense by $4.4 million related to an adjustment of deferred tax asset and liabilities and the accrual of interest related to unrecognized tax benefits established in prior

years in accordance with Topic No. 740.

Net Income (Loss)

Net income amounted to $5.2 million for the three months ended May 1, 2010 compared with a loss of $36.9 million for the three months ended May 2, 2009. The improvement in our net income position of $42.1 million was primarily attributable to an increase in sales and improved gross margin, as well as fewer impairment charges during the three months ended May 1, 2010 compared with the three months ended May 2, 2009.

Liquidity and Capital Resources

Overview

We fund inventory expenditures during normal and peak periods through cash flows from operating activities, available cash, and our ABL Line of Credit. Liquidity may be affected by the terms we are able to obtain from vendors and their factors. Our working capital needs follow a seasonal pattern, peaking each October and November when inventory is received for the Fall selling season. Our largest source of operating cash flows is cash collections from our customers. In general, our primary uses of cash are providing for working capital, which principally represents the purchase of inventory, the payment of operating expenses, debt servicing, and opening of new stores and remodeling of existing stores. As of May 1, 2010, we had unused availability on our ABL Line of Credit of $306.6 million.

Our ability to satisfy interest payment obligations on our outstanding debt and maintain compliance with our debt covenants, as discussed below, will depend largely on our future performance which, in turn, is subject to prevailing economic conditions and to financial, business and other factors beyond our control. If we do not have sufficient cash flow to service interest payment obligations on our outstanding indebtedness and if we cannot borrow or obtain equity financing to satisfy those obligations, our business and results of operations will be materially adversely affected. We cannot be assured that any replacement borrowing or equity financing could be successfully completed on terms similar to our current financing agreements, or at all.

Beginning in Fiscal 2009 and, to a lesser extent, through the Transition Period and three months ended May 1, 2010, there was significant deterioration in the global financial markets and economic environment, which we believe has negatively impacted consumer spending at many retailers, including us. In response to this, we have taken, and continue to take, steps to increase opportunities to profitably drive sales, improve margins and continue to improve the efficiency of our operations.

As discussed throughout this Form 10-Q, we implemented certain initiatives in response to the difficult economic environment which included reducing our cost structure during Fiscal 2009, the Transition Period, and the three month period ended May 1, 2010 through various initiatives. A portion of these savings were reinvested in our operations and in enhancing our store experience. We believe that we have prudently managed our capital expenditures, allowing us to appropriately act on opportunities to grow our business. We closely monitor our net sales, gross margin, expenses and working capital. We have performed scenario planning such that if our net sales decline, we have identified variable costs that could be reduced to partially mitigate the impact of these declines and maintain compliance with our debt covenants.

Despite the current trends in the retail environment and their negative impact on our comparative store sales, we believe that cash generated from operations, along with our existing cash and our ABL Line of Credit, will be sufficient to fund our expected cash flow requirements and planned capital expenditures for at least the next twelve months as well as the foreseeable future. However, there can be no assurance that we would be able to continue to offset the decline in our comparative store sales with continued savings initiatives in the event that the economy continues to decline.

Our Term Loan agreement contains financial, affirmative and negative covenants and requires that we, among other things, maintain on the last day of each fiscal quarter a consolidated leverage ratio not to exceed a maximum amount. Specifically, our total debt to Adjusted EBITDA, as each term is defined in the credit agreement governing the Term Loan, for the trailing twelve months most recently ended on or prior to such date, may not exceed 5.25 to 1 at May 1, 2010, July 31, 2010, and October 30, 2010; 5.00 to 1 at January 29, 2011; and 4.75 to 1 at April 30, 2011 and thereafter. Adjusted EBITDA is a non-GAAP financial measure of our liquidity. Adjusted EBITDA, as defined in the credit agreement governing our Term Loan, starts with consolidated net income (loss) for the period and adds back (i) depreciation, amortization, impairments and other non-cash charges that were deducted in arriving at consolidated net income (loss), (ii) the provision (benefit) for taxes, (iii) interest expense, (iv) advisory fees, and (v) unusual, non-recurring or extraordinary expenses, losses or charges as reasonably approved by the administrative agent for such period. Adjusted EBITDA is used to calculate the consolidated leverage ratio. We present Adjusted EBITDA because we believe it is a useful supplemental measure in evaluating the performance of our business and provides greater transparency into our results of operations. Adjusted EBITDA provides management, including our chief operating decision maker, with helpful information with respect to our operations such as our ability to meet our future debt service, fund our capital expenditures and working capital requirements, and comply with various covenants in each indenture governing our outstanding notes and the credit agreements governing our senior secured

credit facilities which are material to our financial condition and financial statements (Refer to section below entitled "Recast Financial Highlights" for further discussion of Adjusted EBITDA as a non-GAAP measure).

Adjusted EBITDA for the three months ended May 1, 2010 increased $54.3 million, or 227.2%, to $78.2 million from $23.9 million during the three months ended May 2, 2009. The improvement in Adjusted EBITDA was primarily the result of increased sales as a result of our comparative store sales increase of 3.3% during the three months ended May 1, 2010.

The following table shows our calculation of Adjusted EBITDA for the three months ended May 1, 2010 compared with the three months ended May 2, 2009:

	(in thousands) 3 Months Ended	
	May 1, 2010	May 2, 2009
Reconciliation of Net Income (Loss) to Adjusted EBITDA:		
Net Income (Loss)	$ 5,213	$ (36,916)
Interest Expense	27,365	20,918
Income Tax Expense (Benefit)	3,588	(35,477)
Depreciation and Amortization	36,729	39,679
Impairment Charges – Long-Lived Assets	185	9,386
Impairment Charges – Tradenames	-	15,250
Interest Income	(85)	(84)
Non Cash Straight-Line Rent Expense (a)	1,905	1,256
Advisory Fees (b)	1,062	983
Stock Compensation Expense (c)	233	3,006
Sox Compliance (d)	-	112
Amortization of Purchased Lease Rights (e)	210	252
Severance (f)	-	833
CEO Transaction Costs (g)	-	2,364
Franchise Taxes (h)	301	285
Insurance Reserve (i)	393	(1,518)
Advertising Expense Related to Barter (j)	406	398
Loss on Disposal of Fixed Assets (k)	212	200
Loss on Investments (l)	-	2,991
Change in Fiscal Year End Costs (m)	515	-
Adjusted EBITDA	$ 78,232	$ 23,918
Reconciliation of Adjusted EBITDA to Net Cash Provided by Operating Activities:		
Adjusted EBITDA	$ 78,232	$ 23,918
Interest Expense	(27,365)	(20,918)
Changes in Operating Assets and Liabilities	321,258	27,870
Other Items, Net	(2,986)	46,667
Net Cash Provided by Operating Activities	$ 369,139	$ 77,537
Net Cash (Used in) Investing Activities	$ (22,181)	$ (24,274)
Net Cash (Used in) Provided by Financing Activities	$ (134,529)	$ (33,183)

During the Transition Period, in accordance with the credit agreement governing the Term Loan and ABL Line of Credit, and with approval from the administrative agents for the Term Loan and ABL Line of Credit, we changed our methodology of calculating Adjusted EBITDA such that costs incurred in connection with our change in fiscal year end (quantified in note (m) to the foregoing table) are added back to consolidated net income (loss) when calculating Adjusted EBITDA. This change has no impact on the Adjusted EBITDA amounts presented for prior periods.

(a) Represents the difference between the actual base rent and rent expense calculated in accordance with GAAP (on a straight line basis), in accordance with the credit agreements governing the Term Loan and ABL Line of Credit.

(b) Represents the annual advisory fee of Bain Capital expensed during the fiscal periods, in accordance with the credit agreements governing the Term Loan and ABL Line of Credit.

(c) Represents expenses recorded under ASC Topic No. 718 “Stock Compensation” during the fiscal periods, in accordance with the credit agreements governing the Term Loan and ABL Line of Credit.

(d) As a voluntary non-accelerated filer, we furnished our initial management report on Internal Controls Over Financial Reporting in our Annual Report on Form 10-K for Fiscal 2008. These costs represent professional fees related to this compliance effort that were incurred during Fiscal 2008 and the first quarter of Fiscal 2009, as well as fees incurred as part of our ongoing internal controls compliance effort for Fiscal 2009, as approved by the administrative agents for the Term Loan and ABL Line of Credit.

(e) Represents amortization of purchased lease rights which are recorded in rent expense within our selling and administrative line items, in accordance with the credit agreements governing the Term Loan and ABL Line of Credit.

(f) Represents a severance charge resulting from a reduction of our workforce during the three months ended May 1, 2010 as part of our ongoing cost reduction initiative (refer to Note 4 to our Condensed Consolidated Financial Statements entitled “Restructuring and Separation Costs” for further discussion), in accordance with the credit agreements governing the Term Loan and ABL Line of Credit.

(g) Represents recruiting costs incurred in connection with the hiring of our new President and Chief Executive Officer on December 2, 2008, and other benefits payable to our former President and Chief Executive Officer pursuant to the separation agreement we entered into with him on February 16, 2009. Both of these adjustments were approved by the administrative agents for the Term Loan and ABL Line of Credit.

(h) Represents franchise taxes paid based on our equity, as approved by the administrative agents for the Term Loan and ABL Line of Credit.

(i) Represents the non-cash change in reserves based on estimated general liability, workers compensation and health insurance claims, as approved by the administrative agents for the Term Loan and ABL Line of Credit.

(j) Represents non-cash advertising expense based on the usage of barter advertising credits obtained as part of a non-cash exchange of inventory, as approved by the administrative agents for the Term Loan and ABL Line of Credit.

(k) Represents the gross non-cash loss recorded on the disposal of certain assets in the ordinary course of business, in accordance with the credit agreements governing the Term Loan and ABL Line of Credit.

(l) Represents the loss on our investment in the Reserve Primary Fund (Fund) related to a decline in the fair value of the underlying securities held by the Fund, as approved by the administrative agents for the Term Loan and ABL Line of Credit.

(m) Represents costs incurred in conjunction with changing our fiscal year end from the Saturday closest to May 31 to the Saturday closest to January 31 commencing with the transition period ended January 30, 2010. This change was approved by the administrative agents for the Term Loan and ABL Line of Credit.

Cash Flow for the Three Months Ended May 1, 2010 Compared with the Three Months Ended May 2, 2009

We generated $212.4 million of cash flow for the three months ended May 1, 2010 compared with $20.1 million of cash flow for the three months ended May 2, 2009. Net cash provided by operating activities amounted to $369.1 million for the three months ended May 1, 2010. For the three months ended May 2, 2009, net cash provided by operating activities amounted to $77.5 million. The improvement in net cash provided by operating activities was primarily the result of changes in the Company’s working capital. The biggest driver of the improvement relates to cash flow from changes in accounts payable. Cash flow from the change in accounts payable for the three months ended May 1, 2010 increased $299.0 million compared with the three months ended May 2, 2009. The increase in accounts payable for the three months ended May 1, 2010 compared with the three months ended May 2, 2009 was primarily related to our working capital management strategy at the end of the Transition Period pursuant to which we accelerated certain payments that typically would not have been made until the first quarter of Fiscal 2010. In turn, this lowered our accounts payable balance at the end of the Transition Period. Accounts payable as of May 1, 2010 and January 30, 2010 were $504.5 million and $139.8 million respectively. The increase in accounts payable from January 30, 2010 to May 1, 2010 resulted in additional cash flow for the three month period ended May 1, 2010 compared with the three month period ended May 2, 2009.

The improvements in net cash flows from operating activities were augmented by a reduction in net cash used in investing activities. Net cash used in investing activities decreased from $24.3 million for the three months ended May 2, 2009 to $22.2 million for the three months ended May 1, 2010. This reduction was primarily the result of a $1.3 million decrease in lease acquisition costs.

Cash flow used in financing activities increased $101.3 million during the three months ended May 1, 2010 compared with the three months ended May 2, 2009. The primary driver of the increased use of cash in financing activities was related to repayments, net of borrowings, on our ABL Line of Credit. Repayments, net of borrowings, on our ABL Line of Credit amounted to $121.2 million for the three months ended May 1, 2010. For the three months ended May 2, 2009, net repayments were $30.0 million. Repayments on the Term Loan for the three months ended May 1, 2010 were $12.2 million.

Cash flow and working capital levels assist management in measuring our ability to meet our cash requirements. Working capital measures our current financial position. Working capital is defined as current assets (exclusive of restricted cash) less current liabilities. Working capital at May 1, 2010 was $244.2 million compared with $349.7 million at January 30, 2010. The decrease in working capital was primarily the result of increased accounts payable as of May 1, 2010 compared with January 30, 2010.

Operational Growth

During the three months ended May 1, 2010, we opened ten BCF stores, and closed three stores, two of which were in locations within the same trading market as two of the new stores that we opened during the Transition Period, and one was in a location within the same trading market as one of the new stores that was opened during the three month period ended May 1, 2010. As of May 1, 2010, we operated stores under the names "Burlington Coat Factory Warehouse" (431 stores), "MJM Designer Shoes" (15 stores), "Cohoes Fashions" (two stores), and "Super Baby Depot" (one store). We estimate that we will spend between $100 and $110 million, net of approximately $38 million of landlord allowances, in capital expenditures during Fiscal 2010, including approximately $60 million, net of the previously mentioned landlord allowances for store expenditures, and $38 million for information technology. We expect to use the remaining capital to support continued distribution facility enhancements and other initiatives. For the three months ended May 1, 2010, capital expenditures, net of landlord allowances, amounted to $18.5 million.

We monitor the availability of desirable locations for our stores from such sources as dispositions by other retail chains and bankruptcy auctions, as well as locations presented to us by real estate developers, br okers and existing landlords. Most of our stores are located in malls, strip shopping centers, regional power centers or are freestanding. We also lease existing space and are opening some built-to-suit locations. For most of our new leases, our lease model provides for at least a ten year initial term with a number of five year options thereafter. Typically, our lease strategy includes landlord allowances for leasehold improvements. We believe our lease model makes us more competitive with other retailers for desirable locations. We may seek to acquire a number of such locations either through transactions to acquire individual locations or transactions that involve the acquisition of multiple locations simultaneously.

Additionally, we may consider strategic acquisitions. If we undertake such transactions, we may seek additional financing to fund acquisitions and carrying charges (i.e., the cost of rental, maintenance, tax and other obligations associated with such properties from the time of commitment to acquire to the time that such locations can be readied for opening as our stores) related to the newly acquired stores. There can be no assurance, however, that any additional locations will become available from other retailers or that, if available, we will undertake to bid or be successful in bidding for such locations. Furthermore, to the extent that we decide to purchase additional store locations, it may be necessary to finance such acquisitions with additional long term borrowings.

From time to time we make available for sale certain assets based on current market conditions. These assets are recorded in the line item "Assets Held for Sale" in our Condensed Consolidated Balance Sheets. Based on prevailing market conditions, we may determine that it is no longer advantageous to continue marketing certain assets and will reclassify those assets out of the line item "Assets Held for Sale" and into the appropriate asset category. Upon this reclassification, we would assess the assets for impairment and reclassify them based on the lesser of their carrying value or fair value less cost to sell.

Dividends

Payment of dividends is prohibited under our credit agreements except in limited circumstances. We recorded dividends payable of $0.2 million during the three month period ended May 1, 2010 that will be paid during the three months ended July 31, 2010. For the three months ended May 2, 2009 we paid $3.0 million in dividends.

Long Term Borrowings, Lines of Credit and Capital Lease Obligations

Holdings and each of our current and future subsidiaries, except one subsidiary which is considered minor, have jointly, severally and unconditionally guaranteed BCFWC's obligations pursuant to our $721 million ABL Line of Credit, $900 million Term Loan and $305 million Senior Notes due 2014. As of May 1, 2010, we were in compliance with all of our debt covenants. Significant changes in our debt structure consist of the following:

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$721 Million ABL Line of Credit

On January 15, 2010, we completed an amendment and restatement of the credit agreement governing our ABL Line of Credit, which (among other things) extended the maturity date for consenting lenders constituting $600 million of commitments to February 5, 2014. As part of the amendment and restatement, we eliminated the outstanding $65 million A-1 tranche commitments, although we maintained the ability to restore up to $65 million of the A-1 tranche with the consent of lenders holding the majority of outstanding commitments. We offered the banks in the terminated A-1 tranche the option to convert to the A tranche or opt out of the agreement altogether. This reduced our total line of credit to $721 million through May 31, 2011, after which the line of credit will be reduced to $600 million through the new maturity date. The $600 million ABL Line of Credit has a springing maturity requirement whereby the ABL Line of Credit will mature 45 days prior to May 28, 2013, the maturity date of the Term Loan, if the Term Loan is not extended or refinanced prior to such date unless the pro forma credit availability condition has been satisfied after implementation of a Term Loan maturity reserve or the outstanding principal amount under the Term Loan maturing prior to February 5, 2014 is not more than $75 million. We believe the $600 million line of credit will provide adequate liquidity to support our operating activities. A further description of the amended and restated credit agreement governing the ABL Line of Credit and related transactions, including a description of covenants, fees and interest rates, is contained in Item 1.01 of our Current Report on Form 8-K, filed with the SEC on January 19, 2010.

The facility carries an interest rate of LIBOR plus a spread which is determined by our annual average borrowings outstanding. Commitment fees of 0.75% to 1.0%, based on our actual usage of the line of credit, will be charged on the unused portion of the facility and will be included in the line item "Interest Expense" on the Company's Condensed Consolidated Statements of Operations and Comprehensive Income (Loss).

During the three month period ended May 1, 2010, we made repayments of principal, net of borrowings, in the amount of $121.2 million. As of May 1, 2010, no balance remained outstanding under the ABL Line of Credit and we had unused availability of $306.6 million.

$900 Million Term Loan

On February 25, 2010, we entered into a second amendment to the credit agreement governing the Term Loan. Among other things, the amendment provides that consolidated EBITDA (as defined in credit agreement governing the Term Loan) will be increased or decreased for any period to the extent necessary to eliminate the effects during such period of any increase or decrease in legal, auditing, consulting, and accounting related expenses for such period relating directly to our change in fiscal year compared to the amount of such expenses that would have been incurred in such period had the fiscal year change not occurred. The amendment also provides that for purposes of any calculation of consolidated interest coverage ratio and consolidated leverage ratio, as of the last day of any fiscal quarter ending on or after January 30, 2010 and prior to the completion of the fiscal year ending the Saturday closest to January 31, 2011, consolidated EBITDA and consolidated interest expense will be determined for the most recent period of twelve consecutive fiscal months. Pursuant to the terms of the amendment, we paid a fee to each lender consenting to the amendment in the amount of 0.05% (or $0.4 million) of the principal amount of such lender's outstanding loan under the credit agreement governing the Term Loan. A further description of the second amendment to the credit agreement governing the Term Loan is contained in Item 1.01 of our Current Report on Form 8-K, filed with the SEC on February 26, 2010.

As of May 1, 2010, we had $852.6 million outstanding under the Term Loan. Based on our available free cash flow as of January 30, 2010, we made a repayment of principal in the amount of $11.5 million. This repayment, which was made during the three months ended May 1, 2010, offsets the mandatory quarterly payments of $2.3 million through

the second quarter of the fiscal year ending January 28, 2012 (Fiscal 2011) and $0.3 million of the mandatory quarterly payment for the third quarter of Fiscal 2011.

14.5% Senior Discount Notes

As part of our issuance of the 14.5% Senior Discount Notes, we are required to make a $13.4 million High Yield Discount Obligation payment by April 13, 2011. We reclassified the amount of the payment out of the line item "Long-Term Debt" and into the line item "Current Maturities of Long-Term Debt" on our Condensed Consolidated Balance Sheet as of May 1, 2010.

Off-Balance Sheet Arrangements

Other than operating leases consummated in the normal course of business and letters of credit, as more fully described below, we are not involved in any off-balance sheet arrangements that have or are reasonably likely to have a material current or future impact on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources.

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Contingencies and Contractual Obligations

Legal

We establish reserves relating to legal claims in connection with litigation to which we are party from time to time in the ordinary course of business. The aggregate amount of such reserves was $11.8 million, $11.6 million, and $3.8 million as of May 1, 2010, January 30, 2010, and May 2, 2009, respectively. We believe that potential liabilities in excess of those recorded will not have a material adverse effect on our Consolidated Financial Statements. However, there can be no assurances to this effect.

We are party to various litigation matters, in most cases involving ordinary and routine claims incidental to our business. We cannot estimate with certainty our ultimate legal and financial liability with respect to such pending litigation matters. However, we believe, based on our examination of such matters, that our ultimate liability will not have a material adverse effect on our financial position, results of operations or cash flows.

A putative class action lawsuit, entitled May Vang, and all others similarly situated, v. Burlington Coat Factory Warehouse Corporation, Case No. 09-CV-08061-CAS, was filed in the Superior Court of the State of California on September 17, 2009. The named plaintiff purports to assert claims on behalf of all current, former, and future employees in the United States and the State of California for the relevant statutory time period. Plaintiff filed an amended complaint on November 16, 2009. The amended complaint asserts claims for failure to pay all earned hourly wages in violation of the Fair Labor Standards Act (FLSA), failure to pay all earned hourly wages in violation of the California Labor Code, providing compensatory time off in lieu of overtime pay, forfeiture of vacation pay, failure to provide meal and rest periods, secret payment of lower wages than that required by statute or contract, failure to provide accurate, written wage statements, and unfair competition. The complaint seeks certification as a class with respect to the FLSA claims, certification of a class with respect to California law claims, appointment of class counsel and class representative, civil penalties, statutory penalties, declaratory relief, injunctive relief, actual damages, liquidated damages, restitution, pre-judgment interest, costs of suit and attorney’s fees. We intend to vigorously defend this action.

There have been no significant changes to our contractual obligations and commercial commitments table as disclosed in our Transition Report on Form 10-K/T, except as follows:

Lease Agreements

We enter into lease agreements during the ordinary course of business in order to secure favorable store locations. As of May 1, 2010, we had committed to 11 new lease agreements (inclusive of one relocation) for locations at which stores are expected to be opened in Fiscal 2010. The 11 new stores are expected to have minimum lease payments of $2.4 million, $7.0 million, $7.3 million, $7.4 million, and $51.5 million during the remainder of the fiscal year ended January 29, 2011, and for the fiscal years ended January 28, 2012 and February 2, 2013, February 1, 2014 and all subsequent years thereafter, respectively.

Letters of Credit

We had letter of credit arrangements with various banks in the aggregate amount of $71.8 million and $51.0 million as of May 1, 2010 and May 2, 2009, respectively. Among these arrangements were letters of credit in the amount of $62.4 million and $41.5 million at May 1, 2010 and May 2, 2009, respectively, guaranteeing performance under various insurance contracts and utility agreements. We also had an outstanding letter of credit in the amount of

$1.2 million and $2.4 million guaranteeing our Industrial Revenue Bonds at May 1, 2010 and May 2, 2009, respectively. Finally, we had outstanding letters of credit agreements in the amount of $8.2 million and $7.1 million at May 1, 2010 and May 2, 2009 respectively, related to certain merchandising agreements.

Safe Harbor Statement

This report contains forward-looking statements that are based on current expectations, estimates, forecasts and projections about us, the industry in which we operate and other matters, as well as management's beliefs and assumptions and other statements regarding matters that are not historical facts. For example, when we use words such as "projects," "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," "should," "would," "could," "will," "potential" or "may," variations of such words or other words that convey uncertainty of future events or outcomes, we are making forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 (Securities Act) and Section 21E of the Securities Exchange Act of 1934 (Exchange Act). Our forward-looking statements are subject to risks and uncertainties. Such statements include but are not limited to, proposed store openings and closings, proposed capital expenditures, projected financing requirements, proposed developmental projects, projected sales and earnings, our ability to maintain selling margins, and the effect of the adoption of recent accounting pronouncements on our consolidated financial position, results of operations and cash flows. Actual events or results may differ materially from the results anticipated in these forward-looking statements as a result of a variety of factors. While it is impossible to identify all such factors, factors that could cause actual results to differ materially from those estimated by us include: competition in the retail industry, seasonality of our business, adverse weather conditions, changes in consumer preferences and consumer spending patterns, import risks, inflation, general economic conditions, our ability to implement our strategy, our substantial level of indebtedness and related debt-service obligations, restrictions imposed by covenants in our debt agreements, availability of adequate financing, our dependence on vendors for our merchandise, events affecting the delivery of merchandise to our stores, existence of adverse litigation, availability of desirable locations on suitable terms, and other risks discussed from time to time in our filings with the Securities and Exchange Commission (SEC).

Many of these factors are beyond our ability to predict or control. In addition, as a result of these and other factors, our past financial performance should not be relied on as an indication of future performance. The cautionary statements referred to in this section also should be considered in connection with any subsequent written or oral forward-looking statements that may be issued by us or persons acting on our behalf. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. In light of these risks and uncertainties, the forward-looking events and circumstances discussed in this report might not occur. Furthermore, we cannot guarantee future results, events, levels of activity, performance or achievements.

Recent Accounting Pronouncements

Refer to Note 17 to the Condensed Consolidated Financial Statements entitled "Recent Accounting Pronouncements" for a discussion of recent accounting pronouncements and their impact on our Condensed Consolidated Financial Statements.

Recast Financial Highlights

In order to conform to the predominant fiscal calendar used within the retail industry, on February 25, 2010 our Board of Directors approved a change in our fiscal year from a fiscal year comprised of the twelve consecutive fiscal months ending on the Saturday closest to May 31 to a fiscal year comprised of the twelve consecutive fiscal months ending on the Saturday closest to January 31. As a result of that change, we have included the following recast financial highlights by quarter for the last four quarters of the twelve month period ended January 30, 2010.

The combined recast twelve month Condensed Consolidated Statement of Operations for the twelve months ended January 30, 2010 represents the sum of the previous four quarters, as presented below. The combined recast twelve month Condensed Consolidated Statement of Operations for the twelve months ended January 30, 2010 does not represent a fiscal period for the Company, but has been presented to provide users with additional information. In addition, it provides management, including our chief operating decision maker, with helpful information with respect to our comparative periods and our ability to comply with various covenants in each indenture governing our outstanding notes and the credit agreements governing our senior secured credit facilities which are material to our financial condition and financial statements.

Included in our Recast Financial Highlights below are certain non-GAAP measures that we believe are useful supplemental information in evaluating the performance of our business and which provide greater transparency into our results of operations. These non-GAAP measures include a net debt metric and an adjusted EBITDA metric, both of which are further described below.

Net debt is a non-GAAP financial measure of our financial position. Net debt is defined as the difference between our total outstanding debt as of the balance sheet date, less our cash and cash equivalents as of the same balance sheet date. Net debt provides management, including our chief operating decision maker, with helpful information with respect to our operations and financial position.

Net debt has limitations as an analytical tool, and should not be considered either in isolation or as a substitute for total debt or other data prepared in accordance with GAAP. The primary limitation of net debt as an analytical tool is that it does not take into consideration that we are not required to use the available cash on hand to pay down the debt.

Adjusted EBITDA is a non-GAAP financial measure of our liquidity. Adjusted EBITDA, as defined in the credit agreement governing our Term Loan, starts with consolidated net income (loss) for the period and adds back (i) depreciation, amortization, impairments and other non-cash charges that were deducted in arriving at consolidated net income (loss), (ii) the provision for taxes, (iii) interest expense, (iv) advisory fees, and (v) unusual, non-recurring or extraordinary expenses, losses or charges as reasonably approved by the administrative agent for such period. Adjusted EBITDA is used to calculate the consolidated leverage ratio. We present Adjusted EBITDA because we believe it is a useful supplemental measure in evaluating the performance of our business and provides greater transparency into our results of operations. Adjusted EBITDA provides management, including our chief operating decision maker, with helpful information with respect to our operations such as our ability to meet our future debt service, fund our capital expenditures and working capital requirements, and comply with various covenants in each indenture governing our outstanding notes and the credit agreements governing our senior secured credit facilities which are material to our financial condition and financial statements.

Adjusted EBITDA has limitations as an analytical tool, and should not be considered either in isolation or as a substitute for net income or other data prepared in accordance with GAAP or for analyzing our results or cash flows from operating activities, as reported under GAAP. Some of these limitations include:

- Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- Adjusted EBITDA does not reflect our interest expense, or the cash requirements necessary to service interest or principal payments, on our debt;
- Adjusted EBITDA does not reflect our income tax expense or the cash requirements to pay our taxes;
- Adjusted EBITDA does not reflect historical cash expenditures or future requirements for capital expenditures or contractual commitments;
- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will likely have to be replaced in the future, and Adjusted EBITDA measures do not reflect any cash requirements for such replacements; and
- Other companies in our industry may calculate Adjusted EBITDA differently such that our calculation may not be directly comparable.

Burlington Coat Factory Investments Holdings, Inc. and Subsidiaries
Consolidated Statement of Operations
(All amounts in thousands)
(Unaudited)

	Recast For The Three Month Periods Ended				12 Months Ended
	May 2, 2009	August 1, 2009	October 31, 2009	January 30, 2010	January 30, 2010
REVENUES:					
Net Sales	$ 830,043	$ 700,978	$ 872,374	$ 1,119,519	$ 3,522,914
Other Revenue	7,060	6,724	7,988	9,068	30,840
Total Revenue	837,103	707,702	880,362	1,128,587	3,553,754
COSTS AND EXPENSES:					
Cost of Sales	554,211	424,249	523,465	679,782	2,181,707
Selling and Administrative Expenses	262,108	266,541	281,569	303,742	1,113,960
Restructuring and Separation Costs	5,023	81	1,190	1,158	7,452
Depreciation and Amortization	39,679	37,666	36,210	42,833	156,388
Interest Expense	20,918	16,766	20,587	26,152	84,423
Impairment Charges – Long-Lived Assets	9,386	42	6,437	40,276	56,141
Impairment Charges - Tradenames	15,250	-	-	-	15,250
Other Expense (Income), Net	2,921	(9,267)	(2,558)	(7,731)	(16,635)
Total Costs and Expenses	909,496	736,078	866,900	1,086,212	3,598,686
(Loss) Income Before Income Tax (Benefit) Expense	(72,393)	(28,376)	13,462	42,375	(44,932)
Income Taxes (Benefit) Expense	(35,477)	(15,856)	5,951	15,629	(29,753)
Net (Loss) Income	$ (36,916)	$ (12,520)	$ 7,511	$ 26,746	$ (15,179)

Burlington Coat Factory Investments Holdings, Inc. and Subsidiaries
Key Balance Sheet Items
(All amounts in thousands)
(Unaudited)

	As Reported May 1, 2010 (a)	Recast May 2, 2009	August 1, 2009	October 31, 2009	January 30, 2010
Cash and Cash Equivalents	$ 237,179	$ 61,787	$ 25,819	$ 64,404	$ 24,750
Merchandise Inventories	634,008	672,216	661,538	845,973	613,295
Accounts Payable	504,501	464,279	401,711	587,713	139,802
ABL Line of Credit	-	-	18,700	-	121,200
All Other Debt	1,279.933	1,301,270	1,299,218	1,292,161	1,292,153
Net Debt	$1,042,754	$1,239,483	$1,292,099	$1,227,757	$1,388,603

(a) Represents key Balance Sheet items as of May 1, 2010 as reported.

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Reconciliation of Net Income (Loss) to Adjusted EBITDA
Reconciliation of Adjusted EBITDA to Cash Flow Provided by Operating Activities
(All amounts in thousands)
(Unaudited)

	Recast for the Three Month Periods Ended				Recast for the Twelve Months Ended
	May 2, 2009	August 1, 2009	October 31, 2009	January 30, 2010	January 30, 2010
Reconciliation of Net (Loss) Income to Adjusted EBITDA:					
Net (Loss) Income	$ (36,916)	$ (12,520)	$ 7,511	$ 26,746	$ (15,179)
Interest Expense	20,918	16,766	20,587	26,152	84,423
Income Tax (Benefit) Expense	(35,477)	(15,856)	5,951	15,629	(29,753)
Depreciation and Amortization	39,679	37,666	36,210	42,833	156,388
Impairment Charges – Long-Lived Assets	9,386	42	6,437	40,276	56,141
Impairment Charges – Tradenames	15,250	-	-	-	15,250
Interest Income	(84)	(55)	(63)	(101)	(303)
Non Cash Straight-Line Rent Expense (a)	1,256	1,004	1,195	1,865	5,320
Advisory Fees (b)	983	1,021	1,066	1,128	4,198
Stock Compensation Expense (c)	3,006	1,237	(621)	768	4,390
Sox Compliance (d)	112	-	-	-	112
Amortization of Purchased Lease Rights (e)	252	228	208	208	896
Severance (f)	833	81	1,134	1,049	3,097
CEO Transition Costs (g)	2,364	(217)	-	-	2,147
Franchise Taxes (h)	285	701	334	301	1,621
Insurance Reserve (i)	(1,518)	6,935	(523)	4,143	9,037
Advertising Expense Related to Barter (j)	398	144	441	1,292	2,275
Loss (Gain) on Disposal of Fixed Assets (k)	200	339	(32)	5,653	6,160

Loss (Gain) on Investments (l)	2,991	-	(106)	(3,744)	(859)
Change in Fiscal Year End Costs (m)	-	-	-	1,445	1,445
Adjusted EBITDA	$ 23,918	$ 37,516	$ 79,729	$ 165,643	$ 306,806
Reconciliation of Adjusted EBITDA to Net Cash Provided by (Used In) Operating Activities:					
Adjusted EBITDA	$ 23,918	$ 37,516	$ 79,729	$ 165,643	$ 306,806
Interest Expense	(20,918)	(16,766)	(20,587)	(26,152)	(84,423)
Changes in Operating Assets and Liabilities	27,870	(42,957)	40,296	(246,093)	(220,884)
Other Items, Net	46,666	(2,503)	(17,138)	(20,544)	6,481
Net Cash Provided by (Used in) Operating Activities	$ 77,536	$ (24,710)	$ 82,300	$ (127,146)	$ 7,980
Net Cash (Used in) Investing Activities	$ (24,274)	$ (27,745)	$ (17,657)	$ (19,749)	$ (89,423)
Net Cash (Used in) Provided by Financing Activities	$ (33,183)	$ 16,486	$ (26,016)	$ 107,242	$ 64,529

During the Transition Period, in accordance with the credit agreement governing the Term Loan and ABL Line of Credit, and with approval from the administrative agents for the Term Loan and ABL Line of Credit, we changed our methodology of calculating Adjusted EBITDA such that costs incurred in connection with our change in fiscal year end (quantified in note (m) to the foregoing table) are added back to consolidated net income (loss) when calculating Adjusted EBITDA. This change has no impact on the Adjusted EBITDA amounts presented for prior periods.

(a) Represents the difference between the actual base rent and rent expense calculated in accordance with GAAP (on a straight line basis), in accordance with the credit agreements governing the Term Loan and ABL Line of Credit.

(b) Represents the annual advisory fee of Bain Capital expensed during the fiscal periods, in accordance with the credit agreements governing the Term Loan and ABL Line of Credit.

(c) Represents expenses recorded under ASC Topic No. 718 “Stock Compensation” during the fiscal periods, in accordance with the credit agreements governing the Term Loan and ABL Line of Credit.

(d) As a voluntary non-accelerated filer, we furnished our initial management report on Internal Controls Over Financial Reporting in our Annual Report on Form 10-K for Fiscal 2008. These costs represent professional fees related to this compliance effort that were incurred during Fiscal 2008 and the first quarter of Fiscal 2009, as well as fees incurred as part of our ongoing internal controls compliance effort for Fiscal 2009, as approved by the administrative agents for the Term Loan and ABL Line of Credit.

(e) Represents amortization of purchased lease rights which are recorded in rent expense within our selling and administrative line items, in accordance with the credit agreements governing the Term Loan and ABL Line of Credit.

(f) Represents a severance charge resulting from a reduction of our workforce during the three months ended May 1, 2010 as part of our ongoing cost reduction initiative (refer to Note 4 to our Condensed Consolidated Financial Statements entitled “Restructuring and Separation Costs” for further discussion), in accordance with the credit agreements governing the Term Loan and ABL Line of Credit.

(g) Represents recruiting costs incurred in connection with the hiring of our new President and Chief Executive Officer on December 2, 2008, and other benefits payable to our former President and Chief Executive Officer pursuant to the separation agreement we entered into with him on February 16, 2009. Both of these adjustments were approved by the administrative agents for the Term Loan and ABL Line of Credit.

(h) Represents franchise taxes paid based on our equity, as approved by the administrative agents for the Term Loan.

(i) Represents the non-cash change in reserves based on estimated general liability, workers compensation and health insurance claims, as approved by the administrative agents for the Term Loan and ABL Line of Credit.

(j) Represents non-cash advertising expense based on the usage of barter advertising credits obtained as part of a non-cash exchange of inventory, as approved by the administrative agents for the Term Loan and ABL Line of Credit.

(k) Represents the gross non-cash loss (gain) recorded on the disposal of certain assets in the ordinary course of business, in accordance with the credit agreements governing the Term Loan and ABL Line of Credit.

(l) Represents the loss (gain) on our investment in the Reserve Primary Fund (Fund) related to a decline in the fair value of the underlying securities held by the Fund, as approved by the administrative agents for the Term Loan and ABL Line of Credit.

(m) Represents costs incurred in conjunction with changing our fiscal year end from the Saturday closest to May 31 to the Saturday closest to January 31 commencing with the transition period ended January 30, 2010. This change was approved by the administrative agents for the Term Loan and ABL Line of Credit.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to certain market risks as part of our ongoing business operations. Primary exposures include changes in interest rates, as borrowings under our ABL Line of Credit and Term Loan will bear interest at floating rates based on LIBOR or the base rate, in each case plus an applicable borrowing margin and investing activities.

We will manage our interest rate risk by balancing the amount of fixed-rate and floating-rate debt and through the use of interest rate cap agreements. For fixed-rate debt, interest rate changes do not affect earnings or cash

flows. Conversely, for floating-rate debt, interest rate changes generally impact our earnings and cash flows, assuming other factors are held constant.

At May 1, 2010, we had $427.3 million principal amount of fixed-rate debt and $852.6 million of floating-rate debt. Based on $852.6 million outstanding as floating-rate debt, an immediate increase of one percentage point, excluding the interest rate caps, would cause an increase to cash interest expense of approximately $8.5 million per year, resulting in $8.5 million less in our pre-tax earnings. This sensitivity analysis assumes our mix of financial instruments and all other variables will remain constant in future periods. These assumptions are made in order to facilitate the analysis and are not necessarily indicative of our future intentions.

If a one percentage point increase in interest rates were to occur over the next four quarters excluding the interest rate cap, such an increase would result in the following additional interest expenses (assuming current borrowing level remains constant):

		(in thousands)			
Floating Rate Debt	Principal Outstanding at May 1, 2010	Additional Interest Expense Q2 2010	Additional Interest Expense Q3 2010	Additional Interest Expense Q4 2010	Additional Interest Expense Q1 2011
Term Loan	$ 852,550	$ 2,131	$ 2,131	$ 2,131	$ 2,131

We have two interest rate cap agreements for a maximum principal amount of $900.0 million which limit our interest rate exposure to 7% on our first $900.0 million dollars of borrowings under our variable rate debt obligations. If interest rates were to increase above the 7% cap rate, then our maximum interest rate exposure would be $60.3 million assuming constant current borrowing levels of $900 million. Currently, we have unlimited interest rate risk related to our variable rate debt in excess of $900 million. For the three months ended May 1, 2010, the borrowing rate related to our Term Loan was 2.5%.

Our ability to satisfy our interest payment obligations on our outstanding debt will depend largely on our future performance, which, in turn, is in part subject to prevailing economic conditions and to financial, business and other factors beyond our control. If we do not have sufficient cash flow to service our interest payment obligations on our outstanding indebtedness and if we cannot borrow or obtain equity financing to satisfy those obligations, our business and results of operations will be materially adversely affected. We cannot be assured that any replacement borrowing or equity financing could be successfully completed.

A change in interest rates generally does not have an impact upon our future earnings and cash flow for fixed-rate debt instruments. As fixed-rate debt matures, however, and if additional debt is acquired to fund the debt repayment, future earnings and cash flow may be affected by changes in interest rates. This effect would be realized in the periods subsequent to the periods when the debt matures.

Item 4. Controls and Procedures.

Our management team, under the supervision and with the participation of our principal executive officer and our principal financial officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (Exchange Act), as of the last day of the fiscal period covered by this report, May 1, 2010. The term disclosure controls and procedures means our controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to management, including our principal executive and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of May 1, 2010.

During the three months ended May 1, 2010, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

A putative class action lawsuit, entitled May Vang, and all others similarly situated, v. Burlington Coat Factory Warehouse Corporation, Case No. 09-CV-08061-CAS, was filed in the Superior Court of the State of California on September 17, 2009. The named plaintiff purports to assert claims on behalf of all current, former, and future employees in the United States and the State of California for the relevant statutory time period. Plaintiff filed an

amended complaint on November 16, 2009. The amended complaint asserts claims for failure to pay all earned hourly wages in violation of the Fair Labor Standards Act (FLSA), failure to pay all earned hourly wages in violation of the California Labor Code, providing compensatory time off in lieu of overtime pay, forfeiture of vacation pay, failure to provide meal and rest periods, secret payment of lower wages than that required by statute or contract, failure to provide accurate, written wage statements, and unfair competition. The complaint seeks certification as a class with respect to the FLSA claims, certification of a class with respect to California law claims, appointment of class counsel and class representative, civil penalties, statutory penalties, declaratory relief, injunctive relief, actual damages, liquidated damages, restitution, pre-judgment interest, costs of suit and attorney's fees. We intend to vigorously defend this action.

In addition to the litigation discussed above, we are party to various other litigation matters, in most cases involving ordinary and routine claims incidental to our business. We cannot estimate with certainty our ultimate legal and financial liability with respect to such pending litigation matters. However, we believe, based on our examination of such matters, that our ultimate liability will not have a material adverse effect on our financial position, results of operations or cash flows.

Item 1A. Risk Factors.

There have been no material changes in our risk factors from those disclosed in Part I, Item 1A of our Transition Report on Form 10-K/T.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. (Removed and Reserved).

Item 5. Other Information.

None.

Item 6. Exhibits.

10.1 (1)	Second Amendment to Credit Agreement, dated as of February 25, 2010, among Burlington Coat Factory Warehouse Corporation, as the Borrower, the Facility Guarantors party thereto, Bear Stearns Corporate Lending Inc., as Administrative Agent and as Collateral Agent, and the Lenders party thereto.
10.2 (2)	Amendment to Employment Agreement, dated February 26, 2010, by and between Burlington Coat Factory Warehouse Corporation and Joyce Manning Magrini.
31.1	Certification of Principal Executive Officer pursuant to Rule 13a - 14(a) or Rule 15d - 14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to Rule 13a - 14(a) or Rule 15d - 14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
(1)	Incorporated by reference to our Current Report on Form 8-K filed on February 26, 2010.
(2)	Incorporated by reference to our Transition Report on Form 10-K/T filed on April 30, 2010.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BURLINGTON COAT FACTORY INVESTMENTS HOLDINGS, INC.

/s/ Thomas A. Kingsbury
Thomas A. Kingsbury
President & Chief Executive Officer

/s/ Todd Weyhrich
Todd Weyhrich
Executive Vice President & Chief Financial Officer (Principal Financial Officer)

Date: June 15, 2010