

ALLIANCEBERNSTEIN HOLDING L.P.
Form 10-Q
May 01, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2013

OR

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

For the transition period from _____ to _____

Commission File No. 001-09818

ALLIANCEBERNSTEIN HOLDING L.P.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

13-3434400
(I.R.S. Employer Identification No.)

1345 Avenue of the Americas, New York, NY 10105
(Address of principal executive offices)
(Zip Code)

(212) 969-1000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes

No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, 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

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 definition of "accelerated filer," "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes

No

The number of units representing assignments of beneficial ownership of limited partnership interests outstanding as of March 31, 2013 was 105,565,870.*

*includes 100,000 units of general partnership interest having economic interests equivalent to the economic interests of the units representing assignments of beneficial ownership of limited partnership interests.

ALLIANCEBERNSTEIN HOLDING L.P.

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Part I

FINANCIAL INFORMATION

Item 1. Financial Statements

ALLIANCEBERNSTEIN HOLDING L.P.
Condensed Statements of Financial Condition
(in thousands, except unit amounts)

	March 31, 2013 (unaudited)	December 31, 2012
ASSETS		
Investment in AllianceBernstein	\$1,615,585	\$1,560,536
Other assets	1,291	5,957
Total assets	\$1,616,876	\$1,566,493
LIABILITIES AND PARTNERS' CAPITAL		
Liabilities:		
Due to AllianceBernstein	\$8,158	\$6,053
Other liabilities	461	358
Total liabilities	8,619	6,411
Commitments and contingencies (See Note 8)		
Partners' capital:		
General Partner: 100,000 general partnership units issued and outstanding	1,366	1,369
Limited partners: 105,465,870 and 105,073,342 limited partnership units issued and outstanding	1,731,792	1,723,172
Holding Units held by AllianceBernstein to fund long-term incentive compensation plans	(102,981)	(146,258)
Accumulated other comprehensive income (loss)	(21,920)	(18,201)
Total partners' capital	1,608,257	1,560,082
Total liabilities and partners' capital	\$1,616,876	\$1,566,493

See Accompanying Notes to Condensed Financial Statements.

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ALLIANCEBERNSTEIN HOLDING L.P.
 Condensed Statements of Income
 (in thousands, except per unit amounts)
 (unaudited)

	Three Months Ended March 31,	
	2013	2012
Equity in net income attributable to AllianceBernstein Unitholders	\$42,997	\$32,707
Income taxes	4,766	6,008
Net income	\$38,231	\$26,699
Net income per unit:		
Basic	\$0.38	\$0.26
Diluted	\$0.38	\$0.26

See Accompanying Notes to Condensed Financial Statements.

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ALLIANCEBERNSTEIN HOLDING L.P.
Condensed Statements of Comprehensive Income
(in thousands)
(unaudited)

	Three Months Ended March 31,	
	2013	2012
Net income	\$ 38,231	\$ 26,699
Other comprehensive income (loss):		
Foreign currency translation adjustments	(3,878)	683
Income tax (expense)	(6)	—
Foreign currency translation adjustments, net of tax	(3,884)	683
Unrealized gains on investments:		
Unrealized gains arising during period	282	264
Less: reclassification adjustments for gains included in net income	—	—
Changes in unrealized gains on investments	282	264
Income tax (expense)	(145)	(113)
Unrealized gains on investments, net of tax	137	151
Changes in employee benefit related items:		
Amortization of transition asset	(13)	(13)
Amortization of prior service cost	9	10
Recognized actuarial loss (gain)	67	(29)
Changes in employee benefit related items	63	(32)
Income tax (expense)	(35)	—
Employee benefit related items, net of tax	28	(32)
Other comprehensive (loss) income	(3,719)	802
Comprehensive income	\$ 34,512	\$ 27,501

See Accompanying Notes to Condensed Financial Statements.

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ALLIANCEBERNSTEIN HOLDING L.P.
Condensed Statements of Cash Flows
(in thousands)
(unaudited)

	Three Months Ended March 31,	
	2013	2012
Cash flows from operating activities:		
Net income	\$ 38,231	\$ 26,699
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in net income attributable to AllianceBernstein Unitholders	(42,997)	(32,707)
Cash distributions received from AllianceBernstein	40,077	17,880
Changes in assets and liabilities:		
(Increase) in due from AllianceBernstein	—	(2,810)
Decrease in other assets	4,666	1,072
Increase (decrease) in due to AllianceBernstein	2,105	(2,453)
Increase in other liabilities	103	4,939
Net cash provided by operating activities	42,185	12,620
Cash flows from investing activities:		
Investments in AllianceBernstein from cash distributions paid to AllianceBernstein consolidated rabbi trust	(5,929)	(864)
Investments in AllianceBernstein with proceeds from exercise of compensatory options to buy Holding Units	(6,642)	—
Net cash used in investing activities	(12,571)	(864)
Cash flows from financing activities:		
Cash distributions to unitholders	(36,256)	(11,756)
Proceeds from exercise of compensatory options to buy Holding Units	6,642	—
Net cash used in financing activities	(29,614)	(11,756)
Change in cash and cash equivalents	—	—
Cash and cash equivalents as of beginning of period	—	—
Cash and cash equivalents as of end of period	\$ —	\$ —

See Accompanying Notes to Condensed Financial Statements.

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ALLIANCEBERNSTEIN HOLDING L.P.
Notes to Condensed Financial Statements
March 31, 2013
(unaudited)

The words “we” and “our” refer collectively to AllianceBernstein Holding L.P. (“Holding”) and AllianceBernstein L.P. and its subsidiaries (“AllianceBernstein”), or to their officers and employees. Similarly, the word “company” refers to both Holding and AllianceBernstein. Where the context requires distinguishing between Holding and AllianceBernstein, we identify which of them is being discussed.

1. Business Description, Organization and Basis of Presentation

Business Description

Holding’s principal source of income and cash flow is attributable to its investment in AllianceBernstein limited partnership interests. The condensed financial statements and notes of Holding should be read in conjunction with the condensed consolidated financial statements and notes of AllianceBernstein included as an exhibit to this quarterly report on Form 10-Q and with Holding’s and AllianceBernstein’s audited financial statements included in Holding’s Form 10-K for the year ended December 31, 2012.

AllianceBernstein provides research, diversified investment management and related services globally to a broad range of clients. Its principal services include:

Institutional Services – servicing its institutional clients, including unaffiliated corporate and public employee pension funds, endowment funds, domestic and foreign institutions and governments, and affiliates such as AXA and certain of its insurance company subsidiaries, by means of separately-managed accounts, sub-advisory relationships, structured products, collective investment trusts, mutual funds, hedge funds and other investment vehicles.

Retail Services – servicing its retail clients, primarily by means of retail mutual funds sponsored by AllianceBernstein or an affiliated company, sub-advisory relationships with mutual funds sponsored by third parties, separately-managed account programs sponsored by financial intermediaries worldwide and other investment vehicles.

Private Client Services – servicing its private clients, including high-net-worth individuals, trusts and estates, charitable foundations, partnerships, private and family corporations, and other entities, by means of separately-managed accounts, hedge funds, mutual funds and other investment vehicles.

Bernstein Research Services – servicing institutional investors seeking high-quality research, portfolio strategy advice and brokerage-related services.

AllianceBernstein also provides distribution, shareholder servicing and administrative services to the mutual funds it sponsors.

AllianceBernstein’s high-quality, in-depth research is the foundation of its business. AllianceBernstein’s research disciplines include fundamental, quantitative and economic research and currency forecasting. In addition, AllianceBernstein has created several specialized research initiatives, including research examining global strategic developments that can affect multiple industries and geographies.

AllianceBernstein provides a broad range of investment services with expertise in:

Equity securities, including value and growth equities;

Fixed income securities, including taxable and tax-exempt securities;

Passive management, including index and enhanced index strategies;

Alternative investments, including hedge funds, fund of funds, currency management strategies and private equity (e.g., direct real estate investing); and

Asset allocation services, including dynamic asset allocation, customized target date funds, target risk funds and other strategies tailored to help clients meet their investment goals.

AllianceBernstein provides these services using various investment disciplines, including market capitalization (e.g., large-, mid- and small-cap equities), term (e.g., long-, intermediate- and short-duration debt securities), and geography (e.g., U.S., international, global and emerging markets), as well as local and regional disciplines in major markets around the world.

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Organization

As of March 31, 2013, AXA, a société anonyme organized under the laws of France and the holding company for an international group of insurance and related financial services companies, through certain of its subsidiaries (“AXA and its subsidiaries”) owned approximately 1.4% of the issued and outstanding units representing assignments of beneficial ownership of limited partnership interests in Holding (“Holding Units”).

As of March 31, 2013, the ownership structure of AllianceBernstein, expressed as a percentage of general and limited partnership interests, was as follows:

AXA and its subsidiaries	61.0%
Holding	37.6
Unaffiliated holders	1.4
	100.0%

AllianceBernstein Corporation (an indirect wholly-owned subsidiary of AXA, “General Partner”) is the general partner of both Holding and AllianceBernstein. AllianceBernstein Corporation owns 100,000 general partnership units in Holding and a 1% general partnership interest in AllianceBernstein. Including both the general partnership and limited partnership interests in Holding and AllianceBernstein, AXA and its subsidiaries had an approximate 64.2% economic interest in AllianceBernstein as of March 31, 2013.

Basis of Presentation

The interim condensed financial statements have been prepared in accordance with the instructions to Form 10-Q pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (“SEC”). In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the interim results, have been made. The preparation of the condensed financial statements requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the condensed financial statements and the reported amounts of revenues and expenses during the interim reporting periods. Actual results could differ from those estimates. The December 31, 2012 condensed statement of financial condition was derived from audited financial statements but does not include all disclosures required by accounting principles generally accepted in the United States of America.

Holding records its investment in AllianceBernstein using the equity method of accounting. Holding’s investment is increased to reflect its proportionate share of income of AllianceBernstein and decreased to reflect its proportionate share of losses of AllianceBernstein and cash distributions made by AllianceBernstein to its unitholders. In addition, its investment is adjusted to reflect its proportionate share of certain capital transactions of AllianceBernstein.

Revision

During 2012, we identified an error in the classification for our cash distributions to AllianceBernstein on unallocated Holding Units held in its consolidated rabbi trust. As such, we revised the classification of prior period amounts recorded for our cash distributions to AllianceBernstein on unallocated Holding Units held in its consolidated rabbi trust from due from AllianceBernstein to investments in AllianceBernstein in the statement of financial condition. In addition, changes in due from AllianceBernstein included in cash flows from operating activities in prior periods are now presented as additional investments in AllianceBernstein included in cash flows from investing activities. The impact of the revision for the three months ended March 31, 2012 in the statement of cash flows was \$0.9 million. Management concluded that the error did not, individually or in the aggregate, result in a material misstatement of Holding’s financial statements for any prior period.

2.

Cash Distributions

Holding is required to distribute all of its Available Cash Flow, as defined in the Amended and Restated Agreement of Limited Partnership of Holding (“Holding Partnership Agreement”), to its unitholders pro rata in accordance with their percentage interests in Holding. Available Cash Flow is defined as the cash distributions Holding receives from AllianceBernstein minus such amounts as the General Partner determines, in its sole discretion, should be retained by Holding for use in its business or plus such amounts as the General Partner determines, in its sole discretion, should be released from previously retained cash flow.

On May 1, 2013, the General Partner declared a distribution of \$0.38 per unit, representing Available Cash Flow for the three months ended March 31, 2013. Each general partnership unit in Holding is entitled to receive distributions equal to those received by each Holding Unit. The distribution is payable on May 23, 2013 to holders of record at the close of business on May 13, 2013.

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3. Long-term Incentive Compensation Plans

AllianceBernstein maintains several unfunded, non-qualified long-term incentive compensation plans under which awards of restricted Holding Units and options to buy Holding Units are granted to employees of AllianceBernstein and eligible members of the Board of Directors (“Eligible Directors”).

AllianceBernstein funds its restricted Holding Unit awards either by purchasing Holding Units on the open market or purchasing newly-issued Holding Units from Holding, all of which are held in a consolidated rabbi trust until they are distributed to employees upon vesting. In accordance with the Holding Partnership Agreement, when AllianceBernstein purchases newly-issued Holding Units from Holding, Holding is required to use the proceeds it receives from AllianceBernstein to purchase the equivalent number of newly-issued AllianceBernstein Units, thus increasing its percentage ownership interest in AllianceBernstein. Holding Units held in the consolidated rabbi trust are corporate assets in the name of the trust and are available to the general creditors of AllianceBernstein.

During the first quarters of 2013 and 2012, AllianceBernstein purchased 1.0 million and 4.5 million Holding Units for \$19.6 million and \$66.0 million, respectively (on a trade date basis). These amounts reflect open-market purchases of 0.8 million and 4.3 million Holding Units for \$16.0 million and \$63.2 million, respectively, with the remainder relating to purchases of Holding Units from employees to allow them to fulfill statutory tax withholding requirements at the time of distribution of long-term incentive compensation awards, offset by Holding Units purchased by employees as part of a distribution reinvestment election.

Since the third quarter of 2011, AllianceBernstein has implemented plans each quarter to repurchase Holding Units pursuant to Rule 10b5-1 under the Securities Exchange Act of 1934, as amended (“Exchange Act”). A Rule 10b5-1 plan allows a company to repurchase its shares at times when it otherwise might be prevented from doing so because of self-imposed trading blackout periods and because it possesses material non-public information. Each broker selected by AllianceBernstein has the authority under the terms and limitations specified in the plan to repurchase Holding Units on AllianceBernstein’s behalf in accordance with the terms of the plan. Repurchases are subject to SEC regulations as well as certain price, market volume and timing constraints specified in the plan. The plan adopted during the first quarter of 2013 expired at the close of business on April 29, 2013. AllianceBernstein intends to adopt additional Rule 10b5-1 plans so that the firm can continue to engage in open-market purchases of Holding Units to help fund anticipated obligations under its incentive compensation award program and for other corporate purposes.

AllianceBernstein granted to employees and Eligible Directors 6.6 million restricted Holding Unit awards (including 6.5 million granted in January 2013 for 2012 year-end awards) and 9.1 million restricted Holding Unit awards (including 8.7 million granted in January 2012 for 2011 year-end awards) during the first quarters of 2013 and 2012, respectively. To fund these awards, AllianceBernstein allocated previously repurchased Holding Units that had been held in AllianceBernstein’s consolidated rabbi trust. There were approximately 12.5 million unallocated Holding Units remaining in AllianceBernstein’s consolidated rabbi trust as of March 31, 2013.

During the first quarter of 2013, Holding issued 392,528 Holding Units upon exercise of options to buy Holding Units. Holding used the proceeds of \$6.6 million to purchase the equivalent number of newly-issued AllianceBernstein Units.

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4. Net Income per Unit

Basic net income per unit is derived by dividing net income by the basic weighted average number of units outstanding for each period. Diluted net income per unit is derived by adjusting net income for the assumed dilutive effect of compensatory options (“Net income – diluted”) and dividing by the diluted weighted average number of units outstanding for each period.

	Three Months Ended March 31,	
	2013	2012
	(in thousands, except per unit amounts)	
Net income – basic	\$ 38,231	\$ 26,699
Additional allocation of equity in net income attributable to AllianceBernstein resulting from assumed dilutive effect of compensatory options	243	—
Net income – diluted	\$ 38,474	\$ 26,699
Weighted average units outstanding – basic	100,297	101,767
Dilutive effect of compensatory options	937	—
Weighted average units outstanding – diluted	101,234	101,767
Basic net income per unit	\$ 0.38	\$ 0.26
Diluted net income per unit	\$ 0.38	\$ 0.26

As of March 31, 2013 and 2012, we excluded 3,161,304 and 8,977,349 options, respectively, from the diluted net income per unit computation due to their anti-dilutive effect. Weighted average units outstanding do not include Holding’s proportional share (37.5% during the first quarters of 2013 and 2012) of the Holding Units held by AllianceBernstein in its consolidated rabbi trust.

5. Investment in AllianceBernstein

Changes in Holding’s investment in AllianceBernstein during the three-month period ended March 31, 2013 were as follows (in thousands):

Investment in AllianceBernstein as of December 31, 2012	\$ 1,560,536
Equity in net income attributable to AllianceBernstein Unitholders	42,997
Changes in accumulated other comprehensive income (loss)	(3,719)
Additional investments in AllianceBernstein from cash distributions paid to AllianceBernstein consolidated rabbi trust	5,929
Additional investments with proceeds from exercise of compensatory options to buy Holding Units, net	6,642
Cash distributions received from AllianceBernstein	(40,077)
Change in Holding Units held by AllianceBernstein for long-term incentive compensation plans	43,277
Investment in AllianceBernstein as of March 31, 2013	\$ 1,615,585

6. Units Outstanding

Changes in Holding Units outstanding during the three-month period ended March 31, 2013 were as follows:

Outstanding as of December 31, 2012	105,173,342
Options exercised	392,528
Units issued	—
Units forfeited	—
Outstanding as of March 31, 2013	105,565,870

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7. Income Taxes

Holding is a “grandfathered” publicly-traded partnership for federal tax purposes and, accordingly, is not subject to federal or state corporate income taxes. However, Holding is subject to the 4.0% New York City unincorporated business tax (“UBT”), net of credits for UBT paid by AllianceBernstein, and to a 3.5% federal tax on partnership gross income from the active conduct of a trade or business. Holding’s partnership gross income is derived from its interest in AllianceBernstein.

Holding’s income tax is computed by multiplying certain AllianceBernstein qualifying revenues (primarily U.S. investment advisory fees and brokerage commissions) by Holding’s ownership interest in AllianceBernstein, multiplied by the 3.5% tax rate. Since the fourth quarter of 2012, Holding Units in AllianceBernstein’s consolidated rabbi trust have not been treated as outstanding for purposes of calculating Holding’s ownership interest in AllianceBernstein.

	Three Months Ended March 31,			
	2013	2012	% Change	
	(in thousands)			
Net income attributable to AllianceBernstein Unitholders	\$ 114,516	\$ 87,278	31.2	%
Multiplied by: weighted average equity ownership interest	37.5	37.5	%	%
Equity in net income attributable to AllianceBernstein Unitholders	\$ 42,997	\$ 32,707	31.5	
AllianceBernstein qualifying revenues	\$ 482,586	\$ 449,691	7.3	
Multiplied by: weighted average equity ownership interest for calculating tax	27.7	37.5	%	%
Multiplied by: federal tax	3.5	3.5	%	%
Federal income taxes	4,666	5,908	(21.0)
State income taxes	100	100		
Total income taxes	\$ 4,766	\$ 6,008	(20.7)
Effective tax rate	11.1	18.4	%	%

In order to preserve Holding’s status as a “grandfathered” publicly-traded partnership for federal income tax purposes, management ensures that Holding does not directly or indirectly (through AllianceBernstein) enter into a substantial new line of business. If Holding were to lose its status as a “grandfathered” publicly-traded partnership, it would be subject to corporate income tax, which would reduce materially Holding’s net income and its quarterly distributions to Holding unitholders.

8. Commitments and Contingencies

Legal and regulatory matters described below pertain to AllianceBernstein and are included here due to their potential significance to Holding’s investment in AllianceBernstein.

With respect to all significant litigation matters, we consider the likelihood of a negative outcome. If we determine the likelihood of a negative outcome is probable, and the amount of the loss can be reasonably estimated, we record an

estimated loss for the expected outcome of the litigation. If the likelihood of a negative outcome is reasonably possible and we are able to determine an estimate of the possible loss or range of loss in excess of amounts already accrued, if any, we disclose that fact together with the estimate of the possible loss or range of loss. However, it is often difficult to predict the outcome or estimate a possible loss or range of loss because litigation is subject to inherent uncertainties, particularly when plaintiffs allege substantial or indeterminate damages, the litigation is in its early stages, or when the litigation is highly complex or broad in scope. In such cases, we disclose that we are unable to predict the outcome or estimate a possible loss or range of loss.

During the first quarter of 2012, AllianceBernstein received a legal letter of claim (the “Letter of Claim”) sent on behalf of a former European pension fund client, alleging that AllianceBernstein Limited (a wholly-owned subsidiary of AllianceBernstein organized in the U.K.) was negligent and failed to meet certain applicable standards of care with respect to the initial investment in and management of a £500 million portfolio of U.S. mortgage-backed securities. The alleged damages range between \$177 million and \$234 million, plus compound interest on an alleged \$125 million of realized losses in the portfolio. AllianceBernstein believes that any losses to this client resulted from adverse developments in the U.S. housing and mortgage market that precipitated the financial crisis in 2008 and not any negligence or failure on its part. AllianceBernstein believes that it has strong defenses to these claims, which are set forth in AllianceBernstein’s October 12, 2012 response to the Letter of Claim, and will defend this matter vigorously. Currently, AllianceBernstein is unable to estimate a reasonably possible range of loss because the matter remains in its early stages.

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In addition to the Letter of Claim, AllianceBernstein is involved in various other matters, including regulatory inquiries, administrative proceedings and litigation, some of which allege significant damages.

In the opinion of AllianceBernstein's management, an adequate accrual has been made as of March 31, 2013 to provide for any probable losses regarding any litigation matters for which it can reasonably estimate an amount of loss. It is reasonably possible that AllianceBernstein could incur additional losses pertaining to these matters, but management currently is unable to estimate any such additional losses.

Management, after consultation with legal counsel, currently believes that the outcome of any matter that is pending or threatened, or all of them combined, will not have a material adverse effect on our results of operations, financial condition or liquidity. However, as any inquiry, proceeding or litigation has an element of uncertainty, management cannot determine whether further developments relating to any matter that is pending or threatened, or all of them combined, will have a material adverse effect on our results of operations, financial condition or liquidity in any future reporting period.

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

Holding's principal source of income and cash flow is attributable to its investment in AllianceBernstein limited partnership Units. Holding's interim condensed financial statements and notes and management's discussion and analysis of financial condition and results of operations ("MD&A") should be read in conjunction with those of AllianceBernstein included as an exhibit to this Form 10-Q. They should also be read in conjunction with AllianceBernstein's audited financial statements and notes and MD&A included in Holding's Form 10-K for the year ended December 31, 2012.

Results of Operations

	Three Months Ended March 31,		% Change
	2013	2012	
	(in millions, except per unit amounts)		
Net income attributable to AllianceBernstein Unitholders	\$114.5	\$87.3	31.2 %
Weighted average equity ownership interest	37.5	37.5	%
Equity in net income attributable to AllianceBernstein Unitholders	\$43.0	\$32.7	31.5
Net income of Holding	\$38.2	\$26.7	43.2
Diluted net income per Holding Unit	\$0.38	\$0.26	46.2
Distribution per Holding Unit	\$0.38	\$0.26	46.2

Net income for the three months ended March 31, 2013 increased \$11.5 million to \$38.2 million from net income of \$26.7 million for the three months ended March 31, 2012. The increase reflects higher net income attributable to AllianceBernstein Unitholders.

Holding's income taxes represent a 3.5% federal tax on its partnership gross income from the active conduct of a trade or business. Holding's partnership gross income is derived from its interest in AllianceBernstein. Holding's income tax is computed by multiplying certain AllianceBernstein qualifying revenues (primarily U.S. investment advisory fees and brokerage commissions) by Holding's ownership interest in AllianceBernstein (adjusted for Holding Units owned by AllianceBernstein's consolidated rabbi trust), multiplied by the 3.5% tax rate. Holding's effective tax rate was 11.1% in the first quarter of 2013 compared to 18.4% during the first quarter of 2012. The lower effective tax rate is due to a 20.7% decrease in income tax expense, primarily a result of a lower weighted average equity ownership interest for calculating tax, and a 31.5% increase in equity in net income attributable to AllianceBernstein Unitholders. See Note 7 to the condensed financial statements contained in Item 1.

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As supplemental information, AllianceBernstein provides the performance measures “adjusted net revenues”, “adjusted operating income” and “adjusted operating margin”, which are the principal metrics management uses in evaluating and comparing the period-to-period operating performance of AllianceBernstein. Such measures are not based on generally accepted accounting principles (“non-GAAP measures”). See AllianceBernstein’s MD&A contained in Exhibit 99.1. The impact of these non-GAAP measures on Holding’s net income and diluted net income per Holding Unit are as follows:

	Three Months Ended March 31,	
	2013	2012
	(in thousands, except per unit amounts)	
AllianceBernstein non-GAAP adjustments, before taxes	\$667	\$7,480
Income tax effect on non-GAAP adjustments	(98)	(165)
AllianceBernstein non-GAAP adjustments, after taxes	569	7,315
Holding’s weighted average equity ownership interest in AllianceBernstein	37.5 %	37.5 %
Impact on Holding’s net income of AllianceBernstein non-GAAP adjustments	\$214	\$2,741
Net income – diluted, GAAP basis	\$38,474	\$26,699
Impact on Holding’s net income of AllianceBernstein non-GAAP adjustments	214	2,741
Adjusted net income – diluted	\$	