

**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 September 30, 2017

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

ALLIANCBERNSTEIN 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, smaller reporting company, or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth 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 ☐

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

Yes 0

No **x**

The number of units representing assignments of beneficial ownership of limited partnership interests outstanding as of September 30, 2017 was 93,626,313.*

*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)
(unaudited)

	September 30, 2017	December 31, 2016
ASSETS		
Investment in AB	\$ 1,441,672	\$ 1,540,508
Total assets	\$ 1,441,672	\$ 1,540,508
LIABILITIES AND PARTNERS' CAPITAL		
Liabilities:		
Other liabilities	\$ 224	\$ 619
Total liabilities	224	619
Commitments and contingencies (<i>See Note 8</i>)		
Partners' capital:		
General Partner: 100,000 general partnership units issued and outstanding	1,379	1,405
Limited partners: 93,526,313 and 96,552,190 limited partnership units issued and outstanding	1,489,933	1,592,240
AB Holding Units held by AB to fund long-term incentive compensation plans	(17,011)	(11,731)
Accumulated other comprehensive loss	(32,853)	(42,025)
Total partners' capital	1,441,448	1,539,889
Total liabilities and partners' capital	\$ 1,441,672	\$ 1,540,508

See Accompanying Notes to Condensed Financial Statements.

ALLIANCEBERNSTEIN HOLDING L.P.**Condensed Statements of Income**

(in thousands, except per unit amounts)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Equity in net income attributable to AB Unitholders	\$ 49,055	\$ 55,925	\$ 146,668	\$ 160,759
Income taxes	5,877	5,667	17,839	16,837
Net income	\$ 43,178	\$ 50,258	\$ 128,829	\$ 143,922
Net income per unit:				
Basic	\$ 0.46	\$ 0.52	\$ 1.35	\$ 1.47
Diluted	\$ 0.46	\$ 0.52	\$ 1.35	\$ 1.47

See Accompanying Notes to Condensed Financial Statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income	\$ 43,178	\$ 50,258	\$ 128,829	\$ 143,922
Other comprehensive income (loss):				
Foreign currency translation adjustments, before reclassification and tax	2,672	320	8,514	715
Less: reclassification adjustment for (losses) included in net income upon liquidation	—	(2)	—	(2)
Foreign currency translation adjustments, before tax	2,672	322	8,514	717
Income tax (expense) benefit	(2)	29	50	86
Foreign currency translation adjustments, net of tax	2,670	351	8,564	803
Unrealized (losses) gains on investments:				
Unrealized (losses) gains arising during period	(2)	5	2	(2)
Less: reclassification adjustments for (losses) included in net income	—	(3)	—	(4)
Changes in unrealized (losses) gains on investments	(2)	8	2	2
Income tax benefit (expense)	2	(2)	4	2
Unrealized gains on investments, net of tax	—	6	6	4
Changes in employee benefit related items:				
Amortization of prior service cost	2	5	12	41
Recognized actuarial loss	88	265	621	608
Changes in employee benefit related items	90	270	633	649
Income tax benefit (expense)	—	7	(31)	(23)
Employee benefit related items, net of tax	90	277	602	626
Other comprehensive income	2,760	634	9,172	1,433
Comprehensive income	\$ 45,938	\$ 50,892	\$ 138,001	\$ 145,355

See Accompanying Notes to Condensed Financial Statements.

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

	Nine Months Ended September 30,	
	2017	2016
Cash flows from operating activities:		
Net income	\$ 128,829	\$ 143,922
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in net income attributable to AB Unitholders	(146,668)	(160,759)
Cash distributions received from AB	173,025	143,982
Changes in assets and liabilities:		
(Increase) in other assets	—	(223)
(Decrease) increase in other liabilities	(395)	81
Net cash provided by operating activities	154,791	127,003
Cash flows from investing activities:		
Investments in AB with proceeds from exercise of compensatory options to buy AB Holding Units	(17,672)	(2,371)
Net cash used in investing activities	(17,672)	(2,371)
Cash flows from financing activities:		
Cash distributions to Unitholders	(155,056)	(127,348)
Capital contributions from AB	265	345
Proceeds from exercise of compensatory options to buy AB Holding Units	17,672	2,371
Net cash used in financing activities	(137,119)	(124,632)
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.

ALLIANCEBERNSTEIN HOLDING L.P.
Notes to Condensed Financial Statements
September 30, 2017
(unaudited)

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

1. Business Description, Organization and Basis of Presentation

Business Description

AB Holding’s principal source of income and cash flow is attributable to its investment in AB limited partnership interests. The condensed financial statements and notes of AB Holding should be read in conjunction with the condensed consolidated financial statements and notes of AB included as an exhibit to this quarterly report on Form 10-Q and with AB Holding’s and AB’s audited financial statements included in AB Holding’s Form 10-K for the year ended December 31, 2016.

AB 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 private and public pension plans, foundations and endowments, insurance companies, central banks and governments worldwide, and affiliates such as AXA S.A. (“AXA”) and its 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 AB 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 Wealth Management Services – servicing its private clients, including high-net-worth individuals and families, 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, such as pension fund, hedge fund and mutual fund managers, seeking high-quality fundamental research, quantitative services and brokerage-related services in equities and listed options.

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

AB’s high-quality, in-depth research is the foundation of its business. AB’s research disciplines include economic, fundamental equity, fixed income and quantitative research. In addition, AB has experts focused on multi-asset strategies, wealth management and alternative investments.

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

- Actively-managed equity strategies, with global and regional portfolios across capitalization ranges, concentration ranges and investment strategies, including value, growth and core equities;
- Actively-managed traditional and unconstrained fixed income strategies, including taxable and tax-exempt strategies;
- Passive management, including index and enhanced index strategies;
- Alternative investments, including hedge funds, fund of funds and private equity (*e.g.*, direct real estate investing and direct lending); and
- Multi-asset solutions and services, including dynamic asset allocation, customized target-date funds and target-risk funds.

AB's services span 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 geographic location (*e.g.*, U.S., international, global, emerging markets, regional and local), in major markets around the world.

Organization

As of September 30, 2017, AXA, a *société anonyme* organized under the laws of France and the holding company for the AXA Group, a worldwide leader in financial protection, through certain of its subsidiaries ("AXA and its subsidiaries") owns approximately 2.7% of the issued and outstanding units representing assignments of beneficial ownership of limited partnership interests in AB Holding ("AB Holding Units"). AllianceBernstein Corporation (an indirect wholly-owned subsidiary of AXA, "General Partner") is the general partner of both AB Holding and AB. AllianceBernstein Corporation owns 100,000 general partnership units in AB Holding and a 1% general partnership interest in AB.

As of September 30, 2017, the ownership structure of AB, including limited partnership units outstanding as well as the general partner's 1% interest, is as follows:

AXA and its subsidiaries	64.0%
AB Holding	34.9
Unaffiliated holders	1.1
	<u>100.0%</u>

Including both the general partnership and limited partnership interests in AB Holding and AB, AXA and its subsidiaries have an approximate 64.9% economic interest in AB as of September 30, 2017.

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 condensed statement of financial condition as of December 31, 2016 was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

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

2. Cash Distributions

AB Holding is required to distribute all of its Available Cash Flow, as defined in the Amended and Restated Agreement of Limited Partnership of AB Holding ("AB Holding Partnership Agreement"), to its Unitholders *pro rata* in accordance with their percentage interests in AB Holding. Available Cash Flow is defined as the cash distributions AB Holding receives from AB minus such amounts as the General Partner determines, in its sole discretion, should be retained by AB 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.

Available Cash Flow typically is the adjusted diluted net income per unit for the quarter multiplied by the number of units outstanding at the end of the quarter. Management anticipates that Available Cash Flow will continue to be based on adjusted diluted net income per unit, unless management determines, with the concurrence of the Board of Directors, that one or more adjustments that are made for adjusted net income should not be made with respect to the Available Cash Flow calculation.

On October 25, 2017, the General Partner declared a distribution of \$0.51 per unit, representing a distribution of Available Cash Flow for the three months ended September 30, 2017. Each general partnership unit in AB Holding is entitled to receive

distributions equal to those received by each AB Holding Unit. The distribution is payable on November 16, 2017 to holders of record at the close of business on November 6, 2017.

3. Long-term Incentive Compensation Plans

AB maintains several unfunded, non-qualified long-term incentive compensation plans, under which the company grants awards of restricted AB Holding Units and options to buy AB Holding Units to its employees and members of the Board of Directors, who are not employed by AB or by any of AB's affiliates ("Eligible Directors").

AB funds its restricted AB Holding Unit awards either by purchasing AB Holding Units on the open market or purchasing newly-issued AB Holding Units from AB Holding, and then keeping all of these AB Holding Units in a consolidated rabbi trust until delivering them or retiring them. In accordance with the AB Holding Partnership Agreement, when AB purchases newly-issued AB Holding Units from AB Holding, AB Holding is required to use the proceeds it receives from AB to purchase the equivalent number of newly-issued AB Units, thus increasing its percentage ownership interest in AB. AB 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 AB.

During the three and nine months ended September 30, 2017, AB purchased 0.3 million and 5.9 million AB Holding Units for \$6.9 million and \$134.6 million, respectively (on a trade date basis). These amounts reflect open-market purchases of 0.3 million and 5.2 million AB Holding Units for \$6.8 million and \$117.1 million, respectively, with the remainder relating to purchases of AB Holding Units from employees to allow them to fulfill statutory tax withholding requirements at the time of delivery of long-term incentive compensation awards. During the three and nine months ended September 30, 2016, AB purchased 2.0 million and 5.8 million AB Holding Units for \$45.2 million and \$129.2 million, respectively (on a trade date basis). These amounts reflect open-market purchases of 2.0 million and 5.7 million AB Holding Units for \$45.1 million and \$127.1 million, respectively, with the remainder relating to purchases of AB Holding Units from employees to allow them to fulfill statutory tax withholding requirements at the time of delivery of long-term incentive compensation awards.

Each quarter, AB considers whether to implement a plan to repurchase AB 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 or because it possesses material non-public information. Each broker selected by AB has the authority under the terms and limitations specified in the plan to repurchase AB Holding Units on AB's behalf in accordance with the terms of the plan. Repurchases are subject to regulations promulgated by the SEC as well as certain price, market volume and timing constraints specified in the plan. The plan adopted during the second quarter of 2017 expired at the close of business on July 26, 2017. AB did not adopt a plan during the third quarter of 2017. AB may adopt additional Rule 10b5-1 plans in the future to engage in open-market purchases of AB Holding Units to help fund anticipated obligations under its incentive compensation award program and for other corporate purposes.

During the first nine months of 2017 and 2016, AB granted to employees and Eligible Directors 2.2 million and 0.7 million restricted AB Holding Unit awards, respectively. AB used AB Holding Units repurchased during the period and newly-issued AB Holding Units to fund the restricted AB Holding Unit awards.

During the first nine months of 2017 and 2016, AB Holding issued 1.0 million and 0.1 million AB Holding Units, respectively, upon exercise of options to buy AB Holding Units. AB Holding used the proceeds of \$17.7 million and \$2.4 million, respectively, received as payment in cash for the exercise price to purchase the equivalent number of newly-issued AB Units.

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 September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
(in thousands, except per unit amounts)				
Net income – basic	\$ 43,178	\$ 50,258	\$ 128,829	\$ 143,922
Additional allocation of equity in net income attributable to AB resulting from assumed dilutive effect of compensatory options	136	221	450	581
Net income – diluted	<u>\$ 43,314</u>	<u>\$ 50,479</u>	<u>\$ 129,279</u>	<u>\$ 144,503</u>
Weighted average units outstanding – basic	93,374	95,890	95,218	97,643
Dilutive effect of compensatory options	400	590	455	554
Weighted average units outstanding – diluted	<u>93,774</u>	<u>96,480</u>	<u>95,673</u>	<u>98,197</u>
Basic net income per unit	\$ 0.46	\$ 0.52	\$ 1.35	\$ 1.47
Diluted net income per unit	\$ 0.46	\$ 0.52	\$ 1.35	\$ 1.47

For the three and nine months ended September 30, 2017, we excluded 2,427,527 options from the diluted net income computation due to their anti-dilutive effect. For the three and nine months ended September 30, 2016, we excluded 2,873,106 options from the diluted net income computation due to their anti-dilutive effect.

5. Investment in AB

Changes in AB Holding’s investment in AB during the nine-month period ended September 30, 2017 are as follows (in thousands):

Investment in AB as of December 31, 2016	\$ 1,540,508
Equity in net income attributable to AB Unitholders	146,668
Changes in accumulated other comprehensive income (loss)	9,172
Additional investments with proceeds from exercise of compensatory options to buy AB Holding Units	17,672
Cash distributions received from AB	(173,025)
Capital contributions from AB	(265)
AB Holding Units retired	(138,954)
AB Holding Units issued to fund long-term incentive compensation plans	45,176
Change in AB Holding Units held by AB for long-term incentive compensation plans	(5,280)
Investment in AB as of September 30, 2017	\$ 1,441,672

6. Units Outstanding

Changes in AB Holding Units outstanding during the nine-month period ended September 30, 2017 are as follows:

Outstanding as of December 31, 2016	96,652,190
Options exercised	1,039,632
Units issued	1,944,310
Units retired	(6,009,819)
Outstanding as of September 30, 2017	93,626,313

7. Income Taxes

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

AB Holding’s income tax is computed by multiplying certain AB qualifying revenues (primarily U.S. investment advisory fees and brokerage commissions) by AB Holding’s ownership interest in AB, multiplied by the 3.5% tax rate. AB Holding Units in AB’s consolidated rabbi trust (containing undistributed restricted unit awards allocated to employees) are not considered outstanding for purposes of calculating AB Holding’s ownership interest in AB.

	Three Months Ended September 30,			% Change	Nine Months Ended September 30,			% Change
	2017	2016			2017	2016		
	(in thousands)				(in thousands)			
Net income attributable to AB Unitholders	\$ 140,954	\$ 158,035	(10.8)%		\$ 415,994	\$ 448,820	(7.3)%	
Multiplied by: weighted average equity ownership interest	34.8%	35.4%			35.3%	35.8%		
Equity in net income attributable to AB Unitholders	\$ 49,055	\$ 55,925	(12.3)		\$ 146,668	\$ 160,759	(8.8)	
AB qualifying revenues	\$ 581,410	\$ 531,856	9.3		\$ 1,714,065	\$ 1,565,294	9.5	
Multiplied by: weighted average equity ownership interest for calculating tax	28.3%	29.8%			29.2%	30.1%		
Multiplied by: federal tax	3.5%	3.5%			3.5%	3.5%		
Federal income taxes	5,767	5,549			17,517	16,494		
State income taxes	110	118			322	343		
Total income taxes	\$ 5,877	\$ 5,667	3.7		\$ 17,839	\$ 16,837	6.0	
Effective tax rate	12.0%	10.1%			12.2%	10.5%		

To preserve AB Holding’s status as a “grandfathered” PTP for federal income tax purposes, management seeks to ensure that AB Holding does not directly or indirectly (through AB) enter into a substantial new line of business. If AB Holding were to lose its status as a “grandfathered” PTP, it would be subject to corporate income tax, which would reduce materially AB Holding’s net income and its quarterly distributions to AB Holding Unitholders.

8. Commitments and Contingencies

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. Such is also the case when the litigation is in its early stages or when the litigation is highly complex or broad in scope. In these cases, we disclose that we are unable to predict the outcome or estimate a possible loss or range of loss.

AB may be involved in various matters, including regulatory inquiries, administrative proceedings and litigation, some of which may allege significant damages. It is reasonably possible that AB could incur losses pertaining to these matters, but currently management cannot estimate any such losses.

Management, after consultation with legal counsel, currently believes that the outcome of any individual 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, any inquiry, proceeding or litigation has an element of uncertainty; management cannot determine whether further developments relating to any individual 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.

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

AB Holding’s principal source of income and cash flow is attributable to its investment in AB Units. AB 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 AB included as an exhibit to this Form 10-Q. They also should be read in conjunction with AB’s audited financial statements and notes and MD&A included in AB Holding’s Form 10-K for the year ended December 31, 2016.

Results of Operations

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2016	% Change	2017	2016	% Change
	(in thousands, except per unit amounts)			(in thousands, except per unit amounts)		
Net income attributable to AB Unitholders	\$ 140,954	\$ 158,035	(10.8)%	\$ 415,994	\$ 448,820	(7.3)%
Weighted average equity ownership interest	34.8%	35.4%		35.3%	35.8%	
Equity in net income attributable to AB Unitholders	49,055	55,925	(12.3)	146,668	160,759	(8.8)
Income taxes	5,877	5,667	3.7	17,839	16,837	6.0
Net income of AB Holding	\$ 43,178	\$ 50,258	(14.1)	\$ 128,829	\$ 143,922	(10.5)
Diluted net income per AB Holding Unit	\$ 0.46	\$ 0.52	(11.5)	\$ 1.35	\$ 1.47	(8.2)
Distribution per AB Holding Unit	\$ 0.51	\$ 0.45	13.3	\$ 1.46	\$ 1.25	16.8

Net income for the three and nine months ended September 30, 2017 decreased \$7.1 million and \$15.1 million, respectively, due to lower net income attributable to AB Unitholders and lower weighted average equity ownership interest.

AB Holding’s partnership gross income is derived from its interest in AB. AB Holding’s income taxes, which reflect a 3.5% federal tax on its partnership gross income from the active conduct of a trade or business, are computed by multiplying certain AB qualifying revenues (primarily U.S. investment advisory fees and brokerage commissions) by AB Holding’s ownership interest in AB, multiplied by the 3.5% tax rate. AB Holding’s effective tax rate was 12.0% in the third quarter of 2017 compared to 10.1% during the third quarter of 2016. AB Holding’s effective tax rate during the nine months ended September 30, 2017 was 12.2% compared to 10.5% during the nine months ended September 30, 2016. *See Note 7 to the condensed financial statements contained in Item 1* for the calculation of income tax expense.

Management Operating Metrics

As supplemental information, AB 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 AB. Management principally uses these metrics in evaluating performance because they present a clearer picture of AB’s operating performance and allow management to see long-term trends without the distortion primarily caused by long-term incentive compensation-related mark-to-market adjustments, real estate consolidation charges and other adjustment items. Similarly, management believes that these management operating metrics help investors better understand the underlying trends in AB’s results and, accordingly, provide a valuable perspective for investors. Such measures are not based on generally accepted accounting principles (“non-GAAP measures”). These non-GAAP measures are provided in addition to, and not as substitutes for, net revenues, operating income and operating margin, and they may not be comparable to non-GAAP measures presented by other companies. Management uses both the GAAP and non-GAAP measures in evaluating the company’s financial performance. The non-GAAP measures alone may pose limitations because they do not include all of AB’s revenues and expenses. Further, adjusted diluted net income per AB Holding Unit is not a liquidity measure and should not be used in place of cash flow measures. *See AB’s MD&A contained in Exhibit 99.1.*

The impact of these adjustments on AB Holding's net income and diluted net income per AB Holding Unit are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
(in thousands, except per Unit amounts)				
AB non-GAAP adjustments, before taxes	\$ 19,892	\$ (20,957)	\$ 37,439	\$ (70,597)
Income tax (expense) benefit on non-GAAP adjustments	(5,641)	1,310	(4,642)	5,189
AB non-GAAP adjustments, after taxes	14,251	(19,647)	32,797	(65,408)
AB Holding's weighted average equity ownership interest in AB	34.8%	35.4%	35.3%	35.8%
Impact on AB Holding's net income of AB non-GAAP adjustments	\$ 4,960	\$ (6,953)	\$ 11,564	\$ (23,428)
Net income – diluted, GAAP basis	\$ 43,314	\$ 50,479	\$ 129,279	\$ 144,503
Impact on AB Holding's net income of AB non-GAAP adjustments	4,960	(6,953)	11,564	(23,428)
Adjusted net income – diluted	\$ 48,274	\$ 43,526	\$ 140,843	\$ 121,075
Diluted net income per AB Holding Unit, GAAP basis	\$ 0.46	\$ 0.52	\$ 1.35	\$ 1.47
Impact of AB non-GAAP adjustments	0.05	(0.07)	0.12	(0.24)
Adjusted diluted net income per AB Holding Unit	\$ 0.51	\$ 0.45	\$ 1.47	\$ 1.23

The degree to which AB's non-GAAP adjustments impact AB Holding's net income fluctuates based on AB Holding's ownership percentage in AB.

Cash Distributions

AB Holding is required to distribute all of its Available Cash Flow, as defined in the AB Holding Partnership Agreement, to its Unitholders (including the General Partner). Available Cash Flow typically is the adjusted diluted net income per unit for the quarter multiplied by the number of units outstanding at the end of the quarter. Management anticipates that Available Cash Flow will continue to be based on adjusted diluted net income per unit, unless management determines, with the concurrence of the Board of Directors, that one or more adjustments that are made for adjusted net income should not be made with respect to the Available Cash Flow calculation. See Note 2 to the condensed financial statements contained in Item 1 for a description of Available Cash Flow.

Capital Resources and Liquidity

During the nine months ended September 30, 2017, net cash provided by operating activities was \$154.8 million, compared to \$127.0 million during the corresponding 2016 period. The increase primarily resulted from higher cash distributions received from AB of \$29.0 million.

During the nine months ended September 30, 2017, net cash used in investing activities was \$17.7 million, compared to \$2.4 million during the corresponding 2016 period. The increase reflects higher investments in AB with proceeds from exercises of compensatory options to buy AB Holding Units.

During the nine months ended September 30, 2017, net cash used in financing activities was \$137.1 million, compared to \$124.6 million during the corresponding 2016 period. The increase primarily was due to higher cash distributions to Unitholders of \$27.7 million, offset by higher proceeds from exercise of compensatory options to buy AB Holding Units of \$15.3 million.

Management believes that AB Holding will have the resources it needs to meet its financial obligations as a result of the cash flow AB Holding realizes from its investment in AB.

Commitments and Contingencies

See Note 8 to the condensed financial statements contained in Item 1.

CAUTIONS REGARDING FORWARD-LOOKING STATEMENTS

Certain statements provided by management in this report and in the portion of AB's Form 10-Q attached hereto as Exhibit 99.1 are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from future results expressed or implied by such forward-looking statements. The most significant of these factors include, but are not limited to, the following: the performance of financial markets, the investment performance of sponsored investment products and separately-managed accounts, general economic conditions, industry trends, future acquisitions, integration of acquired companies, competitive conditions and government regulations, including changes in tax regulations and rates and the manner in which the earnings of publicly-traded partnerships are taxed. We caution readers to carefully consider such factors. Further, these forward-looking statements speak only as of the date on which such statements are made; we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements. For further information regarding these forward-looking statements and the factors that could cause actual results to differ, see "Risk Factors" in Part I, Item 1A of our Form 10-K for the year ended December 31, 2016 and Part II, Item 1A in this Form 10-Q. Any or all of the forward-looking statements that we make in our Form 10-K, this Form 10-Q, other documents we file with or furnish to the SEC, and any other public statements we issue, may turn out to be wrong. It is important to remember that other factors besides those listed in "Risk Factors" and those listed below also could affect adversely our revenues, financial condition, results of operations and business prospects.

The forward-looking statements referred to in the preceding paragraph, most of which directly affect AB but also affect AB Holding because AB Holding's principal source of income and cash flow is attributable to its investment in AB, include statements regarding:

- Our belief that the cash flow AB Holding realizes from its investment in AB will provide AB Holding with the resources it needs to meet its financial obligations: AB Holding's cash flow is dependent on the quarterly cash distributions it receives from AB. Accordingly, AB Holding's ability to meet its financial obligations is dependent on AB's cash flow from its operations, which is subject to the performance of the capital markets and other factors beyond our control.
- Our financial condition and ability to access the public and private capital markets providing adequate liquidity for our general business needs: Our financial condition is dependent on our cash flow from operations, which is subject to the performance of the capital markets, our ability to maintain and grow client assets under management and other factors beyond our control. Our ability to access public and private capital markets on reasonable terms may be limited by adverse market conditions, our firm's credit ratings, our profitability and changes in government regulations, including tax rates and interest rates.
- The outcome of litigation: Litigation is inherently unpredictable, and excessive damage awards do occur. Though we have stated that we do not expect any pending legal proceedings to have a material adverse effect on our results of operations, financial condition or liquidity, any settlement or judgment with respect to a pending or future legal proceeding could be significant, and could have such an effect.
- The possibility that we will engage in open market purchases of AB Holding Units to help fund anticipated obligations under our incentive compensation award program: The number of AB Holding Units AB may decide to buy in future periods, if any, to help fund incentive compensation awards depends on various factors, some of which are beyond our control, including the fluctuation in the price of an AB Holding Unit (NYSE: AB) and the availability of cash to make these purchases.
- Our determination that adjusted employee compensation expense should not exceed 50% of our adjusted net revenues: Aggregate employee compensation reflects employee performance and competitive compensation levels. Fluctuations in our revenues and/or changes in competitive compensation levels could result in adjusted employee compensation expense exceeding 50% of our adjusted net revenues.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in AB Holding's market risk from the information provided under "Quantitative and Qualitative Disclosures About Market Risk" in Part II, Item 7A of AB Holding's Form 10-K for the year ended December 31, 2016.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Each of AB Holding and AB maintains a system of disclosure controls and procedures that is designed to ensure that information required to be disclosed in our reports under the Exchange Act is (i) recorded, processed, summarized and reported in a timely manner, and (ii) accumulated and communicated to management, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), to permit timely decisions regarding our disclosure.

As of the end of the period covered by this report, management carried out an evaluation, under the supervision and with the participation of the CEO and the CFO, of the effectiveness of the design and operation of the disclosure controls and procedures. Based on this evaluation, the CEO and the CFO concluded that the disclosure controls and procedures are effective.

Changes in Internal Control over Financial Reporting

No change in our internal control over financial reporting occurred during the third quarter of 2017 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Part II

OTHER INFORMATION

Item 1. Legal Proceedings

See Note 8 to the condensed financial statements contained in Part I, Item 1.

Item 1A. Risk Factors

There have been no material changes in our risk factors from those disclosed in AB Holding's Form 10-K for the year ended December 31, 2016.

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

There were no AB Holding Units sold by AB Holding in the period covered by this report that were not registered under the Securities Act.

Each quarter, since the third quarter of 2011, AB has considered whether to implement a plan to repurchase AB Holding Units pursuant to Rule 10b5-1 under the Exchange Act. The plan adopted during the second quarter of 2017 expired at the close of business on July 26, 2017. AB did not adopt a plan during the third quarter of 2017. AB may adopt additional Rule 10b5-1 plans in the future to engage in open-market purchases of AB Holding Units to help fund anticipated obligations under the firm's incentive compensation award program and for other corporate purposes. See Note 3 to the condensed financial statements contained in Part I, Item 1.

The following table provides information relating to any AB Holding Units bought by AB in the quarter covered by this report:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of AB Holding Units Purchased	Average Price Paid Per AB Holding Unit, net of Commissions	Total Number of AB Holding Units Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of AB Holding Units that May Yet Be Purchased Under the Plans or Programs
7/1/17 - 7/31/17 ⁽¹⁾⁽²⁾	286,024	\$ 24.01	—	—
8/1/17 - 8/31/17	—	—	—	—
9/1/17 - 9/30/17	—	—	—	—
Total	286,024	\$ 24.01	—	—

⁽¹⁾ During the third quarter of 2017, AB purchased from employees 2,864 AB Holding Units to allow them to fulfill statutory withholding tax requirements at the time of distribution of long-term incentive compensation awards.

⁽²⁾ During the third quarter of 2017, AB purchased 283,160 AB Holding Units on the open market pursuant to a Rule 10b5-1 plan to help fund anticipated obligations under our incentive compensation award program.

The following table provides information relating to any AB Units bought by AB in the quarter covered by this report:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of AB Holding Units Purchased	Average Price Paid Per AB Holding Unit, net of Commissions	Total Number of AB Holding Units Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of AB Holding Units that May Yet Be Purchased Under the Plans or Programs
7/1/17 - 7/31/17	—	\$ —	—	—
8/1/17 - 8/31/17	—	—	—	—
9/1/17 - 9/30/17 ⁽¹⁾	13,200	23.41	—	—
Total	13,200	\$ 23.41	—	—

⁽¹⁾ During September 2017, AB purchased 13,200 AB Units in private transactions.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information**Submission of Matters to a Vote of Security Holders**

A special meeting (“**Special Meeting**”) of Unitholders of AB Holding was held at 9:30 a.m. (NY time) on September 29, 2017 pursuant to due notice. At the Special Meeting, AB Holding Unitholders voted to adopt the AB 2017 Long Term Incentive Plan, which was the sole proposal considered at the Special Meeting. The final voting results from the Special Meeting are as follows:

<i>For</i>	<i>Against/Withheld</i>	<i>Abstain</i>	<i>Broker Non-Votes</i>
41,451,543	15,286,131	997,100	0

Iran Threat Reduction and Syria Human Rights Act

AB Holding, AB and their global subsidiaries had no transactions or activities requiring disclosure under the Iran Threat Reduction and Syria Human Rights Act, nor were they involved in the AXA Group matters *described immediately below*.

The non-U.S.-based subsidiaries of AXA operate in compliance with applicable laws and regulations of the various jurisdictions in which they operate, including applicable international (United Nations and European Union) laws and regulations. While AXA Group companies based and operating outside the United States generally are not subject to U.S. law, as an international group, AXA has in place policies and standards (including the AXA Group International Sanctions Policy) that apply to all AXA Group companies worldwide and often impose requirements that go well beyond local law. For additional information regarding AXA, *see Note 1 to the condensed financial statements in Part 1, Item 1*.

AXA has informed us that AXA Konzern AG, an AXA insurance subsidiary organized under the laws of Germany, provides car, accident and health insurance to diplomats based at the Iranian Embassy in Berlin, Germany. The total annual premium of these policies is approximately \$176,000 before tax and the annual net profit arising from these policies, which is difficult to calculate with precision, is estimated to be \$26,400. These policies were underwritten by a broker who specializes in providing insurance coverage for diplomats. Provision of motor vehicle insurance is mandatory in Germany and cannot be cancelled until the policy expires.

In addition, AXA has informed us that AXA Insurance Ireland, an AXA insurance subsidiary, provides statutorily required car insurance under four separate policies to the Iranian Embassy in Dublin, Ireland. AXA has informed us that compliance with the Declined Cases Agreement of the Irish Government prohibits the cancellation of these policies unless another insurer is willing to assume the coverage. The total annual premium for these policies is approximately \$6,094 and the annual net profit arising from these policies, which is difficult to calculate with precision, is estimated to be \$914.

Also, AXA has informed us that AXA Sigorta, a subsidiary of AXA organized under the laws of Turkey, provides car insurance coverage for vehicle pools of the Iranian General Consulate and the Iranian Embassy in Istanbul, Turkey. Motor liability insurance coverage is mandatory in Turkey and cannot be cancelled unilaterally. The total annual premium in respect of these policies is approximately \$3,150 and the annual net profit, which is difficult to calculate with precision, is estimated to be \$473.

Additionally, AXA has informed us that AXA Ukraine, an AXA insurance subsidiary, provides car insurance for the Attaché of the Iranian Embassy in Ukraine. Motor liability insurance coverage cannot be cancelled under Ukrainian law. The total annual premium in respect of this policy is approximately \$1,000 and the annual net profit, which is difficult to calculate with precision, is estimated to be \$150.

Lastly, AXA has informed us that AXA Winterthur, an AXA insurance subsidiary organized under the laws of Switzerland, provides Naftiran Intertrade, a wholly-owned subsidiary of the Iranian state-owned National Iranian Oil Company, with life, disability and accident coverage for its employees. The provision of these forms of coverage is mandatory for employees in Switzerland. The total annual premium of these policies is approximately \$373,668 and the annual net profit arising from these policies, which is difficult to calculate with precision, is estimated to be \$56,000.

The aggregate annual premium for the above-referenced insurance policies is approximately \$559,912, representing approximately 0.0004% of AXA's 2016 consolidated revenues, which exceed \$100 billion. The related net profit, which is difficult to calculate with precision, is estimated to be \$83,937, representing approximately 0.0008% of AXA's 2016 aggregate net profit.

Item 6. Exhibits

31.1	Certification of Mr. Bernstein furnished pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Mr. Weisenseel furnished pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Mr. Bernstein furnished for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Mr. Weisenseel furnished for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1	Part I, Items 1 through 4 of the AllianceBernstein L.P. Quarterly Report on Form 10-Q for the quarter ended September 30, 2017.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.
101.LAB	XBRL Taxonomy Extension Label Linkbase.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.
101.DEF	XBRL Taxonomy Extension Definition Linkbase.

SIGNATURE

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

Date: October 25, 2017

ALLIANCEBERNSTEIN HOLDING L.P.

By: /s/ John C. Weisenseel
John C. Weisenseel
Chief Financial Officer

By: /s/ Edward J. Farrell
Edward J. Farrell
Chief Accounting Officer

I, Seth P. Bernstein, certify that:

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

Date: October 25, 2017

/s/ Seth P. Bernstein

Seth P. Bernstein

Chief Executive Officer

AllianceBernstein Holding L.P.

I, John C. Weisenseel, certify that:

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

Date: October 25, 2017

/s/ John C. Weisenseel

John C. Weisenseel

Chief Financial Officer

AllianceBernstein Holding L.P.

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of AllianceBernstein Holding L.P. (the “Company”) on Form 10-Q for the period ending September 30, 2017 to be filed with the Securities and Exchange Commission on or about October 25, 2017 (the “Report”), I, Seth P. Bernstein, Chief Executive Officer of the Company, certify, for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the “Exchange Act”) and 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Exchange Act; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 25, 2017

/s/ Seth P. Bernstein

Seth P. Bernstein
Chief Executive Officer
AllianceBernstein Holding L.P.

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of AllianceBernstein Holding L.P. (the “Company”) on Form 10-Q for the period ending September 30, 2017 to be filed with the Securities and Exchange Commission on or about October 25, 2017 (the “Report”), I, John C. Weisenseel, Chief Financial Officer of the Company, certify, for the purpose of complying with Rule 13a-14(b) or 15d-14(b) of the Securities Exchange Act of 1934 (the “Exchange Act”) and 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Exchange Act; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 25, 2017

/s/ John C. Weisenseel

John C. Weisenseel

Chief Financial Officer

AllianceBernstein Holding L.P.

Part I
FINANCIAL INFORMATION

Item 1. Financial Statements

Exhibit 99.1

**ALLIANCEBERNSTEIN L.P.
AND SUBSIDIARIES**
Condensed Consolidated Statements of Financial Condition
(in thousands, except unit amounts)
(unaudited)

	September 30, 2017	December 31, 2016
ASSETS		
Cash and cash equivalents	\$ 802,209	\$ 656,985
Cash and securities segregated, at fair value (cost: \$784,535 and \$946,093)	784,566	946,097
Receivables, net:		
Brokers and dealers	299,641	335,686
Brokerage clients	1,651,524	1,513,656
AB funds fees	171,165	165,997
Other fees	104,196	104,376
Investments:		
Long-term incentive compensation-related	64,716	67,761
Other	455,037	373,344
Assets of consolidated company-sponsored investment funds:		
Cash and cash equivalents	445,250	337,525
Investments	799,935	574,076
Other assets	6,455	44,570
Furniture, equipment and leasehold improvements, net	152,448	159,564
Goodwill	3,066,700	3,066,700
Intangible assets, net	112,556	134,606
Deferred sales commissions, net	37,004	63,890
Other assets	231,249	195,615
Total assets	\$ 9,184,651	\$ 8,740,448
LIABILITIES, REDEEMABLE NON-CONTROLLING INTEREST AND CAPITAL		
Liabilities:		
Payables:		
Brokers and dealers	\$ 299,382	\$ 239,578
Securities sold not yet purchased	33,811	40,944
Brokerage clients	2,386,422	2,360,481
AB mutual funds	123,678	150,939
Accounts payable and accrued expenses	519,886	430,569
Liabilities of consolidated company-sponsored investment funds	593,800	292,800
Accrued compensation and benefits	612,230	251,019
Debt	297,436	512,970
Total liabilities	4,866,645	4,279,300

Commitments and contingencies (<i>See Note 12</i>)		
Redeemable non-controlling interest	421,618	392,959
Capital:		
General Partner	39,620	41,100
Limited partners: 265,824,057 and 268,893,534 units issued and outstanding	4,010,144	4,154,810
Receivables from affiliates	(11,978)	(12,830)
AB Holding Units held for long-term incentive compensation plans	(48,786)	(32,967)
Accumulated other comprehensive loss	(94,219)	(118,096)
Partners' capital attributable to AB Unitholders	3,894,781	4,032,017
Non-redeemable non-controlling interests in consolidated entities	1,607	36,172
Total capital	3,896,388	4,068,189
Total liabilities, redeemable non-controlling interest and capital	\$ 9,184,651	\$ 8,740,448

See Accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenues:				
Investment advisory and services fees	\$ 543,107	\$ 489,393	\$ 1,572,560	\$ 1,417,856
Bernstein research services	108,385	110,885	330,596	352,403
Distribution revenues	106,042	97,625	302,745	287,638
Dividend and interest income	17,619	9,908	51,023	30,128
Investment gains (losses)	18,808	17,606	68,122	85,469
Other revenues	24,902	24,240	71,532	75,044
Total revenues	818,863	749,657	2,396,578	2,248,538
Less: Interest expense	6,713	2,066	17,198	6,015
Net revenues	812,150	747,591	2,379,380	2,242,523
Expenses:				
Employee compensation and benefits	329,777	316,737	979,387	927,997
Promotion and servicing:				
Distribution-related payments	108,284	95,844	307,407	276,188
Amortization of deferred sales commissions	7,629	9,787	25,015	31,606
Trade execution, marketing, T&E and other	48,088	47,205	149,537	156,763
General and administrative:				
General and administrative	128,712	106,504	360,395	322,184
Real estate charges (credits)	18,655	(140)	39,400	24,645
Contingent payment arrangements	(140)	(21,129)	215	(20,423)
Interest on borrowings	2,105	1,009	6,227	3,293
Amortization of intangible assets	7,013	6,465	20,921	19,344
Total expenses	650,123	562,282	1,888,504	1,741,597
Operating income	162,027	185,309	490,876	500,926
Income taxes	4,547	11,578	24,869	37,315
Net income	157,480	173,731	466,007	463,611
Net income of consolidated entities attributable to non-controlling interests	16,526	15,696	50,013	14,791
Net income attributable to AB Unitholders	\$ 140,954	\$ 158,035	\$ 415,994	\$ 448,820
Net income per AB Unit:				
Basic	\$ 0.53	\$ 0.58	\$ 1.54	\$ 1.65
Diluted	\$ 0.52	\$ 0.58	\$ 1.54	\$ 1.64

See Accompanying Notes to Condensed Consolidated Financial Statements.

ALLIANCEBERNSTEIN L.P.
AND SUBSIDIARIES
Condensed Consolidated Statements of Comprehensive Income
(in thousands)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income	\$ 157,480	\$ 173,731	\$ 466,007	\$ 463,611
Other comprehensive income (loss):				
Foreign currency translation adjustment, before reclassification and tax	7,735	437	24,091	539
Less: reclassification adjustment for (losses) included in net income upon liquidation	—	(6)	—	(6)
Foreign currency translation adjustments, before tax	7,735	443	24,091	545
Income tax benefit	—	—	—	—
Foreign currency translation adjustments, net of tax	7,735	443	24,091	545
Unrealized (losses) gains on investments:				
Unrealized (losses) gains arising during period	(4)	12	6	(7)
Less: reclassification adjustment for (losses) included in net income	—	(7)	—	(10)
Change in unrealized (losses) gains on investments	(4)	19	6	3
Income tax benefit (expense)	5	(8)	3	(5)
Unrealized gains (losses) on investments, net of tax	1	11	9	(2)
Changes in employee benefit related items:				
Amortization of prior service cost	6	6	18	87
Recognized actuarial loss	295	244	818	202
Changes in employee benefit related items	301	250	836	289
Income tax (expense) benefit	(2)	24	(81)	(51)
Employee benefit related items, net of tax	299	274	755	238
Other comprehensive income	8,035	728	24,855	781
Less: Comprehensive income in consolidated entities attributable to non-controlling interests	16,554	15,725	50,990	14,815
Comprehensive income attributable to AB Unitholders	\$ 148,961	\$ 158,734	\$ 439,872	\$ 449,577

See Accompanying Notes to Condensed Consolidated Financial Statements.

ALLIANCEBERNSTEIN L.P. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

	Nine Months Ended September 30,	
	2017	2016
Cash flows from operating activities:		
Net income	\$ 466,007	\$ 463,611
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of deferred sales commissions	25,015	31,606
Non-cash long-term incentive compensation expense	26,947	6,530
Depreciation and other amortization	49,995	44,010
Unrealized losses (gains) on investments	3,323	(27,659)
Unrealized (gains) on investments of consolidated company-sponsored investment funds	(33,062)	(16,675)
Other, net	10,195	8,099
Changes in assets and liabilities:		
Consolidation of cash and cash equivalents of consolidated company-sponsored investment funds	—	8,512
Decrease in segregated cash and securities	161,531	73,252
Decrease (increase) in receivables	8,079	(206,052)
(Increase) decrease in investments	(76,780)	184,655
(Increase) in investments of consolidated company-sponsored investment funds	(192,797)	(34,576)
Decrease (increase) in deferred sales commissions	1,871	(2,171)
(Increase) in other assets	(33,003)	(40,933)
Decrease (increase) in other assets and liabilities of consolidated company-sponsored investment funds	339,115	(1,791)
(Decrease) increase in payables	(58,126)	268,937
Increase in accounts payable and accrued expenses	23,982	59,950
Increase in accrued compensation and benefits	358,586	322,600
Net cash provided by operating activities	1,080,878	1,141,905
Cash flows from investing activities:		
Purchases of investments	(11)	—
Proceeds from sales of investments	10	191
Purchases of furniture, equipment and leasehold improvements	(24,952)	(28,318)
Proceeds from sales of furniture, equipment and leasehold improvements	39	14
Purchase of business, net of cash acquired	—	(20,541)
Net cash used in investing activities	(24,914)	(48,654)
Cash flows from financing activities:		
(Repayment) of commercial paper, net	(220,363)	(197,064)
Increase (decrease) in overdrafts payable	66,134	(74,837)
Distributions to General Partner and Unitholders	(489,049)	(400,441)
Redemptions of non-controlling interests of consolidated company-sponsored investment funds, net	(8,373)	(36,226)
Capital contributions (to) from non-controlling interests in consolidated entities	(43,217)	364
Purchase of non-controlling interest	(1,833)	—
Capital contributions from affiliates	79	439
Payments of contingent payment arrangements/purchases of shares	(6,344)	(4,994)
Additional investments by AB Holding with proceeds from exercise of compensatory options to buy AB Holding Units	17,672	2,371

Purchases of AB Holding Units to fund long-term incentive compensation plan awards, net	(134,186)	(128,778)
Purchases of AB Units	(993)	(359)
Other	—	(19)
Net cash used in financing activities	(820,473)	(839,544)
Effect of exchange rate changes on cash and cash equivalents	17,458	7,155
Net increase in cash and cash equivalents	252,949	260,862
Cash and cash equivalents as of beginning of the period	994,510	577,300
Cash and cash equivalents as of end of the period	\$ 1,247,459	\$ 838,162

See Accompanying Notes to Condensed Consolidated Financial Statements.

**ALLIANCEBERNSTEIN L.P.
AND SUBSIDIARIES**
Notes to Condensed Consolidated Financial Statements
September 30, 2017
(unaudited)

The words “we” and “our” refer collectively to AllianceBernstein L.P. and its subsidiaries (“AB”), or to their officers and employees. Similarly, the word “company” refers to AB. These statements should be read in conjunction with AB’s audited consolidated financial statements included in AB’s Form 10-K for the year ended December 31, 2016.

1. Business Description Organization and Basis of Presentation

Business Description

We provide research, diversified investment management and related services globally to a broad range of clients. Our principal services include:

- Institutional Services – servicing our institutional clients, including private and public pension plans, foundations and endowments, insurance companies, central banks and governments worldwide, and affiliates such as AXA S.A. (“AXA”) and its 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 our retail clients, primarily by means of retail mutual funds sponsored by AB 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 Wealth Management Services – servicing our private clients, including high-net-worth individuals and families, 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, such as pension fund, hedge fund and mutual fund managers, seeking high-quality fundamental research, quantitative services and brokerage-related services in equities and listed options.

We also provide distribution, shareholder servicing, transfer agency services and administrative services to the mutual funds we sponsor.

Our high-quality, in-depth research is the foundation of our business. Our research disciplines include economic, fundamental equity, fixed income and quantitative research. In addition, we have experts focused on multi-asset strategies, wealth management and alternative investments.

We provide a broad range of investment services with expertise in:

- Actively-managed equity strategies, with global and regional portfolios across capitalization ranges, concentration ranges and investment strategies, including value, growth and core equities;
- Actively-managed traditional and unconstrained fixed income strategies, including taxable and tax-exempt strategies;
- Passive management, including index and enhanced index strategies;
- Alternative investments, including hedge funds, fund of funds and private equity (*e.g.*, direct real estate investing and direct lending); and
- Multi-asset solutions and services, including dynamic asset allocation, customized target-date funds and target-risk funds.

Our services span 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 geographic location (*e.g.*, U.S., international, global, emerging markets, regional and local), in major markets around the world.

Organization

As of September 30, 2017, AXA, a *société anonyme* organized under the laws of France and the holding company for the AXA Group, a worldwide leader in financial protection, through certain of its subsidiaries (“AXA and its subsidiaries”), owns approximately 2.7% of the issued and outstanding units representing assignments of beneficial ownership of limited partnership interests in AllianceBernstein Holding L.P. (“AB Holding Units”). AllianceBernstein Corporation (an indirect wholly-owned subsidiary of AXA, “General Partner”) is the general partner of both AllianceBernstein Holding L.P. (“AB Holding”) and AB. AllianceBernstein Corporation owns 100,000 general partnership units in AB Holding and a 1% general partnership interest in AB.

As of September 30, 2017, the ownership structure of AB, including limited partnership units outstanding as well as the general partner's 1% interest, is as follows:

AXA and its subsidiaries	64.0%
AB Holding	34.9
Unaffiliated holders	1.1
	<u>100.0%</u>

Including both the general partnership and limited partnership interests in AB Holding and AB, AXA and its subsidiaries had an approximate 64.9% economic interest in AB as of September 30, 2017.

Basis of Presentation

The interim condensed consolidated 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 consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the interim reporting periods. Actual results could differ from those estimates. The condensed consolidated statement of financial condition as of December 31, 2016 was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America (“GAAP”).

Principles of Consolidation

The condensed consolidated financial statements include AB and its majority-owned and/or controlled subsidiaries, and the consolidated entities that are considered to be variable interest entities (“VIEs”) and voting interest entities (“VOEs”) and for which AB has a controlling financial interest. Non-controlling interests on the condensed consolidated statements of financial condition include the portion of consolidated company-sponsored investment funds in which we do not have direct equity ownership. All significant inter-company transactions and balances among the consolidated entities have been eliminated.

Reclassifications

During 2017, prior period amounts for our consolidated VOEs' investments previously presented as other investments are now presented as investments of consolidated company-sponsored investment funds in the condensed consolidated statements of financial condition to conform to the current period's presentation. Additionally, prior period amounts for dividend and interest related to our consolidated company-sponsored investment funds previously presented as other revenues are now presented as dividend and interest income in the condensed consolidated statements of income to conform to the current period's presentation.

Lastly, all disclosures relating to the investments, derivatives and fair value of consolidated company-sponsored investment funds previously presented in Notes 8, 9, 10 and 11 are now separately disclosed in Note 13, *Consolidated Company-Sponsored Investment Funds*.

2. Significant Accounting Policies

Recently Adopted Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-07, *Investments - Equity Method and Joint Ventures: Simplifying the Transition to the Equity Method of Accounting*. The amendment eliminates the current requirement for a retroactive adjustment and instead requires that the investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. Additionally, the amendment requires that an entity that has an available-for-sale equity security that becomes qualified for the equity method of accounting recognize through earnings the unrealized holding gain or loss in accumulated other comprehensive income at the date the investment becomes qualified for use of the equity method. We adopted this standard on January 1, 2017. The adoption of this standard did not have a material impact on our financial condition or results of operations.

In March 2016, the FASB issued ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting*. The amendment includes provisions intended to simplify various aspects related to how share-based payments are accounted for and presented in the financial statements, including income tax effects of share-based payments, minimum statutory tax withholding requirements and forfeitures. We adopted this standard on January 1, 2017 on a prospective basis. The adoption of this standard did not have a material impact on our financial condition or results of operations.

Accounting Pronouncements Not Yet Adopted

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which revises revenue recognition criteria for revenue arising from contracts with customers, requires certain costs to obtain and fulfill contracts with customers to be capitalized if they meet certain criteria, and expands disclosure requirements. We will adopt this new accounting standard on January 1, 2018 on a modified retrospective basis, recognizing the cumulative effect of initial adoption in Partners’ Capital. We are continuing to monitor the interpretations of this new accounting guidance by relevant industry groups. Based on our analysis performed to-date, we do not expect any changes in the timing of revenue recognition for our base management fees, distribution revenues, shareholder servicing revenues and broker-dealer revenues. However, performance-based management fees, which are currently recognized at the end of the applicable measurement periods when no risk of reversal remains, may in certain instances be recognized prior to the measurement date under the new standard when it is probable that significant reversal of performance-based fees recognized will not occur. This amendment is not expected to have a material impact on our financial condition or results of operations. Our financial statements will include additional disclosures as required by ASU 2014-09.

In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. The amendment addresses certain aspects of recognition, measurement, presentation and disclosure of financial instruments and is effective for fiscal years (and interim periods within those years) beginning after December 15, 2017. The amendment will result in a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption, except for one provision relating to equity securities without readily determinable fair values, which provision will be applied prospectively. The amendment is not expected to have a material impact on our financial condition or results of operations.

In February 2016, the FASB issued ASU 2016-02, *Leases*. The amendment requires recognition of lease assets and lease liabilities on the statement of financial condition and disclosure of key information about leasing arrangements. Specifically, this guidance requires an operating lease lessee to recognize on the statement of financial condition a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term. However, for leases with a term of twelve months or less, a lessee is permitted to make an accounting policy election not to recognize lease assets and lease liabilities. The amendment is effective for fiscal years (and interim periods within those years) beginning after December 15, 2018 and requires lessees to recognize and measure leases at the beginning of the earliest period presented in the financial statements using a modified retrospective approach. Management currently is evaluating the impact that the adoption of this standard will have on our consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230)*. The amendment is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. The amendment is effective for fiscal years (and interim periods within those years) beginning after December 15, 2017 and should be applied using the retrospective transition method. The amendment is not expected to have a material impact on our financial condition or results of operations.

In January 2017, the FASB issued ASU 2017-04, *Simplifying the Test for Goodwill Impairment*. The guidance removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. As a result of the revised guidance, a goodwill impairment will be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The revised guidance will be applied prospectively, and is effective in 2020. The revised guidance is not expected to have a material impact on our financial condition or results of operations.

In March 2017, the FASB issued ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The amendment requires that an employer disaggregate the service cost component from the other components of net benefit costs on the income statement. The amendment is effective for fiscal years (and interim periods within those years) beginning after December 15, 2017 and should be applied retrospectively. The amendment is not expected to have a material impact on our results of operations.

In May 2017, the FASB issued ASU 2017-09, *Compensation - Stock Compensation, Scope of Modification Accounting*. The amendment provides clarity and reduces both diversity in practice and cost and complexity when applying the guidance in Topic 718, Compensation - Stock Compensation, to a change to the terms or conditions of a share-based payment award. This amendment is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017 and will be applied prospectively to an award modified on or after the adoption date. This amendment is not expected to have a material impact on our results of operations.

Consolidation of company-sponsored investment funds

We adopted ASU 2015-02, *Consolidation - Amendments to the Consolidation Analysis* ("ASU 2015-02") effective January 1, 2016.

For legal entities (company-sponsored investment funds) evaluated for consolidation, we first determine whether the fees we receive and the interests we hold qualify as a variable interest in the entity, including an evaluation of fees paid to us as a decision maker or service provider to the entity being evaluated. Fees received by us are not variable interests if (i) the fees are compensation for services provided and are commensurate with the level of effort required to provide those services, (ii) the service arrangement includes only terms, conditions or amounts that are customarily present in arrangements for similar services negotiated at arm's length, and (iii) our other economic interests in the entity held directly and indirectly through our related parties, as well as economic interests held by related parties under common control, would not absorb more than an insignificant amount of the entity's losses or receive more than an insignificant amount of the entity's benefits.

For those entities in which we have a variable interest, we perform an analysis to determine whether the entity is a VIE by considering whether the entity's equity investment at risk is insufficient, whether the investors lack decision making rights proportional to their ownership percentage of the entity, and whether the investors lack the obligation to absorb an entity's expected losses or the right to receive an entity's expected income.

A VIE must be consolidated by its primary beneficiary, which generally is defined as the party that has a controlling financial interest in the VIE. We are deemed to have a controlling financial interest in a VIE if we have (i) the power to direct the activities of the VIE that most significantly affect the VIE's economic performance and (ii) the obligation to absorb losses of the VIE or the right to receive income from the VIE that could potentially be significant to the VIE. For purposes of evaluating (ii) above, fees paid to us as a decision maker or service provider are excluded if the amount of fees is commensurate with the level of effort required to be performed and the arrangement includes only customary terms, conditions or amounts present in arrangements for similar services negotiated at arm's length. The primary beneficiary evaluation generally is performed qualitatively based on all facts and circumstances, as well as quantitatively, as appropriate.

If we have a variable interest in an entity that is determined not to be a VIE, the entity is then evaluated for consolidation under the VOE model. For limited partnerships and similar entities, we are deemed to have a controlling financial interest in a VOE, and would be required to consolidate the entity, if we own a majority of the entity's kick-out rights through voting limited partnership interests and limited partners do not hold substantive participating rights (or other rights that would indicate that we do not control the entity). For entities other than limited partnerships, we are deemed to have a controlling financial interest in a VOE if we own a majority voting interest in the entity.

The analysis performed regarding the determination of variable interests held, whether entities are VIEs or VOEs, and whether we have a controlling financial interest in such entities requires the exercise of judgment. The analysis is updated continuously as circumstances change or new entities are formed.

3. Long-term Incentive Compensation Plans

We maintain several unfunded, non-qualified long-term incentive compensation plans, under which we grant annual awards to employees, generally in the fourth quarter, and to members of the Board of Directors of the General Partner, who are not employed by our company or by any of our affiliates (“Eligible Directors”).

We fund our restricted AB Holding Unit awards either by purchasing AB Holding Units on the open market or purchasing newly-issued AB Holding Units from AB Holding, and then keeping all of these AB Holding Units in a consolidated rabbi trust until delivering them or retiring them. In accordance with the Amended and Restated Agreement of Limited Partnership of AB (“AB Partnership Agreement”), when AB purchases newly-issued AB Holding Units from AB Holding, AB Holding is required to use the proceeds it receives from AB to purchase the equivalent number of newly-issued AB Units, thus increasing its percentage ownership interest in AB. AB 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 AB.

During the three and nine months ended September 30, 2017, we purchased 0.3 million and 5.9 million AB Holding Units for \$6.9 million and \$134.6 million, respectively (on a trade date basis). These amounts reflect open-market purchases of 0.3 million and 5.2 million AB Holding Units for \$6.8 million and \$117.1 million, respectively, with the remainder relating to purchases of AB Holding Units from employees to allow them to fulfill statutory tax withholding requirements at the time of delivery of long-term incentive compensation awards. During the three and nine months ended September 30, 2016, we purchased 2.0 million and 5.8 million AB Holding Units for \$45.2 million and \$129.2 million, respectively (on a trade date basis). These amounts reflect open-market purchases of 2.0 million and 5.7 million AB Holding Units for \$45.1 million and \$127.1 million, respectively, with the remainder relating to purchases of AB Holding Units from employees to allow them to fulfill statutory tax withholding requirements at the time of delivery of long-term incentive compensation awards. Purchases of AB Holding Units reflected on the condensed consolidated statements of cash flows are net of AB Holding Unit purchases by employees as part of a distribution reinvestment election.

Each quarter, we consider whether to implement a plan to repurchase AB 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 or because it possesses material non-public information. Each broker we select has the authority under the terms and limitations specified in the plan to repurchase AB Holding Units on our behalf in accordance with the terms of the plan. Repurchases are subject to regulations promulgated by the SEC as well as certain price, market volume and timing constraints specified in the plan. The plan adopted during the second quarter of 2017 expired at the close of business on July 26, 2017. We did not adopt a plan during the third quarter of 2017. We may adopt additional Rule 10b5-1 plans in the future to engage in open-market purchases of AB Holding Units to help fund anticipated obligations under our incentive compensation award program and for other corporate purposes.

During the first nine months of 2017 and 2016, we granted to employees and Eligible Directors 2.2 million and 0.7 million restricted AB Holding Unit awards, respectively. We used AB Holding Units repurchased during the period and newly-issued AB Holding Units to fund these awards.

During the first nine months of 2017 and 2016, AB Holding issued 1.0 million and 0.1 million AB Holding Units, respectively, upon exercise of options to buy AB Holding Units. AB Holding used the proceeds of \$17.7 million and \$2.4 million, respectively, received as payment in cash for the exercise price to purchase the equivalent number of newly-issued AB Units.

4. Cash Distributions

AB is required to distribute all of its Available Cash Flow, as defined in the AB Partnership Agreement, to its Unitholders and to the General Partner. Available Cash Flow can be summarized as the cash flow received by AB from operations minus such amounts as the General Partner determines, in its sole discretion, should be retained by AB 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.

Typically, Available Cash Flow has been the adjusted diluted net income per unit for the quarter multiplied by the number of general and limited partnership interests at the end of the quarter. In future periods, management anticipates that Available Cash Flow will be based on adjusted diluted net income per unit, unless management determines, with the concurrence of the Board of Directors, that one or more adjustments that are made for adjusted net income should not be made with respect to the Available Cash Flow calculation.

On October 25, 2017, the General Partner declared a distribution of \$0.58 per AB Unit, representing a distribution of Available Cash Flow for the three months ended September 30, 2017. The General Partner, as a result of its 1% general partnership interest, is entitled to receive 1% of each distribution. The distribution is payable on November 16, 2017 to holders of record on November 6, 2017.

5. Real Estate Charges

Since 2010, in connection with our workforce reductions and in an effort to reduce our global real estate footprint, we have implemented a global office space consolidation. As a result, we have sub-leased over one million square feet of office space. The activity in the liability account relating to our global space consolidation initiatives for the following periods is:

	Nine Months Ended September 30, 2017	Twelve Months Ended December 31, 2016
	(in thousands)	
Balance as of beginning of period	\$ 112,932	\$ 123,912
Expense incurred	32,036	12,248
Deferred rent	6,991	4,930
Payments made	(28,011)	(32,988)
Interest accretion	3,160	4,830
Balance as of end of period	\$ 127,108	\$ 112,932

6. Net Income per Unit

Basic net income per unit is derived by reducing net income for the 1% general partnership interest and dividing the remaining 99% by the basic weighted average number of units outstanding for each period. Diluted net income per unit is derived by reducing net income for the 1% general partnership interest and dividing the remaining 99% by the total of the diluted weighted average number of units outstanding for each period.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(in thousands, except per unit amounts)			
Net income attributable to AB Unitholders	\$ 140,954	\$ 158,035	\$ 415,994	\$ 448,820
Weighted average units outstanding – basic	265,585	268,133	267,448	269,896
Dilutive effect of compensatory options to buy AB Holding Units	400	590	455	554
Weighted average units outstanding – diluted	265,985	268,723	267,903	270,450
Basic net income per AB Unit	\$ 0.53	\$ 0.58	\$ 1.54	\$ 1.65
Diluted net income per AB Unit	\$ 0.52	\$ 0.58	\$ 1.54	\$ 1.64

For the three and nine months ended September 30, 2017, we excluded 2,427,527 options from the diluted net income computation due to their anti-dilutive effect. For the three and nine months ended September 30, 2016, we excluded 2,873,106 options from the diluted net income computation due to their anti-dilutive effect.

7. Cash and Securities Segregated Under Federal Regulations and Other Requirements

As of September 30, 2017 and December 31, 2016, \$0.7 billion and \$0.9 billion, respectively, of U.S. Treasury Bills were segregated in a special reserve bank custody account for the exclusive benefit of our brokerage customers under Rule 15c3-3 of the Exchange Act.

One of our subsidiaries, which serves as the distributor of our U.S. mutual funds, maintains several special bank accounts for the exclusive benefit of customers. As of September 30, 2017 and December 31, 2016, \$61.5 million and \$52.9 million, respectively, of cash was segregated in these bank accounts.

8. Investments

Investments consist of:

	September 30, 2017	December 31, 2016
	(in thousands)	
Trading:		
U.S. Treasury Bills	\$ 52,605	\$ 28,937
Long-term incentive compensation-related	50,966	50,935
Seed capital	158,754	188,053
Equities	105,826	6,602
Exchange-traded options	9,368	3,106
Investments in limited partnership hedge funds:		
Long-term incentive compensation-related	13,750	16,826
Seed capital	25,740	23,704
Private equity (seed capital)	38,553	45,278
Time deposits	52,090	70,097
Other	12,101	7,567
Total investments	\$ 519,753	\$ 441,105

Total investments related to long-term incentive compensation obligations of \$64.7 million and \$67.8 million as of September 30, 2017 and December 31, 2016, respectively, consist of company-sponsored mutual funds and hedge funds. For long-term incentive compensation awards granted before 2009, we typically made investments in company-sponsored mutual funds and hedge funds that were notionally elected by plan participants and maintained them (and continue to maintain them) in a consolidated rabbi trust or separate custodial account. The rabbi trust and custodial account enable us to hold such investments separate from our other assets for the purpose of settling our obligations to participants. The investments held in the rabbi trust and custodial account remain available to the general creditors of AB.

The underlying investments of the hedge funds in which we invest include long and short positions in equity securities, fixed income securities (including various agency and non-agency asset-based securities), currencies, commodities and derivatives (including various swaps and forward contracts). These investments are valued at quoted market prices or, where quoted market prices are not available, are fair valued based on the pricing policies and procedures of the underlying funds.

U.S. Treasury Bills, the majority of which are pledged as collateral with clearing organizations, are held in our investment account. These clearing organizations have the ability by contract or custom to sell or re-pledge this collateral.

We allocate seed capital to our investment teams to help develop new products and services for our clients. The seed capital trading investments are equity and fixed income products, primarily in the form of separately-managed account portfolios, U.S. mutual funds, Luxembourg funds, Japanese investment trust management funds or Delaware business trusts. We also may allocate seed capital to investments in private equity funds, such as a third-party venture capital fund that invests in communications, consumer, digital media, healthcare and information technology markets. In regard to our seed capital investments, the amounts above reflect those funds in which we are not the primary beneficiary of a VIE or hold a controlling

financial interest in a VOE. See Note 13, *Consolidated Company-Sponsored Investment Funds*, for the seed capital investments that are consolidated entities. As of September 30, 2017 and December 31, 2016, our total seed capital investments were \$462.9 million and \$500.0 million, respectively. Seed capital investments in unconsolidated company-sponsored investment funds are valued using published net asset values or non-published net asset values if they are not listed on an active exchange but have net asset values that are comparable to funds with published net asset values and have no redemption restrictions.

Trading securities also include long positions in corporate equities and long exchange-traded options traded through our options desk.

The portion of trading gains (losses) for the three and nine months ended September 30, 2017 and 2016 related to trading securities held as of September 30, 2017 and 2016 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(in thousands)			
Net (losses) gains recognized during the period	\$ (1,829)	\$ 9,052	\$ 14,436	\$ 17,678
Less: net gains (losses) recognized during the period on trading securities sold during the period	311	1,411	12,850	(11,285)
Unrealized (losses) gains recognized during the period on trading securities held	\$ (2,140)	\$ 7,641	\$ 1,586	\$ 28,963

9. Derivative Instruments

See Note 13, *Consolidated Company-Sponsored Investment Funds*, for disclosure of derivative instruments held by our consolidated company-sponsored investment funds.

We enter into various futures, forwards, options and swaps to economically hedge certain seed capital investments. Also, we have currency forwards that economically hedge certain balance sheet exposures. In addition, our options desk trades long and short exchange-traded equity options. We do not hold any derivatives designated in a formal hedge relationship under Accounting Standards Codification ("ASC") 815-10, *Derivatives and Hedging*.

The notional value and fair value as of September 30, 2017 and December 31, 2016 for derivative instruments (excluding derivative instruments relating to our options desk trading activities *discussed below*) not designated as hedging instruments were as follows:

Notional Value	Fair Value	
	Asset Derivatives	Liability Derivatives
(in thousands)		
\$ 88,695	\$ 1,111	\$ 962
139,983	3,077	3,119
32,526	951	877
38,609	600	1,380
63,657	107	262
\$ 363,470	\$ 5,846	\$ 6,600

December 31, 2016:			
Exchange-traded futures	\$ 103,108	\$ 1,224	\$ 1,092
Currency forwards	180,820	4,541	4,711
Interest rate swaps	40,664	940	897
Credit default swaps	45,108	1,205	905
Total return swaps	90,043	503	1,044
Total derivatives	\$ 459,743	\$ 8,413	\$ 8,649

As of September 30, 2017 and December 31, 2016, the derivative assets and liabilities are included in both receivables and payables to brokers and dealers on our condensed consolidated statements of financial condition.

The gains and losses for derivative instruments (excluding our options desk trading activities) for the three and nine months ended September 30, 2017 and 2016 recognized in investment gains (losses) in the condensed consolidated statements of income were as follows:

Three Months Ended September 30,		Nine Months Ended September 30,	
2017	2016	2017	2016
(in thousands)			

Exchange-traded futures	\$ (3,290)	\$ (4,975)	\$ (12,123)	\$ (2,542)
Currency forwards	(62)	(641)	(992)	(2,461)
Interest rate swaps	151	(251)	(97)	(2,182)
Credit default swaps	(273)	(352)	(1,182)	(958)
Options swaps	—	(157)	—	(70)
Total return swaps	(1,417)	(1,666)	(5,376)	(8,438)
Net (losses) on derivative instruments	\$ (4,891)	\$ (8,042)	\$ (19,770)	\$ (16,651)

We may be exposed to credit-related losses in the event of nonperformance by counterparties to derivative financial instruments. We minimize our counterparty exposure through a credit review and approval process. In addition, we have executed various collateral arrangements with counterparties to the over-the-counter derivative transactions that require both pledging and accepting collateral in the form of cash. As of September 30, 2017, we had no cash collateral payable to trade counterparties. As of December 31, 2016, we held \$0.8 million of cash collateral payable to trade counterparties. This obligation to return cash is reported in payables to brokers and dealers in our condensed consolidated statements of financial condition.

Although notional amount is the most commonly used measure of volume in the derivative market, it is not used as a measure of credit risk. Generally, the current credit exposure of our derivative contracts is limited to the net positive estimated fair value of derivative contracts at the reporting date after taking into consideration the existence of netting agreements and any collateral received. A derivative with positive value (a derivative asset) indicates existence of credit risk because the counterparty would owe us if the contract were closed. Alternatively, a derivative contract with negative value (a derivative liability) indicates we would owe money to the counterparty if the contract were closed. Generally, if there is more than one

derivative transaction with a single counterparty, a master netting arrangement exists with respect to derivative transactions with that counterparty to provide for aggregate net settlement.

Certain of our standardized contracts for over-the-counter derivative transactions (“ISDA Master Agreements”) contain credit risk related contingent provisions pertaining to each counterparty’s credit rating. In some ISDA Master Agreements, if the counterparty’s credit rating, or in some agreements, our assets under management (“AUM”), falls below a specified threshold, either a default or a termination event permitting the counterparty to terminate the ISDA Master Agreement would be triggered. In all agreements that provide for collateralization, various levels of collateralization of net liability positions are applicable, depending on the credit rating of the counterparty. As of September 30, 2017 and December 31, 2016, we delivered \$6.4 million and \$6.2 million, respectively, of cash collateral into brokerage accounts. We report this cash collateral in cash and cash equivalents in our condensed consolidated statements of financial condition.

As of September 30, 2017 and December 31, 2016, we held \$9.4 million and \$3.1 million, respectively, of long exchange-traded equity options, which are classified as trading investments and included in other investments on our condensed consolidated statements of financial condition. In addition, as of September 30, 2017 and December 31, 2016, we held \$13.3 million and \$0.7 million, respectively, of short exchange-traded equity options, which are included in securities sold not yet purchased on our condensed consolidated statements of financial condition. Our options desk provides our clients with equity derivative strategies and execution for exchange-traded options on single stocks, exchange-traded funds and indices. While predominately agency-based, the options desk may commit capital to facilitate a client’s transaction. Our options desk hedges the risks associated with this activity by taking offsetting positions in equities. For the three and nine months ended September 30, 2017, we recognized \$12.7 million and \$21.8 million, respectively, of losses on equity options activity. For the three and nine months ended September 30, 2016, we recognized \$10.9 million and \$27.6 million, respectively, of losses on equity options activity. These losses are recognized in investment gains (losses) in the condensed consolidated statements of income.

10. Offsetting Assets and Liabilities

See Note 13, *Consolidated Company-Sponsored Investment Funds*, for disclosure of offsetting assets and liabilities of our consolidated company-sponsored investment funds.

Offsetting of assets as of September 30, 2017 and December 31, 2016 was as follows:

	Gross Amounts of Recognized Assets		Gross Amounts Offset in the Statement of Financial Condition		Net Amounts of Assets Presented in the Statement of Financial Condition		Financial Instruments	Cash Collateral Received	Net Amount			
	(in thousands)											
<u>September 30, 2017:</u>												
Securities borrowed	\$	75,609	\$	—	\$	75,609	\$	(73,600)	\$	2,009		
Derivatives	\$	5,846	\$	—	\$	5,846	\$	—	\$	5,846		
Long exchange-traded options	\$	9,368	\$	—	\$	9,368	\$	—	\$	9,368		
<u>December 31, 2016:</u>												
Securities borrowed	\$	82,814	\$	—	\$	82,814	\$	(80,277)	\$	2,537		
Derivatives	\$	8,413	\$	—	\$	8,413	\$	—	\$	(810)	\$	7,603
Long exchange-traded options	\$	3,106	\$	—	\$	3,106	\$	—	\$	—	\$	3,106

Offsetting of liabilities as of September 30, 2017 and December 31, 2016 was as follows:

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Condition	Net Amounts of Liabilities Presented in the Statement of Financial Condition	Financial Instruments	Cash Collateral Pledged	Net Amount
(in thousands)						
September 30, 2017:						
Securities loaned	\$ 61,719	\$ —	\$ 61,719	\$ (61,719)	\$ —	\$ —
Derivatives	\$ 6,600	\$ —	\$ 6,600	\$ —	\$ (6,367)	\$ 233
Short exchange-traded options	\$ 13,272	\$ —	\$ 13,272	\$ —	\$ —	\$ 13,272
December 31, 2016:						
Securities loaned	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Derivatives	\$ 8,649	\$ —	\$ 8,649	\$ —	\$ (6,239)	\$ 2,410
Short exchange-traded options	\$ 692	\$ —	\$ 692	\$ —	\$ —	\$ 692

Cash collateral, whether pledged or received on derivative instruments, is not considered material and, accordingly, is not disclosed by counterparty.

11. Fair Value

See Note 13, *Consolidated Company-Sponsored Investment Funds*, for disclosure of fair value of our consolidated company-sponsored investment funds.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the “exit price”) in an orderly transaction between market participants at the measurement date. The three broad levels of fair value hierarchy are as follows:

- Level 1 – Quoted prices in active markets are available for identical assets or liabilities as of the reported date.
- Level 2 – Quoted prices in markets that are not active or other pricing inputs that are either directly or indirectly observable as of the reported date.
- Level 3 – Prices or valuation techniques that are both significant to the fair value measurement and unobservable as of the reported date. These financial instruments do not have two-way markets and are measured using management’s best estimate of fair value, where the inputs into the determination of fair value require significant management judgment or estimation.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Valuation of our financial instruments by pricing observability levels as of September 30, 2017 and December 31, 2016 was as follows (in thousands):

	Level 1	Level 2	Level 3	NAV Expedient ⁽¹⁾	Other	Total
September 30, 2017:						
Money markets	\$ 152,893	\$ —	\$ —	\$ —	\$ —	\$ 152,893
Securities segregated (U.S. Treasury Bills)	—	723,029	—	—	—	723,029
Derivatives	1,111	4,735	—	—	—	5,846
Investments						
Trading						
U.S. Treasury Bills	—	52,605	—	—	—	52,605
Equity securities	231,897	4,108	116	98	—	236,219
Fixed income securities	68,328	10,986	—	13	—	79,327
Long exchange-traded options	9,368	—	—	—	—	9,368
Limited partnership hedge funds ⁽²⁾	—	—	—	—	39,490	39,490
Private equity	—	—	954	37,599	—	38,553
Time deposits ⁽³⁾	—	—	—	—	52,090	52,090
Other						
Available-for-sale	98	—	—	—	—	98
Other investments ⁽²⁾⁽⁴⁾	—	—	—	—	12,003	12,003
Total investments	309,691	67,699	1,070	37,710	103,583	519,753
Total assets measured at fair value	\$ 463,695	\$ 795,463	\$ 1,070	\$ 37,710	\$ 103,583	\$ 1,401,521
Securities sold not yet purchased						
Short equities – corporate	\$ 20,539	\$ —	\$ —	\$ —	\$ —	\$ 20,539
Short exchange-traded options	13,272	—	—	—	—	13,272
Derivatives	962	5,638	—	—	—	6,600
Contingent payment arrangements	—	—	12,103	—	—	12,103
Total liabilities measured at fair value	\$ 34,773	\$ 5,638	\$ 12,103	\$ —	\$ —	\$ 52,514
December 31, 2016:						
Money markets	\$ 107,250	\$ —	\$ —	\$ —	\$ —	\$ 107,250
Securities segregated (U.S. Treasury Bills)	—	893,189	—	—	—	893,189
Derivatives	1,224	7,189	—	—	—	8,413
Investments						
Trading						
U.S. Treasury Bills	—	28,937	—	—	—	28,937
Equity securities	148,128	5,724	110	36	—	153,998
Fixed income securities	80,473	11,107	—	12	—	91,592
Long exchange-traded options	3,106	—	—	—	—	3,106
Limited partnership hedge funds ⁽²⁾	—	—	—	—	40,530	40,530
Private equity	—	—	4,913	40,365	—	45,278
Time deposits ⁽³⁾	—	—	—	—	70,097	70,097

Other						
Available-for-sale	45	—	—	—	—	45
Other investments ⁽²⁾⁽⁴⁾	—	—	—	—	7,522	7,522
Total investments	231,752	45,768	5,023	40,413	118,149	441,105
Total assets measured at fair value	\$ 340,226	\$ 946,146	\$ 5,023	\$ 40,413	\$ 118,149	\$ 1,449,957
Securities sold not yet purchased						
Short equities – corporate	\$ 40,252	\$ —	\$ —	\$ —	\$ —	\$ 40,252
Short exchange-traded options	692	—	—	—	—	692
Derivatives	1,092	7,557	—	—	—	8,649
Contingent payment arrangements	—	—	17,589	—	—	17,589
Total liabilities measured at fair value	\$ 42,036	\$ 7,557	\$ 17,589	\$ —	\$ —	\$ 67,182

⁽¹⁾ Investments measured at fair value using NAV (or its equivalent) as a practical expedient.

⁽²⁾ Investments in equity method investees that are not measured at fair value in accordance with GAAP.

⁽³⁾ Investments carried at amortized cost that are not measured at fair value in accordance with GAAP.

⁽⁴⁾ Investments carried at cost that are not measured at fair value in accordance with GAAP.

One of our private equity investments (measured at fair value using NAV as a practical expedient) is a venture capital fund with a fair value of \$37.6 million and an unfunded commitment of \$0.8 million as of September 30, 2017. This partnership invests in communications, consumer, digital media, healthcare and information technology markets. The fair value of this investment has been estimated using the capital account balances provided by the partnership. The interest in this partnership cannot be redeemed.

We provide below a description of the fair value methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy:

- **Money markets:** We invest excess cash in various money market funds that are valued based on quoted prices in active markets; these are included in Level 1 of the valuation hierarchy.
- **Treasury Bills:** We hold U.S. Treasury Bills, which are primarily segregated in a special reserve bank custody account as required by Rule 15c3-3 of the Exchange Act. These securities are valued based on quoted yields in secondary markets and are included in Level 2 of the valuation hierarchy.
- **Equity and fixed income securities:** Our equity and fixed income securities consist principally of company-sponsored mutual funds with NAVs and various separately-managed portfolios consisting primarily of equity and fixed income securities with quoted prices in active markets, which are included in Level 1 of the valuation hierarchy. In addition, some securities are valued based on observable inputs from recognized pricing vendors, which are included in Level 2 of the valuation hierarchy.
- **Derivatives:** We hold exchange-traded futures with counterparties that are included in Level 1 of the valuation hierarchy. In addition, we also hold currency forward contracts, interest rate swaps, credit default swaps, option swaps and total return swaps with counterparties that are valued based on observable inputs from recognized pricing vendors, which are included in Level 2 of the valuation hierarchy.
- **Options:** We hold long exchange-traded options that are included in Level 1 of the valuation hierarchy.
- **Private equity:** Generally, the valuation of private equity investments requires significant management judgment due to the absence of quoted market prices, inherent lack of liquidity and the long-term nature of such investments. Private equity investments are valued initially at cost. The carrying values of private equity investments are adjusted either up or down from cost to reflect expected exit values as evidenced by financing and sale transactions with third parties, or when determination of a valuation adjustment is confirmed through ongoing review in accordance with our valuation policies and procedures. A variety of factors are reviewed and monitored to assess positive and negative changes in valuation, including current operating performance and future expectations of investee companies, industry valuations of comparable public companies, changes in market outlooks, and the third party financing environment over time. In

determining valuation adjustments resulting from the investment review process, particular emphasis is placed on current company performance and market conditions. For these reasons, which make the fair value of private equity investments unobservable, equity investments are included in Level 3 of the valuation hierarchy. If private equity investments become publicly traded, they are included in Level 1 of the valuation hierarchy; provided, however, if they contain trading restrictions, publicly-traded equity investments are included in Level 2 of the valuation hierarchy until the trading restrictions expire.

- **Securities sold not yet purchased:** Securities sold not yet purchased, primarily reflecting short positions in equities and exchange-traded options, are included in Level 1 of the valuation hierarchy.
- **Contingent payment arrangements:** Contingent payment arrangements relate to contingent payment liabilities associated with various acquisitions. At each reporting date, we estimate the fair values of the contingent consideration expected to be paid based upon probability-weighted AUM and revenue projections, using unobservable market data inputs, which are included in Level 3 of the valuation hierarchy.

During the nine months ended September 30, 2017, there were no transfers between Level 1 and Level 2 securities.

The change in carrying value associated with Level 3 financial instruments carried at fair value, classified as private equity and trading equity securities, is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(in thousands)			
Balance as of beginning of period	\$ 5,028	\$ 4,938	\$ 5,023	\$ 16,148
Reclassification (see below)	—	—	—	(9,532)
Purchases	—	—	—	—
Sales	—	—	—	—
Realized gains (losses), net	—	—	—	—
Unrealized gains (losses), net	(3,958)	2	(3,953)	(1,676)
Balance as of end of period	\$ 1,070	\$ 4,940	\$ 1,070	\$ 4,940

Transfers into and out of all levels of the fair value hierarchy are reflected at end-of-period fair values. We reclassified the investments of our consolidated private equity fund from investments to investments of consolidated company-sponsored investment funds on our condensed consolidated statement of financial condition (see Note 13, *Consolidated Company-Sponsored Investment Funds*). Realized and unrealized gains and losses on Level 3 financial instruments are recorded in investment gains and losses in the condensed consolidated statements of income.

As of September 30, 2017 and December 31, 2016, we have an investment in a private equity fund focused exclusively on the energy sector (fair value of \$1.0 million and \$4.9 million, respectively) that is classified as Level 3. This investment's valuation is based on a market approach, considering recent transactions in the fund and the industry.

We acquired Ramius Alternative Solutions LLC in 2016, CPH Capital Fondsmæglersekskab A/S in 2014 and SunAmerica's alternative investment group in 2010, all of which included contingent consideration arrangements as part of the purchase price. The change in carrying value associated with Level 3 financial instruments carried at fair value, classified as contingent payment arrangements, is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
(in thousands)				
Balance as of beginning of period	\$ 16,777	\$ 30,861	\$ 17,589	\$ 31,399
Additions	—	11,893	—	11,893
Accretion	53	354	408	1,060
Changes in estimates	(193)	(21,483)	(193)	(21,483)
Payments	(4,534)	(3,608)	(5,701)	(4,852)
Balance as of end of period	\$ 12,103	\$ 18,017	\$ 12,103	\$ 18,017

During the third quarter of 2017, we made the final contingent consideration payment relating to our 2014 acquisition and recorded a change in estimate and wrote off the remaining contingent consideration payable relating to our 2010 acquisition. As of September 30, 2017, one acquisition-related contingent consideration liability of \$12.1 million remains relating to our 2016 acquisition, which was valued using a revenue growth rate of 31% and a discount rate ranging from 1.4% to 2.3%.

As of December 31, 2016, the three acquisition-related contingent consideration liabilities recorded have a combined fair value of \$17.6 million and are valued using a projected AUM weighted average growth rate of 18% for one acquisition, and revenue growth rates and discount rates ranging from 4% to 31% and 1.4% to 6.4%, respectively, for the three acquisitions.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

We did not have any material assets or liabilities that were measured at fair value for impairment on a nonrecurring basis during the nine months ended September 30, 2017 or during the year ended December 31, 2016.

12. Commitments and Contingencies

Legal Proceedings

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. Such is also the case when the litigation is in its early stages or when the litigation is highly complex or broad in scope. In these cases, we disclose that we are unable to predict the outcome or estimate a possible loss or range of loss.

AB may be involved in various matters, including regulatory inquiries, administrative proceedings and litigation, some of which may allege significant damages. It is reasonably possible that we could incur losses pertaining to these matters, but currently we cannot estimate any such losses.

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

13. Consolidated Company-Sponsored Investment Funds

We regularly provide seed capital to new company-sponsored investment funds. As such, we may consolidate or de-consolidate a variety of company-sponsored investment funds each quarter. Due to the similarity of risks related to our involvement with each company-sponsored investment fund, disclosures required under the VIE model are aggregated, such as disclosures regarding the carrying amount and classification of assets.

We are not required to provide financial support to company-sponsored investment funds and only the assets of such funds are available to settle each fund's own liabilities. Our exposure to loss in regard to consolidated company-sponsored investment funds is limited to our investment in, and our management fee earned from, such funds. Equity and debt holders of such funds have no recourse to AB's assets or to the general credit of AB.

The balances of consolidated VIEs and VOEs included in our condensed consolidated statements of financial condition were as follows:

	September 30, 2017			December 31, 2016		
	(in thousands)					
	VIEs	VOEs	Total	VIEs	VOEs	Total
Cash and cash equivalents	\$ 445,176	\$ 74	\$ 445,250	\$ 337,525	\$ —	\$ 337,525
Investments	770,953	28,982	799,935	550,850	23,226	574,076
Other assets	5,850	605	6,455	44,570	—	44,570
Total assets	\$ 1,221,979	\$ 29,661	\$ 1,251,640	\$ 932,945	\$ 23,226	\$ 956,171
Liabilities	\$ 591,231	\$ 2,569	\$ 593,800	\$ 292,800	\$ —	\$ 292,800
Redeemable non-controlling interest	415,761	493	416,254	384,294	—	384,294
Partners' capital attributable to AB Unitholders	214,146	26,599	240,745	221,229	23,226	244,455
Non-redeemable non-controlling interests in consolidated entities	841	—	841	34,622	—	34,622
Total liabilities, redeemable non-controlling interest and partners' capital	\$ 1,221,979	\$ 29,661	\$ 1,251,640	\$ 932,945	\$ 23,226	\$ 956,171

Fair Value

Cash and cash equivalents include cash on hand, demand deposits, overnight commercial paper and highly liquid investments with original maturities of three months or less. Due to the short-term nature of these instruments, the recorded value has been determined to approximate fair value.

Valuation of consolidated company-sponsored investment funds' financial instruments by pricing observability levels as of September 30, 2017 and December 31, 2016 was as follows (in thousands):

	Level 1	Level 2	Level 3	NAV Expedient	Total
September 30, 2017:					
Investments - VIEs	\$ 663,348	\$ 105,627	\$ 1,897	\$ 81	\$ 770,953
Investments - VOEs	6,830	22,031	121	—	28,982
Derivatives - VIEs	68	1,668	—	—	1,736
Derivatives - VOEs	17	63	—	—	80
Total assets measured at fair value	\$ 670,263	\$ 129,389	\$ 2,018	\$ 81	\$ 801,751
Short equities - VIEs	\$ 583,491	\$ —	\$ —	\$ —	\$ 583,491
Derivatives - VIEs	104	2,564	—	—	2,668
Derivatives - VOEs	7	128	—	—	135
Total liabilities measured at fair value	\$ 583,602	\$ 2,692	\$ —	\$ —	\$ 586,294
December 31, 2016:					
Investments - VIEs	\$ 341,830	\$ 203,197	\$ 5,741	\$ 82	\$ 550,850
Investments - VOEs	10,188	12,061	—	977	23,226
Derivatives - VIEs	58	1,739	—	—	1,797
Total assets measured at fair value	\$ 352,076	\$ 216,997	\$ 5,741	\$ 1,059	\$ 575,873
Short equities - VIEs	\$ 248,419	\$ —	\$ —	\$ —	\$ 248,419
Derivatives - VIEs	48	2,033	—	—	2,081
Total liabilities measured at fair value	\$ 248,467	\$ 2,033	\$ —	\$ —	\$ 250,500

See Note 11 for a description of the fair value methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy.

The change in carrying value associated with Level 3 financial instruments carried at fair value within consolidated company-sponsored investment funds was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(in thousands)			
Balance as of beginning of period	\$ 2,797	\$ 13,108	\$ 5,741	\$ —
Impact of adoption of ASU 2015-02	—	—	—	14,740
Deconsolidated funds	—	(1,403)	(6,697)	(1,403)
Transfers (out) in	(35)	(23,566)	378	(24,881)
Purchases	346	640	5,358	996
Sales	(1,148)	(278)	(3,045)	(786)
Realized gains (losses), net	5	15	1	(24)
Unrealized gains (losses), net	52	14,243	269	14,120
Accrued discounts	1	—	13	(3)
Balance as of end of period	\$ 2,018	\$ 2,759	\$ 2,018	\$ 2,759

The Level 3 securities primarily consist of corporate bonds that are vendor priced with no ratings available, bank loans, non-agency collateralized mortgage obligations and asset-backed securities.

Transfers into and out of all levels of the fair value hierarchy are reflected at end-of-period fair values. Realized and unrealized gains and losses on Level 3 financial instruments are recorded in investment gains and losses in the condensed consolidated statements of income.

Derivative Instruments

As of September 30, 2017 and December 31, 2016, the VIEs held \$14.1 million and \$2.9 million (net), respectively, of futures, forwards and swaps within their portfolios (including \$15.0 million and \$3.2 million, respectively, of derivatives included in their investments balance on the condensed consolidated statements of financial condition). For the three and nine months ended September 30, 2017, we recognized \$3.8 million and \$18.8 million, respectively, of gains on these derivative positions. For the three and nine months ended September 30, 2016, we recognized \$2.0 million of losses and \$0.7 million of gains, respectively, on these derivative positions. These gains and losses are recognized in investment gains (losses) in the condensed consolidated statements of income. As of September 30, 2017 and December 31, 2016, the VIEs held \$0.2 million and \$0.5 million, respectively, of cash collateral payable to trade counterparties. This obligation to return cash is reported in the liabilities of consolidated company-sponsored investment funds in our condensed consolidated statements of financial condition. As of September 30, 2017 and December 31, 2016, the VIEs delivered \$4.6 million and \$3.3 million, respectively, of cash collateral into brokerage accounts. The VIEs report this cash collateral in the consolidated company-sponsored investment funds cash and cash equivalents in our condensed consolidated statements of financial condition.

As of September 30, 2017, the VIEs collateral and investment gains (losses) are not considered material and, accordingly, no further disclosures are necessary.

Offsetting Assets and Liabilities

Offsetting of derivative assets of consolidated company-sponsored investment funds as of September 30, 2017 and December 31, 2016 was as follows:

	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Financial Condition	Net Amounts of Assets Presented in the Statement of Financial Condition	Financial Instruments	Cash Collateral Received	Net Amount
(in thousands)						
September 30, 2017:						
Derivatives - VIEs	\$ 16,767	\$ —	\$ 16,767	\$ —	\$ (186)	\$ 16,581
Derivatives - VOEs	\$ 80	\$ —	\$ 80	\$ —	\$ (12)	\$ 68
December 31, 2016:						
Derivatives - VIEs	\$ 4,997	\$ —	\$ 4,997	\$ —	\$ (461)	\$ 4,536

Offsetting of derivative liabilities of consolidated company-sponsored investment funds as of September 30, 2017 and December 31, 2016 was as follows:

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Condition	Net Amounts of Liabilities Presented in the Statement of Financial Condition	Financial Instruments	Cash Collateral Pledged	Net Amount
(in thousands)						
September 30, 2017:						
Derivatives - VIEs	\$ 2,668	\$ —	\$ 2,668	\$ —	\$ (2,668)	\$ —
Derivatives - VOEs	\$ 135	\$ —	\$ 135	\$ —	\$ (34)	\$ 101
December 31, 2016:						
Derivatives - VIEs	\$ 2,081	\$ —	\$ 2,081	\$ —	\$ (2,081)	\$ —

Cash collateral, whether pledged or received on derivative instruments, is not considered material and, accordingly, is not disclosed by counterparty.

Non-Consolidated VIEs

As of September 30, 2017, the net assets of company-sponsored investment products that are non-consolidated VIEs are approximately \$52.1 billion, and our maximum risk of loss is our investment of \$7.4 million in these VIEs and advisory fee receivables from these VIEs, which are not material.

14. Units Outstanding

Changes in AB Units outstanding during the nine-month period ended September 30, 2017 were as follows:

Outstanding as of December 31, 2016	268,893,534
Options exercised	1,039,632
Units issued	1,944,310
Units retired ⁽¹⁾	(6,053,419)
Balance as of September 30, 2017	265,824,057

⁽¹⁾ Includes 43,600 AB Units purchased in private transactions and retired during the first nine months of 2017.

15. Debt

As of September 30, 2017 and December 31, 2016, AB had \$297.4 million and \$513.0 million, respectively, in commercial paper outstanding with weighted average interest rates of approximately 1.4% and 0.9%, respectively. The commercial paper is short term in nature, and as such, recorded value is estimated to approximate fair value (and considered a Level 2 security in the fair value hierarchy). Average daily borrowings of commercial paper during the first nine months of 2017 and the full year 2016 were \$449.6 million and \$422.9 million, respectively, with weighted average interest rates of approximately 1.3% and 0.6%, respectively.

16. Changes in Capital

Changes in capital during the nine-month period ended September 30, 2017 were as follows:

	Partners' Capital Attributable to AB Unitholders	Non-Controlling Interests In Consolidated Entities	Total Capital
	(in thousands)		
Balance as of December 31, 2016	\$ 4,032,017	\$ 36,172	\$ 4,068,189
Comprehensive income:			
Net income	415,994	9,680	425,674
Other comprehensive income, net of tax:			
Unrealized gains on investments	9	—	9
Foreign currency translation adjustments	23,114	977	24,091
Changes in employee benefit related items	755	—	755
Comprehensive income	439,872	10,657	450,529
Distributions to General Partner and unitholders	(489,049)	—	(489,049)
Compensation-related transactions	(89,567)	—	(89,567)
Capital contributions from affiliates	79	—	79
Purchase of non-controlling interest	172	(2,005)	(1,833)
Distributions to non-controlling interests of our consolidated venture capital fund	—	(43,217)	(43,217)
Other	1,257	—	1,257
Balance as of September 30, 2017	\$ 3,894,781	\$ 1,607	\$ 3,896,388

Changes in capital during the nine-month period ended September 30, 2016 were as follows:

	Partners' Capital Attributable to AB Unitholders	Non-Controlling Interests In Consolidated Entities	Total Capital
	(in thousands)		
Balance as of December 31, 2015	\$ 3,992,748	\$ 24,473	\$ 4,017,221
Comprehensive income:			
Net income (loss)	448,820	5,689	454,509
Other comprehensive income, net of tax:			
Unrealized (losses) on investments	(2)	—	(2)
Foreign currency translation adjustments	521	24	545
Changes in employee benefit related items	238	—	238
Comprehensive income	449,577	5,713	455,290
Distributions to General Partner and unitholders	(400,441)	—	(400,441)
Compensation-related transactions	(119,877)	—	(119,877)
Capital contributions from affiliates	439	—	439
Other	1,742	363	2,105
Balance as of September 30, 2016	\$ 3,924,188	\$ 30,549	\$ 3,954,737

During 2016, deferred taxes were not recognized on foreign currency translation adjustments for foreign subsidiaries which had earnings that were considered permanently invested outside of the United States.

17. Non-controlling Interests

Non-controlling interest in net income for the three and nine months ended September 30, 2017 and 2016 consisted of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(in thousands)			
Non-redeemable non-controlling interests:				
Consolidated company-sponsored investment funds	\$ 21	\$ 12,499	\$ 9,436	\$ 5,346
Other	50	143	245	343
Total non-redeemable non-controlling interests	71	12,642	9,681	5,689
Redeemable non-controlling interests:				
Consolidated company-sponsored investment funds	16,455	3,054	40,332	9,102
Total non-controlling interest in net income (loss)	\$ 16,526	\$ 15,696	\$ 50,013	\$ 14,791

Non-redeemable non-controlling interest as of September 30, 2017 and December 31, 2016 consisted of the following:

	September 30, 2017	December 31, 2016
	(in thousands)	
Consolidated company-sponsored investment funds	\$ 841	\$ 34,622
Other	766	1,550
Total non-redeemable non-controlling interest	\$ 1,607	\$ 36,172

Redeemable non-controlling interest as of September 30, 2017 and December 31, 2016 consisted of the following:

	September 30, 2017	December 31, 2016
	(in thousands)	
Consolidated company-sponsored investment funds	\$ 416,254	\$ 384,294
CPH Capital Fondsmaeglerselskab A/S acquisition	5,364	8,665
Total redeemable non-controlling interest	\$ 421,618	\$ 392,959

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

Executive Overview

Our total assets under management ("AUM") as of September 30, 2017 were \$534.9 billion, up \$18.3 billion, or 3.6%, compared to June 30, 2017, and up \$44.7 billion, or 9.1%, compared to September 30, 2016. During the third quarter of 2017, AUM increased as a result of market appreciation of \$13.8 billion and net inflows of \$4.5 billion (primarily due to Retail and Institutional net inflows of \$3.0 billion and \$1.4 billion, respectively). During the twelve months ended September 30, 2017, AUM increased as a result of market appreciation of \$35.9 billion and net inflows of \$8.8 billion (primarily due to Retail and Institutional net inflows of \$6.3 billion and \$2.4 billion, respectively).

During the third quarter of 2017, we had net inflows of \$4.9 billion in our actively managed investment services and net outflows of \$0.4 billion in our passively managed investment services. During the twelve months ended September 30, 2017, we had net inflows of \$15.1 billion in our actively managed investment services and net outflows of \$6.3 billion in our passively managed investment services.

Institutional AUM increased \$7.1 billion, or 2.8%, to \$260.0 billion during the third quarter of 2017, due to market appreciation of \$5.7 billion and net inflows of \$1.4 billion. Gross sales decreased 18.5% sequentially from \$4.0 billion during the second quarter of 2017 to \$3.3 billion during the third quarter of 2017. Redemptions and terminations decreased 33.0% sequentially from \$2.9 billion to \$2.0 billion.

Retail AUM increased \$8.4 billion, or 4.8%, to \$185.7 billion during the third quarter of 2017, due to market appreciation of \$5.4 billion and net inflows of \$3.0 billion. Gross sales increased 3.0% sequentially from \$13.5 billion during the second quarter of 2017 to \$13.9 billion during the third quarter of 2017. Redemptions and terminations increased 5.3% sequentially from \$8.9 billion to \$9.4 billion.

Private Wealth Management AUM increased \$2.8 billion, or 3.2%, to \$89.2 billion during the third quarter of 2017, due to market appreciation of \$2.7 billion and net inflows of \$0.1 billion. Gross sales decreased 5.0% sequentially from \$2.9 billion during the second quarter of 2017 to \$2.8 billion during the third quarter of 2017. Redemptions and terminations were essentially flat sequentially.

Bernstein Research Services revenue for the third quarter of 2017 was \$108.4 million, down \$2.5 million, or 2.3%, compared to the third quarter of 2016, driven by lower client activity in the U.S., partially offset by an increase in client activity in both Europe and Asia and the impact of a weaker U.S. dollar.

Net revenues for the third quarter of 2017 increased \$64.6 million, or 8.6%, to \$812.2 million from \$747.6 million in the third quarter of 2016. The most significant contributors to the increase were higher base advisory fees of \$51.4 million, higher distribution revenues of \$8.4 million, higher net dividend and interest income of \$3.1 million, higher performance-based fees of \$2.3 million and higher investment gains of \$1.2 million. Operating expenses for the third quarter of 2017 increased \$87.9 million, or 15.6%, to \$650.2 million from \$562.3 million in the third quarter of 2016. The increase primarily was due to higher other general and administrative expenses of \$22.2 million (*see below*), lower adjustments to contingent payment arrangements of \$21.3 million, higher real estate charges of \$18.8 million, higher employee compensation and benefits of \$13.0 million and higher promotion and servicing expenses of \$11.2 million. Our operating income decreased \$23.3 million, or 12.6%, to \$162.0 million from \$185.3 million and our operating margin decreased to 17.9% in the third quarter of 2017 from 22.7% in the third quarter of 2016.

During the third quarter of 2017, we recorded a \$19.7 million reserve for a payment we expect to make to a third-party vendor as a result of the early termination of an outsourcing contract relating to our trade settlement and reconciliation processes. We intend to transition these processes back to AB from our vendor within the next two years. As a result of this transition, we expect to incur \$2 million in additional transitional costs in 2018 and realize ongoing annual savings of approximately \$11 million in general and administrative expenses beginning in 2019.

Market Environment

The third quarter of 2017 built upon the strength of the first half of the year - U.S. equity markets reached record highs, emerging markets continued to gain momentum and fixed income assets added to their already positive year-to-date returns. The volatility index spiked in August, as geopolitical tensions flared and natural disasters rattled markets, but settled down to muted levels by quarter-end. In the U.S., inflation remains low as unemployment improves, but wages have been slower to recover, leaving core CPI without a driver. The U.S. Federal Reserve kept rates steady, but indicated that it intended to begin shrinking its balance sheet

in October 2017 and maintained its forecast for a third rate increase during the fourth quarter of 2017. Globally, monetary policy between developed and emerging markets continues to diverge, with emerging market stocks trading at a substantial discount, and uncertainty persists over the potential for rising inflation in the U.S. and the ability of the Trump administration to pursue pro-growth policies, ongoing concerns about geopolitics, MiFID II implementation in Europe and the sustainability of emerging markets growth. Additionally, while the industry-wide shift from actively-managed investment services to passively-managed investment services has persisted in 2017, with \$509 billion in passive inflows year-to-date, total active flows are positive, at \$66 billion year-to-date, as fixed income strength has offset continued, though improving, equity outflows.

MiFID II

The second installment of the Markets in Financial Instruments Directive II (“MiFID II”), which is effective January 1, 2018, makes significant modifications to the manner in which European broker-dealers can be compensated for research. These modifications are recognized in the industry as having the potential to significantly decrease the overall research spend by European buy-side firms. Consequently, our U.K.-based broker-dealer is considering new charging mechanisms for its research in order to minimize this impact as part of its broader MiFID II implementation program. It is important to note, however, that our new charging techniques and other strategic decisions to address the new environment created by MiFID II may not be successful, which could result in a significant decline in our sell-side revenues.

Also, although MiFID II does permit buy-side firms to purchase research through the use of client-funded research payment accounts most buy-side firms that operate in the Eurozone, including our U.K. buy-side subsidiaries, have decided to use their own funds to pay for research in the Eurozone. This change in practice will increase our expenses in the Eurozone and, if this practice become more pervasive globally, may have a significant adverse effect on our net income in future periods.

The ultimate impact of MiFID II on payments for research currently is uncertain.

AXA America Holdings IPO

On May, 10, 2017, AXA S.A. (“AXA”) announced its intention to sell and list for trading a minority stake of its U.S. operations (expected to consist of AXA’s U.S. Life & Savings business and its interest in AB) during the first half of 2018, subject to market conditions and SEC review process. While we cannot at this time predict the eventual impact, if any, on AB of this proposed transaction, it could include a reduction in the support AXA has provided to AB in the past with respect to AB’s investment management business, resulting in a decrease to our revenues and ability to initiate new investment services. Also, AB relies on AXA for a number of significant services and benefits from its affiliation with AXA in certain common vendor relationships. These arrangements also may change with possible negative financial implications for AB.

Assets Under Management

Assets under management by distribution channel are as follows:

	As of September 30,		\$ Change	% Change
	2017	2016		
	(in billions)			
Institutions	\$ 260.0	\$ 247.0	\$ 13.0	5.3%
Retail	185.7	162.2	23.5	14.5
Private Wealth Management	89.2	81.0	8.2	10.1
Total	\$ 534.9	\$ 490.2	\$ 44.7	9.1

Assets under management by investment service are as follows:

	As of September 30,		\$ Change	% Change
	2017	2016		
	(in billions)			
Equity				
Actively Managed	\$ 131.7	\$ 111.1	\$ 20.6	18.5 %
Passively Managed ⁽¹⁾	52.3	48.5	3.8	7.9
Total Equity	184.0	159.6	24.4	15.3
Fixed Income				
Actively Managed				
Taxable	243.0	229.9	13.1	5.7
Tax-exempt	39.4	38.2	1.2	3.1
	282.4	268.1	14.3	5.3
Passively Managed ⁽¹⁾	9.9	11.6	(1.7)	(14.6)
Total Fixed Income	292.3	279.7	12.6	4.5
Other⁽²⁾				
Actively Managed	58.6	50.9	7.7	15.1
Passively Managed ⁽¹⁾	—	—	—	—
Total Other	58.6	50.9	7.7	15.1
Total	\$ 534.9	\$ 490.2	\$ 44.7	9.1

(1) Includes index and enhanced index services.

(2) Includes certain multi-asset solutions and services and certain alternative investments.

Changes in assets under management for the three-month, nine-month and twelve-month periods ended September 30, 2017 are as follows:

	Distribution Channel			
	Institutions	Retail	Private Wealth Management	Total
			(in billions)	
Balance as of June 30, 2017	\$ 252.9	\$ 177.3	\$ 86.4	\$ 516.6
Long-term flows:				
Sales/new accounts	3.3	13.9	2.8	20.0
Redemptions/terminations	(2.0)	(9.4)	(2.5)	(13.9)
Cash flow/unreinvested dividends	0.1	(1.5)	(0.2)	(1.6)
Net long-term inflows	1.4	3.0	0.1	4.5
Market appreciation	5.7	5.4	2.7	13.8
Net change	7.1	8.4	2.8	18.3
Balance as of September 30, 2017	\$ 260.0	\$ 185.7	\$ 89.2	\$ 534.9
Balance as of December 31, 2016	\$ 239.3	\$ 160.2	\$ 80.7	\$ 480.2
Long-term flows:				
Sales/new accounts	9.8	40.9	8.7	59.4
Redemptions/terminations	(10.4)	(28.4)	(7.9)	(46.7)
Cash flow/unreinvested dividends	1.2	(4.6)	(0.3)	(3.7)
Net long-term inflows	0.6	7.9	0.5	9.0
Market appreciation	20.1	17.6	8.0	45.7
Net change	20.7	25.5	8.5	54.7
Balance as of September 30, 2017	\$ 260.0	\$ 185.7	\$ 89.2	\$ 534.9
Balance as of September 30, 2016	\$ 247.0	\$ 162.2	\$ 81.0	\$ 490.2
Long-term flows:				
Sales/new accounts	16.5	51.2	11.0	78.7
Redemptions/terminations	(11.6)	(38.9)	(10.4)	(60.9)
Cash flow/unreinvested dividends	(2.5)	(6.0)	(0.5)	(9.0)
Net long-term inflows	2.4	6.3	0.1	8.8
Market appreciation	10.6	17.2	8.1	35.9
Net change	13.0	23.5	8.2	44.7
Balance as of September 30, 2017	\$ 260.0	\$ 185.7	\$ 89.2	\$ 534.9

	Investment Service							
	Equity Actively Managed	Equity Passively Managed ⁽¹⁾	Fixed Income Actively Managed - Taxable	Fixed Income Actively Managed - Tax- Exempt	Fixed Income Passively Managed ⁽¹⁾	Other ⁽²⁾	Total	
	(in billions)							
Balance as of June 30, 2017	\$ 124.5	\$ 50.1	\$ 236.6	\$ 39.2	\$ 9.9	\$ 56.3	\$ 516.6	
Long-term flows:								
Sales/new accounts	5.8	0.7	10.4	1.6	0.1	1.4	20.0	
Redemptions/terminations	(4.7)	(0.2)	(6.5)	(1.7)	(0.1)	(0.7)	(13.9)	
Cash flow/unreinvested dividends	(0.2)	(0.8)	(0.2)	—	(0.1)	(0.3)	(1.6)	
Net long-term inflows (outflows)	0.9	(0.3)	3.7	(0.1)	(0.1)	0.4	4.5	
Market appreciation	6.3	2.5	2.7	0.3	0.1	1.9	13.8	
Net change	7.2	2.2	6.4	0.2	—	2.3	18.3	
Balance as of September 30, 2017	\$ 131.7	\$ 52.3	\$ 243.0	\$ 39.4	\$ 9.9	\$ 58.6	\$ 534.9	

Balance as of December 31, 2016	\$ 111.9	\$ 48.1	\$ 220.9	\$ 36.9	\$ 11.1	\$ 51.3	\$	480.2
Long-term flows:								
Sales/new accounts	15.9	1.1	32.2	5.7	0.1	4.4		59.4
Redemptions/terminations	(13.8)	(1.3)	(22.8)	(4.7)	(1.7)	(2.4)		(46.7)
Cash flow/unreinvested dividends	(1.3)	(2.6)	0.5	—	(0.1)	(0.2)		(3.7)
Net long-term inflows (outflows)	0.8	(2.8)	9.9	1.0	(1.7)	1.8		9.0
Market appreciation	19.0	7.0	12.2	1.5	0.5	5.5		45.7
Net change	19.8	4.2	22.1	2.5	(1.2)	7.3		54.7
Balance as of September 30, 2017	\$ 131.7	\$ 52.3	\$ 243.0	\$ 39.4	\$ 9.9	\$ 58.6	\$	534.9

Balance as of September 30, 2016	\$	111.1	\$	48.5	\$	229.9	\$	38.2	\$	11.6	\$	50.9	\$	490.2
Long-term flows:														
Sales/new accounts		20.1		1.2		43.9		7.6		0.1		5.8		78.7
Redemptions/terminations		(18.2)		(1.8)		(29.5)		(6.6)		(1.8)		(3.0)		(60.9)
Cash flow/unreinvested dividends		(2.3)		(4.1)		(1.9)		(0.2)		0.1		(0.6)		(9.0)
Net long-term (outflows) inflows		(0.4)		(4.7)		12.5		0.8		(1.6)		2.2		8.8
Market appreciation		21.0		8.5		0.6		0.4		(0.1)		5.5		35.9
Net change		20.6		3.8		13.1		1.2		(1.7)		7.7		44.7
Balance as of September 30, 2017	\$	131.7	\$	52.3	\$	243.0	\$	39.4	\$	9.9	\$	58.6	\$	534.9

(1) Includes index and enhanced index services.

(2) Includes certain multi-asset solutions and services and certain alternative investments.

Net long-term inflows (outflows) for actively managed investment services as compared to passively managed investment services for the three-month, nine-month and twelve-month periods ended September 30, 2017 are as follows:

	Periods Ended September 30, 2017		
	Three-months	Nine-months	Twelve-months
	(in billions)		
Actively Managed			
Equity	\$ 0.9	\$ 0.8	\$ (0.4)
Fixed Income	3.6	10.9	13.3
Other	0.4	1.8	2.2
	4.9	13.5	15.1
Passively Managed			
Equity	(0.3)	(2.8)	(4.7)
Fixed Income	(0.1)	(1.7)	(1.6)
Other	—	—	—
	(0.4)	(4.5)	(6.3)
Total net long-term inflows	\$ 4.5	\$ 9.0	\$ 8.8

Average assets under management by distribution channel and investment service were as follows:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2017	2016	\$ Change	% Change	2017	2016	\$ Change	% Change
	(in billions)				(in billions)			
Distribution Channel:								
Institutions	\$ 257.1	\$ 250.0	\$ 7.1	2.8 %	\$ 250.1	\$ 244.3	\$ 5.8	2.4 %
Retail	181.7	161.5	20.2	12.5	173.4	157.1	16.3	10.4
Private Wealth Management	87.8	80.5	7.3	9.1	85.3	78.5	6.8	8.6
Total	\$ 526.6	\$ 492.0	\$ 34.6	7.0	\$ 508.8	\$ 479.9	\$ 28.9	6.0
Investment Service:								
Equity Actively Managed	\$ 128.0	\$ 110.8	\$ 17.2	15.6 %	\$ 121.9	\$ 109.1	\$ 12.8	11.7 %
Equity Passively Managed ⁽¹⁾	51.1	47.9	3.2	6.6	49.9	46.2	3.7	7.9
Fixed Income Actively Managed – Taxable	240.7	230.1	10.6	4.6	233.4	221.0	12.4	5.6
Fixed Income Actively Managed – Tax-exempt	39.6	37.7	1.9	5.0	38.5	35.9	2.6	7.0
Fixed Income Passively Managed ⁽¹⁾	9.9	11.6	(1.7)	(14.1)	10.4	10.9	(0.5)	(4.8)
Other ⁽²⁾	57.3	53.9	3.4	6.3	54.7	56.8	(2.1)	(3.6)
Total	\$ 526.6	\$ 492.0	\$ 34.6	7.0	\$ 508.8	\$ 479.9	\$ 28.9	6.0

(1) Includes index and enhanced index services.

(2) Includes certain multi-asset solutions and services and certain alternative investments.

Our Institutional channel third quarter average AUM of \$257.1 billion increased \$7.1 billion, or 2.8%, compared to the third quarter of 2016, primarily due to our Institutional AUM increasing \$13.0 billion, or 5.3%, to \$260.0 billion over the last twelve months. The \$13.0 billion increase in AUM resulted from market appreciation of \$10.6 billion and net inflows of \$2.4 billion.

Our Retail channel third quarter average AUM of \$181.7 billion increased \$20.2 billion, or 12.5%, compared to the third quarter of 2016, primarily due to our Retail AUM increasing \$23.5 billion, or 14.5%, to \$185.7 billion over the last twelve months. The \$23.5 billion increase in AUM resulted from market appreciation of \$17.2 billion and net inflows of \$6.3 billion.

Our Private Wealth Management channel third quarter average AUM of \$87.8 billion increased \$7.3 billion, or 9.1%, compared to the third quarter of 2016, primarily due to our Private Wealth Management AUM increasing \$8.2 billion, or 10.1%, to \$89.2 billion over the last twelve months. The \$8.2 billion increase in AUM resulted from market appreciation of \$8.1 billion and net inflows of \$0.1 billion.

Absolute investment composite returns, gross of fees, and relative performance as of September 30, 2017 compared to benchmarks for certain representative Institutional equity and fixed income services are as follows:

	1-Year	3-Year	5-Year
Global High Income - Hedged (fixed income)			
Absolute return	10.5%	6.4%	7.0%
Relative return (vs. Bloomberg Barclays Global High Yield Index - Hedged)	1.7	(0.4)	(0.1)
U.S. High Yield (fixed income)			
Absolute return	8.5	5.3	6.7
Relative return (vs. Bloomberg Barclays U.S. Corp. High Yield Index)	(0.4)	(0.5)	0.4
Global Plus - Hedged (fixed income)			
Absolute return	1.4	4.0	3.7
Relative return (vs. Bloomberg Barclays Global Aggregate Index - Hedged)	1.6	0.8	0.6
Intermediate Municipal Bonds (fixed income)			
Absolute return	0.9	2.4	2.1
Relative return (vs. Lipper Short/Int. Blended Muni Fund Avg)	0.4	0.9	0.7
U.S. Strategic Core Plus (fixed income)			
Absolute return	1.3	3.7	3.1
Relative return (vs. Bloomberg Barclays U.S. Aggregate Index)	1.2	1.0	1.0
Emerging Market Debt (fixed income)			
Absolute return	7.6	6.6	4.9
Relative return (vs. JPM EMBI Global/JPM EMBI)	3.4	0.6	0.6
Emerging Markets Value			
Absolute return	19.7	4.4	3.7
Relative return (vs. MSCI EM Index)	(2.7)	(0.5)	(0.3)
Global Strategic Value			
Absolute return	21.6	8.2	14.0
Relative return (vs. MSCI ACWI Index)	3.0	0.8	3.8
U.S. Small & Mid Cap Value			
Absolute return	18.4	11.6	15.9
Relative return (vs. Russell 2500 Value Index)	2.6	1.6	2.6
U.S. Strategic Value			
Absolute return	15.6	5.4	13.2
Relative return (vs. Russell 1000 Value Index)	0.5	(3.2)	—
U.S. Small Cap Growth			
Absolute return	29.6	12.0	14.3
Relative return (vs. Russell 2000 Growth Index)	8.6	(0.2)	—
U.S. Large Cap Growth			
Absolute return	22.7	15.2	17.7
Relative return (vs. Russell 1000 Growth Index)	0.8	2.5	2.5
U.S. Small & Mid Cap Growth			
Absolute return	25.1	10.5	13.7
Relative return (vs. Russell 2500 Growth Index)	5.1	(0.7)	(0.8)
Concentrated U.S. Growth			
Absolute return	22.0	11.9	15.5
Relative return (vs. S&P 500 Index)	3.4	1.1	1.3
Select U.S. Equity			
Absolute return	19.5	10.5	14.3
Relative return (vs. S&P 500 Index)	0.9	(0.3)	0.1
Strategic Equities			
Absolute return	17.0	10.6	14.2
Relative return (vs. Russell 3000 Index)	(1.7)	(0.2)	—
Global Core Equity			
Absolute return	18.9	8.8	11.8
Relative return (vs. MSCI ACWI Index)	0.3	1.4	1.6

Consolidated Results of Operations

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2017	2016	\$ Change	% Change	2017	2016	\$ Change	% Change
	(in thousands, except per unit amounts)				(in thousands, except per unit amounts)			
Net revenues	\$ 812,150	\$ 747,591	\$ 64,559	8.6 %	\$ 2,379,380	\$ 2,242,523	\$ 136,857	6.1 %
Expenses	650,123	562,282	87,841	15.6	1,888,504	1,741,597	146,907	8.4
Operating income	162,027	185,309	(23,282)	(12.6)	490,876	500,926	(10,050)	(2.0)
Income taxes	4,547	11,578	(7,031)	(60.7)	24,869	37,315	(12,446)	(33.4)
Net income	157,480	173,731	(16,251)	(9.4)	466,007	463,611	2,396	0.5
Net income of consolidated entities attributable to non-controlling interests	16,526	15,696	830	5.3	50,013	14,791	35,222	238.1
Net income attributable to AB Unitholders	\$ 140,954	\$ 158,035	\$ (17,081)	(10.8)	\$ 415,994	\$ 448,820	\$ (32,826)	(7.3)
Diluted net income per AB Unit	\$ 0.52	\$ 0.58	\$ (0.06)	(10.3)	\$ 1.54	\$ 1.64	\$ (0.10)	(6.1)
Distributions per AB Unit	\$ 0.58	\$ 0.51	\$ 0.07	13.7	\$ 1.66	\$ 1.42	\$ 0.24	16.9
Operating margin ⁽¹⁾	17.9%	22.7%			18.5%	21.7%		

(1) Operating income excluding net (loss) income attributable to non-controlling interests as a percentage of net revenues.

Net income attributable to AB Unitholders for the three months ended September 30, 2017 decreased \$17.1 million, or 10.8%, from the three months ended September 30, 2016. The decrease resulted from (in millions):

Higher other general and administrative expenses	\$ (22.2)
Lower adjustments to contingent payment arrangements	(21.3)
Higher real estate charges	(18.8)
Higher employee compensation and benefits	(13.0)
Higher promotion and servicing expenses	(11.2)
Higher base advisory fees	51.4
Higher distribution revenues	8.4
Lower income tax expense	7.0
Other	2.6
	\$ (17.1)

Net income attributable to AB Unitholders for the nine months ended September 30, 2017 decreased \$32.8 million, or 7.3%, from the nine months ended September 30, 2016. The decrease resulted from (in millions):

Higher employee compensation and benefits	\$	(51.4)
Higher other general and administrative expenses		(38.2)
Higher net income of consolidated entities attributable to non-controlling interest		(35.2)
Lower Bernstein Research Services revenue		(21.8)
Lower adjustments to contingent payment arrangements		(21.3)
Higher promotion and servicing expenses		(17.4)
Lower investment gains		(17.3)
Higher real estate charges		(14.8)
Higher base advisory fees		133.0
Higher performance-based fees		21.7
Higher distribution revenues		15.1
Lower income tax expense		12.4
Other		2.4
	\$	(32.8)

Real Estate Charges

Since 2010, in connection with our workforce reductions and in an effort to reduce our global real estate footprint, we have implemented a global office space consolidation. As a result, we have sub-leased over one million square feet of office space.

During the first nine months of 2017, we recorded pre-tax real estate charges of \$39.4 million, resulting from new charges of \$40.2 million primarily relating to the further consolidation of office space at our New York offices, offset by changes in estimates pertaining to previously recorded real estate charges of \$0.8 million. During the first nine months of 2016, we recorded pre-tax real estate charges of \$24.6 million, resulting from new charges of \$26.7 million relating to the further consolidation of office space at our New York offices, offset by changes in estimates related to previously recorded real estate charges of \$2.1 million.

Units Outstanding

Each quarter, we consider whether to implement a plan to repurchase AB 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 or because it possesses material non-public information. Each broker we select has the authority under the terms and limitations specified in the plan to repurchase AB Holding Units on our behalf in accordance with the terms of the plan. Repurchases are subject to regulations promulgated by the SEC as well as certain price, market volume and timing constraints specified in the plan. The plan adopted during the second quarter of 2017 expired at the close of business on July 26, 2017. We did not adopt a new plan during the third quarter of 2017. We may adopt additional Rule 10b5-1 plans in the future to engage in open-market purchases of AB Holding Units to help fund anticipated obligations under our incentive compensation award program and for other corporate purposes.

Cash Distributions

AB is required to distribute all of its Available Cash Flow, as defined in the AB Partnership Agreement, to its Unitholders and to the General Partner. Available Cash Flow typically is the adjusted diluted net income per unit for the quarter multiplied by the number of general and limited partnership interests at the end of the quarter. In future periods, management anticipates that Available Cash Flow will continue to be based on adjusted diluted net income per unit, unless management determines, with the concurrence of the Board of Directors, that one or more adjustments that are made for adjusted net income should not be made with respect to the Available Cash Flow calculation. *See Note 4 to the condensed consolidated financial statements contained in Item 1* for a description of Available Cash Flow.

Management Operating Metrics

We are providing the non-GAAP measures “adjusted net revenues”, “adjusted operating income” and “adjusted operating margin” because they are the principal operating metrics management uses in evaluating and comparing period-to-period operating

performance. Management principally uses these metrics in evaluating performance because they present a clearer picture of our operating performance and allow management to see long-term trends without the distortion primarily caused by long-term incentive compensation-related mark-to-market adjustments, real estate consolidation charges and other adjustment items. Similarly, we believe that these management operating metrics help investors better understand the underlying trends in our results and, accordingly, provide a valuable perspective for investors.

These non-GAAP measures are provided in addition to, and not as substitutes for, net revenues, operating income and operating margin, and they may not be comparable to non-GAAP measures presented by other companies. Management uses both accounting principles generally accepted in the United States of America (“US GAAP”) and non-GAAP measures in evaluating our financial performance. The non-GAAP measures alone may pose limitations because they do not include all of our revenues and expenses.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(in thousands)			
Net revenues, US GAAP basis	\$ 812,150	\$ 747,591	\$ 2,379,380	\$ 2,242,523
Adjustments:				
Long-term incentive compensation-related investment (gains)	(2,055)	(2,556)	(6,960)	(2,021)
Long-term incentive compensation-related dividends and interest	(130)	(142)	(438)	(435)
Distribution-related payments	(108,284)	(95,844)	(307,407)	(276,188)
Amortization of deferred sales commissions	(7,629)	(9,787)	(25,015)	(31,606)
Pass-through fees and expenses	(9,759)	(9,768)	(29,868)	(33,126)
Gain on sale of investment carried at cost	—	—	—	(75,273)
Gain on sale of software technology	(361)	—	(4,593)	—
Impact of consolidated company-sponsored funds	(23,368)	(16,114)	(71,222)	(16,529)
Adjusted net revenues	\$ 660,564	\$ 613,380	\$ 1,933,877	\$ 1,807,345
Operating income, US GAAP basis	\$ 162,027	\$ 185,309	\$ 490,876	\$ 500,926
Adjustments:				
Long-term incentive compensation-related items	329	363	813	972
Gain on sale of investment carried at cost	—	—	—	(75,273)
Gain on sale of software technology	(361)	—	(4,593)	—
Acquisition-related expenses	1,462	303	2,012	542
Contingent payment arrangements	(193)	(21,483)	(193)	(21,483)
Real estate charges (credits)	18,655	(140)	39,400	24,645
Sub-total of non-GAAP adjustments	19,892	(20,957)	37,439	(70,597)
Less: Net income of consolidated entities attributable to non-controlling interests	16,526	15,696	50,013	14,791
Adjusted operating income	165,393	148,656	478,302	415,538
Adjusted income taxes	10,188	10,268	29,511	32,126
Adjusted net income	155,205	138,388	448,791	383,412
Diluted net income per AB Unit, GAAP basis	\$ 0.52	\$ 0.58	\$ 1.54	\$ 1.64
Impact of non-GAAP adjustments	0.06	(0.07)	0.12	(0.24)
Adjusted diluted net income per AB Unit	\$ 0.58	\$ 0.51	\$ 1.66	\$ 1.40
Adjusted operating margin	25.0%	24.2%	24.7%	23.0%

Adjusted operating income for the three months ended September 30, 2017 increased \$16.7 million, or 11.3%, from the three months ended September 30, 2016, primarily due to higher investment advisory base fees of \$51.8 million, offset by higher general and administrative expenses (excluding real estate charges) of \$15.4 million, higher employee compensation expense (excluding the impact of long-term incentive compensation-related items) of \$13.6 million, investments losses in current year compared to investments gains in prior year of \$3.2 million and lower Bernstein Research Services revenue of \$2.5 million. Adjusted operating income for the nine months ended September 30, 2017 increased \$62.8 million, or 15.1%, from the nine months ended September 30, 2016, primarily due to higher investment advisory base fees of \$134.6 million and higher performance-based fees of \$21.7 million, offset by higher employee compensation expense (excluding the impact of long-term incentive compensation-related items) of \$46.1 million, lower Bernstein Research Services revenue of \$21.8 million and higher general and administrative expenses (excluding real estate charges) of \$20.1 million.

Adjusted Net Revenues

Adjusted net revenues exclude investment gains and losses and dividends and interest on employee long-term incentive compensation-related investments. In addition, adjusted net revenues offset distribution-related payments to third parties as well as amortization of deferred sales commissions against distribution revenues. We believe offsetting net revenues by distribution-related payments is useful for our investors and other users of our financial statements because such presentation appropriately reflects the nature of these costs as pass-through payments to third parties who perform functions on behalf of our sponsored mutual funds and/or shareholders of these funds. We offset amortization of deferred sales commissions against net revenues because such costs, over time, essentially offset our distribution revenues. We also exclude additional pass-through expenses we incur (primarily through our transfer agency) that are reimbursed and recorded as fees in revenues. These fees do not affect operating income, but they do affect our operating margin. As such, we exclude these fees from adjusted net revenues.

We adjust for the revenue impact of consolidating company-sponsored investment funds by eliminating the consolidated company-sponsored investment funds' revenues and including AB's fees from such consolidated company-sponsored investment funds and AB's investment gains and losses on its investments in such consolidated company-sponsored investment funds that were eliminated in consolidation. Lastly, in the second and third quarters of 2017 we excluded a cumulative realized gain of \$4.6 million on the exchange of software technology for an ownership stake in a third party provider of financial market data and trading tools and in the first quarter of 2016 we excluded a realized gain of \$75.3 million resulting from the liquidation of an investment in Jasper Wireless Technologies, Inc. ("Jasper"), which was acquired by Cisco Systems, Inc., because these transactions are not part of our core operating results.

Adjusted Operating Income

Adjusted operating income represents operating income on a US GAAP basis excluding (1) the impact on net revenues and compensation expense of the investment gains and losses (as well as the dividends and interest) associated with employee long-term incentive compensation-related investments, (2) the gain on the sale of our investment in Jasper during 2016, (3) the gain on the sale of software technology during 2017 (4) real estate charges (credits), (5) acquisition-related expenses, (6) adjustments to contingent payment arrangements, and (7) the impact of consolidated company-sponsored investment funds.

Prior to 2009, a significant portion of employee compensation was in the form of long-term incentive compensation awards that were notionally invested in AB investment services and generally vested over a period of four years. AB economically hedged the exposure to market movements by purchasing and holding these investments on its balance sheet. All such investments had vested as of year-end 2012 and the investments have been delivered to the participants, except for those investments with respect to which the participant elected a long-term deferral. Fluctuation in the value of these investments is recorded within investment gains and losses on the income statement and also impacts compensation expense. Management believes it is useful to reflect the offset achieved from economically hedging the market exposure of these investments in the calculation of adjusted operating income and adjusted operating margin. The non-GAAP measures exclude gains and losses and dividends and interest on employee long-term incentive compensation-related investments included in revenues and compensation expense.

A realized gain on the liquidation of our Jasper investment during 2016 has been excluded due to its non-recurring nature and because it is not part of our core operating results.

A realized gain on the exchange of software technology for an ownership stake in a third party company during 2017 has been excluded due to its non-recurring nature and because it is not part of our core operating results.

Real estate charges (credits) have been excluded because they are not considered part of our core operating results when comparing financial results from period to period and to industry peers.

Acquisition-related expenses have been excluded because they are not considered part of our core operating results when comparing financial results from period to period and to industry peers.

The recording of changes in estimates of contingent consideration payable with respect to contingent payment arrangements associated with our acquisitions are not considered part of our core operating results and, accordingly, have been excluded.

We adjusted for the operating income impact of consolidating certain company-sponsored investment funds by eliminating the consolidated company-sponsored funds' revenues and expenses and including AB's revenues and expenses that were eliminated in consolidation. We also excluded the limited partner interests we do not own.

Adjusted Net Income and Adjusted Diluted Net Income per AB Unit

As previously discussed, our quarterly distribution is typically our adjusted diluted net income per unit (which is derived from adjusted net income) for the quarter multiplied by the number of general and limited partnership interests at the end of the quarter. Adjusted income taxes, used in calculating adjusted net income, are calculated using the GAAP effective tax rate adjusted for non-GAAP income tax adjustments.

Adjusted Operating Margin

Adjusted operating margin allows us to monitor our financial performance and efficiency from period to period without the volatility *noted above in our discussion of adjusted operating income* and to compare our performance to industry peers on a basis that better reflects our performance in our core business. Adjusted operating margin is derived by dividing adjusted operating income by adjusted net revenues.

Net Revenues

The components of net revenues are as follows:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2017	2016	\$ Change	% Change	2017	2016	\$ Change	% Change
	(in thousands)				(in thousands)			
Investment advisory and services fees:								
Institutions:								
Base fees	\$ 108,849	\$ 103,001	\$ 5,848	5.7 %	\$ 318,347	\$ 301,229	\$ 17,118	5.7 %
Performance-based fees	1,140	1,754	(614)	(35.0)	7,818	2,779	5,039	181.3
	109,989	104,755	5,234	5.0	326,165	304,008	22,157	7.3
Retail:								
Base fees	240,006	207,377	32,629	15.7	673,286	599,080	74,206	12.4
Performance-based fees	229	164	65	39.6	13,652	166	13,486	8,124.1
	240,235	207,541	32,694	15.8	686,938	599,246	87,692	14.6
Private Wealth Management:								
Base fees	189,697	176,775	12,922	7.3	555,580	513,941	41,639	8.1
Performance-based fees	3,186	322	2,864	889.4	3,877	661	3,216	486.5
	192,883	177,097	15,786	8.9	559,457	514,602	44,855	8.7
Total:								
Base fees	538,552	487,153	51,399	10.6	1,547,213	1,414,250	132,963	9.4
Performance-based fees	4,555	2,240	2,315	103.3	25,347	3,606	21,741	602.9
	543,107	489,393	53,714	11.0	1,572,560	1,417,856	154,704	10.9
Bernstein Research Services	108,385	110,885	(2,500)	(2.3)	330,596	352,403	(21,807)	(6.2)
Distribution revenues	106,042	97,625	8,417	8.6	302,745	287,638	15,107	5.3
Dividend and interest income	17,619	9,908	7,711	77.8	51,023	30,128	20,895	69.4
Investment gains (losses)	18,808	17,606	1,202	6.8	68,122	85,469	(17,347)	(20.3)
Other revenues	24,902	24,240	662	2.7	71,532	75,044	(3,512)	(4.7)
Total revenues	818,863	749,657	69,206	9.2	2,396,578	2,248,538	148,040	6.6
Less: Interest expense	6,713	2,066	4,647	224.9	17,198	6,015	11,183	185.9
Net revenues	\$ 812,150	\$ 747,591	\$ 64,559	8.6	\$ 2,379,380	\$ 2,242,523	\$ 136,857	6.1

Investment Advisory and Services Fees

Investment advisory and services fees are the largest component of our revenues. These fees generally are calculated as a percentage of the value of AUM as of a specified date, or as a percentage of the value of average AUM for the applicable billing period, and vary with the type of investment service, the size of the account and the total amount of assets we manage for a particular client.

Accordingly, fee income generally increases or decreases as AUM increases or decreases and is affected by market appreciation or depreciation, the addition of new client accounts or client contributions of additional assets to existing accounts, withdrawals of assets from and termination of client accounts, purchases and redemptions of mutual fund shares, shifts of assets between accounts or products with different fee structures, and acquisitions. Our average basis points realized (investment advisory and services fees divided by average AUM) generally approximate 40 to 110 basis points for actively-managed equity services, 10 to 75 basis points for actively-managed fixed income services and 2 to 20 basis points for passively-managed services. Average basis points realized for other services could range from 5 basis points for certain Institutional asset allocation services to over 100 basis points for certain Retail and Private Wealth Management alternative services. These ranges include all-inclusive fee arrangements (covering investment management, trade execution and other services) for our Private Wealth Management clients.

We calculate AUM using established market-based valuation methods and fair valuation (non-observable market) methods. Market-based valuation methods include: last sale/settle prices from an exchange for actively-traded listed equities, options and futures; evaluated bid prices from recognized pricing vendors for fixed income, asset-backed or mortgage-backed issues; mid prices from recognized pricing vendors and brokers for credit default swaps; and quoted bids or spreads from pricing vendors and brokers for other derivative products. Fair valuation methods include: discounted cash flow models, evaluation of assets versus liabilities or any other methodology that is validated and approved by our Valuation Committee (*see paragraph immediately below* for more information regarding our Valuation Committee). Fair valuation methods are used only where AUM cannot be valued using market-based valuation methods, such as in the case of private equity or illiquid securities.

The Valuation Committee, which consists of senior officers and employees, is responsible for overseeing the pricing and valuation of all investments held in client and AB portfolios. The Valuation Committee has adopted a Statement of Pricing Policies describing principles and policies that apply to pricing and valuing investments held in these portfolios. We also have a Pricing Group, which reports to the Valuation Committee and is responsible for overseeing the pricing process for all investments.

We sometimes charge our clients performance-based fees. In these situations, we charge a base advisory fee and are eligible to earn an additional performance-based fee or incentive allocation that is calculated as either a percentage of absolute investment results or a percentage of investment results in excess of a stated benchmark over a specified period of time. Some performance-based fees include a high-watermark provision, which generally provides that if a client account underperforms relative to its performance target (whether absolute or relative to a specified benchmark), it must gain back such underperformance before we can collect future performance-based fees. Therefore, if we fail to achieve our performance target for a particular period, we will not earn a performance-based fee for that period and, for accounts with a high-watermark provision, our ability to earn future performance-based fees will be impaired. We are eligible to earn performance-based fees on 7.1%, 3.9% and 1.0% of the assets we manage for institutional clients, private wealth clients and retail clients, respectively (in total, 4.4% of our AUM).

During 2016 and 2017, we received carried interest distributions of \$74.5 million, as general partner of our real estate fund (\$66.6 million) and as investment advisor to a middle market lending fund (\$7.9 million). In accordance with our revenue recognition policies, we did not recognize these carried interest distributions as performance fee revenues, instead recording a deferred revenue liability, because the distributions are subject to claw-back provisions. We will recognize the distribution as revenues when the potential claw-back obligations are mathematically remote, which may not occur until at or near termination of the applicable fund. In addition, we have revenue-sharing arrangements whereby certain employees are entitled to a share of carried interest proceeds distributed by certain funds, including the real estate fund. As such, we distributed \$33.2 million of these carried interest proceeds to certain real estate fund employees. We have recorded this payment, which, like our carried interest distribution, is subject to claw-back provisions, as an advance to employees and will recognize it as compensation expense in the period in which the applicable revenue is recognized.

For the three months ended September 30, 2017, our investment advisory and services fees increased by \$53.7 million, or 11.0%, from the three months ended September 30, 2016, primarily due to a \$51.4 million, or 10.6%, increase in base fees, which primarily resulted from a 7.0% increase in average AUM and the impact of a shift in distribution channel mix from Institutions to Retail and Private Wealth Management, which generally have higher fees. In addition, performance-based fees increased by \$2.3 million. For the nine months ended September 30, 2017, our investment advisory and services fees increased by \$154.7 million, or 10.9%, from the nine months ended September 30, 2016, primarily due to a \$133.0 million, or 9.4%, increase in base fees, which primarily resulted from a 6.0% increase in average AUM and the impact of a shift in distribution channel mix from Institutions to Retail and Private Wealth Management. Also, performance-based fees increased by \$21.7 million.

Institutional investment advisory and services fees for the three months ended September 30, 2017 increased by \$5.2 million, or 5.0%, from the three months ended September 30, 2016, primarily due to a \$5.8 million, or 5.7%, increase in base fees, which primarily resulted from a 2.8% increase in average AUM and the impact of a shift in product mix into active equities, which generally have higher fees. Institutional investment advisory and services fees for the nine months ended September 30, 2017 increased by \$22.1 million, or 7.3%, from the nine months ended September 30, 2016, primarily due to a \$17.1 million, or 5.7%,

increase in base fees, which primarily resulted from a 2.4% increase in average AUM and the impact of a shift in product mix into active equities. In addition, performance-based fees increased by \$5.0 million.

Retail investment advisory and services fees for the three months ended September 30, 2017 increased by \$32.7 million, or 15.8%, from the three months ended September 30, 2016, due to an increase in base fees of \$32.6 million, or 15.7%, primarily resulting from a 12.5% increase in average AUM. Retail investment advisory and services fees for the nine months ended September 30, 2017 increased by \$87.7 million, or 14.6%, from the nine months ended September 30, 2016, due to an increase in base fees of \$74.2 million, or 12.4%, primarily resulting from a 10.4% increase in average AUM. In addition, performance-based fees increased by \$13.5 million.

Private Wealth Management investment advisory and services fees for the three months ended September 30, 2017 increased by \$15.8 million, or 8.9%, from the three months ended September 30, 2016, due to an increase in base fees of \$12.9 million, or 7.3%, primarily resulting from a 9.1% increase in average AUM. In addition, performance-based fees increased by \$2.8 million. Private Wealth Management investment advisory and services fees for the nine months ended September 30, 2017 increased by \$44.9 million, or 8.7%, from the nine months ended September 30, 2016, due to an increase in base fees of \$41.6 million, or 8.1%, primarily resulting from an 8.6% increase in average AUM. In addition, performance-based fees increased by \$3.2 million.

Bernstein Research Services

Bernstein Research Services revenue consists principally of equity commissions received for providing equity research and brokerage-related services to institutional investors.

Revenues from Bernstein Research Services for the three months ended September 30, 2017 decreased \$2.5 million, or 2.3%, compared to the corresponding period in 2016, driven by lower client activity in the U.S., partially offset by an increase in client activity in both Europe and Asia and the impact of a weaker U.S. dollar. Revenues for the nine months ended September 30, 2017 decreased \$21.8 million, or 6.2%, compared to the corresponding period in 2016, driven by lower client activity in the U.S., a volume mix shift to electronic trading in Europe and the impact of a stronger U.S. dollar, partially offset by increased client activity in Asia.

Distribution Revenues

Two of our subsidiaries act as distributors and/or placing agents of company-sponsored mutual funds and receive distribution services fees from certain of those funds as partial reimbursement of the distribution expenses they incur. Period-over-period fluctuations of distribution revenues typically are in line with fluctuations of the corresponding average AUM of these mutual funds.

Distribution revenues for the three and nine months ended September 30, 2017 increased \$8.4 million, or 8.6%, and \$15.1 million, or 5.3%, respectively, compared to the corresponding periods in 2016, primarily due to the corresponding average AUM of these mutual funds increasing 13.7% and 9.0%, respectively, offset by the impact of a shift in product mix. For the three months ended September 30, 2017, average AUM of A-share mutual funds (which have lower distribution fee rates than B-share and C-share mutual funds) increased 18.9%, while average AUM of B-share and C-share mutual funds decreased by 18.7%. For the nine months ended September 30, 2017, average AUM of A-share mutual funds increased 21.6%, while average AUM of B-share and C-share mutual funds decreased 11.3%.

Dividend and Interest Income and Interest Expense

Dividend and interest income consists of investment income and interest earned on customer margin balances and U.S. Treasury Bills as well as dividend and interest income in our consolidated company-sponsored investment funds. Interest expense principally reflects interest accrued on cash balances in customers' brokerage accounts. Dividend and interest income, net of interest expense, for the three and nine ended September 30, 2017 increased \$3.1 million, or 39.1%, and \$9.7 million, or 40.3%, respectively, compared to the corresponding periods in 2016, primarily due to higher dividend and interest income in our consolidated company-sponsored investment funds.

Investment Gains (Losses)

Investment gains (losses) consist primarily of realized and unrealized investment gains or losses on: (i) employee long-term incentive compensation-related investments, (ii) U.S. Treasury Bills, (iii) market-making in exchange-traded options and equities, (iv) seed capital investments, (v) derivatives and (vi) investments in our consolidated company-sponsored investment funds.

Investments gains (losses) also include equity in earnings of proprietary investments in limited partnership hedge funds that we sponsor and manage.

Investment gains (losses) are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(in thousands)			
Long-term incentive compensation-related investments				
Realized gains (losses)	\$ 105	\$ 147	\$ 1,878	\$ 1,288
Unrealized gains (losses)	1,950	2,409	5,082	733
Investments held by consolidated company-sponsored funds				
Realized gains (losses)	9,788	(2,334)	38,169	(2,662)
Unrealized gains (losses)	14,512	19,274	33,062	16,675
Seed capital investments				
Realized gains (losses)				
Seed capital	976	2,033	21,871	67,287
Derivatives	(4,797)	(10,293)	(20,251)	(16,340)
Unrealized gains (losses)				
Seed capital	(3,245)	5,916	(9,205)	22,505
Derivatives	(83)	2,255	488	(307)
Brokerage-related investments				
Realized gains (losses)	(447)	(1,684)	(2,895)	(3,780)
Unrealized gains (losses)	49	(117)	(77)	70
	\$ 18,808	\$ 17,606	\$ 68,122	\$ 85,469

The investment gains in the three and nine months ended September 30, 2017, as well as the three months ended September 30, 2016, were primarily driven by gains on investments held by consolidated company-sponsored funds. The investment gains in the nine months ended September 30, 2016 were primarily the result of the sale of our investment in Jasper (*see below*) and gains on investments held by consolidated company-sponsored funds.

During 2017, we realized a gain of \$4.6 million on the exchange of software technology for an ownership stake in a third party provider of financial market data and trading tools.

During the first quarter of 2016, we sold our investment in Jasper, a company in which we owned a 7.6% equity interest. We expect to receive a total of \$85.5 million in cash, subject to final transaction costs and working capital adjustments. During March 2016, the transaction closed and we received \$74.8 million in cash, recorded a \$10.7 million receivable (of which we have received \$10.2 million as of September 30, 2017) for the balance retained in escrow for 18 months and recorded an investment gain of \$75.3 million.

Other Revenues

Other revenues consist of fees earned for transfer agency services provided to company-sponsored mutual funds, fees earned for administration and recordkeeping services provided to company-sponsored mutual funds and the general accounts of AXA and its subsidiaries, and other miscellaneous revenues. Other revenues for the three months ended September 30, 2017 increased \$0.7 million, or 2.7%, compared to the three months ended September 30, 2016, primarily due to higher shareholder servicing fees, offset by lower other revenue. Other revenues for the nine months ended September 30, 2017 decreased \$3.5 million, or 4.7%, compared to the corresponding period in 2016, primarily due to lower shareholder servicing fees, offset by higher mutual fund reimbursements and other revenue.

Expenses

The components of expenses are as follows:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2017	2016	\$ Change	% Change	2017	2016	\$ Change	% Change
	(in thousands)							
Employee compensation and benefits	\$ 329,777	\$ 316,737	\$ 13,040	4.1 %	\$ 979,387	\$ 927,997	\$ 51,390	5.5 %
Promotion and servicing:								
Distribution-related payments	108,284	95,844	12,440	13.0	307,407	276,188	31,219	11.3
Amortization of deferred sales commissions	7,629	9,787	(2,158)	(22.0)	25,015	31,606	(6,591)	(20.9)
Trade execution, marketing, T&E and other	48,088	47,205	883	1.9	149,537	156,763	(7,226)	(4.6)
	164,001	152,836	11,165	7.3	481,959	464,557	17,402	3.7
General and administrative:								
General and administrative	128,712	106,504	22,208	20.9	360,395	322,184	38,211	11.9
Real estate charges (credits)	18,655	(140)	18,795	n/m	39,400	24,645	14,755	59.9
	147,367	106,364	41,003	38.5	399,795	346,829	52,966	15.3
Contingent payment arrangements	(140)	(21,129)	20,989	(99.3)	215	(20,423)	20,638	n/m
Interest	2,105	1,009	1,096	108.6	6,227	3,293	2,934	89.1
Amortization of intangible assets	7,013	6,465	548	8.5	20,921	19,344	1,577	8.2
Total	\$ 650,123	\$ 562,282	\$ 87,841	15.6	\$ 1,888,504	\$ 1,741,597	\$ 146,907	8.4

Employee Compensation and Benefits

Employee compensation and benefits consist of base compensation (including salaries and severance), annual short-term incentive compensation awards (cash bonuses), annual long-term incentive compensation awards, commissions, fringe benefits and other employment costs (including recruitment, training, temporary help and meals).

Compensation expense as a percentage of net revenues was 40.6% and 42.4% for the three months ended September 30, 2017 and 2016, respectively. Compensation expense as a percentage of net revenues was 41.2% and 41.4% for the nine months ended September 30, 2017 and 2016, respectively. Compensation expense generally is determined on a discretionary basis and is primarily a function of our firm's current-year financial performance. The amounts of incentive compensation we award are designed to motivate, reward and retain top talent while aligning our executives' interests with the interests of our Unitholders. Senior management, with the approval of the Compensation Committee of the Board of Directors of AllianceBernstein Corporation ("Compensation Committee"), periodically confirms that the appropriate metric to consider in determining the amount of incentive compensation is the ratio of adjusted employee compensation and benefits expense to adjusted net revenues. Adjusted net revenues used in the adjusted compensation ratio are the same as the adjusted net revenues presented as a non-GAAP measure (*discussed earlier in this MD&A*). Adjusted employee compensation and benefits expense is total employee compensation and benefits

expense minus other employment costs such as recruitment, training, temporary help and meals (which were 1.0% and 1.1%, respectively, of adjusted net revenues for each of the three and nine months ended September 30, 2017, and was 1.1% and 1.2%, respectively, of adjusted net revenues for the three and nine months ended September 30, 2016), and excludes the impact of mark-to-market vesting expense, as well as dividends and interest expense, associated with employee long-term incentive compensation-related investments. Senior management, with the approval of the Compensation Committee, has established as an objective that adjusted employee compensation and benefits expense generally should not exceed 50% of our adjusted net revenues, except in unexpected or unusual circumstances. Our ratio of adjusted compensation expense as a percentage of adjusted net revenues was 48.5% and 49.2%, respectively, for the three and nine months ended September 30, 2017. Our ratio of adjusted compensation expense as a percentage of adjusted net revenues was 50.0% for the three and nine months ended September 30, 2016.

For the three months ended September 30, 2017, employee compensation and benefits expense increased \$13.0 million, or 4.1%, compared to the three months ended September 30, 2016, primarily due to higher incentive compensation of \$13.8 million. For the nine months ended September 30, 2017, employee compensation and benefits expense increased \$51.4 million, or 5.5%, compared to the nine months ended September 30, 2016, primarily due to higher incentive compensation of \$40.9 million, higher base compensation of \$6.4 million, which resulted from higher severance, and higher fringes of \$2.8 million.

Promotion and Servicing

Promotion and servicing expenses include distribution-related payments to financial intermediaries for distribution of AB mutual funds and amortization of deferred sales commissions paid to financial intermediaries for the sale of back-end load shares of AB mutual funds. Also included in this expense category are costs related to travel and entertainment, advertising and promotional materials.

Promotion and servicing expenses increased \$11.2 million, or 7.3%, during the three months ended September 30, 2017 compared to the three months ended September 30, 2016. The increase primarily was due to higher distribution-related payments of \$12.4 million, higher transfer fees of \$0.7 million and higher marketing costs of \$0.6 million, offset by lower amortization of deferred sales commissions of \$2.2 million and lower travel and entertainment of \$0.9 million. Promotion and servicing expenses increased \$17.4 million, or 3.7%, during the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016. The increase primarily was due to higher distribution-related payments of \$31.2 million, offset by lower amortization of deferred sales commissions of \$6.6 million, lower transfer fees of \$2.7 million, lower travel and entertainment of \$2.6 million, lower marketing costs of \$1.0 million, and lower trade execution and clearing costs of \$1.0 million.

General and Administrative

General and administrative expenses include portfolio services expenses, technology expenses, professional fees and office-related expenses (occupancy, communications and similar expenses). General and administrative expenses as a percentage of net revenues were 18.1% (15.8% excluding real estate charges) and 14.2% (including and excluding real estate charges) for the three months ended September 30, 2017 and 2016, respectively. General and administrative expenses increased \$41.0 million, or 38.5%, during the third quarter of 2017 compared to the same period in 2016, primarily due to a vendor termination accrual of \$19.7 million (*for additional information see Executive Overview*), higher real estate charges of \$18.8 million and higher expenses related to our consolidated company-sponsored investment funds of \$6.3 million. General and administrative expenses as a percentage of net revenues were 16.8% (15.1% excluding real estate charges) and 15.5% (14.4% excluding real estate charges) for the nine months ended September 30, 2017 and 2016, respectively. General and administrative expenses increased \$53.0 million, or 15.3%, during the first nine months of 2017 compared to the same period in 2016, primarily due to the vendor termination accrual of \$19.7 million, higher expenses related to our consolidated company-sponsored investment funds of \$19.4 million and higher real estate charges of \$14.8 million.

Contingent Payment Arrangements

Contingent payment arrangements reflect changes in estimates of contingent payment liabilities associated with acquisitions in previous periods, as well as accretion expense of these liabilities. The expense for the nine months ended September 30, 2017 reflects accretion expenses of \$0.4 million, offset by a change in estimate of the contingent consideration payable relating to our 2010 acquisition of \$0.2 million. The credit to operating expenses of \$20.4 million for the nine months ended September 30, 2016 reflects changes in estimates of the contingent consideration payable relating to our 2013 and 2010 acquisitions of \$21.5 million, offset by accretion expense of \$1.1 million.

Income Taxes

AB, a private limited partnership, is not subject to federal or state corporate income taxes, but is subject to a 4.0% New York City unincorporated business tax (“UBT”). Our domestic corporate subsidiaries are subject to federal, state and local income taxes and generally are included in the filing of a consolidated federal income tax return. Separate state and local income tax returns also are filed. Foreign corporate subsidiaries generally are subject to taxes in the jurisdictions where they are located.

Income tax expense for the three months ended September 30, 2017 decreased \$7.0 million, or 60.7%, compared to the three months ended September 30, 2016. The decrease is due to a lower effective tax rate in the current quarter of 2.8% compared to 6.2% in the third quarter of 2016, driven by the benefit of discrete tax items, primarily the \$5.4 million reduction of the income tax liability originally recorded in the third quarter of 2016 relating to the Section 956 of the Internal Revenue Code deemed dividend inclusion, partially offset by the less favorable mix of earnings across the AB tax filing groups. Income tax expense for the nine months ended September 30, 2017 decreased \$12.4 million, or 33.4%, compared to the nine months ended September 30, 2016. The decrease is due to a lower effective tax rate in the first nine months of 2017 of 5.1%, compared to 7.4% in the first nine months of 2016, driven by the benefit of discrete items *described above*, partially offset by the less favorable mix of earnings across the AB tax filing groups. There were no material changes to uncertain tax positions or valuation allowances against deferred tax assets during the three months and nine months ended September 30, 2017.

Net Income (Loss) of Consolidated Entities Attributable to Non-Controlling Interests

Net income (loss) of consolidated entities attributable to non-controlling interests primarily consists of limited partner interests owned by other investors in our consolidated company-sponsored investment funds. During the first nine months of 2017, we had \$50.0 million of net gains of consolidated entities attributable to non-controlling interests compared to net gains of \$14.8 million during the first nine months of 2016.

CAPITAL RESOURCES AND LIQUIDITY

During the first nine months of 2017 and 2016, net cash provided by operating activities was \$1.1 billion in each period. Lower net redemptions of seed capital and higher net purchases of broker-dealer investments of \$261.4 million and a decrease in broker-dealer related receivables (net of payables and segregated U.S. Treasury bills activity) of \$16.6 million, offset an increase in net activity of our consolidated investment funds of \$174.2 million and an increase in cash provided by net income of \$38.9 million.

During the first nine months of 2017, net cash used in investing activities was \$24.9 million, compared to \$48.7 million during the corresponding 2016 period. The change reflects the third quarter 2016 purchase of a business of \$20.5 million and lower purchases of furniture, equipment and leasehold improvements of \$3.4 million.

During the first nine months of 2017, net cash used in financing activities was \$820.5 million, compared to \$839.5 million during the corresponding 2016 period. The change reflects an increase in overdrafts payable of \$141.0 million, lower net redemptions of consolidated company-sponsored investment funds of \$27.9 million and an increase in investment by AB Holding with proceeds from exercise of options to buy AB Holding Units of \$15.3 million, offset by higher distributions to the General Partner and Unitholders of \$88.6 million as a result of higher earnings (distributions on earnings are paid one quarter in arrears), higher distributions to non-controlling interests in consolidated entities of \$43.6 million, higher net repayments of commercial paper of \$23.3 million and higher repurchases of AB Holding Units of \$5.4 million.

As of September 30, 2017, AB had \$802.2 million of cash and cash equivalents (excluding cash and cash equivalents of consolidated company-sponsored investment funds), all of which are available for liquidity, but consist primarily of cash on deposit for our broker-dealers to comply with various customer clearing activities, and cash held by foreign subsidiaries of \$513.4 million. Taxes are provided on foreign cash repatriated to the U.S.

Debt and Credit Facilities

As of September 30, 2017 and December 31, 2016, AB had \$297.4 million and \$513.0 million, respectively, in commercial paper outstanding with weighted average interest rates of approximately 1.4% and 0.9%, respectively. The commercial paper is short term in nature, and as such, recorded value is estimated to approximate fair value (and considered a Level 2 security in the fair value hierarchy). Average daily borrowings of commercial paper during the first nine months of 2017 and the full year 2016 were \$449.6 million and \$422.9 million, respectively, with weighted average interest rates of approximately 1.3% and 0.6%, respectively.

AB has a \$1.0 billion committed, unsecured senior revolving credit facility (the “Credit Facility”) with a group of commercial banks and other lenders, which matures on October 22, 2019. The Credit Facility provides for possible increases in the principal

amount by up to an aggregate incremental amount of \$250.0 million; any such increase is subject to the consent of the affected lenders. The Credit Facility is available for AB and Sanford C. Bernstein & Co., LLC ("SCB LLC") business purposes, including the support of AB's \$1.0 billion commercial paper program. Both AB and SCB LLC can draw directly under the Credit Facility and management may draw on the Credit Facility from time to time. AB has agreed to guarantee the obligations of SCB LLC under the Credit Facility.

The Credit Facility contains affirmative, negative and financial covenants, which are customary for facilities of this type, including restrictions on dispositions of assets, restrictions on liens, a minimum interest coverage ratio and a maximum leverage ratio. As of September 30, 2017, we were in compliance with these covenants. The Credit Facility also includes customary events of default (with customary grace periods, as applicable), including provisions under which, upon the occurrence of an event of default, all outstanding loans may be accelerated and/or lender's commitments may be terminated. Also, under such provisions, upon the occurrence of certain insolvency- or bankruptcy-related events of default, all amounts payable under the Credit Facility would automatically become immediately due and payable, and the lender's commitments would automatically terminate.

Amounts under the Credit Facility may be borrowed, repaid and re-borrowed by us from time to time until the maturity of the facility. Voluntary prepayments and commitment reductions requested by us are permitted at any time without fee (other than customary breakage costs relating to the prepayment of any drawn loans) upon proper notice and subject to a minimum dollar requirement. Borrowings under the Credit Facility bear interest at a rate per annum, which will be, at our option, a rate equal to an applicable margin, which is subject to adjustment based on the credit ratings of AB, plus one of the following indexes: London Interbank Offered Rate; a floating base rate; or the Federal Funds rate.

As of September 30, 2017 and December 31, 2016, we had no amounts outstanding under the Credit Facility. During the first nine months of 2017 and the full year 2016, we did not draw upon the Credit Facility.

On December 1, 2016, AB entered into a \$200.0 million, unsecured 364-day senior revolving credit facility (the "Revolver") with a leading international bank and the other lending institutions that may be party thereto. The Revolver is available for AB's and SCB LLC's business purposes, including the provision of additional liquidity to meet funding requirements primarily related to SCB LLC's operations. Both AB and SCB LLC can draw directly under the Revolver and management expects to draw on the Revolver from time to time. AB has agreed to guarantee the obligations of SCB LLC under the Revolver. The Revolver contains affirmative, negative and financial covenants that are identical to those of the Credit Facility. As of September 30, 2017 and December 31, 2016, we had no amounts outstanding under the Revolver. Average daily borrowing of the Revolver during the first nine months of 2017 and full year 2016 were \$22.7 million and \$7.3 million, respectively, with weighted average interest rates of approximately 1.9% and 1.6%, respectively.

In addition, SCB LLC has four uncommitted lines of credit with four financial institutions. Three of these lines of credit permit us to borrow up to an aggregate of approximately \$225.0 million, with AB named as an additional borrower, while one line has no stated limit. As of September 30, 2017 and December 31, 2016, SCB LLC had no bank loans outstanding. Average daily borrowings of bank loans during the first nine months of 2017 and full year 2016 were \$4.3 million and \$4.4 million, respectively, with weighted average interest rates of approximately 1.3% and 1.1%, respectively.

Our financial condition and access to public and private debt markets should provide adequate liquidity for our general business needs. Management believes that cash flow from operations and the issuance of debt and AB Units or AB Holding Units will provide us with the resources we need to meet our financial obligations. See *"Cautions Regarding Forward-Looking Statements"*.

COMMITMENTS AND CONTINGENCIES

AB's capital commitments, which consist primarily of operating leases for office space, generally are funded from future operating cash flows.

We entered into a subscription agreement, under which we committed to invest up to \$35.0 million in a venture capital fund. As of September 30, 2017, we had funded \$34.2 million of this commitment.

As general partner of AllianceBernstein U.S. Real Estate L.P. ("Real Estate Fund"), we committed to invest \$25.0 million in the Real Estate Fund. As of September 30, 2017, we had funded \$21.6 million of this commitment. As general partner of AllianceBernstein U.S. Real Estate II L.P. ("Real Estate Fund II"), we committed to invest \$28.0 million in Real Estate Fund II. As of September 30, 2017, we had funded \$9.6 million of this commitment.

We entered into an investment agreement under which we committed to invest up to \$8.0 million in an oil and gas fund. As of September 30, 2017, we had funded \$6.2 million of this commitment.

See Note 12 for discussion of contingencies.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the condensed consolidated financial statements and notes to condensed consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses.

There have been no updates to our critical accounting estimates from those disclosed in “*Management’s Discussion and Analysis of Financial Condition*” in our Form 10-K for the fiscal year ended December 31, 2016.

ACCOUNTING PRONOUNCEMENTS

See Note 2 to AB’s condensed consolidated financial statements contained in Item 1.

CAUTIONS REGARDING FORWARD-LOOKING STATEMENTS

Certain statements provided by management in this report and in the portion of AB’s Form 10-Q attached hereto as Exhibit 99.1 are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from future results expressed or implied by such forward-looking statements. The most significant of these factors include, but are not limited to, the following: the performance of financial markets, the investment performance of sponsored investment products and separately-managed accounts, general economic conditions, industry trends, future acquisitions, integration of acquired companies, competitive conditions and government regulations, including changes in tax regulations and rates and the manner in which the earnings of publicly-traded partnerships are taxed. We caution readers to carefully consider such factors. Further, these forward-looking statements speak only as of the date on which such statements are made; we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements. For further information regarding these forward-looking statements and the factors that could cause actual results to differ, see “*Risk Factors*” in Part I, Item 1A of our Form 10-K for the year ended December 31, 2016 and Part II, Item 1A in this Form 10-Q. Any or all of the forward-looking statements that we make in our Form 10-K, this Form 10-Q, other documents we file with or furnish to the SEC, and any other public statements we issue, may turn out to be wrong. It is important to remember that other factors besides those listed in “*Risk Factors*” and those listed below also could affect adversely our revenues, financial condition, results of operations and business prospects.

The forward-looking statements referred to in the preceding paragraph, most of which directly affect AB but also affect AB Holding because AB Holding’s principal source of income and cash flow is attributable to its investment in AB, include statements regarding:

- Our belief that the cash flow AB Holding realizes from its investment in AB will provide AB Holding with the resources it needs to meet its financial obligations: AB Holding’s cash flow is dependent on the quarterly cash distributions it receives from AB. Accordingly, AB Holding’s ability to meet its financial obligations is dependent on AB’s cash flow from its operations, which is subject to the performance of the capital markets and other factors beyond our control.
- Our financial condition and ability to access the public and private capital markets providing adequate liquidity for our general business needs: Our financial condition is dependent on our cash flow from operations, which is subject to the performance of the capital markets, our ability to maintain and grow client assets under management and other factors beyond our control. Our ability to access public and private capital markets on reasonable terms may be limited by adverse market conditions, our firm’s credit ratings, our profitability and changes in government regulations, including tax rates and interest rates.
- The outcome of litigation: Litigation is inherently unpredictable, and excessive damage awards do occur. Though we have stated that we do not expect any pending legal proceedings to have a material adverse effect on our results of operations, financial condition or liquidity, any settlement or judgment with respect to a pending or future legal proceeding could be significant, and could have such an effect.
- The possibility that we will engage in open market purchases of AB Holding Units to help fund anticipated obligations under our incentive compensation award program: The number of AB Holding Units AB may decide to buy in future periods, if any,

to help fund incentive compensation awards depends on various factors, some of which are beyond our control, including the fluctuation in the price of an AB Holding Unit (NYSE: AB) and the availability of cash to make these purchases.

- Our determination that adjusted employee compensation expense should not exceed 50% of our adjusted net revenues: Aggregate employee compensation reflects employee performance and competitive compensation levels. Fluctuations in our revenues and/or changes in competitive compensation levels could result in adjusted employee compensation expense exceeding 50% of our adjusted net revenues.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in AB's market risk from the information provided under "*Quantitative and Qualitative Disclosures About Market Risk*" in Part II, Item 7A of AB's Form 10-K for the year ended December 31, 2016.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Each of AB Holding and AB maintains a system of disclosure controls and procedures that is designed to ensure that information required to be disclosed in our reports under the Exchange Act is (i) recorded, processed, summarized and reported in a timely manner, and (ii) accumulated and communicated to management, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), to permit timely decisions regarding our disclosure.

As of the end of the period covered by this report, management carried out an evaluation, under the supervision and with the participation of the CEO and the CFO, of the effectiveness of the design and operation of the disclosure controls and procedures. Based on this evaluation, the CEO and the CFO concluded that the disclosure controls and procedures are effective.

Changes in Internal Control over Financial Reporting

No change in our internal control over financial reporting occurred during the third quarter of 2017 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.