UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2016

OR

o **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. 000-29961

ALLIANCEBERNSTEIN L.P.

(Exact name of registrant as specified in its charter)

Delaware	**13-4064930**
(State or other jurisdiction of incorporation or organization)	(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 x **No** o

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 x **No** o

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

Large accelerated filer o **Accelerated filer** o

Non-accelerated filer x **(Do not check if a smaller reporting company)** **Smaller reporting company** o

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

Yes o **No** x

The number of units of limited partnership interest outstanding as of June 30, 2016 was 268,777,653.

ALLIANCEBERNSTEIN L.P.
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Part I
FINANCIAL INFORMATION

Item 1. Financial Statements

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

	June 30, 2016	December 31, 2015
	(unaudited)	
ASSETS		
Cash and cash equivalents	$ 690,563	$ 541,483
Cash and securities segregated, at fair value (cost: $665,983 and $565,264)	666,169	565,274
Receivables, net:		
Brokers and dealers	383,110	411,174
Brokerage clients	1,683,263	1,328,406
Fees	241,335	257,091
Investments:		
Long-term incentive compensation-related	64,296	78,154
Other	451,886	591,646
Assets of consolidated variable interest entities:		
Cash and cash equivalents	35,076	—
Investments	247,103	—
Other assets	65,915	—
Furniture, equipment and leasehold improvements, net	160,140	160,360
Goodwill	3,044,807	3,044,807
Intangible assets, net	132,910	145,710
Deferred sales commissions, net	79,088	99,070
Other assets	272,896	210,546
Total assets	**$ 8,218,557**	**$ 7,433,721**
LIABILITIES, REDEEMABLE NON-CONTROLLING INTEREST AND CAPITAL		
Liabilities:		
Payables:		
Brokers and dealers	$ 341,949	$ 191,990
Securities sold not yet purchased	13,716	16,097
Brokerage clients	1,778,162	1,715,096
AB mutual funds	205,123	137,886
Accounts payable and accrued expenses	583,808	469,753
Liabilities of consolidated variable interest entities	63,354	—
Accrued compensation and benefits	429,934	253,079
Debt	587,228	581,700
Total liabilities	**4,003,274**	**3,365,601**
Commitments and contingencies (*See Note* 12)		
Redeemable non-controlling interest	224,566	13,203

Capital:		
General Partner	40,281	40,875
Limited partners: 268,777,653 and 272,301,827 units issued and outstanding	4,070,184	4,128,752
Receivables from affiliates	(14,257)	(14,498)
AB Holding Units held for long-term incentive compensation plans	(27,712)	(29,332)
Accumulated other comprehensive loss	(95,294)	(95,353)
Partners' capital attributable to AB Unitholders	**3,973,202**	**4,030,444**
Non-redeemable non-controlling interests in consolidated entities	17,515	24,473
Total capital	**3,990,717**	**4,054,917**
Total liabilities, redeemable non-controlling interest and capital	**$ 8,218,557**	**$ 7,433,721**

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 June 30,		Six Months Ended June 30,	
	2016	**2015**	**2016**	**2015**
Revenues:				
Investment advisory and services fees	$ 477,050	$ 515,924	$ 928,463	$ 1,009,912
Bernstein research services	115,053	121,910	241,518	247,956
Distribution revenues	97,321	111,850	190,013	221,034
Dividend and interest income	7,697	5,667	15,067	10,761
Investment gains (losses)	2,276	11,993	67,863	15,881
Other revenues	28,283	26,023	55,957	51,013
Total revenues	727,680	793,367	1,498,881	1,556,557
Less: Interest expense	1,874	630	3,949	1,249
Net revenues	725,806	792,737	1,494,932	1,555,308
Expenses:				
Employee compensation and benefits	309,249	337,640	611,260	663,967
Promotion and servicing:				
Distribution-related payments	93,217	102,578	180,344	202,964
Amortization of deferred sales commissions	10,577	12,713	21,819	25,112
Other	55,357	59,182	109,558	114,719
General and administrative:				
General and administrative	109,757	108,092	215,680	215,425
Real estate (credits) charges	(2,801)	(80)	24,785	(463)
Contingent payment arrangements	353	442	706	885
Interest on borrowings	1,052	736	2,284	1,590
Amortization of intangible assets	6,470	6,512	12,879	12,973
Total expenses	583,231	627,815	1,179,315	1,237,172
Operating income	**142,575**	**164,922**	**315,617**	**318,136**
Income taxes	10,588	9,153	20,452	19,623
Net income	**131,987**	**155,769**	**295,165**	**298,513**
Net income (loss) of consolidated entities attributable to non-controlling interests	4,843	6,675	(905)	7,950
Net income attributable to AB Unitholders	**$ 127,144**	**$ 149,094**	**$ 296,070**	**$ 290,563**
Net income per AB Unit:				
Basic	**$ 0.47**	**$ 0.54**	**$ 1.08**	**$ 1.05**
Diluted	**$ 0.47**	**$ 0.54**	**$ 1.08**	**$ 1.05**

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 June 30,		Six Months Ended June 30,	
	2016	**2015**	**2016**	**2015**
Net income	$ 131,987	$ 155,769	$ 295,165	$ 298,513
Other comprehensive income (loss):				
Foreign currency translation adjustment, before reclassification and tax:	(5,123)	7,598	102	(4,677)
Less: reclassification adjustment for gains included in net income upon liquidation	—	1,542	—	1,542
Foreign currency translation adjustments, before tax	(5,123)	6,056	102	(6,219)
Income tax expense	—	—	—	—
Foreign currency translation adjustments, net of tax	(5,123)	6,056	102	(6,219)
Unrealized (losses) on investments:				
Unrealized (losses) arising during period	(11)	(530)	(19)	(341)
Less: reclassification adjustment for losses included in net income	—	—	(3)	—
Change in unrealized (losses) on investments	(11)	(530)	(16)	(341)
Income tax benefit	4	161	3	280
Unrealized (losses) on investments, net of tax	(7)	(369)	(13)	(61)
Changes in employee benefit related items:				
Amortization of prior service cost	10	—	81	—
Recognized actuarial gain (loss)	391	238	(42)	475
Changes in employee benefit related items	401	238	39	475
Income tax expense	(4)	(3)	(75)	(65)
Employee benefit related items, net of tax	397	235	(36)	410
Other comprehensive (loss) income	(4,733)	5,922	53	(5,870)
Less: Comprehensive income (loss) in consolidated entities attributable to non-controlling interests	4,787	6,683	(910)	7,891
Comprehensive income attributable to AB Unitholders	**$ 122,467**	**$ 155,008**	**$ 296,128**	**$ 284,752**

See Accompanying Notes to Condensed Consolidated Financial Statements.

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

	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Cash flows from operating activities:		
Net income	**$ 295,165**	**$ 298,513**
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of deferred sales commissions	21,819	25,112
Non-cash long-term incentive compensation expense	4,383	9,682
Depreciation and other amortization	29,548	28,391
Unrealized gains on investments	(17,517)	(4,826)
Unrealized losses on investments of consolidated variable interest entities	2,599	—
Other, net	9,091	(8,486)
Changes in assets and liabilities:		
(Increase) decrease in segregated cash and securities	(100,895)	8,821
(Increase) in receivables	(382,084)	(87,105)
Decrease in investments	147,317	56,117
(Increase) in investments of consolidated variable interest entities	(10,630)	—
(Increase) in deferred sales commissions	(1,837)	(26,475)
(Increase) in other assets	(62,693)	(60,687)
(Increase) in other assets and liabilities of consolidated variable interest entities	(943)	—
Increase (decrease) in payables	336,812	(18,922)
Increase (decrease) in accounts payable and accrued expenses	67,807	(14,931)
Increase in accrued compensation and benefits	176,636	230,865
Net cash provided by operating activities	**514,578**	**436,069**
Cash flows from investing activities:		
Purchases of investments	—	(88)
Proceeds from sales of investments	92	—
Purchases of furniture, equipment and leasehold improvements	(20,304)	(11,730)
Proceeds from sales of furniture, equipment and leasehold improvements	—	33
Net cash used in investing activities	**(20,212)**	**(11,785)**
Cash flows from financing activities:		
(Repayment) of commercial paper, net	(46,144)	(84,907)
Proceeds from bank loans	50,000	50,000
Increase in overdrafts payable	47,630	28,901
Distributions to General Partner and Unitholders	(275,930)	(313,597)
Capital contributions from non-controlling interests in consolidated entities	—	430
Redemptions of non-controlling interests of consolidated VIEs, net	(45,534)	—
Capital contributions (to) from affiliates	(120)	793
Payments of contingent payment arrangements	(538)	(404)
Additional investments by AB Holding with proceeds from exercise of compensatory options to buy AB Holding Units	2,377	8,979
Purchases of AB Holding Units to fund long-term incentive compensation plan awards, net	(83,744)	(19,709)
Purchases of AB Units	(337)	(726)
Other	(11)	(14)
Net cash used in financing activities	**(352,351)**	**(330,254)**

Effect of exchange rate changes on cash and cash equivalents	6,324	(4,176)
Net increase in cash and cash equivalents	**148,339**	**89,854**
Cash and cash equivalents as of beginning of the period	577,300	555,503
Cash and cash equivalents as of end of the period	**$ 725,639**	**$ 645,357**
Supplemental information - consolidation of variable interest entities:		
Consolidation of cash and cash equivalents of consolidated variable interest entities	$ 35,817	$ —
Consolidation of investments of consolidated variable interest entities	215,175	—
Consolidation of other assets of consolidated variable interest entities	13,871	—
Consolidation of other liabilities of consolidated variable interest entities	14,012	—
Consolidation of redeemable non-controlling interest of consolidated variable interest entities	250,851	—

See Accompanying Notes to Condensed Consolidated Financial Statements.

ALLIANCEBERNSTEIN L.P.
AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
June 30, 2016
(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, 2015.

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 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 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

- 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 June 30, 2016, 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 1.5% of the issued and outstanding units representing assignments of beneficial ownership of limited partnership interests in AllianceBernstein Holding L.P. ("AB Holding Units").

As of June 30, 2016, the ownership structure of AB, expressed as a percentage of general and limited partnership interests, is as follows:

AXA and its subsidiaries	63.2%
AB Holding	35.6
Unaffiliated holders	1.2
	100.0%

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. Including both the general partnership and limited partnership interests in AB Holding and AB, AXA and its subsidiaries had an approximate 63.8% economic interest in AB as of June 30, 2016.

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, 2015 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").

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 for which AB is considered the primary beneficiary. Non-controlling interests on the condensed consolidated statements of financial condition includes 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.

2. Significant Accounting Policies

Recently Adopted Accounting Pronouncements

In February 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-02, *Consolidation – Amendments to the Consolidation Analysis* ("ASU 2015-02"), which provides a new consolidation standard for evaluating: (i) limited partnerships and similar entities for consolidation, (ii) how decision maker or service provider fees affect the consolidation analysis, (iii) how interest held by related parties affect the consolidation analysis and (iv) the consolidation analysis required for certain investment funds. We adopted ASU 2015-02 using the modified retrospective method with an effective adoption date of January 1, 2016, which did not require the restatement of prior-year periods. The adoption of ASU 2015-02 resulted in the consolidation of certain investment funds that were not previously consolidated. These funds became consolidated VIEs as we are considered the party with both (i) the power to direct the activities of the VIE that most significantly impact its economic performance and (ii) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE. *See Consolidation of VIEs below*.

In April 2015, the FASB issued ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs.* This standard requires debt issuance costs be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability, consistent with the presentation of a debt discount. We adopted this standard on January 1, 2016 on a retrospective basis, which required the restatement of prior periods. The adoption of this standard did not have a material impact on our financial condition or results of operations.

In May 2015, the FASB issued ASU 2015-07, *Fair Value Measurement : Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. This standard removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value ("NAV") per share practical expedient. We adopted this standard on January 1, 2016 on a retrospective basis, which required the restatement of prior-period disclosures. 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*. The amendment is effective retrospectively for fiscal years (and interim reporting periods within those years) beginning after December 15, 2017. Management currently is evaluating the impact that the adoption of this standard will have on our consolidated financial statements. We expect to have this evaluation completed in the fourth quarter of 2016.

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 March 2016, the FASB issued 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. The amendment is effective for fiscal years (and interim periods within those years) beginning after December 15, 2016 and should be applied prospectively as of the effective date of increases in the level of ownership interest or degree of influence that result in the adoption of the equity method. The amendment is not expected to 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. The amendment is effective for fiscal years (and interim periods within those years) beginning after December 15, 2016 and may be applied using various transition approaches (prospective, retrospective and modified retrospective). The amendment is not expected to have a material impact on our financial condition or results of operations.

Consolidation of VIEs

As discussed above, we adopted ASU 2015-02 effective January 1, 2016.

For legal entities evaluated for consolidation, we first determined whether the fees we receive and the interests we hold qualify as a variable interest in the entity. This included 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 performed 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 fees are compensation for services provided 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 voting interest entity (“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.

As a result of the adoption of ASU 2015-02, effective January 1, 2016, we have consolidated three investment funds that are classified as VIEs in which we have a controlling financial interest. Ownership interests not held by us relating to these consolidated VIEs are included in redeemable non-controlling interest on the condensed consolidated statement of financial condition. In addition, effective January 1, 2016, we reclassified our consolidated private equity fund as a consolidated VIE (which was consolidated as of December 31, 2015 under previous accounting guidance due to our controlling financial interest of a VOE). Ownership interests not held by us relating to this consolidated VIE, which is a closed-end fund, are included in non-controlling interest on the condensed consolidated statement of financial condition. The supplemental information included on the condensed consolidated statement of cash flows relates to balance sheet amounts of the three investment funds consolidated as of January 1, 2016.

As of June 30, 2016, the net assets of company-sponsored investment products that are non-consolidated VIEs are approximately $39.2 billion, and our maximum risk of loss is our investment of $6.1 million in these VIEs and advisory fee receivables from these VIEs, which are not material.

3. Long-term Incentive Compensation Plans

We maintain an unfunded, non-qualified long-term incentive compensation plan, under which we grant annual awards to employees, generally in the fourth quarter, and to members of the Board of Directors, who are not employed by us or 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 six months ended June 30, 2016, we purchased 1.9 million and 3.8 million AB Holding Units for $44.3 million and $84.0 million, respectively (on a trade date basis). These amounts reflect open-market purchases of 1.9 million and 3.7 million AB Holding Units for $43.9 million and $82.0 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 six months ended June 30, 2015, we purchased 0.1 million and 0.8 million AB Holding Units for $4.3 million and $21.3 million, respectively (on a trade date basis). These amounts reflected open-market purchases of 0.1 million and 0.7 million AB Holding Units for $4.0 million and $19.0 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 consolidated statements of cash flows are net of AB Holding Unit purchases by employees as part of a distribution reinvestment election.

Each quarter, we implement plans 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 2016 expired at the close of business on July 27, 2016. 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 six months of both 2016 and 2015, we granted to employees and Eligible Directors 0.3 million restricted AB Holding Unit awards. We used AB Holding Units repurchased during the period and newly-issued AB Holding Units to fund these awards.

During the first six months of 2016 and 2015, AB Holding issued 0.1 million and 0.5 million AB Holding Units, respectively, upon exercise of options to buy AB Holding Units. AB Holding used the proceeds of $2.4 million and $9.0 million, respectively, received from employees 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 that one or more non-GAAP adjustments that are made for adjusted net income should not be made with respect to the Available Cash Flow calculation.

On July 28, 2016, the General Partner declared a distribution of $0.46 per AB Unit, representing a distribution of Available Cash Flow for the three months ended June 30, 2016. 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 August 25, 2016 to holders of record on August 8, 2016.

5. Real Estate Charges

During 2010, we performed a comprehensive review of our real estate requirements in New York in connection with our workforce reductions, which commenced in 2008. As a result, during 2010 we decided to sub-lease over 380,000 square feet in New York (all of this space has been sublet) and consolidate our New York-based employees into two office locations from three. During the third quarter of 2012, in an effort to further reduce our global real estate footprint, we completed a comprehensive review of our worldwide office locations and began implementing a global space consolidation plan. As a result, we decided to sub-lease approximately 510,000 square feet of office space (all of this space has been sublet), more than 70% of which is New York office space (in addition to the 380,000 square foot space reduction in 2010), with the remainder consisting of office space in England, Australia and various U.S. locations.

During the first six months of 2016, we recorded pre-tax real estate charges of $24.8 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 $1.9 million.

The activity in the liability account relating to our 2010 and 2012 office space consolidation initiatives for the following periods is as follows:

	Six Months Ended June 30, 2016	Twelve Months Ended December 31, 2015
	(in thousands)	
Balance as of beginning of period	$ 116,064	$ 148,429
Expense (credit) incurred	(836)	2,258
Payments made	(13,464)	(38,920)
Interest accretion	2,142	4,297
Balance as of end of period	**$ 103,906**	**$ 116,064**

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 June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in thousands, except per unit amounts)			
Net income attributable to AB Unitholders	$ 127,144	$ 149,094	$ 296,070	$ 290,563
Weighted average units outstanding – basic	269,720	272,858	270,787	272,844
Dilutive effect of compensatory options to buy AB Holding Units	650	1,253	534	1,184
Weighted average units outstanding – diluted	270,370	274,111	271,321	274,028
Basic net income per AB Unit	**$ 0.47**	**$ 0.54**	**$ 1.08**	**$ 1.05**
Diluted net income per AB Unit	**$ 0.47**	**$ 0.54**	**$ 1.08**	**$ 1.05**

For the three and six months ended June 30, 2016, we excluded 2,793,454 and 2,873,106 options, respectively, from the diluted net income per unit computation due to their anti-dilutive effect. For the three and six months ended June 30, 2015, we excluded 2,383,589 options from the diluted net income per unit computation due to their anti-dilutive effect.

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

As of June 30, 2016 and December 31, 2015, $0.6 billion and $0.5 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 June 30, 2016 and December 31, 2015, $61.6 million and $55.4 million, respectively, of cash was segregated in these bank accounts.

8. Investments

Investments consist of:

	June 30, 2016	December 31, 2015
	(in thousands)	
Available-for-sale	$ 305	$ 364
Trading:		
Long-term incentive compensation-related	47,681	59,150
U.S. Treasury Bills	29,899	24,942
Seed capital	271,787	406,322
Equities	67,610	43,584
Exchange-traded options	8,045	5,910
Investments in limited partnership hedge funds:		
Long-term incentive compensation-related	16,615	19,004
Seed capital	20,565	20,082
Consolidated private equity fund	—	23,897
Private equity	35,999	48,761
Investments held by consolidated VIEs	247,103	—
Other	17,676	17,784
Total investments	**$ 763,285**	**$ 669,800**

Total investments related to long-term incentive compensation obligations of $64.3 million and $78.2 million as of June 30, 2016 and December 31, 2015, respectively, consist of company-sponsored mutual funds and hedge funds. For long-term incentive compensation awards granted before 2009, we typically made investments in our services 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 our consolidated venture capital fund, which holds technology, media, telecommunications, healthcare and clean-tech investments, and a third-party venture capital fund that invests in communications, consumer, digital media, healthcare and information technology markets. As of June 30, 2016 and December 31, 2015, our seed capital investments were $385.2 million and $478.0 million, respectively.

Our consolidated venture capital fund, previously consolidated under the voting interest entity model, is considered a consolidated VIE effective January 1, 2016 upon the adoption of ASU 2015-02.

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

The portion of trading gains (losses) for the three and six months ended June 30, 2016 and 2015 related to trading securities held as of June 30, 2016 and 2015 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in thousands)			
Net gains (losses) recognized during the period	$ 7,394	$ (1,432)	$ 8,626	$ 5,352
Less: net (losses) gains recognized during the period on trading securities sold during the period	(2,335)	506	(12,696)	6,553
Unrealized gains (losses) recognized during the period on trading securities held	**$ 9,729**	**$ (1,938)**	**$ 21,322**	**$ (1,201)**

9. Derivative Instruments

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 June 30, 2016 and December 31, 2015 for derivative instruments (excluding 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)	
June 30, 2016:			
Exchange-traded futures	$ 82,680	$ 827	$ 1,750
Currency forwards	184,612	3,848	4,607
Interest rate swaps	36,548	565	1,780
Credit default swaps	20,636	1,153	385
Option swaps	157	191	34
Total return swaps	61,415	423	992
Total derivatives	**$ 386,048**	**$ 7,007**	**$ 9,548**
December 31, 2015:			
Exchange-traded futures	$ 160,755	$ 1,539	$ 2,651
Currency forwards	262,873	4,604	4,077
Interest rate swaps	65,484	2,945	3,745
Credit default swaps	29,421	2,089	774
Option swaps	24	9	2
Total return swaps	146,001	1,402	972
Total derivatives	**$ 664,558**	**$ 12,588**	**$ 12,221**

As of June 30, 2016 and December 31, 2015, 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 six months ended June 30, 2016 and 2015 recognized in investment gains (losses) in the condensed consolidated statements of income were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in thousands)			
Exchange-traded futures	$ (913)	$ 1,428	$ 2,433	$ (3,559)
Currency forwards	(685)	(1,294)	(1,820)	2,158
Interest rate swaps	(559)	415	(1,931)	(330)
Credit default swaps	(198)	(158)	(606)	(215)
Options swaps	39	(4)	87	(21)
Total return swaps	(2,736)	2,086	(6,772)	(1,615)
Net (losses) gains on derivative instruments	**$ (5,052)**	**$ 2,473**	**$ (8,609)**	**$ (3,582)**

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 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 June 30, 2016 and December 31, 2015, we held $0.8 million and $1.5 million, respectively, 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 June 30, 2016 and December 31, 2015, we delivered $5.9 million and $12.8 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 June 30, 2016 and December 31, 2015, we held $8.0 million and $5.9 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 both June 30, 2016 and December 31, 2015, we held $0.8 million 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 six months ended June 30, 2016, we recognized $8.1 million and $16.7 million, respectively, of losses on equity options activity. For the three and six months ended June 30, 2015, we recognized $7.6 million and $40.4 million, respectively, of losses on equity options activity. These losses are recognized in investment gains (losses) in the condensed consolidated statements of income.

As of June 30, 2016, our consolidated VIEs held $1.5 million (net) of futures, forwards and swaps within their portfolios. For the three and six months ended June 30, 2016, we recognized $0.3 million of losses and $2.7 million of gains, respectively, on these derivative positions. These gains are recognized in investment gains (losses) in the condensed consolidated statements of income. As of June 30, 2016, the consolidated VIEs held $0.4 million of cash collateral payable to trade counterparties. This obligation to return cash is reported in the liabilities of consolidated VIEs in our condensed consolidated statements of financial condition. As of June 30, 2016, the consolidated VIEs delivered $9.5 million of cash collateral into brokerage accounts. The consolidated VIEs report this cash collateral in the consolidated VIEs cash and cash equivalents in our condensed consolidated statements of financial condition.

10. Offsetting Assets and Liabilities

Offsetting of assets as of June 30, 2016 and December 31, 2015 was as follows:

	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Assets Presented in the Statement of Financial Position	Financial Instruments	Cash Collateral Received	Net Amount
	(in thousands)					
June 30, 2016:						
Securities borrowed	$ 33,967	$ —	$ 33,967	$ —	$ (33,967)	$ —
Derivatives	$ 7,007	$ —	$ 7,007	$ —	$ (810)	$ 6,197
Derivatives held by consolidated VIEs	$ 58,999	$ —	$ 58,999	$ —	$ (422)	$ 58,577
Long exchange-traded options	$ 8,045	$ —	$ 8,045	$ —	$ —	$ 8,045
December 31, 2015:						
Securities borrowed	$ 75,274	$ —	$ 75,274	$ —	$ (75,274)	$ —
Derivatives	$ 12,588	$ —	$ 12,588	$ —	$ (1,518)	$ 11,070
Long exchange-traded options	$ 5,910	$ —	$ 5,910	$ —	$ —	$ 5,910

Offsetting of liabilities as of June 30, 2016 and December 31, 2015 was as follows:

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Liabilities Presented in the Statement of Financial Position	Financial Instruments	Cash Collateral Pledged	Net Amount
	(in thousands)					
June 30, 2016:						
Securities loaned	$ 13,200	$ —	$ 13,200	$ —	$ (13,200)	$ —
Derivatives	$ 9,548	$ —	$ 9,548	$ —	$ (5,905)	$ 3,643
Derivatives held by consolidated VIEs	$ 57,467	$ —	$ 57,467	$ —	$ (9,493)	$ 47,974
Short exchange-traded options	$ 772	$ —	$ 772	$ —	$ —	$ 772
December 31, 2015:						
Securities loaned	$ 9,518	$ —	$ 9,518	$ —	$ (9,518)	$ —
Derivatives	$ 12,221	$ —	$ 12,221	$ —	$ (12,221)	$ —
Short exchange-traded options	$ 843	$ —	$ 843	$ —	$ —	$ 843

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

11. Fair Value

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 June 30, 2016 and December 31, 2015 was as follows (in thousands):

	Level 1	Level 2	Level 3	Total
June 30, 2016:				
Money markets	$ 115,570	$ —	$ —	$ 115,570
U.S. Treasury Bills	—	634,440	—	634,440
Available-for-sale				
Equity securities	203	—	—	203
Fixed income securities	102	—	—	102
Trading				
Equity securities	255,744	817	107	256,668
Fixed income securities	129,676	689	—	130,365
Long exchange-traded options	8,045	—	—	8,045
Derivatives	827	6,180	—	7,007
Private equity	—	—	4,831	4,831
Consolidated VIEs				
Investments	100,619	134,689	11,713	247,021
Derivatives	485	56,842	—	57,327
Total assets measured at fair value	**$ 611,271**	**$ 833,657**	**$ 16,651**	**$ 1,461,579**
Securities sold not yet purchased				
Short equities – corporate	$ 12,944	$ —	$ —	$ 12,944
Short exchange-traded options	772	—	—	772
Derivatives	1,750	7,798	—	9,548
Consolidated VIEs - derivatives	442	57,025	—	57,467
Contingent payment arrangements	—	—	30,861	30,861
Total liabilities measured at fair value	**$ 15,908**	**$ 64,823**	**$ 30,861**	**$ 111,592**
December 31, 2015:				
Money markets	$ 116,445	$ —	$ —	$ 116,445
U.S. Treasury Bills	—	485,121	—	485,121
Available-for-sale				
Equity securities	181	—	—	181
Fixed income securities	183	—	—	183
Trading				
Equity securities	304,083	22,039	113	326,235
Fixed income securities	180,194	2,582	—	182,776
Long exchange-traded options	5,910	—	—	5,910
Derivatives	1,539	11,049	—	12,588
Private equity	14,305	—	16,035	30,340
Total assets measured at fair value	**$ 622,840**	**$ 520,791**	**$ 16,148**	**$ 1,159,779**
Securities sold not yet purchased				
Short equities – corporate	$ 15,254	$ —	$ —	$ 15,254
Short exchange-traded options	843	—	—	843
Derivatives	2,651	9,570	—	12,221
Contingent payment arrangements	—	—	31,399	31,399
Total liabilities measured at fair value	**$ 18,748**	**$ 9,570**	**$ 31,399**	**$ 59,717**

Included in Note 8, Investments, but excluded in the above fair value table, are the following investments:

- Limited partnership hedge funds, which are recorded using the equity method of accounting;
- One private equity investment ($10.2 million as of December 31, 2015; sold in the first quarter of 2016), which is recorded using the cost method of accounting;
- Other investments, which primarily include miscellaneous investments recorded using the cost or equity method of accounting and long-term deposits; and
- One private equity investment ($31.2 million and $32.0 million as of June 30, 2016 and December 31, 2015, respectively) which is measured at fair value using NAV (or its equivalent) as a practical expedient.

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: As of December 31, 2015, private equity investments include the investments of our consolidated venture capital fund and our investment in a private equity energy fund. As of June 30, 2016, the consolidated venture capital fund is classified as a consolidated VIE (*see Note 2*) and is discussed separately below; our investment in a private equity energy fund remains. 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. Also, 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 acquisitions in 2010, 2013 and 2014. 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.

- Consolidated VIEs: Three of our consolidated VIEs are open-end Luxembourg funds investing in (i) high yield debt issued by U.S. corporations and related derivatives, (ii) fixed income securities issued by Asia-Pacific issuers and related derivatives, and (iii) equity securities, including common and preferred stocks, convertible securities, depositary receipts and securities of real estate investment trusts. In addition, our venture capital fund, which is classified as a consolidated VIE effective January 1, 2016, holds both private equity investments as well as private equity investments that became publicly-traded. The investments and derivatives held by the consolidated VIEs are included in Levels 1, 2 and 3 of the valuation hierarchy.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in thousands)			
Balance as of beginning of period	$ 22,028	$ 27,739	$ 16,148	$ 27,813
Transfer out	—	—	—	(26)
Activity related to consolidate VIEs	(3,712)	—	2,179	—
Purchases	—	76	—	198
Sales	—	(14,178)	—	(14,178)
Realized gains (losses), net	—	7,177	—	1,983
Unrealized (losses) gains, net	(1,665)	(675)	(1,676)	4,349
Balance as of end of period	**$ 16,651**	**$ 20,139**	**$ 16,651**	**$ 20,139**

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.

Also, as of June 30, 2016, our three consolidated VIEs that are open-end Luxembourg funds hold $2.4 million of investments that are classified as Level 3. They primarily consist of corporate bonds that are vendor priced with no ratings available, bank loans, non-agency collateralized mortgage obligations and asset-backed securities. The remainder of the activity related to consolidated VIEs pertains to our consolidated venture capital fund.

Quantitative information about private equity Level 3 fair value measurements as of June 30, 2016 and December 31, 2015 is as follows:

	Fair Value	Valuation Technique	Unobservable Input	Range
	(in thousands)			
Private Equity as of June 30, 2016 (included in consolidated VIEs' investments):				
Technology, Media and Telecommunications	$ 9,346	Market comparable transactions	Revenue multiple	1.7 - 2.9
			Marketability discount	15 - 30%
Private Equity as of December 31, 2015:				
Technology, Media and Telecommunications	$ 9,527	Market comparable transactions	Revenue multiple	2.5 - 4.8
			Marketability discount	30%

The significant unobservable inputs used in the fair value measurement of the reporting entities' venture capital securities in the Technology, Media and Telecommunications areas are enterprise value to revenue multiples and a discount to account for liquidity and various risk factors. Significant increases (decreases) in the enterprise value to revenue multiple inputs in isolation would result in a significantly higher (lower) fair value measurement. Significant increases (decreases) in the discount would result in a significantly lower (higher) fair value measurement.

In addition, as of June 30, 2016 and December 31, 2015, we have an investment in a private equity fund focused exclusively on the energy sector (fair value of $4.8 million and $6.5 million) 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.

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 June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in thousands)			
Balance as of beginning of period	$ 31,119	$ 42,223	$ 31,399	$ 42,436
Accretion	353	442	706	885
Payments	(611)	(633)	(1,244)	(1,289)
Balance as of end of period	**$ 30,861**	**$ 42,032**	**$ 30,861**	**$ 42,032**

Our three acquisition-related contingent consideration liabilities (with a combined fair value of $30.9 million as of June 30, 2016 and $31.4 million as of December 31, 2015) currently are valued using a projected AUM weighted average growth rate of 46%, a revenue growth rate of 43%, and a discount rate of 3% (using a cost of debt assumption).

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 six months ended June 30, 2016 or during the year ended December 31, 2015.

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.

During the first quarter of 2012, we received a legal letter of claim ("Letter of Claim") sent on behalf of Philips Pension Trustees Limited and Philips Electronics U.K. Limited ("Philips"), a former pension fund client, alleging that AllianceBernstein Limited (one of our subsidiaries organized in the U.K.) was negligent and failed to meet certain applicable standards of care with respect to the initial investment in, and management of, a £500 million portfolio of U.S. mortgage-backed securities. Philips has alleged damages ranging between $177 million and $234 million, plus compound interest on an alleged $125 million of realized losses in the portfolio. On January 2, 2014, Philips filed a claim form ("Claim") in the High Court of Justice in London, England, which formally commenced litigation with respect to the allegations in the Letter of Claim.

We believe that any losses to Philips resulted from adverse developments in the U.S. housing and mortgage market that precipitated the financial crisis in 2008 and not from any negligence or other failure or malfeasance on our part. We believe that we have strong defenses to these claims, which are set forth in our October 12, 2012 response to the Letter of Claim and our June 27, 2014 Statement of Defence in response to the Claim, and intend to defend this matter vigorously.

In addition to the Claim *discussed immediately above*, we are involved in various other matters, including regulatory inquiries, administrative proceedings and litigation, some of which allege significant damages.

In management's opinion, an adequate accrual has been made as of June 30, 2016 to provide for any probable losses regarding any litigation matters for which we can reasonably estimate an amount of loss. It is reasonably possible that we could incur additional losses pertaining to these matters, but currently we cannot estimate any such additional 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. Units Outstanding

Changes in AB Units outstanding during the six-month period ended June 30, 2016 were as follows:

Outstanding as of December 31, 2015	272,301,827
Options exercised	139,093
Units issued	323,094
Units retired	(3,986,361)
Balance as of June 30, 2016	**268,777,653**

During the first six months of 2016, we purchased 14,338 AB Units in private transactions and retired them.

14. Debt

As of June 30, 2016 and December 31, 2015, AB had $537.2 million and $581.7 million, respectively, in commercial paper outstanding with weighted average interest rates of approximately 0.6% and 0.5%, 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 six months of 2016 and the full year 2015 were $475.8 million and $387.9 million, respectively, with weighted average interest rates of approximately 0.6% and 0.3%, respectively.

In addition, SCB LLC has three uncommitted lines of credit with four financial institutions. Two of these lines of credit permit us to borrow up to an aggregate of approximately $200.0 million, with AB named as an additional borrower, while one line has no stated limit. As of June 30, 2016, SCB LLC had $50.0 million in bank loans outstanding at a weighted average interest rate of 1.0%. As of December 31, 2015, SCB LLC had no bank loans outstanding. Average daily borrowings of bank loans during the first six months of 2016 and full year 2015 were $6.3 million and $3.9 million, respectively, with weighted average interest rates of approximately 0.8% and 1.2%, respectively.

15. Changes in Capital

Changes in capital during the six-month period ended June 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	$ 4,030,444	$ 24,473	$ 4,054,917
Comprehensive income:			
Net income	296,070	(6,953)	289,117
Other comprehensive income, net of tax:			
Unrealized (losses) on investments	(13)	—	(13)
Foreign currency translation adjustments	107	(5)	102
Changes in employee benefit related items	(36)	—	(36)
Comprehensive income	**296,128**	**(6,958)**	**289,170**
Distributions to General Partner and unitholders	(275,930)	—	(275,930)
Compensation-related transactions	(76,983)	—	(76,983)
Capital contributions to affiliates	(120)	—	(120)
Other	(337)	—	(337)
Balance as of June 30, 2016	**$ 3,973,202**	**$ 17,515**	**$ 3,990,717**

Changes in capital during the six-month period ended June 30, 2015 were as follows:

	Partners' Capital Attributable to AB Unitholders	Non-Controlling Interests In Consolidated Entities	Total Capital
		(in thousands)	
Balance as of December 31, 2014	$ 4,085,465	$ 30,396	$ 4,115,861
Comprehensive income:			
Net income	290,563	7,950	298,513
Other comprehensive income, net of tax:			
Unrealized (losses) on investments	(61)	—	(61)
Foreign currency translation adjustments	(6,160)	(59)	(6,219)
Changes in employee benefit related items	410	—	410
Comprehensive income	**284,752**	**7,891**	**292,643**
Distributions to General Partner and unitholders	(313,597)	—	(313,597)
Compensation-related transactions	(1,047)	—	(1,047)
Capital contributions from affiliates	793	—	793
Other	(726)	430	(296)
Balance as of June 30, 2015	**$ 4,055,640**	**$ 38,717**	**$ 4,094,357**

Deferred taxes are not recognized on foreign currency translation adjustments for foreign subsidiaries, which have earnings that are considered permanently invested outside the United States.

16. Non-controlling Interests

As discussed in Note 2, we adopted ASU 2015-02 effective January 1, 2016. As a result, we are disclosing below the components of non-controlling interest.

Non-controlling interest in net income for the three and six months ended June 30, 2016 and 2015 consisted of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	**2015**	**2016**	**2015**
	(in thousands)			
Consolidated VIEs	$ 4,742	$ —	$ (1,106)	$ —
Consolidated private equity fund	—	6,579	—	7,716
Other	101	96	201	234
Total non-controlling interest in net income (loss)	**$ 4,843**	**$ 6,675**	**$ (905)**	**$ 7,950**

Non-redeemable non-controlling interest as of June 30, 2016 and December 31, 2015 are summarized as follows:

	June 30, 2016	**December 31, 2015**
	(in thousands)	
Consolidated VIEs	$ 16,019	$ —
Consolidated private equity fund	—	23,171
Other	1,496	1,302
Total non-redeemable non-controlling interest	**$ 17,515**	**$ 24,473**

Redeemable non-controlling interest as of June 30, 2016 and December 31, 2015 are summarized as follows:

	June 30, 2016	**December 31, 2015**
	(in thousands)	
Consolidated VIEs	$ 211,363	$ —
CPH Capital Fondsmaeglerselskab A/S acquisition	13,203	13,203
Total redeemable non-controlling interest	**$ 224,566**	**$ 13,203**

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

Executive Overview

Our total assets under management ("AUM") as of June 30, 2016 were $489.5 billion, up $10.5 billion, or 2.2%, compared to March 31, 2016, and up $4.4 billion, or 0.9%, compared to June 30, 2015. During the second quarter of 2016, AUM increased as a result of market appreciation of $10.0 billion and net inflows of $3.5 billion (primarily Retail), offset by adjustments to remove $3.0 billion of Customized Retirement Solutions assets from AUM as our asset management services transitioned to consulting services, with no impact on total fee revenue. During the twelve months ended June 30, 2016, AUM increased as a result of market appreciation of $6.9 billion and net inflows of $0.7 billion, offset by adjustments of $3.2 billion.

Institutional AUM increased $4.0 billion, or 1.6%, to $248.8 billion during the second quarter of 2016, due to market appreciation of $6.0 billion and net inflows of $1.0 billion, offset by adjustments of $3.0 billion (as discussed above). Gross sales increased 15.4% sequentially from $4.5 billion during the first quarter of 2016 to $5.2 billion during the second quarter of 2016. However, redemptions and terminations increased 78.5% sequentially from $1.3 billion to $2.4 billion.

Retail AUM increased $5.5 billion, or 3.6%, to $161.4 billion during the second quarter of 2016, due to market appreciation of $3.2 billion and net inflows of $2.3 billion. Gross sales increased 40.3% sequentially from $7.7 billion during the first quarter of 2016 to $10.8 billion during the second quarter of 2016, while redemptions and terminations increased 5.4% sequentially from $7.1 billion to $7.5 billion.

Private Wealth Management AUM increased $1.0 billion, or 1.3%, to $79.3 billion during the second quarter of 2016, due to market appreciation of $0.8 billion and net inflows of $0.2 billion. Gross sales decreased 26.4% sequentially from $3.2 billion during the first quarter of 2016 to $2.4 billion during the second quarter of 2016. Redemptions and terminations were flat compared to the first quarter of 2016.

Bernstein Research Services revenue for the second quarter of 2016 was $115.1 million, down $6.9 million, or 5.6%, compared to the second quarter of 2015, as a result of a slowdown in client activity and lower market levels in Asia and foreign exchange translation effects in Europe.

Net revenues for the second quarter of 2016 decreased $66.9 million, or 8.4%, to $725.8 million from $792.7 million in the second quarter of 2015. The drivers of the decrease were lower base advisory fees of $25.4 million, lower distribution revenues of $14.5 million, lower performance-based fees of $13.5 million, lower investment gains of $9.7 million and lower Bernstein Research Services revenue of $6.9 million. Operating expenses for the second quarter of 2016 decreased $44.6 million, or 7.1%, to $583.2 million from $627.8 million in the second quarter of 2015. The decrease primarily was due to lower employee compensation and benefits of $28.4 million and lower promotion and servicing of $15.3 million. Our operating income decreased $22.3 million, or 13.6%, to $142.6 million from $164.9 million and our operating margin decreased to 19.0% in the second quarter of 2016 from 20.0% in the second quarter of 2015.

Market Environment

Market volatility continued during the second quarter of 2016, as social and political unrest, including the United Kingdom's decision to leave the European Union, and uncertainty about economic growth, interest rates and equity valuations dampened client sentiment and activity levels and caused investors to favor the perceived safety of passive investments. Consequently, bond yields decreased to historic lows, as the result of large inflows into fixed income strategies, and investors in active equity strategies redeemed billions of dollars in investments. Specifically, during the second quarter of 2016, investors redeemed $79 billion from U.S. active equity strategies and invested $40 billion in U.S. active fixed income strategies.

Third Quarter 2016 AUM Redemptions

As indicated in our news release announcing AUM as of June 30, 2016, our 529 *CollegeBound* Fund relationship with the State of Rhode Island has officially ended and all of the assets have now been redeemed. The $6.7 billion of AUM as of June 30, 2016, including $6.3 billion from Retail and $400 million from Private Wealth, was redeemed during July 2016.

In addition, since acquiring the SunAmerica Alternative Investment Group from AIG in 2010 we have been managing a portfolio of AIG's hedge fund and private equity fund assets (approximately $7 billion as of June 30, 2016) for a low fee. Recently, AIG decided to significantly reduce its hedge fund exposure and to begin managing its remaining private equity fund assets in-house. The transfer of the management of these assets back to AIG has begun and we expect the process to be completed by September 30, 2016.

Assets Under Management

Assets under management by distribution channel are as follows:

	As of June, 2016	As of June, 2015	$ Change	% Change
	(in billions)			
Institutions	$ 248.8	$ 244.2	$ 4.6	1.9%
Retail	161.4	163.0	(1.6)	(1.0)
Private Wealth Management	79.3	77.9	1.4	1.7
Total	**$ 489.5**	**$ 485.1**	**$ 4.4**	**0.9**

Assets under management by investment service are as follows:

	As of June 30, 2016	As of June 30, 2015	$ Change	% Change
	(in billions)			
Equity				
Actively Managed	$ 109.2	$ 115.4	$ (6.2)	(5.4)%
Passively Managed[(1)]	46.3	50.3	(4.0)	(8.0)
Total Equity	**155.5**	**165.7**	**(10.2)**	**(6.2)**
Fixed Income				
Actively Managed				
Taxable	229.4	215.1	14.3	6.6
Tax–exempt	37.1	32.5	4.6	14.4
	266.5	247.6	18.9	7.6
Passively Managed[(1)]	11.9	10.0	1.9	18.6
Total Fixed Income	**278.4**	**257.6**	**20.8**	**8.1**
Other[(2)]	**55.6**	**61.8**	**(6.2)**	**(10.0)**
Total	**$ 489.5**	**$ 485.1**	**$ 4.4**	**0.9**

(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, six-month and twelve-month periods ended June 30, 2016 are as follows:

	Distribution Channel			
	Institutions	Retail	Private Wealth Management	Total
	(in billions)			
Balance as of March 31, 2016	$ 244.8	$ 155.9	$ 78.3	$ 479.0
Long-term flows:				
Sales/new accounts	5.2	10.8	2.4	18.4
Redemptions/terminations	(2.4)	(7.5)	(2.1)	(12.0)
Cash flow/unreinvested dividends	(1.8)	(1.0)	(0.1)	(2.9)
Net long-term inflows	1.0	2.3	0.2	3.5
AUM adjustments(1)	(3.0)	—	—	(3.0)
Market appreciation	6.0	3.2	0.8	10.0
Net change	4.0	5.5	1.0	10.5
Balance as of June 30, 2016	**$ 248.8**	**$ 161.4**	**$ 79.3**	**$ 489.5**
Balance as of December 31, 2015	$ 236.2	$ 154.4	$ 76.8	$ 467.4
Long-term flows:				
Sales/new accounts	9.7	18.6	5.5	33.8
Redemptions/terminations	(3.7)	(14.6)	(4.2)	(22.5)
Cash flow/unreinvested dividends	(3.2)	(2.3)	(0.1)	(5.6)
Net long-term inflows	2.8	1.7	1.2	5.7
AUM adjustments(1)	(3.0)	—	—	(3.0)
Transfers	—	—	—	—
Market appreciation	12.8	5.3	1.3	19.4
Net change	12.6	7.0	2.5	22.1
Balance as of June 30, 2016	**$ 248.8**	**$ 161.4**	**$ 79.3**	**$ 489.5**
Balance as of June 30, 2015	$ 244.2	$ 163.0	$ 77.9	$ 485.1
Long-term flows:				
Sales/new accounts	18.0	34.6	9.7	62.3
Redemptions/terminations	(8.4)	(32.0)	(8.4)	(48.8)
Cash flow/unreinvested dividends	(8.7)	(4.0)	(0.1)	(12.8)
Net long-term inflows (outflows)	0.9	(1.4)	1.2	0.7
AUM adjustments(1)	(3.0)	(0.2)	—	(3.2)
Market appreciation	6.7	—	0.2	6.9
Net change	4.6	(1.6)	1.4	4.4
Balance as of June 30, 2016	**$ 248.8**	**$ 161.4**	**$ 79.3**	**$ 489.5**

(1) During the second quarter of 2016, we removed $3.0 billion of Customized Retirement Solutions assets from AUM as our asset management services transitioned to consulting services. In addition, we previously made minor adjustments to reported AUM for reporting methodology changes that do not represent inflows or outflows.

	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 March 31, 2016	$ 110.1	$ 45.5	$ 219.1	$ 35.0	$ 10.3	$ 59.0	$ 479.0
Long-term flows:							
Sales/new accounts	3.1	0.2	12.0	2.4	0.1	0.6	18.4
Redemptions/terminations	(3.9)	—	(6.3)	(1.1)	(0.1)	(0.6)	(12.0)
Cash flow/unreinvested dividends	(0.7)	(0.2)	(2.4)	0.1	1.5	(1.2)	(2.9)
Net long-term (outflows) inflows	(1.5)	—	3.3	1.4	1.5	(1.2)	3.5
AUM adjustments(3)	—	—	—	—	—	(3.0)	(3.0)
Market appreciation	0.6	0.8	7.0	0.7	0.1	0.8	10.0
Net change	(0.9)	0.8	10.3	2.1	1.6	(3.4)	10.5
Balance as of June 30, 2016	**$ 109.2**	**$ 46.3**	**$ 229.4**	**$ 37.1**	**$ 11.9**	**$ 55.6**	**$ 489.5**
Balance as of December 31, 2015	$ 110.6	$ 46.4	$ 207.4	$ 33.5	$ 10.0	$ 59.5	$ 467.4
Long-term flows:							
Sales/new accounts	6.9	0.3	20.5	4.5	0.1	1.5	33.8
Redemptions/terminations	(7.8)	(0.4)	(10.7)	(2.2)	(0.2)	(1.2)	(22.5)
Cash flow/unreinvested dividends	(0.7)	(0.7)	(3.8)	0.1	1.3	(1.8)	(5.6)
Net long-term (outflows) inflows	(1.6)	(0.8)	6.0	2.4	1.2	(1.5)	5.7
AUM adjustments(3)	—	—	—	—	—	(3.0)	(3.0)
Market appreciation	0.2	0.7	16.0	1.2	0.7	0.6	19.4
Net change	(1.4)	(0.1)	22.0	3.6	1.9	(3.9)	22.1
Balance as of June 30, 2016	**$ 109.2**	**$ 46.3**	**$ 229.4**	**$ 37.1**	**$ 11.9**	**$ 55.6**	**$ 489.5**

Balance as of June 30, 2015	$ 115.4	$ 50.3	$ 215.1	$ 32.5	$ 10.0	$ 61.8	$ 485.1
Long-term flows:							
Sales/new accounts	16.6	1.0	34.1	6.9	0.5	3.2	62.3
Redemptions/terminations	(15.8)	(1.6)	(23.6)	(4.3)	(0.5)	(3.0)	(48.8)
Cash flow/unreinvested dividends	(2.0)	(2.6)	(7.4)	0.1	1.3	(2.2)	(12.8)
Net long-term (outflows) inflows	(1.2)	(3.2)	3.1	2.7	1.3	(2.0)	0.7
AUM adjustments[3]	—	—	—	(0.2)	—	(3.0)	(3.2)
Market (depreciation) appreciation	(5.0)	(0.8)	11.2	2.1	0.6	(1.2)	6.9
Net change	(6.2)	(4.0)	14.3	4.6	1.9	(6.2)	4.4
Balance as of June 30, 2016	**$ 109.2**	**$ 46.3**	**$ 229.4**	**$ 37.1**	**$ 11.9**	**$ 55.6**	**$ 489.5**

(1) Includes index and enhanced index services.

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

(3) During the second quarter of 2016, we removed $3.0 billion of Customized Retirement Solutions assets from AUM as our asset management services transitioned to consulting services. In addition, we previously made minor adjustments to reported AUM for reporting methodology changes that do not represent inflows or outflows.

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

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	$ Change	% Change	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015	$ Change	% Change
	(in billions)				(in billions)			
Distribution Channel:								
Institutions	$ 246.8	$ 249.9	$ (3.1)	(1.2)%	$ 241.8	$ 246.0	$ (4.2)	(1.7)%
Retail	159.0	164.5	(5.5)	(3.4)	155.1	163.6	(8.5)	(5.2)
Private Wealth Management	78.7	78.2	0.5	0.6	77.5	77.4	0.1	0.1
Total	**$ 484.5**	**$ 492.6**	**$ (8.1)**	**(1.6)**	**$ 474.4**	**$ 487.0**	**$ (12.6)**	**(2.6)**
Investment Service:								
Equity Actively Managed	$ 110.0	$ 116.3	$ (6.3)	(5.3)	$ 108.2	$ 115.0	$ (6.8)	(5.9)%
Equity Passively Managed(1)	46.2	51.0	(4.8)	(9.5)	45.2	50.8	(5.6)	(10.9)
Fixed Income Actively Managed – Taxable	222.9	223.3	(0.4)	(0.2)	216.9	223.2	(6.3)	(2.8)
Fixed Income Actively Managed – Tax-exempt	35.9	32.5	3.4	10.4	35.1	32.4	2.7	8.4
Fixed Income Passively Managed(1)	11.1	9.9	1.2	11.4	10.7	10.0	0.7	6.6
Other (2)	58.4	59.6	(1.2)	(2.0)	58.3	55.6	2.7	4.7
Total	**$ 484.5**	**$ 492.6**	**$ (8.1)**	**(1.6)**	**$ 474.4**	**$ 487.0**	**$ (12.6)**	**(2.6)**

(1) Includes index and enhanced index services.

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

Our Institutional channel second quarter average AUM of $246.8 billion decreased $3.1 billion, or 1.2%, compared to the second quarter of 2015; however, our Institutional AUM increased $4.6 billion, or 1.9%, to $248.8 billion over the last twelve months. The $4.6 billion increase in AUM primarily resulted from market appreciation of $6.7 billion and net inflows of $0.9 billion, offset by adjustments of $3.0 billion recorded in June 2016 (as previously discussed). During the third quarter of 2015, we incurred $7.8 billion of market depreciation, which is driving the decrease in average AUM as compared to an increase in AUM over the last twelve months.

Our Retail channel second quarter average AUM of $159.0 billion decreased $5.5 billion, or 3.4%, compared to the second quarter of 2015, primarily due to our Retail AUM decreasing $1.6 billion, or 1.0%, to $161.4 billion over the last twelve months. The $1.6 billion decrease in AUM primarily resulted from net outflows of $1.4 billion and flat market performance. During the third quarter of 2015, we incurred $8.6 billion of market depreciation, which is driving the larger decrease in average AUM as compared to the decrease in AUM over the last twelve months.

Our Private Wealth Management channel second quarter average AUM of $78.7 billion increased $0.5 billion, or 0.6%, compared to the second quarter of 2015, primarily due to our Private Wealth Management AUM increasing $1.4 billion, or 1.7%, to $79.3 billion over the last twelve months. The $1.4 billion increase in AUM primarily resulted from net inflows of $1.2 billion and market appreciation of $0.2 billion.

Absolute investment composite returns, gross of fees, and relative performance as of June 30, 2016 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	3.0%	4.9%	6.2%
Relative return (vs. Barclays Global High Yield Index - Hedged)	(1.5)	(0.6)	(0.6)
Global Fixed Income (fixed income)			
Absolute return	10.9	2.5	2.2
Relative return (vs. CITI WLD GV BD-USD/JPM GLBL BD)	(0.4)	(0.2)	1.0
Intermediate Municipal Bonds (fixed income)			
Absolute return	5.5	3.7	3.5
Relative return (vs. Lipper Short/Int. Blended Muni Fund Avg)	1.3	0.9	0.8
U.S. Strategic Core Plus (fixed income)			
Absolute return	6.8	5.0	4.5
Relative return (vs. Barclays U.S. Aggregate Index)	0.8	0.9	0.7
Emerging Market Debt (fixed income)			
Absolute return	8.4	5.8	5.9
Relative return (vs. JPM EMBI Global/JPM EMBI)	(1.9)	(0.7)	(0.4)
Global Plus (fixed income)			
Absolute return	9.0	2.9	2.0
Relative return (vs. Barclays Global Aggregate Index)	0.1	0.1	0.3
Emerging Markets Value			
Absolute return	(14.7)	(0.2)	(5.1)
Relative return (vs. MSCI EM Index)	(2.7)	1.4	(1.3)
Global Strategic Value			
Absolute return	(10.0)	7.4	5.4
Relative return (vs. MSCI ACWI Index)	(6.3)	1.4	—
U.S. Small & Mid Cap Value			
Absolute return	(1.7)	9.3	10.4
Relative return (vs. Russell 2500 Value Index)	(1.9)	1.2	0.8
U.S. Strategic Value			
Absolute return	(7.8)	7.6	8.8
Relative return (vs. Russell 1000 Value Index)	(10.6)	(2.3)	(2.6)
U.S. Small Cap Growth			
Absolute return	(12.4)	6.5	8.8
Relative return (vs. Russell 2000 Growth Index)	(1.7)	(1.2)	0.3
U.S. Large Cap Growth			
Absolute return	1.9	16.5	14.1
Relative return (vs. Russell 1000 Growth Index)	(1.1)	3.5	1.8
U.S. Small & Mid Cap Growth			
Absolute return	(10.9)	7.2	8.5
Relative return (vs. Russell 2500 Growth Index)	(3.2)	(1.9)	(0.8)
Concentrated U.S. Growth			
Absolute return	(6.1)	10.4	13.3
Relative return (vs. S&P 500 Index)	(10.1)	(1.3)	1.2
Select U.S. Equity			
Absolute return	2.2	10.9	13.1
Relative return (vs. S&P 500 Index)	(1.8)	(0.7)	1.0
Strategic Equities (inception June 30, 2012)			
Absolute return	0.5	11.4	N/A
Relative return (vs. All Cap Index)	(2.9)	—	N/A
Global Core Equity (inception June 30, 2011)			
Absolute return	(2.5)	5.6	8.0
Relative return (vs. MSCI ACWI Index)	1.2	(0.5)	2.7

Consolidated Results of Operations

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	$ Change	% Change	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015	$ Change	% Change
	(in thousands, except per unit amounts)				(in thousands, except per unit amounts)			
Net revenues	$ 725,806	$ 792,737	$ (66,931)	(8.4)%	$ 1,494,932	$ 1,555,308	$ (60,376)	(3.9)%
Expenses	583,231	627,815	(44,584)	(7.1)	1,179,315	1,237,172	(57,857)	(4.7)
Operating income	142,575	164,922	(22,347)	(13.6)	315,617	318,136	(2,519)	(0.8)
Income taxes	10,588	9,153	1,435	15.7	20,452	19,623	829	4.2
Net income	131,987	155,769	(23,782)	(15.3)	295,165	298,513	(3,348)	(1.1)
Net income (loss) of consolidated entities attributable to non-controlling interests	4,843	6,675	(1,832)	(27.4)	(905)	7,950	(8,855)	n/m
Net income attributable to AB Unitholders	$ 127,144	$ 149,094	$ (21,950)	(14.7)	$ 296,070	$ 290,563	$ 5,507	1.9
Diluted net income per AB Unit	$ 0.47	$ 0.54	$ (0.07)	(13.0)	$ 1.08	$ 1.05	$ 0.03	2.9
Distributions per AB Unit	$ 0.46	$ 0.54	$ (0.08)	(14.8)	$ 0.91	$ 1.05	$ (0.14)	(13.3)
Operating margin [(1)]	19.0%	20.0%			21.2%	19.9%		

(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 June 30, 2016 decreased $22.0 million, or 14.7%, from the three months ended June 30, 2015. The decrease resulted from (in millions):

Lower base advisory fees	$ (25.4)
Lower distribution revenues	(14.5)
Lower performance-based fees	(13.5)
Lower investments gains	(9.7)
Lower employee compensation and benefits	28.4
Lower promotion and servicing expenses	15.3
Other	(2.6)
	$ (22.0)

Net income attributable to AB Unitholders for the six months ended June 30, 2016 increased $5.5 million, or 1.9%, from the six months ended June 30, 2015. The increase resulted from (in millions):

Lower advisory base fees	$	(64.4)
Lower distribution revenues		(31.0)
Higher real estate charges		(25.2)
Lower performance-base fees		(17.0)
Lower employee compensation and benefits		52.7
Higher investment gains		52.0
Lower promotion and servicing expenses		31.1
Net loss in current year compared to net income in prior year of consolidated entities attributable to non-controlling interests		8.9
Other		(1.6)
	$	**5.5**

Real Estate Charges

During 2010, we performed a comprehensive review of our real estate requirements in New York in connection with our workforce reductions, which commenced in 2008. As a result, during 2010 we decided to sub-lease over 380,000 square feet in New York (all of this space has been sublet) and consolidate our New York-based employees into two office locations from three. During the third quarter of 2012, in an effort to further reduce our global real estate footprint, we completed a comprehensive review of our worldwide office locations and began implementing a global space consolidation plan. As a result, we decided to sub-lease approximately 510,000 square feet of office space (all of this space has been sublet), more than 70% of which is New York office space (in addition to the 380,000 square foot space reduction in 2010), with the remainder consisting of office space in England, Australia and various U.S. locations.

During the first six months of 2016, we recorded pre-tax real estate charges of $24.8 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 $1.9 million.

Units Outstanding

Each quarter, we implement plans 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 2016 expired at the close of business on July 27, 2016. 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 concurrence of the Board of Directors that one or more non-GAAP 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 June 30,		Six Months Ended June 30,	
	2016	**2015**	**2016**	**2015**
	(in thousands)			
Net revenues, US GAAP basis	**$ 725,806**	**$ 792,737**	**$ 1,494,932**	**$ 1,555,308**
Adjustments:				
Long-term incentive compensation-related investment (gains) losses	(791)	(362)	535	(2,788)
Long-term incentive compensation-related dividends and interest	(142)	(135)	(293)	(286)
90% of consolidated venture capital fund investment (gains)	—	(7,014)	—	(8,387)
Distribution-related payments	(93,217)	(102,578)	(180,344)	(202,964)
Amortization of deferred sales commissions	(10,577)	(12,713)	(21,819)	(25,112)
Pass-through fees and expenses	(11,708)	(12,575)	(23,359)	(24,416)
Gain on sale of investment carried at cost	—	—	(75,273)	—
Impact of consolidated VIEs	(5,472)	—	(414)	—
Adjusted net revenues	**$ 603,899**	**$ 657,360**	**$ 1,193,965**	**$ 1,291,355**
Operating income, US GAAP basis	**$ 142,575**	**$ 164,922**	**$ 315,617**	**$ 318,136**
Adjustments:				
Long-term incentive compensation-related items	(354)	85	609	143
Gain on sale of investment carried at cost	—	—	(75,273)	—
Real estate (credits) charges	(2,801)	(80)	24,785	(463)
Acquisition-related expenses	239	—	239	(1)
Sub-total of non-GAAP adjustments	(2,916)	5	(49,640)	(321)
Less: Net income (loss) of consolidated entities attributable to non-controlling interests	4,843	6,675	(905)	7,950
Adjusted operating income	**$ 134,816**	**$ 158,252**	**$ 266,882**	**$ 309,865**
Adjusted operating margin	**22.3%**	**24.1%**	**22.4%**	**24.0%**

Adjusted operating income for the three months ended June 30, 2016 decreased $23.4 million, or 14.8%, from the three months ended June 30, 2015, primarily due to lower investment advisory base fees of $23.8 million, lower performance-based fees of $13.5 million, lower Bernstein Research Services revenue of $6.9 million and higher investments losses of $6.2 million, offset by lower employee compensation expense (excluding the impact of long-term incentive compensation-related items) of $28.4 million. Adjusted operating income for the six months ended June 30, 2016 decreased $43.0 million, or 13.9%, from the six months ended

June 30, 2015, primarily due to lower investment advisory base fees of $62.8 million, lower performance-based fees of $17.0 million, lower Bernstein Research Services revenue of $6.4 million and higher investments losses of $6.7 million, offset by lower employee compensation expense (excluding the impact of long-term incentive compensation-related items) of $49.8 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.

Lastly, in 2015 we excluded 90% of the investment gains and losses of our consolidated venture capital fund attributable to non-controlling interests. Effective January 1, 2016, as a result of adopting a new accounting standard (*see Note 2 to our condensed consolidated financial statements)*, we account for our consolidated venture capital fund in the same manner as our other consolidated VIEs. We adjust for the revenue impact of consolidating VIEs by eliminating the consolidated VIEs' revenues and including AB's fees from such VIEs and AB's investment gains and losses on its investments in such VIEs that were eliminated in consolidation. In addition, 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 it was 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, (3) real estate charges (credits), (4) acquisition-related expenses, (5) the net income or loss of consolidated entities attributable to non-controlling interests in 2015, and (6) the impact of consolidated VIEs in 2016.

Prior to 2009, a significant portion of employee compensation was in the form of employee 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 distributed 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 an investment carried at cost 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 incurred as a result of our acquisitions in the fourth quarter of 2013 and the second quarter of 2014 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.

In regard to 2015 adjusted operating income, most of the net income or loss of consolidated entities attributable to non-controlling interests relates to the 90% limited partner interests held by third parties in our consolidated venture capital fund. We own a 10% limited partner interest in the fund. US GAAP requires us to consolidate the financial results of the fund because we are the general partner and are deemed to have a controlling interest. However, recognizing 100% of the gains or losses in operating income while only retaining 10% is not reflective of our underlying financial results at the operating income level. As a result, we exclude the 90% limited partner interests we do not own from our adjusted operating income. Effective January 1, 2016, our consolidated venture capital fund is included with other consolidated VIEs. Similarly, net income of joint ventures attributable to non-controlling interests, although not significant, is excluded because it does not reflect the economic interest attributable to AB.

Relating to 2016 adjusted operating income, we adjusted for the operating income impact of consolidating certain VIEs (as a result of the adoption of a new accounting standard; *see Note 2 to our condensed consolidated financial statements)* by eliminating the consolidated VIEs' 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 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 June 30, 2016	Three Months Ended June 30, 2015	$ Change	% Change	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015	$ Change	% Change
	(in thousands)				(in thousands)			
Investment advisory and services fees:								
Institutions:								
Base fees	$ 101,248	$ 109,410	$ (8,162)	(7.5)%	$ 198,228	$ 216,206	$ (17,978)	(8.3)%
Performance-based fees	511	6,334	(5,823)	(91.9)	1,025	9,026	(8,001)	(88.6)
	101,759	115,744	(13,985)	(12.1)	199,253	225,232	(25,979)	(11.5)
Retail:								
Base fees	201,735	220,065	(18,330)	(8.3)	391,703	433,959	(42,256)	(9.7)
Performance-based fees	2	7,696	(7,694)	(100.0)	2	9,050	(9,048)	(100.0)
	201,737	227,761	(26,024)	(11.4)	391,705	443,009	(51,304)	(11.6)
Private Wealth Management:								
Base fees	173,323	172,192	1,131	0.7	337,166	341,338	(4,172)	(1.2)
Performance-based fees	231	227	4	1.8	339	333	6	1.8
	173,554	172,419	1,135	0.7	337,505	341,671	(4,166)	(1.2)
Total:								
Base fees	476,306	501,667	(25,361)	(5.1)	927,097	991,503	(64,406)	(6.5)
Performance-based fees	744	14,257	(13,513)	(94.8)	1,366	18,409	(17,043)	(92.6)
	477,050	515,924	(38,874)	(7.5)	928,463	1,009,912	(81,449)	(8.1)
Bernstein Research Services	115,053	121,910	(6,857)	(5.6)	241,518	247,956	(6,438)	(2.6)
Distribution revenues	97,321	111,850	(14,529)	(13.0)	190,013	221,034	(31,021)	(14.0)
Dividend and interest income	7,697	5,667	2,030	35.8	15,067	10,761	4,306	40.0
Investment gains (losses)	2,276	11,993	(9,717)	(81.0)	67,863	15,881	51,982	327.3
Other revenues	28,283	26,023	2,260	8.7	55,957	51,013	4,944	9.7
Total revenues	727,680	793,367	(65,687)	(8.3)	1,498,881	1,556,557	(57,676)	(3.7)
Less: Interest expense	1,874	630	1,244	197.5	3,949	1,249	2,700	216.2
Net revenues	**$ 725,806**	**$ 792,737**	**$ (66,931)**	**(8.4)**	**$ 1,494,932**	**$ 1,555,308**	**$ (60,376)**	**(3.9)**

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 account and the total amount of assets we manage for a particular client. Accordingly, fee income generally increases or decreases as AUM increase or decrease 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 50 to 110 basis points for actively-managed equity services, 15 to 60 basis points for actively-managed fixed income services and 5 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. The ranges discussed above 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. Investments utilizing fair valuation methods comprise an insignificant amount of our total AUM.

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 9.2%, 4.1% and 1.0% of the assets we manage for institutional clients, private wealth clients and retail clients, respectively (in total, 5.7% of our AUM).

During the first six months of 2016, as General Partner of AllianceBernstein U.S. Real Estate L.P. (“Real Estate Fund”), we received a carried interest distribution of $48.7 million. In accordance with our revenue recognition policies, we did not recognize this carried interest distribution as performance fee revenues, instead recording a deferred revenue liability, because the distribution is subject to claw-back provisions. We will recognize the distribution as revenues when the potential claw-back obligation is mathematically remote, which may not occur until at or near termination of the Real Estate 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 $24.0 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 June 30, 2016, our investment advisory and services fees decreased by $38.9 million, or 7.5%, from the three months ended June 30, 2015, primarily due to a $25.4 million, or 5.1%, decrease in base fees, which primarily resulted from a 1.6% decrease in average AUM and the impact of a shift in product mix from global fixed income and active equity products into other products that generally have lower fees. Additionally, our performance-based fees decreased $13.5 million, or 94.8% from the prior year. For the six months ended June 30, 2016, our investment advisory and services fees decreased by $81.4 million, or 8.1%, from the six months ended June 30, 2015, primarily due to a $64.4 million, or 6.5%, decrease in base fees, which primarily resulted from a 2.6% decrease in average AUM and the impact of a shift in product mix from global fixed income and active equity products into other products which generally have lower fees. Additionally, our performance-based fees decreased $17.0 million from the prior year.

Institutional investment advisory and services fees for the three months ended June 30, 2016 decreased by $14.0 million, or 12.1%, from the three months ended June 30, 2015, primarily due to an $8.2 million, or 7.5%, decrease in base fees. The decrease in base fees was due to a decrease in average AUM of 1.2% and the impact of a shift in product mix from active equities into active fixed income products that generally have lower fees. Additionally, performance-based fees decreased $5.8 million from the prior year. Institutional investment advisory and services fees for the six months ended June 30, 2016 decreased by $26.0 million, or 11.5%, from the six months ended June 30, 2015, primarily due to an $18.0 million, or 8.3%, decrease in base fees. The decrease in base fees was due to a decrease in average AUM of 1.7% and the impact of a shift in product mix from active equities into other products that generally have lower fees. Additionally, performance-based fees decreased $8.0 million from the prior year.

Retail investment advisory and services fees for the three months ended June 30, 2016 decreased by $26.0 million, or 11.4%, from the three months ended June 30, 2015, primarily due to an $18.3 million, or 8.3%, decrease in base fees. The decrease in base fees was due to a decrease in average AUM of 3.4% and the impact of a shift in product mix from long-term non-U.S. global fixed income mutual funds to long-term U.S. mutual funds, which generally have lower fees compared to long-term non-U.S. global fixed income mutual funds. Additionally, performance-based fees decreased $7.7 million from the prior year. Retail investment advisory and services fees for the six months ended June 30, 2016 decreased by $51.3 million, or 11.6%, from the six months ended June 30, 2015, primarily due to a $42.3 million, or 9.7%, decrease in base fees. The decrease in base fees was due to a decrease in average AUM of 5.2% and the impact of a shift in product mix from long-term non-U.S. global fixed income mutual funds to long-term U.S. mutual funds, which generally have lower fees compared to long-term non-U.S. global fixed income mutual funds. Additionally, performance-based fees decreased $9.0 million from the prior year.

Private Wealth Management investment advisory and services fees for the three months ended June 30, 2016 increased by $1.1 million, or 0.7%, from the three months ended June 30, 2015, due to an increase in base fees resulting from a 0.6% increase in average AUM. Private Wealth Management investment advisory and services fees for the six months ended June 30, 2016 decreased by $4.2 million, or 1.2%, from the six months ended June 30, 2015, due to the decline in base fees. However, average AUM increased by 0.1%. Base fees decreased primarily due to a shift in product mix from active equity to active fixed income and other products with lower fees.

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 and six months ended June 30, 2016 decreased $6.9 million, or 5.6%, and $6.4 million, or 2.6%, respectively, compared to the corresponding periods in 2015. The decreases were the result of a slowdown in client activity and lower market levels in Asia and foreign exchange translation effects in Europe.

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 six months ended June 30, 2016 decreased $14.5 million, or 13.0%, and $31.0 million, or 14.0%, respectively, compared to the corresponding periods in 2015, primarily due to the corresponding average AUM of these mutual funds decreasing 10.6% and 12.2%, respectively.

Dividend and Interest Income and Interest Expense

Dividend and interest income consists primarily of investment income and interest earned on customer margin balances and U.S. Treasury Bills. 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 six months ended June 30, 2016 increased $0.8 million, or 15.6%, and $1.6 million, or 16.9%, respectively, compared to the the corresponding periods in 2015, primarily due to higher broker-dealer related activity.

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) investments owned by our consolidated venture capital fund, (iii) U.S. Treasury Bills, (iv) market-making in exchange-traded options and equities, (v) seed capital investments, (vi) derivatives and (vii) investments in our consolidated VIEs. Effective January 1, 2016, upon adoption of a new accounting standard (*see Note 2 to the condensed consolidated financial statements*), our consolidated private equity fund investments are included with investments in consolidated VIEs. Investments gains (losses) also include realized gains or losses on the sale of seed capital investments classified as available-for-sale securities and 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 June 30,		Six Months Ended June 30,	
	2016	**2015**	**2016**	**2015**
	(in thousands)			
Long-term incentive compensation-related investments				
Realized gains (losses)	$ 203	$ 342	$ 1,141	$ 3,742
Unrealized gains (losses)	588	20	(1,676)	(954)
Consolidated private equity fund investments				
Realized gains (losses)				
Non-public investments	—	7,177	—	1,983
Public investments	—	—	—	—
Unrealized gains (losses)				
Non-public investments	—	(677)	—	4,346
Public investments	—	1,292	—	2,989
Investments held by consolidated VIEs				
Realized gains (losses)	(790)	—	(328)	—
Unrealized gains (losses)	5,433	—	(2,599)	—
Seed capital investments				
Realized gains (losses)				
Seed capital	(827)	7,066	65,255	12,480
Derivatives	(8,886)	(5,316)	(6,047)	(11,030)
Unrealized gains (losses)				
Seed capital	3,395	(4,057)	16,589	(1,867)
Derivatives	3,834	7,789	(2,562)	7,449
Brokerage-related investments				
Realized gains (losses)	(740)	(1,866)	(2,096)	(3,390)
Unrealized gains (losses)	66	223	186	133
	$ 2,276	**$ 11,993**	**$ 67,863**	**$ 15,881**

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 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 and six months ended June 30, 2016 increased $2.3 million, or 8.7%, and $4.9 million, or 9.7%, respectively, compared to the corresponding periods in 2015, primarily due to the recording of other revenues related to our consolidated VIEs.

Expenses

The components of expenses are as follows:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2016	**2015**	**$ Change**	**% Change**	**2016**	**2015**	**$ Change**	**% Change**
	(in thousands)				(in thousands)			
Employee compensation and benefits	$ 309,249	$ 337,640	$ (28,391)	(8.4)%	$ 611,260	$ 663,967	$ (52,707)	(7.9)%
Promotion and servicing:								
Distribution-related payments	93,217	102,578	(9,361)	(9.1)	180,344	202,964	(22,620)	(11.1)
Amortization of deferred sales commissions	10,577	12,713	(2,136)	(16.8)	21,819	25,112	(3,293)	(13.1)
Other	55,357	59,182	(3,825)	(6.5)	109,558	114,719	(5,161)	(4.5)
	159,151	174,473	(15,322)	(8.8)	311,721	342,795	(31,074)	(9.1)
General and administrative:								
General and administrative	109,757	108,092	1,665	1.5	215,680	215,425	255	0.1
Real estate charges (credits)	(2,801)	(80)	(2,721)	n/m	24,785	(463)	25,248	n/m
	106,956	108,012	(1,056)	(1.0)	240,465	214,962	25,503	11.9
Contingent payment arrangements	353	442	(89)	(20.1)	706	885	(179)	(20.2)
Interest	1,052	736	316	42.9	2,284	1,590	694	43.6
Amortization of intangible assets	6,470	6,512	(42)	(0.6)	12,879	12,973	(94)	(0.7)
Total	**$ 583,231**	**$ 627,815**	**$ (44,584)**	**(7.1)**	**$ 1,179,315**	**$ 1,237,172**	**$ (57,857)**	**(4.7)**

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 42.6% for the three months ended both June 30, 2016 and 2015. Compensation expense as a percentage of net revenues was 40.9% and 42.7% for the six months ended June 30, 2016 and 2015, 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 1.1% and 1.2%, respectively, of adjusted net revenues for the three and six months ended June 30, 2016, and were 1.3% and 1.2%, respectively, of adjusted net revenues for the three and six months ended June 30, 2015), 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 revenues was 50.0% for the three and six months ended June 30, 2016 and 2015.

For the three months ended June 30, 2016, employee compensation and benefits expense decreased $28.4 million, or 8.4%, compared to the three months ended June 30, 2015, primarily due to lower incentive compensation of $18.4 million, lower fringes and other costs of $4.3 million and lower commissions of $4.1 million. For the six months ended June 30, 2016, employee compensation and benefits expense decreased $52.7 million, or 7.9%, compared to the six months ended June 30, 2015, primarily due to lower incentive compensation of $53.5 million, lower commissions of $6.6 million and lower fringes and other costs of $3.9 million, partially offset by higher base compensation of $11.3 million, reflecting higher severance costs.

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 decreased $15.3 million, or 8.8%, during the three months ended June 30, 2016 compared to the three months ended June 30, 2015. The decrease primarily was due to lower distribution-related payments of $9.4 million, lower travel and entertainment of $2.2 million and lower marketing expenses of $2.1 million. Promotion and servicing expenses decreased $31.1 million, or 9.1%, during the six months ended June 30, 2016 compared to the six months ended June 30, 2015. The decrease primarily was due to lower distribution-related payments of $22.6 million, lower marketing expenses of $3.6 million and lower travel and entertainment of $3.2 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 14.7% (15.1% excluding real estate credits) and 13.6% (including and excluding real estate credits) for the three months ended June 30, 2016 and 2015, respectively. General and administrative expenses decreased $1.1 million, or 1.0%, during the second quarter of 2016 compared to the same period in 2015, primarily due to higher real estate credits of $2.7 million. General and administrative expenses as a percentage of net revenues were 16.1% (14.4% excluding real estate charges) and 13.8% (13.9% excluding real estate credits) for the six months ended June 30, 2016 and 2015, respectively. General and administrative expenses increased $25.5 million, or 11.9%, during the first six months of 2016 compared to the same period in 2015, primarily due to higher real estate charges of $25.2 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. There were no changes in estimates during the first six months of 2016 or 2015.

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 June 30, 2016 increased $1.4 million, or 15.7%, compared to the three months ended June 30, 2015. The increase is due to a higher effective tax rate in the current quarter of 7.4%, compared to 5.5% in the second quarter of 2015, driven by an increase in discrete items and the mix of earnings across the tax filing group. Income tax expense for the six months ended June 30, 2016 increased $0.8 million, or 4.2%, compared to the three months ended June 30, 2015. The increase is due to a higher effective tax rate in the first six months of 6.5%, compared to 6.2% in the first six months of 2015, driven by an increase in discrete items and the mix of earnings across the tax filing group.

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 VIEs. During the first six months of 2016, we had $0.9 million of net loss of consolidated entities attributable to non-controlling interests.

CAPITAL RESOURCES AND LIQUIDITY

During the first six months of 2016, net cash provided by operating activities was $514.6 million, compared to $436.1 million during the corresponding 2015 period. The change primarily is due to higher seed capital net redemptions, offset by higher broker-dealer purchases (net of redemptions), of $91.2 million and an increase in accounts payable of $82.7 million, offset by a decrease in accrued compensation of $54.2 million and an increase in broker-dealer related receivable (net of payables and segregated U.S. Treasury bills activity) of $43.3 million.

During the first six months of 2016, net cash used in investing activities was $20.2 million, compared to $11.8 million during the corresponding 2015 period. The change reflects higher purchases of furniture, equipment and leasehold improvements.

During the first six months of 2016, net cash used in financing activities was $352.4 million, compared to $330.3 million during the corresponding 2015 period. The change reflects higher repurchases of AB Holding Units of $64.0 million, offset by lower distributions to the General Partner and Unitholders of $37.7 million as a result of lower earnings (distributions on earnings are paid one quarter in arrears).

As of June 30, 2016, AB had $690.6 million of cash and cash equivalents (excluding cash and cash equivalents of consolidated VIEs), all of which is available for liquidity, but consists primarily of cash on deposit for our broker-dealers to comply with various customer clearing activities and cash held by foreign subsidiaries for which a permanent investment election for U.S. tax purposes is taken. If the cash held at our foreign subsidiaries of $511.5 million, which includes cash on deposit for our foreign broker-dealers, is repatriated to the U.S., we would be required to accrue and pay U.S. income taxes on these funds, based on the unremitted amount. We currently intend to permanently reinvest these earnings outside the U.S.

Debt and Credit Facilities

As of June 30, 2016 and December 31, 2015, AB had $537.2 million and $581.7 million, respectively, in commercial paper outstanding with weighted average interest rates of approximately 0.6% and 0.5%, 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 six months of 2016 and the full year 2015 were $475.8 million and $387.9 million, respectively, with weighted average interest rates of approximately 0.6% and 0.3%, respectively.

AB has a $1.0 billion committed, unsecured senior revolving credit facility ("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 June 30, 2016, 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 June 30, 2016 and December 31, 2015, we had no amounts outstanding under the Credit Facility. During the first six months of 2016 and the full year 2015, we did not draw upon the Credit Facility.

In addition, SCB LLC has three uncommitted lines of credit with four financial institutions. Two of these lines of credit permit us to borrow up to an aggregate of approximately $200.0 million, with AB named as an additional borrower, while one line has no stated limit. As of June 30, 2016, SCB LLC had $50.0 million in bank loans outstanding at a weighted average interest rate of 1.0%. As of December 31, 2015, SCB LLC had no bank loans outstanding. Average daily borrowings of bank loans during the first six months of 2016 and full year 2015 were $6.3 million and $3.9 million, respectively, with weighted average interest rates of approximately 0.8% and 1.2%, 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 June 30, 2016, we had funded $32.1 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 June 30, 2016, we had funded $20.1 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 June 30, 2016, we had funded $2.7 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 June 30, 2016, we had funded $6.1 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, 2015.

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, 2015 *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:

- <u>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:</u> 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.

- <u>Our financial condition and ability to access the public and private capital markets providing adequate liquidity for our general business needs:</u> 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.

- <u>The outcome of litigation:</u> Litigation is inherently unpredictable, and excessive damage awards do occur. Though we have stated that we do not expect certain 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.

- <u>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:</u> 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.

- <u>Our determination that adjusted employee compensation expense should not exceed 50% of our adjusted net revenues:</u> 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, 2015.

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 second quarter of 2016 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 12 to the condensed consolidated 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's Form 10-K for the year ended December 31, 2015.

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

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

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 Units Purchased	Average Price Paid Per AB Unit, net of Commissions	Total Number of AB Units Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of AB Units that May Yet Be Purchased Under the Plans or Programs
4/1/16 - 4/30/16	—	$ —	—	—
5/1/16 - 5/31/16	—	—	—	—
6/1/16 - 6/30/16[(1)]	14,138	23.53	—	—
Total	**14,138**	**$ 23.53**	**—**	**—**

(1) During June 2016, we purchased 14,138 AB Units in private transactions.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

Iran Threat Reduction and Syria Human Rights Act

AB, AB Holding and their global subsidiaries had no transactions or activities requiring disclosure under the Iran Threat Reduction and Syria Human Rights Act ("Iran 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 insurance to two diplomats based at the Iranian embassy in Berlin, Germany. The total annual premium of these policies is approximately $13,000 and the annual net profit arising from these policies, which is difficult to calculate with precision, is estimated to be $1,950. 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 policies expire.

In addition, AXA has informed us that AXA Insurance Ireland, an AXA insurance subsidiary, provides statutorily required car insurance under three 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 $3,750 and the annual net profit arising from these policies, which is difficult to calculate with precision, is estimated to be $563.

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.

Lastly, AXA has informed us that AXA Ukraine, an AXA insurance subsidiary, provides car insurance for the Attaché of the Embassy of Iran 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.

The aggregate annual premiums for the above-referenced insurance policies are approximately $20,900, representing approximately 0.00002% of AXA's 2015 consolidated revenues, which exceed $100 billion. The related net profit, which is difficult to calculate with precision, is estimated to be $3,136, representing approximately 0.00005% of AXA's 2015 aggregate net profit.

W.P. Stewart

On December 12, 2013, we acquired W.P. Stewart & Co., Ltd. ("WPS"), an equity investment manager that managed, as of December 12, 2013, approximately $2.1 billion in U.S., Global, and Europe, Australasia (Australia and New Zealand) and Far East ("EAFE") concentrated growth equity strategies for its clients, primarily in the U.S. and Europe. On the date of the WPS acquisition, each of approximately 4.9 million outstanding shares of WPS common stock (other than certain specified shares, as previously disclosed in Amendment No. 2 to Form S-4 filed by AB on November 8, 2013) was converted into the right to receive $12.0 per share and one transferable contingent value right ("CVR") entitling the holders to an additional $4.0 per share cash payment if the Assets Under Management (as such term is defined in the Contingent Value Rights Agreement ("CVR Agreement") dated as of December 12, 2013, a copy of which we filed as Exhibit 4.01 ("Exhibit 4.01") to our December 31, 2013 Form 10-K) in the acquired WPS investment services business exceed $5 billion on or before December 12, 2016, subject to measurement procedures and limitations set forth in the CVR Agreement. *See the definition of AUM Milestone in the CVR Agreement filed as Exhibit 4.01* for additional information regarding the circumstances that trigger payment pursuant to the CVRs. The foregoing description of the CVR Agreement does not purport to be complete and is qualified in its entirety by the full text of the CVR Agreement.

As of June 30, 2016, the Assets Under Management are approximately $4.0 billion. Accordingly, management has determined that the AUM Milestone did not occur during the second quarter of 2016.

Item 6. **Exhibits**

31.1	Certification of Mr. Kraus 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. Kraus 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.
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: July 28, 2016	**ALLIANCEBERNSTEIN L.P.**
	By: /s/ John C. Weisenseel John C. Weisenseel Chief Financial Officer
	By: /s/ Edward J. Farrell Edward J. Farrell Chief Accounting Officer

Exhibit 31.1

I, Peter S. Kraus, certify that:

1. I have reviewed this quarterly report on Form 10-Q of AllianceBernstein 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: July 28, 2016	/s/ Peter S. Kraus
	Peter S. Kraus
	Chief Executive Officer
	AllianceBernstein L.P.

Exhibit 31.2

I, John C. Weisenseel, certify that:

1. I have reviewed this quarterly report on Form 10-Q of AllianceBernstein 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: July 28, 2016

/s/ John C. Weisenseel

John C. Weisenseel
Chief Financial Officer
AllianceBernstein L.P.

Exhibit 32.1

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 L.P. (the “Company”) on Form 10-Q for the period ending June 30, 2016 to be filed with the Securities and Exchange Commission on or about July 28, 2016 (the “Report”), I, Peter S. Kraus, 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: July 28, 2016

/s/ Peter S. Kraus

Peter S. Kraus
Chief Executive Officer
AllianceBernstein L.P.

Exhibit 32.2

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 L.P. (the "Company") on Form 10-Q for the period ending June 30, 2016 to be filed with the Securities and Exchange Commission on or about July 28, 2016 (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: July 28, 2016

/s/ John C. Weisenseel

John C. Weisenseel
Chief Financial Officer
AllianceBernstein L.P.