Market Timing Investigations

On December 18, 2003, we settled with the SEC and the NYAG regarding their investigations into trading practices in the shares of certain of our sponsored mutual funds. Our agreement with the SEC was reflected in an Order of the Commission ("SEC Order") dated December 18, 2003 (amended and restated January 15, 2004), while our final agreement with the NYAG was reflected in an Assurance of Discontinuance ("AoD") dated September 1, 2004. We have taken a number of important initiatives to resolve these matters. Specifically, we:

- established a $250 million restitution fund to compensate fund shareholders for the adverse effects of market timing ("Restitution Fund");
- reduced by 20% (on a weighted average basis) the advisory fees on U.S. long-term open-end retail mutual funds by reducing our advisory fee rates (resulting in an approximate $63 million reduction in 2005 advisory fees and a $70 million reduction in 2004 advisory fees), and we will maintain these reduced fee rates for at least the five-year period that commenced January 1, 2004;
- appointed a new management team and specifically charged it with responsibility for ensuring that we maintain a fiduciary culture in our Retail Services;
- revised our code of ethics to better align the interests of our employees with those of our clients;
- formed two new committees composed of executive management to oversee and resolve code of ethics and compliance-related issues;
- instituted a substantially strengthened policy designed to detect and block market timing and material short duration trading;
- created an ombudsman office, where employees can voice concerns about work-related issues on a confidential basis; and
- initiated firm-wide compliance and ethics training programs.

We retained an Independent Compliance Consultant ("ICC") to conduct a comprehensive review of supervisory, compliance, and other policies designed to detect and prevent conflicts of interest, breaches of fiduciary duty, and violations of law. The ICC completed its review, and submitted its report to the SEC in December 2004. By December 31, 2005, we had implemented substantially all of the ICC's recommendations. Also, beginning in 2005 we had, and biannually thereafter will continue to have, an independent third party perform a comprehensive compliance review.

We believe that these remedial actions provide reasonable assurance that the deficiencies in our internal controls related to market timing will not recur.

With the approval of the independent directors of the U.S. Fund Boards and the staff of the SEC, we retained an Independent Distribution Consultant ("IDC") to develop a plan for the distribution of the Restitution Fund. To the extent it is determined that the harm to mutual fund shareholders caused by market timing exceeds $200 million, we will be required to contribute additional monies to the Restitution Fund. On September 30, 2005, the IDC submitted to the SEC Staff the portion of his report concerning his methodology for determining damages. The IDC will, in the coming months, formally submit to the Staff the remainder of his proposed distribution plan, which addresses the mechanics of distribution.

Once the Staff has approved both portions of the plan, it will be submitted to the SEC for final approval. The Restitution Fund proceeds will not be distributed until after the SEC has approved the distribution plan and issued an order doing so. Until then, it is not possible to predict the exact timing, method, or amount of the distribution.

On February 10, 2004, we received (i) a subpoena duces tecum from the Office of the Attorney General of the State of West Virginia and (ii) a request for information from the Office of the State Auditor, Securities Commission, for the State of West Virginia ("WV Securities Commissioner") (subpoena and request together, the "Information Requests"). The Information Requests required us to produce documents concerning, among other things, any market timing or late trading in our sponsored mutual funds. We responded to the Information Requests and have been cooperating fully with the investigation.

On April 11, 2005, a complaint entitled *The Attorney General of the State of West Virginia v. AIM Advisors, Inc., et al.* ("WVAG Complaint") was filed against AllianceBernstein, Holding, and various unaffiliated defendants. On May 31, 2005, defendants removed the WVAG Complaint to the United States District Court for the Northern District of West Virginia. On July 12, 2005, plaintiff moved to remand. On October 19, 2005, the WVAG Complaint was transferred to the Mutual Fund MDL (**see Market Timing-related Matters in Item 3**).

On August 30, 2005, the WV Securities Commissioner signed a "Summary Order to Cease and Desist, and Notice of Right to Hearing" addressed to us. The Summary Order claims that we violated the West Virginia Uniform Securities Act and makes factual allegations generally similar to those in the SEC Order and NYAG AoD. On January 26, 2006, AllianceBernstein, Holding, and various unaffiliated defendants filed a Petition for Writ of Prohibition and Order Suspending Proceedings in West Virginia state court seeking to vacate the Summary Order and for other relief.

As previously disclosed, AllianceBernstein recorded charges totaling $330 million during the second half of 2003, of which (i) $250 million was paid to the Restitution Fund (the $250 million was funded out of operating cash flow and paid to the SEC in January 2004), (ii) $30 million was used to settle a private civil mutual fund litigation unrelated to any regulatory agreements, and (iii) $50 million was reserved for estimated expenses related to our market-timing settlements with the SEC and the NYAG and our market timing-related liabilities (excluding WVAG Complaint-related expenses). AllianceBernstein paid $8 million during 2005 related to market timing and has cumulatively paid $310 million (excluding WVAG Complaint-related expenses). Including $10 million in charges taken in prior periods, we have reserves of approximately $30 million available for market timing-related liabilities in future periods.