EDWARDS A G INC
Form 10-K
April 27, 2007

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the fiscal year ended February 28, 2007
OR

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

Commission file number 1-8527

State of Incorporation: DELAWARE • I.R.S. Employer Identification No.: 43-1288229
One North Jefferson Avenue, St. Louis, Missouri 63103
Registrant's telephone number, including area code: (314) 955-3000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
COMMON STOCK, $1 PAR VALUE	*NEW YORK STOCK EXCHANGE*

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [X] No [ ].

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes [ ] No [X].

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ].

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

Large accelerated filer [X] Accelerated filer [ ] Non-accelerated filer [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X].

As of August 31, 2006, the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold was approximately $4.0 billion.

At April 23, 2007, there were 75,995,890 shares of A.G. Edwards, Inc. common stock, $1 par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the A.G. Edwards, Inc. Proxy Statement will be filed with the Securities and Exchange Commission (SEC) in connection with the Companys Annual Meeting of Stockholders to be held June 21, 2007, (the Companys 2007 Proxy Statement) are incorporated by reference into Part III hereof, as indicated. Other documents incorporated by reference in this report are listed in the Exhibit Index of this Form 10-K.

A.G. EDWARDS, INC.

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PART I

ITEM 1. BUSINESS.

(a) General Development of Business

A.G. Edwards, Inc., a Delaware corporation, is a financial services holding company incorporated in 1983 whose principal subsidiary, A.G. Edwards & Sons, Inc. ("Edwards"), is the successor to a partnership founded in 1887. A.G. Edwards, Inc. and its directly owned and indirectly owned subsidiaries (collectively referred to as the "Company") provide securities and commodities brokerage, investment banking, trust services, asset management, financial and retirement planning, insurance products, and other related financial services to individual, corporate, governmental, municipal and institutional clients through one of the industry's largest retail branch distribution systems.

Edwards is a securities broker-dealer whose business, primarily with individual clients, is conducted through one of the largest retail branch office networks (based upon number of offices and financial consultants) in the United States. No single client accounts for a significant portion of Edwards' business. Edwards is a member, has trading privileges or has access to all major securities exchanges in the United States, and is a member of the National Association of Securities Dealers, Inc. ("NASD") and the Securities Investor Protection Corporation ("SIPC"). In addition, Edwards has memberships on several domestic commodity exchanges and is registered with the Commodity Futures Trading Commission ("CFTC") as a futures commission merchant ("FCM"). In February 2007, Edwards introduced its Federal Depository Insurance Corporation ("FDIC")-insured bank deposit program ("AGE Bank Deposit Program") to certain clients as part of a multi-stage rollout to all eligible clients.

A.G. Edwards Trust Company FSB ("Trust Company") is a federally chartered savings bank that provides investment advisory, portfolio management and trust services. In December 2006, the Trust Company received approval from the Office of Thrift Supervision (the "OTS") to expand its powers to be able to accept time and demand deposits so it can participate, along with several other FDIC-insured banks, in the AGE Bank Deposit Program.

A.G. Edwards & Sons (U.K.) Limited is a securities broker-dealer located in London, England, with an office located in Geneva, Switzerland. A.G. Edwards Capital, Inc. serves as general partner to four private equity partnerships that invest in portfolios of venture capital funds, buy-out funds, and direct investments. A.G. Edwards Technology Group, Inc. provides information technology services to the Company. Beaumont Insurance Company is a Vermont captive insurance company that centralizes certain risk management functions and provides access to reinsurance markets. Gallatin Asset Management, Inc. ("Gallatin") provides separately managed account and other services to Edwards and markets its investment-management services to unaffiliated mutual-fund firms, pension-fund providers, insurance companies and other financial institutions, including banks and brokerage firms.

(b) Financial Information About Industry Segments

The Company operates and is managed as a single business segment providing investment services to its clients. These services are provided using the same sales and distribution personnel, support services and facilities, and all are provided to meet the needs of its clients. The Company does not identify or manage assets, revenues or expenses resulting from any service, or class of services, as a separate business segment. Financial information related to the Company's single business segment for each of the fiscal years ended February 28, 2007, 2006, and 2005, is included in the consolidated financial statements and notes thereto, such information is hereby incorporated by reference.

(c) Narrative Description of Business

The total amount of revenue by class of products or services that accounted for 10% or more of consolidated net revenues are set forth under Item 6 of this Form 10-K under the caption "Consolidated Five-Year Summary."

Asset Management and Service Fees

Asset management and service fee revenues consist primarily of revenues earned for providing support and services in connection with assets under third-party management, including mutual funds, managed futures funds, money market funds, annuities and insurance contracts, as well as revenues from assets under management by the Company. These revenues include fees based on the amount of client assets under management and transaction-related fees as well as fees related to the administration of custodial and other specialty accounts.

The Company manages client assets through the Trust Company and through Gallatin. The Company offers a non-discretionary advisory program known as Portfolio Advisor and a discretionary advisory program known as FC Advisor. The Company also offers fee-based fund advisory programs that allow clients to select from recommended, established asset allocation models or customize their own models in certain programs. The fund advisory programs are known individually as AGE Allocation Advisors, AGE Pathways, and AGE Professional Fund Advisor. Additionally, the Company offers separately managed accounts and through Gallatin markets its investment-management services to unaffiliated mutual funds, pension-fund providers, insurance companies, and other financial institutions, including banks and brokerage firms.

Edwards has offered clients a fee-based brokerage account known as Client Choice. As a result of a recent court decision, Edwards has stopped opening new Client Choice accounts and is evaluating the status of existing accounts. See Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" for additional information.

Edwards offers the UltraAsset Account and the Cash Convenience Account, which combine a full-service brokerage account with a bank depository account. These programs provide for the automatic investment of customer free credit balances in the AGE Bank Deposit Program or, if a client elects, in one of several tax-exempt money market funds. Interest is not paid on uninvested credit balances held in client accounts. In addition, the UltraAsset Account allows clients access to their margin and depository or money market accounts through the use of debit card and checking account services provided by an unaffiliated major bank. The UltraAsset Account offers additional advanced features and special investment portfolio reports. Clients are provided the opportunity to apply for an A.G. Edwards credit card provided by an unaffiliated major bank.

Edwards also provides custodial services to its clients for the various types of self-directed individual retirement accounts as provided under the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code").

Commissions

Commission revenues arise from activities in transaction-based accounts in listed and over-the-counter securities, mutual funds, insurance products, futures, and options. As commissions are transaction-based revenues, they are influenced by the number, size, and market value of client transactions and by product mix.

Equities. A significant portion of the Company’s net revenue is derived from commissions generated on securities transactions executed by Edwards, as a broker, in common and preferred stocks and debt instruments on exchanges or in the over-the-counter markets. Edwards’ brokerage clients are primarily individual investors. Edwards’ commission rates for brokerage transactions vary with the size and complexity of the transactions, among other factors.

Mutual Funds. Edwards distributes mutual fund shares in continuous offerings of open-end funds. Income from the sale of mutual funds is derived significantly from the standard dealer’s discount, which varies as a percentage of the client’s purchase price depending on the size of the transaction and terms of the selling agreement. Revenues derived from mutual fund sales continue to be a significant portion of net revenues. Edwards does not sponsor its own mutual fund products.

Insurance. As agent for several unaffiliated life insurance companies, Edwards distributes life insurance and tax-deferred annuities.

Futures and Options. Edwards acts as broker in the purchase and sale of managed futures, futures contracts, options on futures contracts and option contracts to buy and sell securities, primarily common stock and stock indexes. These contracts cover agricultural products, precious metals, currency, interest rate, energy and stock index futures.

Principal Transactions

Client transactions in the equity and fixed-income over-the-counter markets may be effected by Edwards acting as principal. Principal transactions, including market making, require maintaining inventories of securities to satisfy customer order flow. These securities are valued in the Company’s consolidated financial statements at fair value, and unrealized gains or losses are included in the Company’s results of operations.

Investment Banking

Edwards is an underwriter for public offerings of corporate and municipal securities as well as corporate and municipal unit investment trusts and closed-end investment companies. Corporate finance activities are focused on three industry groups: financial institutions and real estate, energy, and emerging growth. Edwards’ public finance activities include areas of specialization for municipal and governmental entities in primary and secondary schools, sports and entertainment, municipal finance, housing, higher education, health care, and public utilities. As an underwriter, usually in conjunction with other broker-dealers, Edwards purchases securities for resale to its clients. Edwards acts as an adviser to corporations and municipal entities in reviewing capital needs and determining the most advantageous means for raising capital. It also advises clients in merger and acquisition activities and acts as agent in private placements.

Net Interest Revenue

Interest revenue is derived primarily from financing clients’ margin transactions. These revenues are based largely on the amount of client margin balances and the rate of interest charged on these balances. Edwards utilizes a variety of sources to finance client margin accounts, including its stockholders’ equity, customer free credit balances and, to the extent permitted by regulations, cash received from net loans of the clients’ collateral to other brokers and borrowings from banks, either unsecured or secured by the clients’ collateral. The Company also earns revenue from interest and dividend payments on inventory held for sale to clients and short-term investments.

Private Client Services

Edwards’ Private Client Services group assists individuals and businesses with a wide range of financial and investment needs. Individual investors can receive tailored asset allocation; tax- and risk-reduction strategies; portfolio reviews of stocks, bonds and mutual funds (including concentrated equity strategies); and comprehensive financial and estate planning recommendations. Closely held and publicly traded business clients can access services for business insurance, employee benefit programs (retirement plans and key employee compensation), and ownership succession.

Investment Activities

The Company's investment activities primarily include investing in equity and equity-related securities in connection with private investment transactions, either for the accounts of Company-sponsored private equity partnerships or for its own account. These activities include mutual fund investments, including those made in connection with its deferred compensation plan, venture capital investments, and investments in portfolio and operating companies. A.G. Edwards Capital, Inc. is a general partner to the Company-sponsored private equity partnerships and provides them with investment advisory and administrative services. The fair value of the private investments is subject to a higher degree of volatility and management's judgment and may include significant risks of loss while attempting to obtain higher returns than those available from publicly traded securities.

Research

Edwards provides both technical market and fundamental analysis of numerous industries and individual securities for use by its financial consultants and clients. In addition, review and analysis of general economic conditions, along with asset allocation recommendations, are available. These services are provided by Edwards' research analysts, economists, and market strategists.

Competition

All aspects of the Company's business are highly competitive. The Company competes with large, well capitalized providers of financial services. Those companies include other securities firms and affiliates of banks and insurance companies. The Company also competes with a number of discount brokerage firms that offer lower levels of services. The Company believes its competitive advantages lie in its client-first philosophy, service, product offerings, quality of employees and strong reputation.

The Company's success is largely dependent on its ability to attract and retain qualified employees. These employees, particularly financial consultants, in turn bring new assets and capital management opportunities to the Company.

Employees

At February 28, 2007, the Company had 744 locations in 50 states, the District of Columbia, London, England, and Geneva, Switzerland and 15,338 full-time employees, including 6,618 financial consultants providing services for approximately 3,200,000 active client accounts.

Regulation

The Company as a participant in the financial services business is regulated by federal and state regulatory agencies, self-regulatory organizations and securities exchanges and by foreign governmental agencies and regulatory bodies. Most of these regulations are designed to protect customers and their assets together with integrity of the markets rather than protecting the Company, its shareholders or creditors. Under certain circumstances, these rules may limit the ability of the Company to make withdrawals of capital from subsidiaries or for the subsidiaries to pay dividends to the Company. In addition, the Company because its stock is publicly traded, is subject to the Sarbanes-Oxley Act of 2002 and other laws together with regulations of the SEC and the New York Stock Exchange ("NYSE") governing public disclosure, corporate governance, internal controls and the roles of internal and external auditors and legal counsel.

Edwards, as a broker-dealer and a FCM, is subject to various federal and state laws that regulate virtually all of its activities as a broker-dealer in securities and commodities, as an investment advisor, and as an insurance agent. Edwards is also subject to various regulatory requirements imposed by the securities and commodities exchanges, the NASD and the NYSE. These laws and regulatory requirements generally subject Edwards to standards of solvency with respect to capital requirements, financial reporting requirements, approval of qualifications of personnel engaged in various aspects of its business, record-keeping and business practices, the handling of its clients funds resulting from securities and commodities transactions, and the extension of credit to clients on margin transactions. Violations of these laws, rules and regulations may result in limitations on certain aspects of Edwards regulated activities, as well as proceedings of a civil or criminal nature against the firm or employees that could result in the issuance of cease and desist orders, censures, fines or other monetary penalties or the suspension or expulsion from the securities business of the firm, its officers or its employees.

Margin lending by Edwards and other broker-dealers is regulated by the Federal Reserve Board which restricts lending in connection with customer and proprietary purchases and short sales of securities as well as securities borrowing and lending activities. The NASD and NYSE also by rule require minimum maintenance requirements on the value of securities contained in margin accounts. Edwards margin policies are generally more stringent than these rules.

The commodity futures and commodity options industry in the United States is subject to regulation under the Commodity Exchange Act and by the CFTC charged with administering the act. Edwards is registered with the CFTC. In addition, various self-regulatory organizations including the Chicago Board of Trade (CBOT) and the Chicago Mercantile Exchange (CME), other futures exchanges and the National Futures Association govern the commodity futures and commodity options businesses.

As a registered broker-dealer, Edwards is subject to net capital rules administered by the SEC and the NYSE. Under such rules, this subsidiary must maintain net capital of not less than 2 percent of aggregate debit items, as defined, arising from customer transactions and would be restricted from expanding its business or paying cash dividends or advancing loans to affiliates if its net capital were less than 5 percent of such items. These rules also require Edwards to notify and sometimes obtain approval of the SEC and other regulatory organizations for substantial withdrawals of capital or loans to affiliates. See Note 6 (Net Capital Requirements) of the Notes to the Consolidated Financial Statements for a discussion of Edwards net capital at February 28, 2007.

The Trust Company and certain other subsidiaries are also subject to minimum capital requirements that may restrict the payment of cash dividends and advances to the Company. The only restriction with regard to the payment of cash dividends by the Company is its ability to obtain cash through dividends and advances from its subsidiaries or borrowings, if needed.

The Trust Company is a federal savings bank and as such is regulated by the OTS and the FDIC. The OTS imposes minimum capital requirements upon the Trust Company. Until December 2006, the Trust Company was authorized only to accept trust and custodian accounts and not to accept deposits or make loans. In December 2006, the Trust Company received authorization to accept time and demand deposits. The Trust Company currently plans to begin accepting demand deposits in mid-calendar 2007. The acceptance of time and demand deposits will subject the Trust Company to increased regulatory requirements including for additional capital and those governing accepting demand deposits and investing the funds received. A.G. Edwards, Inc. is registered as a holding company with the OTS as a result of owning the Trust Company.

A.G. Edwards & Sons (U.K.) Limited is registered under the laws of the United Kingdom and Switzerland and is regulated as a securities broker-dealer by the Financial Services Authority. A.G. Edwards Capital, Inc. and Gallatin are each registered with the SEC as an investment advisor. Beaumont Insurance Company is regulated by the Vermont Department of Banking, Insurance, Securities and Health Care Administration.

The USA PATRIOT Act of 2001 imposes obligations to detect and deter money laundering and for transparency of financial transactions on broker-dealers and other financial services companies including Edwards and the Trust Company. The obligations include requirements to verify client identification at account opening and to monitor client transactions and report suspicious activities. Anti-money laundering laws outside the United States impose similar requirements and particularly affect A.G. Edwards & Sons (U.K.) Limited. The anti-money laundering requirements have required the development of extensive internal practices, procedures and controls and any failure could subject the Company, its employees or both to substantial liabilities and fines.

(d) Financial Information About Geographic Areas

Revenues from the Company’s non-U.S. operations are currently not material. See Note 12 (Enterprise Wide Disclosure) of the Notes to Consolidated Financial Statements.

(e) Available Information

The Company files annual, quarterly, and current reports, proxy statements, and other information with the SEC.

The public may read and copy the Company’s annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and any amendments to these reports filed with the SEC at the SEC’s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. This information may also be obtained from the SEC’s web site at *www.sec.gov*.

The Company’s web site is *www.agedwards.com*. The public can access the Company’s Investor Relations’ web page by clicking on About A.G. Edwards and the Investor Relations link. The public can also access the Investor Relations web page directly at *www.agedwards.com/public/content/sc/aboutage/ir/index.html*. The Company makes available free of charge its most recent annual reports on Form 10-K, its quarterly reports on Form 10-Q for the current fiscal year, and its most recent proxy statement on its Investor Relations web page. In some cases, these documents may not be available on the Company’s web site as soon as they are available on the SEC’s web site. The Company also makes available, through its Investor Relations web page, via a link to the SEC’s web site, current reports on Form 8-K and statements of beneficial ownership of the Company’s equity securities filed by its directors, officers and others under Section 16 of the Securities Exchange Act of 1934 (the “Exchange Act”).

ITEM 1A. RISK FACTORS.

In the course of conducting business, the Company faces a variety of risks that are inherent to the financial services business. The following is a summary of the risks that management believes are the most significant and could affect the Company’s financial condition.

Developments in market and economic conditions could adversely affect the Company’s business operations and profitability.

Overall market and economic conditions, which are beyond the Company’s control and cannot be predicted with great certainty, generally have a direct impact on client asset valuations and trading activity. In an environment of adverse or uncertain market or economic conditions, the Company could experience decreased trading volumes, decreased fee-based and commission revenue, and decreased profitability.

The Company may not be able to successfully compete against the other companies within the financial services industry.

The financial services industry has been, and will likely continue to be, intensely competitive. The Company generally competes on the basis of its strong reputation, client-first philosophy and superior service, quality of employees, and range of product and service offerings. The Company competes for business with financial services firms that have greater financial resources and global operations, allowing them to potentially take on more risk and earn higher returns. The Company also competes with companies offering online and discount brokerage services and with banks and bank-affiliated brokerage companies that increasingly are using brokerage services, sometimes at reduced or no cost to customers, to attract clients for bank services. In the event that the Company cannot successfully compete with these financial services firms on one or more of the previously mentioned factors, it may face a reduction in market share, a reduction in revenues, and/or a reduction in profitability.

The Company may not be able to attract, develop, and retain highly qualified and productive employees.

The Company's employees are its most important assets, and competition for qualified employees is fiercely competitive, especially for successful financial consultants. If the Company cannot continue to attract and retain high quality employees, or if the costs to attract and retain high quality employees rise due to competition, the Company's business operations and financial performance could be adversely impacted.

The Company's business may be adversely affected if its reputation is damaged.

As a participant in the financial services industry, the Company must maintain a high quality reputation in order to attract and retain clients and employees. If the Company fails, or appears to fail, to conduct its business activities in a fair and ethical manner or to associate with appropriate clients and counterparties, the Company could experience adverse effects to its business operations and financial results.

The Company's business operations and financial condition could be adversely affected if it is unable to access funds in a timely or cost-effective manner.

Efficient access to funds is critical to the Company's business operations, particularly margin lending and trading activities. The Company's funding needs are primarily met through cash generated from operations and cash obtained from external sources (e.g., bank lending and securities lending). The Company's access to this financing could be impaired by Company-specific factors, such as weakened opinion of the Company by external financing sources, or by factors affecting the financial services industry in general, such as a severe market disruption. An inability to access the necessary funds at a reasonable cost could negatively impact the Company's business activities and financial condition.

External events and failures in technology or in operational processes could expose the Company to business disruptions, reduced financial results, litigation, and regulatory actions.

The Company relies on its systems and operational processes to process numerous transactions on a daily basis across various different markets. In addition, the Company relies on third-party vendors to conduct significant portions of its trade processing and back office processing. In the event of a breakdown in an operational process (e.g., human error or employee misconduct), a malfunction of the Company's systems or the third-party vendors' systems, or an inability to recover from external events beyond the Company's control, such as a natural disaster, the Company could suffer business and financial losses and be subject to litigation and regulatory actions.

The Company's financial performance could be adversely impacted by fluctuations in interest rates and/or equity prices.

The Company is exposed to variability in the value of financial instruments caused by volatility in interest rates and/or equity prices. The primary source of this exposure is in the inventories of fixed-income and equity securities that the Company maintains in order to facilitate customer securities transactions. The Company could experience financial losses if adverse movements in interest rates and/or equity prices cause a decline in the valuations of its securities inventories.

The Company's financial performance could be adversely impacted by credit exposures.

The Company is exposed to the possibility that a client or counterparty is unable to meet its obligations to the Company, or that the value of collateral supporting an obligation to the firm declines such that the collateral is no longer sufficient to support the obligation. The Company's exposure primarily results from its activities relating to margin lending, to its role as a counterparty to financial transactions, and to its securities inventories. The lack of performance by clients and/or counterparties could adversely impact the Company's profitability.

The Company's reputation and business performance could be adversely impacted if it is unable to sufficiently protect the critical information of its clients.

In order to provide effective service to clients, the Company gathers clients' personal information in the normal course of business. If clients perceive that the Company does not maintain this personal information in a secure manner they may not be willing to do business with the Company. If there is a breach in the Company's protection of clients' personal information through a breach in the information technology network or otherwise, the Company could suffer significant damage to its reputation and be subject to litigation and regulatory actions.

The Company could suffer adverse impacts to its business activities, financial performance, and reputation if it is subject to one or more significant regulatory actions.

As a member of the financial services industry, the Company's activities are subject to extensive regulation by federal and state regulatory bodies, securities exchanges, and other self-regulatory organizations. This regulation has been increasing and becoming more complex in recent years. One or more significant regulatory actions brought against the Company could result in censures, fines, civil or criminal liability, or temporary or permanent prohibition from participating in certain types of business activities, any of which could have material adverse impacts on the Company's business operations, financial results, and reputation. New laws or regulations or changes to existing laws or regulations could also adversely impact the Company's business.

The Company could be negatively impacted as a result of litigation.

In the ordinary course of business, the Company is subjected to various legal actions. These include claims of recommending unsuitable investments to clients, unauthorized or excessive trading on behalf of clients, or human resource related claims by current or former employees. In the event that the Company is liable for significant settlements or awards, the Company's business operations, financial performance, and reputation could be adversely affected.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

The Company's headquarters are located at One North Jefferson Avenue, St. Louis, Missouri, 63103. It consists of several buildings owned by the Company, which contain approximately 2,600,000 square feet of general office space as well as underground and surface parking and two parking garages. In addition, the Company owns an office building in the St. Louis area, which is used primarily as a contingency planning facility. The Company also leases 35,700 square feet in lower Manhattan and 7,000 square feet in downtown Chicago for the Company's security and commodity trade-processing activities. The Company occupies 744 locations, which are, with a few exceptions, leased premises, throughout the United States as well as in London, England, and Geneva, Switzerland.

ITEM 3. LEGAL PROCEEDINGS.

(a) Litigation

The Company is a defendant in a number of lawsuits, in some of which plaintiffs claim substantial amounts, relating primarily to its securities and commodities business. Management has determined that it is likely that ultimate resolution in favor of the plaintiffs will result in losses to the Company on certain of these claims and as a result, establishes accruals for potential litigation losses. The Company also is involved, from time to time, in investigations and proceedings by governmental and self-regulatory agencies, certain of which may result in adverse judgments, fines or penalties. Factors considered by management in estimating the Company's reserves for these matters are the loss and damages sought by the plaintiffs, the merits of the claims, the total cost of defending the litigation, the likelihood of a successful defense against the claims, and the potential for fines and penalties from regulatory agencies. The Company establishes reserves for potential losses to the extent that such matters are probable and can be estimated, in accordance with Statement of Financial Accounting Standards No. 5, "Accounting for Contingencies." As litigation and the resolution of regulatory matters are inherently unpredictable, the Company cannot predict with certainty the ultimate loss or range of loss where there is only a reasonable possibility that a loss may be incurred. The Company believes, based on current knowledge and after consultation with legal counsel, that the resolution of loss contingencies will not have a material adverse effect on the consolidated balance sheet, statement of earnings or statement of cash flows of the Company. However, the outcome of such matters could be material to the Company's operating results and cash flows for a future or interim periods, depending, among other things, on the results of operations for these periods.

Edwards has received information requests or subpoenas from the SEC, the NASD, the NYSE, several states and the United States Department of Justice with respect to mutual fund transactions that involve market timing, late trading or both. The SEC, the NASD and certain states have examined certain branch offices and have or will take statements from employees of Edwards in connection with such mutual fund transactions. In addition, Edwards has received requests for information concerning timing of mutual fund transactions in variable annuity sub accounts. The staff of the SEC has informed Edwards that it intends to recommend that a civil injunctive action be brought against Edwards with respect to mutual fund transactions occurring prior to October 2003 and alleged to involve market timing.

The Commonwealth of Massachusetts filed in February 2005 an administrative complaint against Edwards concerning certain mutual fund transactions in Edwards' Boston-Back Bay office. The complaint alleges violations of securities laws by mutual fund market timing transactions and seeks a cease and desist order, an administrative fine in an unspecified amount, compensation to mutual fund holders for losses alleged to have resulted from market timing, and other relief.

The State of Illinois Secretary of State Securities Department sent a Notice of Hearing dated December 1, 2006 that alleges, among other matters, that Edwards engaged in activities to facilitate mutual fund market timing on behalf of certain clients from January 2001 to October 2003 and had inadequate procedures to detect and prevent late trading of mutual funds in violation of the Illinois Securities Law of 1953. The matter is set for hearing in May 2007. Other regulatory actions or claims may occur related to market timing or other mutual fund activities.

Edwards has been named as a defendant in a lawsuit that seeks class-action status filed in the state of Missouri that alleges, among other matters, that mutual fund transactions with certain customers were influenced by undisclosed shared revenue payments. Edwards is defending itself against the suit.

The NASD in fiscal year 2006 advised Edwards that it has made a preliminary determination to recommend that disciplinary action be brought against Edwards concerning the sale of mutual fund class-B shares and class-C shares based upon, it is believed, the grounds for recommending such sales, suitability violations, and Edwards supervisory procedures. The NASD orally proposed a settlement, including a fine, the offer to customers to switch to class-A shares and reimbursement for any disadvantage based on actual performance and the retention of an independent consultant to review supervisory procedures. Edwards did not accept the settlement.

The NASD filed in November 2005 an administrative complaint against Edwards concerning the sale of certain mutual funds to IRA accounts in 2001 and 2002 for which certain mutual fund companies made additional cash payments alleged to total $630,958 to Edwards for sales. The complaint seeks unspecified sanctions and restitution. Edwards is defending itself against the charges. The matter is currently being tried before a hearing panel under the procedures of the NASD.

The Attorney General of South Carolina, Securities Division, filed an administrative proceeding in August 2005 against Edwards and two former employees in connection with actions taken from 1995 until 2002 involving securities transactions with residents of South Carolina by financial consultants in Edwards' Augusta, Georgia branch. Edwards has reached oral agreement to resolve this matter and matters relating to an Edwards branch in South Carolina by payment of $575,000. In March 2004, Edwards agreed under a consent order with the Georgia

Secretary of State□s Securities and Business Regulation Division to make certain payments to the State of Georgia and to customers related to transactions in the Augusta, Georgia branch. Edwards has made payments in excess of $38.2 million to customers and to the State of Georgia related to these matters. Edwards believes the actions involved in these matters were isolated to one branch and a limited number of financial consultants formerly with Edwards and had no connection with any other Edwards office.

On August 7, 2006, NYSE Regulation, Inc. censured and fined Edwards $900,000 (with a previous payment to another regulator deemed to satisfy $400,000 of the fine) for improperly maintaining customers in non-managed fee-based accounts, for failing to supervise a branch manager and for failing to properly report certain statistical information concerning customer complaints. Edwards made restitution to certain clients of fees previously charged in the amount of $830,000. The issues from the examinations include alleged failure to supervise charges related to the firm□s Augusta, Georgia branch related to the matters described above, alleged failure to properly report customer complaints, and alleged failures to supervise Edwards□ Client Choice accounts, including supervision of accounts with limited trading activity and accounts with concentrations of mutual funds. Client Choice accounts are brokerage accounts for which a fee, rather than commissions, is charged.

Edwards and other financial services firms were asked by the SEC to voluntarily review the supervision and operation of certain auction rate securities transactions. Thereafter, on May 31, 2006, the SEC instituted proceedings against Edwards and 14 other financial firms alleging that each of the firms had violated Section 17(a)(2) of the Securities Act of 1933 in connection with transactions involving auction rate securities. Simultaneously with the institution of such proceedings, each of the firms, without admitting or denying the findings of the SEC, consented to censure, undertakings and monetary penalties. Edwards was required to pay $125,000.

Edwards and other financial services firms have received and responded to information requests from the NYSE with respect to delivery of prospectuses to customers. Regulatory actions or claims may result from the information developed during the review by the NYSE.

The Division of Enforcement of the NASD had informed Edwards that it was considering recommending disciplinary action against the firm in connection with what was alleged to be the failure to establish adequate supervisory procedures related to the suitability of variable annuity products. In April 2007, Edwards was informed that the Division of Enforcement of the NASD closed their investigation of this matter and will not recommend the commencement of disciplinary action.

Edwards and other firms in the industry were asked by a number of regulators and exchanges to assess their policies, procedures and filings in response to electronic □blue sheet□ inquiries. Blue sheet inquiries are inquiries concerning trading in particular securities. Edwards has filed its assessment. Regulatory actions or claims may result from information developed during the assessment.

A former employee filed an action in September 2005 against the Company seeking class certification alleging, among other matters, violations of the Employee Retirement Income Security Act by allegedly failing to minimize fees paid in connection with investments in the Company□s Retirement and Profit Sharing Plan and by the selection of mutual funds for investments in the plan. The Company is defending itself against the suit.

Edwards is a defendant in a complaint filed in the United States District Court for the Southern District of California that seeks to be a class action on behalf of all financial consultants and trainees who worked for Edwards in California after June 30, 2000. The action, among other relief, seeks overtime pay for financial consultants, including trainees, on the basis that the financial consultants should be classified as non-exempt

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employees under California law, restitution of amounts that were deducted from commissions owed to financial consultants to repay advances made in prior months, payment for meal rest breaks to which financial consultants are claimed to be entitled, and reimbursement for certain alleged business-related expenses paid by financial consultants. Several other financial services firms have been sued in California in similar actions, some of which have settled the actions for substantial amounts. Other financial firms have announced changes in compensation for and charges to financial consultants as the result of such litigation. Edwards is evaluating whether changes will be made to compensation for and charges to financial consultants. Any such changes might increase expenses for Edwards.

In addition, Edwards has been named as defendants in separate lawsuits filed in the United States District Court for the Northern District of New York, the United States District Court of New Jersey, the United States District Court for the District of Oregon, the United States District Court for the Western District of Pennsylvania, and the Court of Common Pleas of Allegheny County Pennsylvania. Each of the suits seeks to be a class action on behalf of defined groups of financial consultants or employees being trained to be financial consultants during specified periods that vary in each lawsuit. Each of the suits seeks, among other relief, overtime pay for the purported class members and two of the suits seek reimbursement of certain amounts deducted from commissions allegedly owed the employees or paid by the employees.

The Division of Enforcement of the NYSE has informed Edwards that it is considering bringing a formal disciplinary action against Edwards relating to Edwards stock loan business. The disciplinary action being considered is stated, among other matters, to relate to alleged failures to detect and prevent stock loan personnel from engaging in away-from-market stock loan transactions and from engaging in business dealings with finders in violation of firm policy, failing to detect and prevent conflicts of interest between stock loan personnel and their counterparties, failing to ensure adequate review of electronic communications and to retain facsimile transmissions related to the stock loan business and failing to review certain employee trades. Edwards has been offered the opportunity to make a Wells-type submission.

(b) Proceedings Terminated During the Fourth Quarter of the Fiscal Year Covered by This Report

Not Applicable.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

There were no matters submitted to a vote of security holders during the fourth quarter of the fiscal year ended February 28, 2007.

EXECUTIVE OFFICERS OF THE COMPANY

The following table sets forth the executive officers of the Company as of April 27, 2007, as determined by the Board of Directors.

Name	Age	Office and Title	Year First Appointed Executive Officer of the Company
Robert L. Bagby	63	Chairman of the Board and Chief Executive Officer of the Company and Edwards since 2001. Vice Chairman of the Board, Executive Vice President and Director of the Branch Division of Edwards prior to 2001. Employee of Edwards for 32 years. Director of Edwards since 1979.	1991
Ronald J. Kessler	59	Vice Chairman of the Board of the Company and Edwards since 2001. Executive Vice President and Director of the Operations Division of Edwards. Employee of Edwards for 39 years. Director of Edwards since 1989.	1996
Mary V. Atkin	52	Director of the Staff Division of Edwards since 2005. Executive Vice President of Edwards since 2001.	1999

		Director of Corporate Strategy from November 2003 to February 2005. President of A.G. Edwards Technology Group, Inc. from 2001 to 2003. Director of A.G. Edwards Technology Group Inc. since 1999. Employee of Edwards for 29 years. Director of Edwards since 1993.	

Name	Age	Office and Title	Year First Appointed Executive Officer of the Company
Gene M. Diederich	48	Executive Vice President of Edwards since 2005. Director of the Branch Division of Edwards since March 2005. Regional Manager of Edwards from 2002 to 2005. Branch Manager of Edwards from 1996 to 2002. Employee of Edwards for 22 years. Director of Edwards since 2003.	2005
Charles J. Galli	66	Senior Vice President of Edwards. Regional Manager. Employee of Edwards for 28 years. Director of Edwards since 1990.	2001
Alfred E. Goldman	73	Corporate Vice President of Edwards, Director of Market Analysis of Edwards. Employee of Edwards for 47 years. Director of Edwards since 1967.	1991
Richard F. Grabish	58	Chairman and Chief Executive Officer of A.G. Edwards Trust Company since 2001. President of A.G. Edwards Trust Company since 2005 and from 1987 to 2001. Senior Vice President of Edwards. Assistant Director of the Sales and Marketing Division of Edwards. Employee of Edwards for 26 years. Director of Edwards since 1988.	2001
Douglas L. Kelly	58	Vice President, Secretary, Chief Financial Officer and Treasurer of the Company since 2001. Executive Vice President, Secretary, Director of the Law and Compliance Division of Edwards since 1994. Chief Financial Officer, Treasurer and Director of the Administration Division of Edwards since 2001. Employee of Edwards for 13 years. Director of Edwards since 1994.	1994
Peter M. Miller	49	Executive Vice President and Director of the Sales and Marketing Division of	2002

		Edwards since 2002. Regional Manager of Edwards from 1995 to 2002. Employee of Edwards for 18 years. Director of Edwards since 1997.	
John C. Parker	47	Executive Vice President of Edwards since 2003. Director and President of A.G. Edwards Technology Group, Inc. since November 2003. Senior Vice President of A.G. Edwards Technology Group, Inc. from 2001 to 2003. Employee of Edwards for five years. Director of Edwards since 2002.	2003
Paul F. Pautler	61	Executive Vice President and Director of the Capital Markets Division of Edwards since 2001. Senior Vice President and Director of the Investment Banking Division of Edwards from 2000 to 2001. Director of Corporate Finance of Edwards from 1999 to 2001. Employee of Edwards for nine years. Director of Edwards since 2000.	2000
Joseph G. Porter	46	Assistant Treasurer and Assistant Secretary of the Company since 1999. Vice President of the Company since 2002. Principal Accounting Officer of the Company and Edwards. Senior Vice President and Assistant Director of the Administration Division of Edwards. Employee of Edwards for 24 years. Director of Edwards since 2001.	1999

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PART II

ITEM 5. MARKET FOR THE REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Quarterly Information
(Unaudited)

	Dividends Declared per Share	Stock Price Sales Price High-Low	Net Revenues (In millions)	Earnings Before Tax (In millions)	Net Earnings (In millions)	Earnings Per Share Diluted	Basi
Fiscal 2007 by Quarter							
First	$0.20	$54.56 - $43.17	$764.7	$ 122.4	$ 77.6	$1.01	$1.0
Second	$0.20	$56.17 - $47.77	$713.3	$ 104.4	$ 66.3	$0.86	$0.8
Third	$0.20	$59.93 - $51.55	$767.5	$ 124.0	$ 78.3	$1.03	$1.0
Fourth	$0.20	$69.04 - $56.70	$865.0	$ 169.8	$ 109.2	$1.44	$1.4

Fiscal 2006* by Quarter							
First	$0.16	$45.70 - $38.66	$652.9	$ 75.9	$ 51.8	$0.67	$0.6
Second	$0.16	$47.00 - $40.94	$672.5	$ 74.3	$ 47.2	$0.61	$0.6
Third	$0.20	$46.73 - $38.41	$674.1	$ 75.8	$ 51.7	$0.67	$0.6
Fourth	$0.20	$48.04 - $43.86	$740.6	$ 115.0	$ 75.4	$0.99	$0.9

See Item 7. □Management□s Discussion and Analysis of Financial Condition and Results of Operations□ for additional information on the components presented above.

*Fiscal 2006 amounts have been adjusted due to a change in accounting method. See Note 2 (Employee Stock Plans) of the Notes to Consolidated Financial Statements for a detailed discussion of the Company□s Stock-Based Compensation plan.

Issuer Purchases of Equity Securities

The following table presents the number of shares purchased monthly under the Company□s stock repurchase programs for the three-month period ended February 28, 2007.

Period	**Total Number of Shares Purchased**	**Average Price Paid Per Share**	**Total Number of Shares Purchased as Part of Publicly Announced Plans**	**Maximum Number of Shares That May Yet Be Purchased Under the Plans**
December (12/1/06 □ 12/31/06)	361,356	$61.15	361,356	4,577,210
January (1/1/07 □ 1/31/07)	354,590	$66.26	354,590	14,222,620
February (2/1/07 □ 2/28/07)	288,246	$66.99	288,246	13,934,374
Total	1,004,192	$64.63	1,004,192	

In November 2004, the Company□s Board of Directors authorized the repurchase of up to 10,000,000 shares of the Company□s outstanding common stock during the period November 19, 2004, through December 31, 2006. The Company purchased 6,203,611 shares under the November 19, 2004 authorization. In November 2006, the Company□s Board of Directors authorized the repurchase of up to 10,000,000 shares of the Company□s outstanding stock during the period January 1, 2007 through December 31, 2008. At February 28, 2007, the Company had up to 9,419,832 shares available for repurchase under the January 2007 authorization.

In May 2005, the Board of Directors authorized the repurchase of up to 5,000,000 shares of the Company□s outstanding common stock solely to effect employee stock transactions in the Company□s Retirement and Profit Sharing Plan during the period May 24, 2005, through May 31, 2008. At February 28, 2007, the Company had up to 4,514,542 shares available to repurchase under this authorization.

Annual Meeting

The 2007 Annual Meeting of Stockholders (the □Annual Meeting□) will be held at the Company□s headquarters, One North Jefferson, St. Louis, Missouri, on Thursday, June 21, 2007, at 10 a.m. CDT. The Notice of Annual Meeting, Proxy Statement and Proxy Voting Card will be mailed on or around May 15, 2007, to each stockholder of record at the close of business on May 1, 2007. The Proxy Statement describes the items of business to be voted on at the Annual Meeting and provides information on the Board of Directors nominees for director and their principal affiliations with other organizations as well as other information about the Company.

Dividend Payment

The next four anticipated dividend payment dates are July 2 and October 1, 2007, and January 2 and April 1, 2008. However, the payment and rate of dividends on the Company's common stock is subject to several factors including operating results, financial requirements of the Company, and the availability of funds from the Company's subsidiaries, which may be subject to restrictions under the net capital rules of the SEC and NYSE and the capital adequacy requirements of the OTS. Such restrictions have never become applicable with respect to the Company's dividend payments. See Note 6 (Net Capital Requirements) of the Notes to Consolidated Financial Statements for more information on the capital restrictions placed on the Company and its subsidiaries.

Stock Exchange Listing

The Company's common stock is listed on the NYSE under the symbol AGE. The approximate number of stockholders on February 28, 2007, was 19,300. The approximate number of stock holders of record includes customers who hold the Company's stock in their accounts on the books of Edwards.

Registrar/Transfer Agent
The Bank of New York
1-800-524-4458
1-212-815-3700 (Outside the U.S. and Canada)
1-888-269-5221 (Hearing Impaired TTY Phone)

e-mail: shareowners@bankofny.com
website: https://www.stockbny.com

Address Shareholder Inquiries to:
The Bank of New York
Investor Services Department
P.O. Box 11258
New York, New York 10286-1258

Send Certificates for Transfer and Address Changes to:
Receive and Deliver Department
P.O. Box 11002
New York, NY 10286-1002

ITEM 6. SELECTED FINANCIAL DATA.

Consolidated Five-Year Summary

Year Ended	February 28, 2007	February 28, 2006 (As Adjusted)*	February 28, 2005	February 29, 2004	February 28, 2003
	(In thousands, except per share amounts)				
Revenues					
Asset management and service fees:					
Distribution fees	$ 684,290	$ 571,573	$ 498,026	$ 366,735	$ 336,636
Fee-based accounts	474,532	386,585	323,769	246,943	225,888

Service fees	107,240	104,714	97,282	109,708	90,493
Total	1,266,062	1,062,872	919,077	723,386	653,017
Commissions:					
Equities	539,208	530,052	530,654	543,462	453,231
Mutual funds	244,031	242,883	259,179	260,518	201,567
Insurance	200,956	195,476	192,019	205,622	185,249
Futures and options	46,689	48,411	47,810	51,427	42,816
Other	1,073	894	4,504	19,998	5,116
Total	1,031,957	1,017,716	1,034,166	1,081,027	887,979
Principal transactions:					
Debt securities	127,720	131,284	178,395	217,224	252,688
Equities	87,410	78,826	75,504	79,662	58,436
Total	215,130	210,110	253,899	296,886	311,124
Investment banking:					
Underwriting fees and selling concessions	196,593	168,963	174,555	240,094	184,220
Management fees	93,295	65,434	71,067	81,767	66,960
Total	289,888	234,397	245,622	321,861	251,180
Interest:					
Margin account balances	146,194	138,466	107,611	74,662	86,189
Securities owned and deposits	85,103	42,871	21,132	21,470	20,474
Total	231,297	181,337	128,743	96,132	106,663
Other	91,743	44,334	30,288	6,384	10,239
Total Revenues	3,126,077	2,750,766	2,611,795	2,525,676	2,220,202
Interest expense	15,617	10,653	4,114	2,859	5,850
Net Revenues	3,110,460	2,740,113	2,607,681	2,522,817	2,214,352
Non-Interest Expenses					
Compensation and benefits	1,931,870	1,761,199	1,699,156	1,642,999	1,448,199
Communication and technology	257,838	236,379	241,830	272,047	282,603
Occupancy and equipment	150,464	144,114	151,426	137,617	134,149
Marketing and business development	76,950	71,635	65,682	53,262	45,649
Floor brokerage and clearance	19,101	21,073	21,341	22,495	22,464
Other	153,644	164,705	133,839	149,123	109,854
Total Non-Interest Expenses	2,589,867	2,399,105	2,313,274	2,277,543	2,042,918
Earnings Before Income Taxes	520,593	341,008	294,407	245,274	171,434
Income Taxes	189,240	117,684	107,933	85,789	52,606
Earnings before cumulative effect of accounting change	331,353	223,324	186,474	159,485	118,828
Cumulative effect of accounting change, net of $1,655 of income taxes	—	2,768	—	—	—
Net earnings	$ 331,353	$ 226,092	$ 186,474	$ 159,485	$ 118,828

Year Ended	**February 28, 2007**	**February 28, 2006 (As Adjusted)***	**February 28, 2005**	**February 29, 2004**	**February 28, 2003**
	(In thousands, except per share amounts)				
Earnings per diluted share:					

Earnings before cumulative effect of accounting change	$ 4.34	$ 2.89	$ 2.37	$ 1.97	$ 1.46
Cumulative effect of accounting change, net of income taxes*		0.04			
Earnings per diluted share	$ 4.34	$ 2.93	$ 2.37	$ 1.97	$ 1.46
Per Share Data:					
Dividends Declared	$ 0.80	$ 0.72	$ 0.64	$ 0.64	$ 0.64
Book Value	$ 27.91	$ 24.96	$ 23.21	$ 22.08	$ 20.92
Other Data:					
Total Assets	$ 5,312,118	$ 4,671,643	$ 4,687,797	$ 4,436,085	$ 3,980,094
Stockholders' Equity	$ 2,102,039	$ 1,887,012	$ 1,787,691	$ 1,778,319	$ 1,688,537
Dividends Declared	$ 60,664	$ 54,894	$ 49,392	$ 51,007	$ 51,034
Pre-tax Return on Average Equity	26.1%	18.6%	16.5%	14.1%	10.3%
Return on Average Equity	16.6%	12.3%	10.5%	9.2%	7.1%
Pre-tax Net Earnings as a Percent of Net Revenues	16.7%	12.4%	11.3%	9.7%	7.7%
Average Common and Common Equivalent Shares Outstanding (Diluted)	76,431	77,204	78,766	80,990	81,177

*Fiscal 2006 amounts have been adjusted due to a change in accounting method. See Note 2 (Employee Stock Plans) of the Notes to Consolidated Financial Statements for a detailed discussion of the Company's Stock-Based Compensation plan.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

(Year references, including those in charts, are to fiscal years ended February 28 unless otherwise specified)

Introduction

Headquartered in St. Louis, Missouri, A.G. Edwards, Inc. is a financial services holding company whose principal operating subsidiary is the national investment firm of A.G. Edwards & Sons, Inc. ("Edwards"), which is a successor to a partnership formed in 1887. A.G. Edwards, Inc. and its operating subsidiaries (collectively, the "Company"), provide securities and commodities brokerage, investment banking, trust services, asset management, retirement and financial planning, insurance products, and other related financial services.

The Company's client base is comprised mostly of individual investors and includes corporations, governments, municipalities and financial institutions. Total client assets at the end of 2007 were $374 billion, an increase of $31 billion (9 percent) when compared to the end of 2006.

The Company serves its clients through one of the securities industry's largest branch-office networks with locations in all 50 states, the District of Columbia, London, England and Geneva, Switzerland. The Company added six locations during 2007, increasing its total to 744. The total number of full-time employees decreased by 142 (1 percent) to end the year at 15,338. The number of the Company's financial consultants declined 206 (3 percent) to end the year at 6,618. Average client assets per financial consultant at the end of 2007 were $56.5 million, an increase of $6.2 million (12 percent).

Executive Summary

Economic/Market Conditions

As the fiscal year progressed and the economic data turned more positive, the actions of investors suggested they were becoming more comfortable with the economic and market environments. While the first four months of the fiscal year were largely dominated by rising interest rates and rising oil prices, along with economic data that provided no clear indication of the economys direction, the last eight months displayed much of the opposite.

After raising the Federal Funds rate from 4.75 percent to 5.25 percent from March to June, the Federal Reserve held the rate steady from June through the end of February. Crude oil prices, which peaked at more than $77 per barrel in July, hovered in the $58-$63 range for much of the fiscal third quarter, fell as low as $50 per barrel in the fourth quarter, and closed the year at $62 per barrel. Consumer price inflation increased at its smallest monthly rates during the last six months of the year, and Gross Domestic Product growth maintained slower, steadier progress from April to December, further relaxing concerns of additional Federal Funds rate increases.

The positive economic news later in the year was reflected in the equity markets. While the major stock market indexes posted modest gains through the first six months, their fiscal-year highs and the bulk of the overall gains came within the last six months. It should be noted that the fiscal-year results for these indexes were adversely affected by heavy stock-selling in the last week of the fiscal year. The Standard & Poors 500 Index increased 126 points (10 percent), gaining 103 of those points (8 percent) in the last six months, to finish the year at 1,407. Similarly, the Dow Jones Industrial Average increased 1,275 points (12 percent), gaining 888 points (8 percent) in the last six months, to finish at 12,269. The Nasdaq Composite Index, meanwhile, was at a 4 percent loss through the first six months before ending the year with a 135-point (6 percent) increase to finish at 2,416.

Regulatory Environment

The enactment of new or changes in existing laws or regulations, new or changed interpretations or enforcement of such laws or regulations, or court decisions concerning them in the U.S. or in other jurisdictions could materially affect the Companys business, financial condition or results of operations in one or more periods. Recent changes include the New York Stock Exchange (NYSE) and the National Association of Securities Dealers, Inc. (NASD), which have regulatory authority over the business of Edwards as a broker-dealer, announcing that they intend to merge their regulatory operations into a single regulatory body that is expected to begin operations in the second quarter of calendar 2007. Recent regulatory changes concerning the trading of securities under Regulation NMS issued by the SEC and related actions are affecting how Edwards and other broker-dealers handle transactions. The Chairman and the Director of the Division of Investment Management of the SEC have stated that the SEC will be reviewing the fees paid by mutual fund companies to broker dealers and other entities under rule 12b-1 of the Securities and Exchange Act of 1934. Edwards receives significant payments of 12b-1 fees and changes in the rule governing such fees could have a material adverse affect on the receipt of such payments by Edwards. The United States Court of Appeals for the District of Columbia Circuit in March 2007 invalidated a final rule adopted by the SEC that exempted broker-dealers including Edwards from the requirements of the Investment Advisers Act in connection with certain activities and accounts. As a result of this ruling Edwards has stopped opening new fee-based brokerage accounts known as Client Choice and is reviewing the status of existing accounts and other business activities. The impact of this court ruling cannot be determined with certainty but, unless changed, will affect how brokerage activities are performed by Edwards and other broker-dealers.

As with most other publicly held companies, the Company was subject to the ongoing implementation of the Sarbanes-Oxley Act of 2002, particularly as it pertained to internal control over financial reporting. (See the Controls and Procedures section, Part II, Item 9A, for a detailed discussion of the Companys report on internal control over financial reporting).

Company Performance Summary

Overall for 2007, the Company set a record for annual net revenues at $3.1 billion and experienced its fourth consecutive year of increased net revenues. The Company also posted its fifth consecutive year of increased net earnings, earnings per diluted share, pre-tax profit margin and return on average equity:

Additionally, results for 2006 have been adjusted to reflect a change in accounting method related to stock options and restricted stock (collectively referred to as “Stock Awards”) granted to retirement-eligible employees under Statement of Financial Accounting Standards No. 123 (Revised 2004) “Share Based Payment” (“SFAS No. 123R”).

In reviewing its results for 2007, the Company’s asset-management and service-fee revenues for the second consecutive year accounted for the largest percentage of net revenues, at 41 percent in 2007 and 39 percent last year. Higher client-asset levels in fee-based programs, mutual funds and other individual investments helped this revenue line grow to $1.3 billion, a 19 percent increase for the year. The Company continues to believe this trend reflects a natural migration by clients toward fee-based programs and services to diversify their portfolios. In response to this client demand, the Company continues to expand its lineup of fee-based programs and services, including additional portfolio choices in its fund advisory programs and the introduction of its Unified Managed Portfolios, a program that allows investments in mutual funds and exchange traded funds and by professional money managers.

Helped by asset-management and service-fee revenue, net revenues for 2007 increased $370 million (14 percent) as the Company posted increases in every major revenue category. Of note, the $55 million (24 percent) increase in investment banking revenues largely reflected a significant increase in underwriting volume of closed-end funds and equity offerings. Additionally, the $45 million (26 percent) increase in net interest revenues reflected an increased prime rate resulting in higher interest rates charged on margin balances, higher interest rates earned on the fixed-income inventory held for sale to clients and higher balances and rates earned on short-term investments partially offset by decreased margin loan balances.

During 2007, total client assets grew more than $31 billion (9 percent), while client assets in fee-based accounts grew $7 billion (18 percent).

The Company’s results for 2007 included $23 million in revenue for gains related to the merger of the NYSE and Archipelago Holdings, Inc. to form NYSE Group, Inc. (“NYSE Group”), including the mark-to-market on NYSE Group shares the Company currently holds. The results also included $18 million in revenue for gains on the sales of shares in the Intercontinental Exchange (“ICE”) and Chicago Mercantile Exchange (“CME”) and the mark-to-market on the ICE, CME and New York Mercantile Exchange (“NYMEX”) shares the Company currently holds.

Non-interest expenses for 2007 increased, albeit at a slower pace than revenue growth. Expenses for compensation and benefits in 2007 increased mainly due to greater revenue produced by the Company’s financial consultants, earnings allocated to the Company’s incentive compensation and a change in the expense recognition for employee awards of restricted stock and stock options. Communication and technology expenses also increased, largely because of higher depreciation expenses, higher technology-consulting expenses and higher securities-processing costs, which are consistent with greater client activity. The securities-processing costs became more variable in nature after the Company moved its securities-processing operations to an application service provider last year. As a partial offset, other expenses declined during the period as a result of lower expenses for addressing various regulatory changes and legal matters.

When comparing the Company’s results for 2007 to those for 2006:

Net earnings — Increased $105 million (47 percent) to $331 million.

Diluted earnings per share — Increased $1.41 (48 percent) to $4.34.

Net revenues — Increased $370 million (14 percent) to $3.1 billion.

Pre-tax profit margin — Increased from 12.4 percent to 16.7 percent.

When comparing the Company’s results for 2006* to those for 2005:

Net earnings — Increased $40 million (21 percent) to $226 million.

Diluted earnings per share — Increased $0.56 (24 percent) to $2.93.

Net revenues Increased $132 million (5 percent) to $2.7 billion.

Pre-tax profit margin Increased from 11.3 percent to 12.4 percent.

*Fiscal 2006 amounts have been adjusted due to a change in accounting method. See Note 2 (Employee Stock Plans) of the Notes to the Consolidated Financial Statements for a detailed discussion of the Companys Stock-Based Compensation plan.

The results for 2006 included $5 million in revenue for gains on the sale of shares in the Chicago Board of Trade (CBOT), $8 million in gains on CME shares, and a $3 million gain on the sale of real estate. The 2006 results also reflected $6 million in tax benefits resulting from the resolution of certain tax matters, including $3 million in tax benefits from the resolution of tax matters related to technology research and development tax credits.

As a result of the Companys March 1, 2005 early adoption of SFAS No. 123R, the Company recognized in the first quarter of 2006 a one-time, $3 million after-tax benefit, as the cumulative effect of a change in accounting method, resulting from the requirement to estimate forfeitures of restricted stock awards at the date of grant instead of recognizing them as incurred. Based on interpretive guidance related to SFAS No. 123R, the Company changed its accounting method such that compensation expense only for Stock Awards to retirement-eligible employees was retroactively recorded in 2006, in accordance with Statement of Financial Accounting Standards No. 154 Accounting Changes and Error Corrections a replacement of APB Opinion No. 20 and FASB Statement No. 3 (SFAS No. 154). Stock Awards to non-retirement eligible employees for 2006 granted in the first quarter of 2007 are being expensed over their service period, generally three years.

In both the 2007 versus 2006 and the 2006 versus 2005 comparisons, the Company experienced a general increase in net revenues paced by record results in asset-management and service-fee revenues, combined with higher compensation expenses based on higher commissionable revenue and the Companys increased profitability. A detailed discussion of the Companys results of operations follows.

Results of Operations

The Company generates revenues primarily through Edwards. These revenues can be categorized into six main components: asset-management and service fees, commissions, principal transactions, investment banking, net interest revenue and other.

Many factors affect the Companys net revenues and profitability, including economic and market conditions, the level and volatility of interest rates, inflation, political events, investor sentiment, legislative and regulatory developments, and competition. Because many of these factors are unpredictable and beyond the Companys control, earnings may fluctuate significantly from year to year.

The following table illustrates the composition of the Companys net revenues for 2007, 2006 and 2005:

	2007	**2006**	**2005**
Asset management and service fees	41%	39%	35%
Commissions	33%	37%	40%
Principal transactions	7%	8%	10%
Investment banking	9%	9%	9%
Net interest	7%	6%	5%
Other	3%	1%	1%

Following are descriptions of the Companys revenue and expense components and its operational results in each:

Asset Management and Service Fees

Revenues from asset-management services are based principally on the amount of certain client assets held through the Company. These assets may be managed by the Company, by Gallatin Asset Management, Inc. ("Gallatin") or by third-party investment managers, including third-party portfolio managers, mutual funds, managed futures funds, money market funds, annuities and insurance companies. The Company manages certain client assets through the A.G. Edwards Trust Company FSB ("Trust Company"), a wholly owned subsidiary and

federally chartered savings bank that provides portfolio management and trust services. In addition, the Company offers a non-discretionary advisory program known as Portfolio Advisor and a discretionary advisory program known as FC Advisor.

The Company also offers fee-based fund advisory programs that allow clients to select from recommended, established asset allocation models or customize their own models in certain programs. The fund advisory programs are known individually as AGE Allocation Advisors, AGE Pathways and AGE Professional Fund Advisor.

Gallatin provides separately managed accounts and other services to Edwards and markets its investment-management services to unaffiliated mutual-fund firms, pension-fund providers, insurance companies and other financial institutions, including banks and brokerage firms. Gallatin receives management fees for its services.

Asset-management and service-fee revenues for 2007 increased $203 million (19 percent) to post an annual record of $1.3 billion. Growth in this revenue category was helped by the Company's fee-based programs, which increased $88 million (23 percent) due in part to an 18 percent increase in the number of client accounts in these programs under third-party management or through the Company's fee-based transaction accounts and trust services.

Fees received from third-party mutual funds, managed futures and insurance providers increased $113 million (20 percent) mainly as a result of increased asset values in these investment products. Service-fee revenues increased $3 million (2 percent) due in part to an increase by Edwards in the postage and handling fee on certain transactions.

Asset-management and service-fee revenues displayed modest volatility throughout the year but generally maintained an upward bias as it established a new annual record. The Company's fund advisory programs again displayed the greatest strength among the Company's fee-based programs, both in terms of client-asset growth (45 percent) and client-account growth (38 percent).

Client assets in fee-based accounts increased $7 billion (18 percent) from February 28, 2006 to February 28, 2007 and increased $7 billion (22 percent) from February 28, 2005 to February 28, 2006. An analysis of changes in assets in fee-based accounts from these time periods is detailed below (dollars in millions):

Assets in fee-based accounts	**February 28, 2007**	**February 28, 2006**	**2007 vs. 2006**	**February 28, 2005**	**2006 vs. 2005**
Fund advisory programs	$20,393	$14,059	45%	$ 9,871	42%
Separately managed accounts	12,853	12,030	7%	11,438	5%
Company-managed and other fee-based accounts	10,922	11,357	(4)%	9,443	20%
Total assets in fee-based accounts	$44,168	$37,446	18%	$30,752	22%

In mid-February 2007, the Company introduced its bank deposit program ("AGE Bank Deposit Program") to certain clients as part of a multi-stage rollout to all eligible clients. The AGE Bank Deposit Program offers up to $1 million in FDIC insurance, competitive interest rates and the opportunity to earn higher interest rates based on household asset values and account type. Also in 2007, the Trust Company received approval from the Office of Thrift Supervision (OTS) to expand its powers to be able to accept time and demand deposits so it can participate, along with several other FDIC-insured banks, in the AGE Bank Deposit Program. The Company expects the Trust Company to begin accepting client deposits in the second quarter of 2008.

The revenue contribution of the AGE Bank Deposit Program was not material to the Companys 2007 results of operations. The revenue impact of this program in 2008 cannot be determined with certainty and will depend, among other things, on the amount of assets that clients move into the AGE Bank Deposit Program, when the Trust Company begins accepting deposits, the amount of deposits placed with the Trust Company, the amount of new assets brought to the Company as a result of this program, and competitive and economic factors. As of April 25, 2007, the Company had average money fund balances of $20 billion that are eligible for conversion to this program.

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Revenue and expenses derived from deposits placed with the Trust Company through the AGE Bank Deposit Program will be reflected in net interest revenue in future periods. Revenue and expenses derived from assets deposited in other FDIC-insured banks through this program will be reflected in asset-management and service fees in future periods.

In 2006 asset-management and service-fee revenues increased $144 million (16 percent). The growth was driven by a $63 million (19 percent) increase in revenue from the Companys fee-based programs, generated in part by a 22 percent increase in the number of client accounts in these programs under third-party management or through the Companys fee-based transaction accounts and trust services.

Fees received from third-party mutual funds, managed futures and insurance providers increased $78 million (21 percent) mainly as a result of increased asset values in these investment products. Service-fee revenues increased $7 million (8 percent) due to greater revenue from the Companys asset accounts and investment-research services. These results were partially offset by a $4 million (3 percent) decline in fees received from the distribution of certain money funds, due mainly to a decrease in client assets in those money funds.

Commissions

The Company generates commission revenues when acting as an agent for client activities in transaction-based accounts in listed and over-the-counter securities, mutual funds, insurance products, futures and options. These revenues can be affected by trading volumes, by the dollar value of individual transactions, by market and economic conditions, and by investor sentiment because the Companys clients are primarily retail-oriented.

Commission revenues increased $14 million (1 percent) in 2007 compared to 2006. Commissions from equity transactions increased $9 million (2 percent), revenues from transactions in insurance products increased $5 million (3 percent) and commissions from individual mutual-fund transactions were essentially flat. As a partial offset to these increases, commission revenues from commodities and financial futures decreased $1 million (5 percent) and commission revenues from options transactions decreased $1 million (2 percent).

Commission revenues from equity transactions were at or near their best performance in May, while they displayed their weakest performance in July, consistent with market declines and seasonally slower activity. The Company benefited modestly from a change in its commission schedule for equity and options transactions, which went into effect March 15, 2006. Commission revenues from individual mutual-fund and insurance-product transactions were strongest in the first and fourth quarters of 2007. The Company believes the essentially flat revenue contribution from individual mutual-fund transactions was partly attributable to the continued client migration toward fee-based fund advisory programs.

Commission revenues for 2006 declined $16 million (2 percent) from 2005. While commissions from listed-stock transactions increased $9 million (2 percent), commissions in over-the-counter equities declined $13 million (14 percent). Meanwhile, commissions from transactions in mutual funds declined $16 million (6 percent) and commissions from commodities and financial futures decreased $1 million (4 percent). These declines were partially offset by a $2 million (7 percent) increase in revenues from options transactions and a $3 million (2 percent) increase in transaction revenues from insurance products.

The 2006 commission revenues generally reflected increased client activity in equities and mutual funds when major market indexes reached various peaks. Revenues from insurance products were generally steady throughout 2006 as clients sought these products to help diversify their portfolios. Additionally, the strong pace of asset growth in fee-based programs suggested greater client interest in these programs versus individual transactions.

Principal Transactions

The Company maintains inventories of fixed-income and equity securities to satisfy client demand and, therefore, effects certain transactions with its clients by acting as a principal. Realized and unrealized gains and losses result from the sale and holding of securities positions for resale to clients and are included in principal-transaction revenues.

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In 2007 principal-transaction revenues increased $5 million (2 percent) versus 2006. A $9 million (11 percent) revenue increase from transactions in equity securities held in the Company's inventory overcame decreases of $2 million (6 percent) in revenues from corporate-debt transactions and $2 million (3 percent) in revenues from municipal-debt transactions. Revenue from government-debt transactions was essentially flat.

Client activity in over-the-counter equity securities was generally consistent with equity activity noted above in Commission revenues. Conversely, client activity in municipal- and government-debt securities was strongest in the periods of weakness for the equity markets as clients took more defensive positions in their portfolios.

In 2006 principal-transaction revenues decreased $44 million (17 percent) versus 2005. The overall decline in this revenue category was driven almost entirely by a slowdown in client activity in the fixed-income markets, as evidenced by a $17 million (19 percent) decrease in revenue from municipal-bond transactions, a $17 million (39 percent) decrease in corporate-debt transactions and a $13 million (29 percent) decrease in revenue from government-debt transactions. These decreases were partially offset by $3 million (4 percent) increase in revenues from transactions in equity securities held in the Company's inventory. Investor concerns about interest rates and improving equity markets were the main factors affecting activity in this revenue category during 2006.

Investment Banking

Investment banking revenues result primarily from bringing new issues of securities, both equity-based and fixed income-based, to the market for issuers. The issuers are generally corporate or municipal clients but may be institutional clients of Edwards in the case of exchange-traded funds and related products. Investment banking revenues vary depending on the number and size of transactions successfully completed and generally are received in the form of underwriting fees or selling concessions. Additionally, the Company receives fees for financial advisory services, including advice on mergers and acquisitions, restructurings, and other strategic advisory needs.

Investment banking revenues in 2007 increased $55 million (24 percent), posting their second-best annual performance and their best-ever quarterly performance in the fourth quarter. Underwriting fees and selling concessions from equity products increased $26 million (21 percent). Underwriting fees and selling concessions from corporate-debt products increased $4 million (18 percent). These increases were partially offset by a $3 million (12 percent) decrease in underwriting fees and selling concessions from municipal- and government-debt products.

The Company participated in a significantly greater volume of equity underwritings during 2007, particularly in the area of closed-end funds as several large issues came to market. Related management fees from these underwritings accounted for much of the overall increase in management fees. The Company also had a greater volume of underwritings in its core focus areas of energy, financial and real estate. The increase in corporate-debt activity was primarily due to increased client demand for preferred-debt issues. The revenue decrease from municipal underwritings was mainly due to greatly reduced volume from municipalities issuing new debt or refinancing existing debt.

In 2006 investment banking revenues decreased $11 million (5 percent). While underwriting fees and selling concessions from corporate-equity products were essentially flat for the year, underwriting fees and selling concessions from corporate-debt products decreased $7 million (23 percent) and government-debt products decreased $4 million (66 percent). Management fees in 2006 decreased $6 million (8 percent). These results were partially offset by a $5 million (28 percent) increase in underwriting fees and selling concessions from municipal-debt products. The underwriting environment in 2006 was largely the opposite experienced in 2007, as the Company had a significantly lower volume of closed-end-fund underwriting partially offset by a greater volume of municipal underwritings as municipalities took advantage of the interest-rate environment.

Net Interest Revenue

Interest revenue is derived primarily from financing clients margin transactions. These revenues are based largely on the amount of client margin balances and the rate of interest charged on these balances. The Company also earns revenue from interest and dividend payments on inventory held for sale to clients and from short-term investments.

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Interest revenue net of interest expense increased $45 million (26 percent) in 2007. A 2 percent increase in the prime rate the base rate the Company uses for charging interest on average margin balances was primarily responsible for the $8 million (6 percent) increase in revenue from margin balances. During the year, average client margin balances declined from $1.9 billion to $1.6 billion. The decline in these balances is believed to be, in part, the by-product of more client assets moving to fee-based programs, most of which do not allow clients to have margin accounts. Higher interest rates also were the primary driver behind a $25 million (153 percent) increase in revenue from the Companys short-term investments. Higher interest rates from fixed-income securities and dividend payments from equity securities held in inventory contributed to a $17 million (65 percent) revenue increase from this inventory.

As noted earlier, net interest revenue in future periods will reflect the impact of client assets deposited in the Trust Company through the AGE Bank Deposit Program.

The following chart details the average client margin balances as of February 28(29) 2004, 2005, 2006 and 2007 and the average rate charged on those balances:

Interest revenue net of interest expense increased $46 million (37 percent) in 2006 for mainly the same reasons as those noted above for the 2007 results. Average client margin balances during 2006 declined from $2.1 billion to $1.9 billion.

Other Revenue

Other revenue is derived primarily from the Companys investment activities in equity and equity-related securities along with four Company-sponsored private equity partnerships.

Other revenue increased $47 million (107 percent) in 2007. These results included $23 million in revenue for gains related to the merger of the NYSE and Archipelago Holdings, Inc. to form NYSE Group, including the mark-to-market on NYSE Group shares the Company currently holds. The results also included $14 million in revenue for gains on the sale of shares in ICE and the mark-to-market on the ICE and NYMEX shares the Company currently holds. Additionally, the results in other revenue reflected a $21 million increase in gains in 2007 versus 2006 on the Companys private-equity investment valuations and dividend payments. The increase was partially offset by a $3 million decrease in gains the Company recorded in 2007 versus 2006 for the sale of shares in the CME and the mark-to-market on other CME shares the Company currently holds. The 2006 and 2007 sales of CME shares occurred after shareholding requirements for CME membership were lowered. The 2007 sale of ICE shares occurred after the merger of ICE and New York Board of Trade (NYBOT) in January 2007.

In 2006 other revenue increased $14 million (46 percent). The 2006 results included a $5 million gain on the sale of shares in the CBOT that the Company was not required to own for CBOT membership. The increase also included a $3 million gain on the sale of real estate and a $13 million increase in revenue from the Company's private-equity investment valuations and dividend payments. The increase was partially offset by a $2 million decrease in gains the Company recorded in 2006 versus 2005 for the sale of shares in the CME and the mark-to-market on other CME shares the Company currently holds. Both the 2005 and 2006 sales of CME shares occurred after the CME lowered shareholding requirements for CME membership.

Expenses

The Company's expenses are categorized into six components: compensation and benefits, communication and technology, occupancy and equipment, marketing and business development, floor brokerage, and other expenses.

Compensation and Benefits

Compensation and benefits expenses comprise the largest components of the Company's overall expenses. Most of these expenses are variable in nature and relate to commissions paid to the Company's financial consultants for transaction-based or asset-management services and to incentive compensation, which is largely based on the profitability of the Company. This expense category also includes employee healthcare insurance costs.

For 2007, compensation and benefits increased $171 million (10 percent). Commission expense increased $55 million (7 percent). Incentive compensation increased $103 million (32 percent), which included $13 million in amortization expense related to stock awards for non-retirement eligible employees and $7 million in accrued expense for Stock Awards to be granted to retirement-eligible employees. Retirement-eligible employees generally are those age 55 and older. See Note 2 (Employee Stock Plans) of the Notes to Consolidated Financial Statements for further discussion of the recent change of accounting method for retirement-eligible employees. Administrative salaries increased $5 million (1 percent), and costs related to healthcare insurance and other benefits increased $13 million (8 percent).

The increase in commission expense was primarily the result of higher commissionable revenue from fee-based programs and individual transactions, partially offset by adjustments Edwards made to the compensation of its financial consultants effective April 3, 2006, lowering the commission payout schedule to its financial consultants on certain transactions. The increase in incentive compensation was due mainly to the Company's 47 percent increase in net earnings during 2007 and an increase in the number of financial consultants qualifying for sales bonuses. The increase in administrative salaries largely reflected general salary increases. The increase in healthcare insurance costs was mainly a reflection of generally higher individual claims during the year.

For 2006, compensation and benefits expenses increased $62 million (4 percent). Commission expense increased $11 million (1 percent) and incentive compensation increased $4 million (1 percent), both due to increased sales and earnings. Administrative salaries increased $6 million (2 percent) as a result of general salary increases and a net increase in salaried employees. Healthcare insurance costs increased $5 million (9 percent) due to higher individual claims.

As a partial offset to other incentive-compensation expenses, the Company's early adoption of SFAS No. 123R additionally resulted in an expense for Stock Awards only for non-retirement eligible employees being recognized in 2006. Stock awards granted at the end of 2006 for non-retirement eligible employees are being expensed over their service period, generally three years, which began in 2007. See Note 2 (Employee Stock Plans) of the Notes to Consolidated Financial Statements for further discussion of the impact of the Company's change in accounting method for Stock Awards to retirement-eligible employees.

Upon the adoption of SFAS No. 123R, the Company recognized the compensation expense related to Stock Awards to retirement-eligible employees on the date of grant. Based on interpretive guidance related to SFAS No. 123R, on March 1, 2006, the Company changed its accounting method for recognizing the cost of Stock Awards that are granted to retirement-eligible employees. The Company is accruing an expense throughout the fiscal year preceding the date of grant representing an estimate of Stock Awards to be granted to retirement-eligible employees as a result of such fiscal year's service rather than recognize the expense on grant date, which occurs in the first quarter of the subsequent fiscal year. The accounting for Stock Awards to non-retirement eligible employees did not change and will be recognized over the service period, generally three years from grant date. Following is a table that outlines the actual/projected expense impact for non-retirement eligible employees Stock Awards for the fiscal years 2007 through 2010:

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Actual/Projected Expense Impact of Non-Retirement Eligible Employees Stock Awards

For Non-Retirement Eligible Employees Stock Awards Granted For:	**2007 Expense Impact**	**2008 Expense Impact**	**2009 Expense Impact**	**2010 Expense Impact**
2006	$13 million	$11 million	$10 million	$ 2 million
2007	—	$15 million	$14 million	$13 million
Total Actual/Projected Expenses For Non-Retirement Eligible Employees Stock Awards	$13 million	$26 million	$24 million plus expense for Stock Awards to be granted in April 2008	$15 million plus expense for Stock Awards to be granted in April 2008 and 2009

Differences between the projected and actual expenses for non-retirement eligible employees Stock Awards for 2008 and subsequent fiscal years may occur as a result of actual employee forfeitures of non-retirement eligible employees Stock Awards compared to the Company's estimates and/or future accounting pronouncements by the Financial Accounting Standards Board ("FASB"), SEC or other regulatory authority.

Communication and Technology

Communication and technology expenses mainly encompass those costs associated with operating the Company's back-office systems and technology infrastructure, which includes computer software and hardware — and the amortization and depreciation of each — along with data and trade processing. This expense line also includes costs for contract workers assigned to the Company's various technology projects and needs. Additionally, account-statement printing and mailing, telephone service and technology repairs and maintenance all fall under this expense category.

Communication and technology expenses increased $21 million (9 percent) in 2007. Professional expenses for outside consultants increased by $17 million (93 percent) due to various projects, including the Company's transition from certain legacy back-office systems. Amortization and depreciation expenses increased $5 million (7 percent) as a result of several new technology projects. Expenses associated with the conversion of securities-processing operations to an application service provider increased $4 million (35 percent) due in part to greater client activity. As partial offsets, expenses related to repairs and maintenance decreased $2 million (14 percent) and expenses for certain telecommunications services decreased $3 million (15 percent).

In 2006 communication and technology expenses declined $5 million (2 percent) as the Company completed several significant projects, resulting in decreased professional expenses for outside consultants. Amortization and depreciation expenses also decreased as several assets became fully depreciated. Partially offsetting these decreases were increases from securities-processing expenses associated with the conversion of securities-processing operations to an application service provider and data-processing expenses associated with data-processing services provided by an outside service provider.

Occupancy and Equipment

Occupancy and equipment expenses relate mainly to the leases for the Company's branch-office locations and the amortization and depreciation expenses associated with equipment and furniture in those locations.

In 2007 occupancy and equipment expenses increased $6 million (4 percent) primarily due to higher rates associated with renewing certain branch-office leases.

In 2006, occupancy and equipment expenses decreased $7 million (5 percent). The decrease was primarily due to a $10 million charge recorded in 2005 to correct the recognition period for rent-escalation clauses and lease incentive in certain branch-office leases. The decrease was partially offset by increases in amortization expenses for leasehold improvements.

Marketing and Business Development

Marketing and business development expenses are mainly related to the Company's branding initiative, local-branch advertising and promotional efforts, and travel and entertainment expenses.

In 2007 marketing and business development expenses increased $5 million (7 percent). Expenses associated with the Company's national sales conference largely accounted for a $6 million (54 percent) increase in travel expenses. Partially offsetting this increase was $2 million (4 percent) in decreased costs associated with the Company's branding initiative and other business-promotion expenses primarily resulting from timing differences in advertising schedules.

While the amount for 2008 has not been determined with certainty, the Company expects its branding initiative to cost approximately $20 million, with fluctuations from period to period.

In 2006 marketing and business development expenses increased $6 million (9 percent) primarily due to an increase in advertising expenses associated with the Company's branding initiative and other business-promotion expenses.

All Other Expenses

All remaining operational expenses are largely related to professional expenses for legal, regulatory and audit consulting services, reserves and settlements for legal and regulatory matters, licensing and registration fees, publication and subscription expenses, and floor brokerage expenses.

In 2007 all remaining operational expenses decreased $13 million (7 percent), led by an $11 million (20 percent) decline in professional expenses for legal and regulatory consulting services. Reserves and settlements for various legal and regulatory matters were $3 million (8 percent) lower than the prior year. A $2 million (9 percent) decrease in floor brokerage and clearance expenses resulted from lower fees charged by various securities exchanges. As a partial offset, the Company had a $3 million (15 percent) increase in expenses related to certain media-vendor services.

In 2006 all remaining operational expenses increased $31 million (20 percent) due largely to increases in reserves and settlements for various legal and regulatory matters, professional expenses for legal and regulatory consulting services, and an increase in registration fees due mainly to an $8 million credit recorded in 2005 to correctly recognize state registration fees for the Company's financial consultants over the registration period.

Income Taxes

The Company's effective tax rate was 36.4 percent for 2007 compared with 34.5 percent for 2006. The increase in the effective tax rate was due largely to the recognition of $6 million in tax benefits from the resolution of certain tax matters during 2006, including $3 million in tax benefits from the resolution of tax matters related to technology research and development tax credits.

Impact of Stock Exchange Holdings

On March 7, 2006, the NYSE and Archipelago Holdings, Inc. closed a merger agreement and formed a new holding company, NYSE Group. In the merger, NYSE members were entitled, and the Company elected, to receive $404,640 and 78,601 shares of NYSE Group common stock for each NYSE membership seat. The sale of shares are subject to certain restrictions that expire ratably over a three-year period, unless the NYSE Group board of directors removes or reduces the transfer restrictions earlier. The NYSE Group board of directors authorized a secondary distribution, and the Company sold 67,841 shares in the offering, at a price of $60.27 per share in May 2006. In addition, Edwards purchases trading licenses through a modified Dutch auction process every year in order to receive the right to trade securities on the floor of the exchange. In January 2007, Edwards purchased four NYSE trading licenses at a price of $50,000 each.

At February 28, 2006, Edwards had four NYSE membership seats included in other assets on the consolidated balance sheet at a total cost of $492,000. Factoring in the Company's cost basis for the four seats and the transfer restrictions on the remaining shares, the Company recorded a $23 million gain related to the merger. Subsequent gains or losses will be recorded in future periods as transfer restrictions expire and the share price of NYSE Group stock fluctuates. As of February 28, 2007, the Company owned 246,563 NYSE Group shares.

Edwards currently has two NYMEX membership seats included in other assets at a cost of $10,000. In addition, Edwards owns 196,800 shares of NYMEX common stock, of which 150,000 are required membership holdings and 46,800 are subject to transfer restrictions. Factoring in the Company's cost basis for the two seats and the transfer restrictions on the remaining shares, the Company recorded a $6 million unrealized gain on the mark to market of the common stock as of February 28, 2007.

Edwards currently has six NYBOT membership seats included in other assets at a cost of $243,000. In January 2007, the NYBOT and the ICE closed a merger agreement that resulted in the issuance of ICE common stock to existing NYBOT membership seat holders. As a result of the merger, Edwards received 66,404 shares of ICE common stock, of which 27,402 shares are required membership holdings and 7,905 shares were available for sale. Edwards sold 31,097 shares during the current year. Factoring in the Company's cost basis for the six seats and the sales proceeds, the Company recorded an $8 million gain related to the merger and subsequent sale of ICE common stock.

Edwards currently has three CME membership seats included in other assets at a cost of $9,000. As of February 28, 2007, Edwards owned 12,666 shares of CME common stock, of which 8,000 shares were required membership holdings. Edwards sold 2,334 common shares in February 2007. The Company recorded $7 million gain for the sale of stock and a $3 million gain for the mark to market of remaining available for sale shares.

Edwards currently has two CBOT membership seats included in other assets at a cost of $31,000. As of February 28, 2007, Edwards owned 54,676 shares of CBOT common stock, all of which are required membership holdings. The book value of both the CBOT seats and shares are held at cost, and no gain was recognized in the current year.

As a result of the changes noted above at various securities exchanges of which the Company is a member, has trading privileges or has access to, portions of the Company's shareholdings in these exchanges will impact the Company's results of operations. Subsequent gains or losses will be recorded in future periods as transfer restrictions expire, as the share prices of these stocks fluctuate, and if any or all of these exchanges change shareholding requirements for membership. Shares required for exchange membership do not impact results of operations and are included in other assets on the consolidated balance sheet.

Following is a table that illustrates the exchanges in which the Company owned shares:

Securities Exchange	**Shares Impacting Results of Operations**	**Shares Required for Exchange Membership**

			Total Shares Held
NYSE Euronext(2)	246,563(1)		246,563
NYMEX	46,800(1)	150,000	196,800
ICE	7,905	27,402	35,307
CME	4,666(1)	8,000	12,666
CBOT		54,676	54,676
Other exchanges	1,100		1,100

(1) Includes certain sales restrictions as set forth by the various exchanges.

(2) NYSE Group, Inc. and Euronext N.V. merged to create NYSE Euronext on April 4, 2007.

Impact of Change in Accounting Principle for Stock Awards to Retirement Eligible Employees

Effective March 1, 2006, the Company changed its accounting for restricted-stock and stock-options awards (collectively referred to as the Stock Awards) granted to retirement-eligible employees from expense recognition on grant date to expense recognition over the fiscal-year the Stock Awards are earned. As a result of this accounting change in 2007, the Company accrued an expense throughout the fiscal year for Stock Awards granted to retirement-eligible employees as a result of service during the fiscal year rather than recognize the expense on grant date, which occurred in April 2008. The accounting for awards to non-retirement eligible employees did not change and continues to be recognized over the service period, generally three years from grant date.

Due to this change in the Companys accounting method, Stock Awards to retirement-eligible employees for 2006 totaling $20 million were accounted for in accordance with SFAS No. 154. This amount, net of taxes, was retrospectively applied to 2006 financial statements, including interim financial statements. In 2007, an adjustment was made to the opening balances as if the change in accounting for Stock Awards to retirement-eligible employees had been in effect in prior periods. The result was that the opening balance of retained earnings were reduced by the amount of the Stock Awards, net of taxes, for retirement-eligible employees for 2006.

Employees, including retirement-eligible employees, were granted 1,030,024 restricted shares with a market value of approximately $53 million, and 308,170 options on April 17, 2006.

Litigation and Regulatory Matters

The Company is a defendant in a number of lawsuits, in some of which plaintiffs claim substantial amounts, relating primarily to its securities and commodities business. Management has determined that it is likely that ultimate resolution in favor of the plaintiffs will result in losses to the Company on certain of these claims and as a result, establishes accruals for potential litigation losses. The Company also is involved, from time to time, in investigations and proceedings by governmental and self-regulatory agencies, certain of which may result in adverse judgments, fines or penalties. Factors considered by management in estimating the Companys reserves for these matters are the loss and damages sought by the plaintiffs, the merits of the claims, the total cost of defending the litigation, the likelihood of a successful defense against the claims, and the potential for fines and penalties from regulatory agencies. The Company establishes reserves for potential losses to the extent that such matters are probable and can be estimated, in accordance with Statement of Financial Accounting Standards No. 5, Accounting for Contingencies. As litigation and the resolution of regulatory matters are inherently unpredictable, the Company cannot predict with certainty the ultimate loss or range of loss related to matters where there is only a reasonable possibility that a loss may be incurred. The Company believes, based on current knowledge and after consultation with legal counsel, that the resolution of loss contingencies will not have a material adverse effect on the consolidated balance sheet, statement of earnings or statement of cash flows of the Company. However, the outcome of such matters could be material to the Companys operating results and cash flows for future or interim periods, depending, among other things, on the results of operations for these periods.

See Item 3. - Legal Proceedings for further discussion of legal and regulatory matters.

Liquidity and Capital Resources

The Companys assets fluctuate in the normal course of business, primarily due to the timing of certain transactions. The Company monitors and evaluates the composition and size of its balance sheet. A substantial portion of the Companys total assets consist of short-term receivables mainly resulting from margin loans to clients, along with highly liquid marketable securities. The principal sources for financing the Companys business are stockholders equity, cash generated from operations, short-term bank loans and securities-lending arrangements. The Company has no long-term debt. Average short-term bank loans of $2 million and $28 million and average securities-lending arrangements of $179 million and $144 million for the years ended February 28, 2007 and 2006, respectively, were primarily used to finance customer margin transactions.

The Trust Company has been authorized to begin accepting time and demand deposits by the OTS. The Trust Company plans to begin accepting demand deposits from the AGE Bank Deposit Program in mid-calendar 2007. For further discussion, see Asset Management and Service Fees. The Trust Company is required to maintain minimum capital amounts and ratios to be considered as well-capitalized under the OTS regulatory framework for prompt corrective action. These requirements are approximately 10 percent of deposits. The exact amount of additional capital to be required by the Trust Company is subject to uncertainty.

In November 2006, the Companys Board of Directors authorized the repurchase of 10,000,000 shares of the Companys outstanding stock during the period from January 1, 2007, through December 31, 2008. In November 2004, the Companys Board of Directors authorized the repurchase of up to 10,000,000 shares of the Companys outstanding stock during the period November 19, 2004, through December 31, 2006. There were 6,203,611 shares repurchased by the end of the expiration period for the November 19, 2004 authorization. In November 2002, the Companys Board of Directors authorized the repurchase of up to 10,000,000 shares of the Companys outstanding

common stock during the period of January 1, 2003, through December 31, 2004. The January 1, 2003 authorization was fulfilled in its entirety. The Company purchased 3,241,865 shares at an aggregate cost of $181 million in 2007, 3,204,769 shares at an aggregate cost of $142 million in 2006 and 7,026,392 shares at an aggregate cost of $250 million in 2005. At February 28, 2007, the Company had up to 9,419,832 shares available for repurchase under the January 2007 authorization.

In May 2005, the Companys Board of Directors authorized the repurchase of up to 5,000,000 shares of the Companys outstanding stock solely to effect employee stock transactions in the Companys Retirement and Profit Sharing Plan during the period May 24, 2005, through May 31, 2008. The Company purchased 332,437 shares at an aggregate cost of $19 million during the year ended February 28, 2007. The Company purchased 153,021 shares at an aggregate cost of $7 million during the year ended February 28, 2006. At February 28, 2007, the Company had up to 4,514,542 shares available for repurchase under this authorization.

In May 2005, the Companys Board of Directors authorized the sale of up to 5,000,000 shares of the Companys stock to the Companys Retirement and Profit Sharing Plan during the period May 24, 2005 through May 31, 2008. The Company sold 372,293 shares at aggregate proceeds of $18 million in 2007. The Company sold 153,727 shares at aggregate proceeds of $7 million during the year ended February 28, 2006. At February 28, 2007, the Company had 4,473,980 shares available to sell.

Tabular Disclosure of Contractual Obligations

The following table summarizes information about the Companys long-term contractual commitments and obligations as of February 28, 2007 (dollars in thousands):

Contractual Obligations	Total	2008	2009-2010	2011-2012	More than 5 years
Operating lease obligations	$ 470,600	$ 93,400	$ 156,000	$ 107,500	$ 113,700

Communications, technology, and other service commitments	216,300	103,100	77,800	32,300	3,100
	$ 686,900	$ 196,500	$ 233,800	$ 139,800	$ 116,800

The Company had unfunded commitments of $30 million to various private equity investments at February 28, 2007. These commitments are subject to calls by the partnerships, as funds are needed.

Management believes the Company has adequate sources of credit available, if needed, to finance customer-trading volumes, additional capital for the Trust Company, expansion of its branch system, stock repurchases, dividend payments and major capital expenditures. Currently the Company, with certain limitations, has access to $1.2 billion in uncommitted lines of credit as well as the ability to increase its securities lending activities.

Edwards is required by the SEC to maintain specified amounts of liquid net capital to meet its obligations to clients. At February 28, 2007, Edwards net capital of $785 million was $747 million in excess of the minimum requirement.

Critical Accounting Policies

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. In preparing these consolidated financial statements, management makes use of certain estimates and assumptions. See Note 1 (Summary of Significant Accounting Policies) of the Notes to Consolidated Financial Statements. The Company believes that of its significant accounting policies, the following critical policies, estimates and assumptions may involve a higher degree of judgment and complexity and are the most susceptible to significant fluctuations in the near term.

Valuation of Investments

The fair value of investments, for which a quoted market or dealer price is not available, is based on managements estimate. Among the factors considered by management in determining the fair value of investments are cost, terms and liquidity of the investment, the sale price of recently issued securities, the financial condition and operating results of the issuer, earnings trends and consistency of operating cash flows, the long-term business potential of the issuer, the quoted market price of securities with similar quality and yields that are publicly traded,

information as to any transactions or offers with respect to the security, existence of merger proposals or tender offers affecting the securities, and other factors generally pertinent to the valuation of investments. The Company holds investments that may have quoted market prices but that are subject to restrictions (e.g., consent of the issuer or other investors to sell) that may limit our ability to realize the quoted market price. Accordingly, the Company estimates the fair value of these securities based on managements best estimates, which incorporates pricing models based on projected cash flows, earnings multiples, comparisons based on similar transactions and/or review of underlying financial conditions and other market factors.

Legal Reserves and Regulatory Matters

The Company is a defendant in a number of lawsuits, in some of which plaintiffs claim substantial amounts, relating primarily to its securities and commodities business. Management has determined that it is likely that ultimate resolution in favor of the plaintiffs will result in losses to the Company on certain of these claims and as a result, establishes accruals for potential litigation losses. The Company also is involved, from time to time, in investigations and proceedings by governmental and self-regulatory agencies, certain of which may result in adverse judgments, fines or penalties. Factors considered by management in estimating the Companys reserves for these matters are the loss and damages sought by the plaintiffs, the merits of the claims, the total cost of defending the litigation, the likelihood of a successful defense against the claims, and the potential for fines and penalties from regulatory agencies. The Company establishes reserves for potential losses to the extent that such matters are probable and can be estimated, in accordance with Statement of Financial Accounting Standards No.

5, Accounting for Contingencies. As litigation and the resolution of regulatory matters are inherently unpredictable, the Company cannot predict with certainty the ultimate loss or range of loss related to matters where there is only a reasonable possibility that a loss may be incurred. The Company believes, based on current knowledge and after consultation with legal counsel, that the resolution of loss contingencies will not have a material adverse effect on the consolidated balance sheet, statement of earnings or statement of cash flows of the Company. However, the outcome of such matters could be material to the Companys operating results and cash flows for future or interim periods, depending, among other things, on the results of operations for these periods.

See Item 3. - Legal Proceedings for further discussion of legal and regulatory matters.

Allowance for Doubtful Accounts From Customers

Receivables from customers consist primarily of floating rate loans collateralized by margin securities. Management estimates an allowance for doubtful accounts to reserve for potential losses from unsecured and partially secured customer accounts deemed uncollectible. The facts and circumstances surrounding each receivable and the number of shares, price and volatility of the underlying collateral are considered by management in determining the allowance. Management continually evaluates its receivables from customers for collectibility and possible write-off. The Company manages the credit risk associated with its receivables from customers through credit limits and continuous monitoring of collateral.

Income Taxes

The Company operates in multiple taxing jurisdictions, and as a result, accruals for tax contingencies require management to make estimates and judgments with respect to the ultimate tax liability in any given year. Actual results could vary from these estimates. In managements opinion, adequate provisions for income taxes have been made for all years.

Valuation of Stock Options

The Company uses SFAS No. 123R to account for awards of equity instruments to employees. SFAS No. 123R requires measurement of the cost of employee services received in exchange for an award based on the fair value of the award on the grant date. The fair value of the stock options is estimated using expected dividend yields of the Companys stock, the expected volatility of the stock, the expected length of time the options remain outstanding, and risk-free interest rates. Changes in one or more of these factors may significantly affect the estimated fair value of the stock options. Additionally, SFAS No. 123R requires the Company to estimate the number of instruments for which the required service is expected to be rendered. The Company estimates forfeitures using historical forfeiture rates for previous grants of equity instruments.

Recent Accounting Pronouncements

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Liabilities, including an amendment of FASB Statement No. 115 (SFAS No. 159). SFAS No. 159 permits entities to choose, at specified election dates, to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. Unrealized gains and losses shall be reported on items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of SFAS No. 157 Fair Value Measurements (SFAS No. 157). The Company is currently assessing the impact that SFAS No. 159 will have on the consolidated financial statements.

In September 2006, FASB issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R) (SFAS No. 158). SFAS No. 158 requires employers to recognize the overfunded or underfunded status of a defined benefit post-retirement plan as an asset or liability in its statement of financial position. Further, this statement requires employers to recognize changes in the funded status in the year in which the changes occur through comprehensive income. SFAS No. 158 is effective for fiscal years ending after December 15, 2006. The Companys adoption of SFAS No.

158 did not have a material impact on the consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157 which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurement. This statement applies under other accounting pronouncements that require or permit fair value measurements and does not require any new fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The Company is currently assessing the impact that SFAS No. 157 will have on the consolidated financial statements.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, “Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in the Current Year Financial Statements” (“SAB 108”). SAB 108 addresses how the effects of prior year uncorrected misstatements should be considered when quantifying misstatements in current year financial statements. SAB 108 requires an entity to quantify misstatements using a balance sheet and income statement approach and to evaluate whether either approach results in quantifying an error that is material in light of relevant quantitative and qualitative factors. SAB No. 108 is effective for fiscal years ending after November 15, 2006. The Company’s adoption of SAB No. 108 did not have a material impact on the consolidated financial statements.

In June 2006, FASB issued FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109” (“FIN 48”). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company’s financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company will adopt the provisions of FIN No. 48 beginning in the first quarter of 2008. The Company is currently evaluating the impact the adoption of FIN 48 may have on the consolidated financial statements.

In June 2005, the FASB issued SFAS No. 154, “Accounting Changes and Error Corrections — a replacement of APB Opinion No. 20 and FASB Statement No. 3,” (“SFAS No. 154”). SFAS No. 154 changes the requirements for the accounting for and reporting of a change in accounting method. SFAS No. 154 is effective for accounting changes made in fiscal years beginning after December 15, 2005. The Company adopted SFAS No. 154 on March 1, 2006, and applied the pronouncement to its change in accounting method for stock awards granted to retirement-eligible employees.

Risk Management

General

Finding the proper balance of risk taking and risk mitigation, in a manner consistent with the Company’s risk appetite, is critical to the success of the Company’s financial stability and long-term profitability. The business activities of the Company expose it to a variety of risks, including operational, legal and regulatory, credit and market risk. Company management oversees the identification and assessment of the various risks and the development of appropriate risk mitigation activities, which primarily consist of internal controls, policies, and procedures. The execution of the risk mitigation activities is carried out at the business-unit level. The Company is in the early stages of developing an Enterprise Risk Management function to help coordinate and support firm-wide risk management efforts. Furthermore, the Internal Audit Department, reporting directly to the Audit Committee, provides independent assessments on the effectiveness of the risk management activities occurring throughout the Company. The following discussion highlights the principal risks faced by the Company and provides examples of how these risks are managed.

Operational Risk

Operational risk refers to the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This includes, but is not limited to, business interruptions, improper or unauthorized execution and processing of transactions, deficiencies in the Company’s operating systems, and inadequacies or breaches in the Company’s control processes. The Company is reliant on the ability of its employees, its internal systems, and the systems of its third-party vendors to process a large number of transactions. In the event of a breakdown or improper operation of the Company's or third-party's systems or improper actions by employees, the Company could suffer financial loss, regulatory sanctions and damage to its reputation.

In order to mitigate and control operational risk, the Company has developed, and continues to enhance, specific internal controls, policies and procedures that are designed to identify and manage operational risk at appropriate levels throughout the organization. The purpose of these mechanisms is to provide reasonable assurance that the Company's business operations are functioning within the policies and limits established by management. Additionally, business continuity plans have been developed for critical processes and systems so that the Company can sufficiently recover its critical operations should a business interruption occur.

Legal and Regulatory Risk

Legal and regulatory risk includes the risk of non-compliance with applicable legal and regulatory requirements, the risk of adverse legal judgments against the Company, and the risk that a counterparty's performance obligations will be unenforceable. The Company is subject to extensive regulation in the different jurisdictions in which it conducts its business, and this regulatory scrutiny has been significantly increasing over the last several years. The Company has established and continues to enhance procedures based on legal and regulatory requirements that are reasonably designed to ensure compliance with all applicable statutory and regulatory requirements. In connection with its business, the Company has various procedures addressing significant topics such as regulatory capital requirements, sales and trading practices, new products, use and safekeeping of customer funds and securities, extension of credit, money laundering, privacy, and record keeping. The Company also has established procedures that are designed to ensure that senior management's policies relating to conduct, ethics and business practices are followed.

Credit Risk

Credit risk is the risk of loss resulting from a client or counterparty failing to satisfy its contractual obligations with the Company or from the value of collateral held by the Company to secure obligations proving to be insufficient. The Company is primarily exposed to credit risk in its role as a lender to its customers and as a trading counterparty to dealers and customers.

The primary source of the Company's credit exposure is through customer margin loans, which are collateralized in accordance with internal and regulatory guidelines and monitored on a daily basis. Additional collateral is requested from customers when necessary to maintain compliance with internal and regulatory guidelines. Large customer margin loans and those margin loans related to concentrated or restricted positions are

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evaluated by the Company's Credit Committee, which is comprised of senior members of management from across the Company. The collateral requirements are increased, if necessary, to ensure the risk remains at an acceptable level.

The Company is also exposed to credit risk by providing clearing services for securities transactions in its client accounts and by participating in the securities lending business. The Company has an obligation to settle transactions with clearing organizations and other financial institutions and is exposed to loss if a client or counterparty fails to meet its obligations to the Company. The Company also executes securities lending activity in order to obtain financing and securities to support its business activities and its customers' trading activities. In most cases, the customer or counterparty has provided financial instruments as collateral for these transactions. The collateral value is monitored and additional collateral is obtained when appropriate.

See Note 11 (Financial Instruments – Off-Balance Sheet Risk and Concentration of Credit Risk) of the Notes to Consolidated Financial Statements for additional information related to credit risk.

Market Risk

Market risk is the potential change in value of financial instruments resulting from fluctuations in interest rates and/or equity prices. The Company's primary exposure to market risk comes from maintaining an inventory of fixed-income and equity security positions to provide investment products for its clients. The Company purchases only inventory that it believes it can readily sell to its clients, thus reducing the Company's exposure to liquidity risk but not market fluctuations. The Company does not act as a dealer, trader or end-user of complex derivative products such as swaps, collars and caps. The Company may provide advice and guidance on complex derivative products to selected clients; however, this activity does not involve the Company acquiring a position or commitment in these products.

Interest Rate Risk. Interest rate risk refers to the risk of changes in the level or volatility of interest rates, in the speed of payments on mortgage-backed securities, in the shape of the yield curve and in credit spreads. The Company is exposed to this risk as a result of maintaining inventories of interest-rate-sensitive financial instruments. This is the Company's primary market risk.

The Company manages its interest rate risk through the establishment and monitoring of trading policies and securities inventory guidelines and through the implementation of control and review procedures. The Company also manages this risk using hedging practices that involve U.S. Treasury obligations. On a daily basis, management monitors trading results, current inventory levels, concentrated inventory positions, and aged inventory positions. Real-time inventory data allows for intraday inventory management, and there is daily communication between trading department management and senior management regarding the Company's inventory positions and risk profile.

The Company elects to use a sensitivity analysis approach to express the potential decrease in the fair value of the Company's debt inventory consisting of interest-rate-sensitive financial instruments. The Company calculated the potential loss in fair value of its debt inventory by calculating the change in the valuation of its fixed-income security inventories resulting from an increase of 10 percent or 50 basis points, whichever is greater, in the Treasury yield curve. Using this method, if such an increase occurred the Company calculated a potential loss in fair value of its debt inventory of $4 million at February 28, 2007, and 2006, respectively. The Company changed one assumption in its sensitivity analysis from the previous year. The Company no longer includes in its calculation those financial instruments with limited market risk exposure resulting from a short period of time until the interest rate resets. Including these financial instruments in the previous year's analysis, the resulting potential loss was calculated at $10 million at February 28, 2006.

Equity Price Risk. Equity price risk refers to the risk of changes in the level or volatility of the price of equity securities. The Company is exposed to this risk as a result of its market making activities and other investment activities. The Company manages this risk by establishing guidelines for its equity inventories and managing position levels within those guidelines. At February 28, 2007, and 2006, the potential daily loss in the fair value of equity securities related to the Company's market-making activities was not material.

Included in Investments are $153 million in mutual funds that the Company uses to hedge its deferred compensation liability. The potential daily gain or loss in the fair value of these mutual funds is offset by a similar potential change in the value of the deferred compensation liability. Also included in Investments are $175 million in private equity investments that are subject to a high degree of volatility and valuation estimates, and may be susceptible to significant fluctuations particularly in the near term.

Forward-Looking Statements

The Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections of this Form 10-K may contain forward-looking statements within the meaning of federal securities laws. Actual results are subject to risks and uncertainties, including both those specific to the Company and those to the industry, which could cause results to differ materially from those contemplated. The risks and uncertainties include, but are not limited to, general economic conditions, government monetary and fiscal policy, the actions of competitors, changes in and effects of marketing strategies, client interest in specific products and services, the completion of all contractual, technological, legal and other requirements for the introduction of new products or services, regulatory changes and actions, changes in legislation, risk management, the impact of the AGE Bank Deposit Program and the expansion of powers of the Trust Company, legal claims, potential changes in compensation for or charges to financial consultants, technology changes, price adjustments, compensation changes, the impact of outsourcing agreements, the impact of SFAS No. 123R, including the timing of the recognition of expenses and the treatment of expenses for retirement-eligible employees, the impact and value of the Company’s investments including NYSE Euronext, the ability to achieve and the potential impact of acquisitions by the Company, implementation and effects of expense-reduction strategies, and efforts to make more of non-compensation expenses variable in nature. Undue reliance should not be placed on the forward-looking statements, which speak only as of the date of this Form 10-K. The Company does not undertake any obligation to publicly update any forward-looking statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

The information required by this item is contained in Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” under the caption “Risk Management — Market Risk” of this Form 10-K.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Supplemental Data

The quarterly financial data required by this item is included under Item 5 of Part II of this Form 10-K under the caption “Quarterly Information.”

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
A.G. Edwards, Inc.
St. Louis, Missouri

We have audited the accompanying consolidated balance sheets of A.G. Edwards, Inc. and subsidiaries (the “Company”) as of February 28, 2007 and 2006, and the related consolidated statements of earnings, stockholders’ equity, and cash flows for each of the three years in the period ended February 28, 2007. Our audits also included the financial statement schedule listed in the Index as Item 15. These financial statements and financial statement schedule are the responsibility of the Company’s management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of A.G. Edwards, Inc. and subsidiaries as of February 28, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended February 28, 2007, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 1 and Note 2 to the consolidated financial statements, in fiscal year 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), “Share-Based Payment,” and effective in fiscal year 2007, the Company changed its accounting policy for the recognition of equity awards granted to retirement-eligible employees, and retrospectively, adjusted the fiscal year 2006 financial statements for the change.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company’s internal control over financial reporting as of February 28, 2007, based on the criteria established in *Internal ControlIntegrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 27, 2007 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

St. Louis, Missouri
April 27, 2007

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Financial Statements

A.G. Edwards, Inc.
Consolidated Balance Sheets

	February 28, 2007	February 28, 2006 (As Adjusted, See Note 2)
	(Dollars in thousands, except per share amounts)	
Assets		
Cash and cash equivalents	$ 299,758	$ 178,173
Cash and government securities deposited with clearing organizations or segregated under federal and other regulations	406,852	272,881
Securities purchased under agreements to resell	815,044	195,000
Securities borrowed	306,310	205,774
Receivables:		
Customers, less allowance for doubtful accounts of $2,700 and $2,600	1,710,857	2,084,278
Brokers and dealers	130,989	187,092
Clearing organizations	2,015	809
Fees, dividends and interest	160,375	118,465
Securities inventory, at fair value:		
State and municipal	352,269	284,539
Government and agencies	39,945	71,188
Corporate debt	55,194	35,638
Equities	7,634	22,788
Investments	406,021	367,822
Property and equipment, at cost, net of accumulated depreciation and amortization of $728,485 and $723,054	463,526	485,287
Deferred income taxes	106,947	107,114
Other assets	48,382	54,795
	$ 5,312,118	$ 4,671,643
Liabilities and Stockholders' Equity		
Checks payable	$ 287,962	$ 313,448
Securities loaned	213,725	200,988
Payables:		
Customers	1,332,692	1,102,040
Brokers and dealers	96,150	118,403
Clearing organizations	67,134	37,561

Securities sold but not yet purchased, at fair value:		
State and municipal	3,324	5,055
Government and agencies	67,383	21,041
Corporate debt	8,523	18,174
Equities	492	1,372
Employee compensation and related taxes	577,918	495,828
Deferred compensation	238,256	228,548
Income taxes	72,991	22,453
Other liabilities	243,529	219,720
Total Liabilities	3,210,079	2,784,631
Stockholders' Equity:		
Preferred stock, $25 par value:		
Authorized, 4,000,000 shares; none issued	—	—
Common stock, $1 par value:		
Authorized, 550,000,000 shares; issued, 96,463,114 shares	96,463	96,463
Additional paid-in capital	301,514	293,362
Retained earnings	2,559,274	2,293,910
	2,957,251	2,683,735
Less: Treasury stock, at cost (21,146,664 and 20,872,779 shares)	855,212	796,723
Total Stockholders' Equity	2,102,039	1,887,012
	$ 5,312,118	$ 4,671,643

See Notes to Consolidated Financial Statements.

A.G. Edwards, Inc.
Consolidated Statements of Earnings

Year Ended	February 28, 2007	February 28, 2006 (As Adjusted, See Note 2)	February 28, 2005
	(Dollars in thousands, except per share amounts)		
Revenues			
Asset management and service fees	$ 1,266,062	$ 1,062,872	$ 919,077
Commissions	1,031,957	1,017,716	1,034,166
Principal transactions	215,130	210,110	253,899
Investment banking	289,888	234,397	245,622
Interest	231,297	181,337	128,743
Other	91,743	44,334	30,288
Total Revenues	3,126,077	2,750,766	2,611,795
Interest expense	15,617	10,653	4,114
Net Revenues	3,110,460	2,740,113	2,607,681
Non-Interest Expenses			
Compensation and benefits	1,931,870	1,761,199	1,699,156
Communication and technology	257,838	236,379	241,830
Occupancy and equipment	150,464	144,114	151,426

Marketing and business development	76,950	71,635	65,682
Floor brokerage and clearance	19,101	21,073	21,341
Other	153,644	164,705	133,839
Total Non-Interest Expenses	2,589,867	2,399,105	2,313,274
Earnings Before Income Taxes	520,593	341,008	294,407
Income Taxes	189,240	117,684	107,933
Earnings before cumulative effect of accounting change	331,353	223,324	186,474
Cumulative effect of accounting change, net of $1,655 of income taxes		2,768	
Net Earnings	$ 331,353	$ 226,092	$ 186,474
Earnings per diluted share:			
Earnings before cumulative effect of accounting change	$ 4.34	$ 2.89	$ 2.37
Cumulative effect of accounting change, net of income taxes		0.04	
Earnings per diluted share	$ 4.34	$ 2.93	$ 2.37
Earnings per basic share:			
Earnings before cumulative effect of accounting change	$ 4.44	$ 2.91	$ 2.39
Cumulative effect of accounting change, net of income taxes		0.04	
Earnings per basic share	$ 4.44	$ 2.95	$ 2.39
Average common and common equivalent shares outstanding:			2,055,000

Stater Bros Holdings, Inc. 7.375%, 11/15/18	700	714,000
STHI Holding Corp. 8.00%, 3/15/18(b)	425	410,125
SUPERVALU, Inc. 8.00%, 5/01/16(a)	170	160,650
Tenet Healthcare Corp. 6.875%, 11/15/31	1,500	1,140,000
8.00%, 8/01/20	400	363,000
9.25%, 2/01/15	800	800,000
Tops Holding Corp./Tops Markets LLC 10.125%, 10/15/15	1,500	1,500,000
Universal Hospital Services, Inc. 3.778%, 6/01/15(c)	500	430,000
Vanguard Health Holding Co. II LLC/Vanguard Holding Co. II, Inc. 8.00%, 2/01/18	1,985	1,821,238
Vanguard Health Systems, Inc. Zero Coupon, 2/01/16	15	9,750
Visant Corp. 10.00%, 10/01/17	1,385	1,281,125
Voyager Learning Exchange 8.375%, 12/01/14(d)(f)(g)	1,550	0
Warner Chilcott Co./Warner Chilcott Finance LLC 7.75%, 9/15/18(b)	1,750	1,671,250
		81,350,482

		Principal Amount (000)	U.S. $ Value
Energy 5.3%			
Antero Resources Finance Corp.			
7.25%, 8/01/19[b]	U.S.$	312	$ 296,400
9.375%, 12/01/17		2,363	2,457,520
ATP Oil & Gas Corp./United States			
11.875%, 5/01/15		3,000	2,088,750
Basic Energy Services, Inc.			
7.75%, 2/15/19[b]		1,200	1,140,000
Bill Barrett Corp.			
7.625%, 10/01/19		834	819,405
Bluewater Holding BV			
3.25%, 7/17/14[b][c]		2,300	1,702,000
Calfrac Holdings LP			
7.50%, 12/01/20[b]		491	463,995
Chaparral Energy, Inc.			
8.875%, 2/01/17		2,600	2,522,000
Chesapeake Energy Corp.			
6.625%, 8/15/20		893	919,790
6.875%, 11/15/20		1,683	1,758,735
Cie Generale de Geophysique-Veritas			
6.50%, 6/01/21[b]		1,000	900,000
9.50%, 5/15/16		800	820,000
Citgo Petroleum Corp.			
11.50%, 7/01/17[b]		2,919	3,298,470
Complete Production Services, Inc.			
8.00%, 12/15/16		1,400	1,400,000
Continental Resources, Inc./OK			
7.125%, 4/01/21		724	731,240
Denbury Resources, Inc.			
6.375%, 8/15/21		624	605,280
8.25%, 2/15/20		521	547,050
Edgen Murray Corp.			
12.25%, 1/15/15[a]		1,301	1,166,021
Energy XXI Gulf Coast, Inc.			
7.75%, 6/15/19		1,100	995,500
9.25%, 12/15/17		2,000	1,950,000
Expro Finance Luxembourg SCA			
8.50%, 12/15/16[b]		1,371	1,192,770
Forest Oil Corp.			
7.25%, 6/15/19		2,535	2,496,975
Helix Energy Solutions Group, Inc.			
9.50%, 1/15/16[b]		2,000	2,030,000
Hercules Offshore, Inc.			
10.50%, 10/15/17[b]		625	590,625
Hilcorp Energy I LP/Hilcorp Finance Co.			
7.75%, 11/01/15[b]		3,220	3,244,150
Key Energy Services, Inc.			
6.75%, 3/01/21		1,166	1,122,275

		Principal Amount (000)	U.S. $ Value
Linn Energy LLC/Linn Energy Finance Corp. 8.625%, 4/15/20	U.S.$	1,600	$ 1,648,000
McJunkin Red Man Corp. 9.50%, 12/15/16		2,500	2,287,500
Nalco Co. 6.625%, 1/15/19(b)		750	821,250
Newfield Exploration Co. 6.625%, 9/01/14-4/15/16		1,530	1,540,150
Offshore Group Investments Ltd. 11.50%, 8/01/15		2,450	2,523,500
Oil States International, Inc. 6.50%, 6/01/19(b)		1,374	1,343,085
OPTI Canada, Inc. 8.25%, 12/15/14(d)		1,472	927,360
Parker Drilling Co. 9.125%, 4/01/18		129	130,290
Perpetual Energy, Inc. 8.75%, 3/15/18(b)	CAD	1,800	1,685,348
PHI, Inc. 8.625%, 10/15/18	U.S.$	1,250	1,231,250
Pioneer Natural Resources Co. 5.875%, 7/15/16		500	528,166
Plains Exploration & Production Co. 7.00%, 3/15/17		1,057	1,057,000
7.75%, 6/15/15		946	974,380
Precision Drilling Corp. 6.50%, 12/15/21(b)		738	726,930
SandRidge Energy, Inc. 7.50%, 3/15/21(b)		327	300,840
8.75%, 1/15/20		1,850	1,813,000
SESI LLC 6.375%, 5/01/19(b)		358	345,470
Southwestern Energy Co. 7.50%, 2/01/18		1,000	1,132,712
Tesoro Corp. 6.25%, 11/01/12		164	169,330
6.50%, 6/01/17		2,560	2,547,200
9.75%, 6/01/19		480	518,400
W&T Offshore, Inc. 8.50%, 6/15/19(b)		1,500	1,455,000
			62,965,112
Other Industrial 1.3%			
Briggs & Stratton Corp. 6.875%, 12/15/20		398	401,980
Brightstar Corp. 9.50%, 12/01/16(b)		1,833	1,869,660
Education Management LLC/Education Management Finance Corp. 8.75%, 6/01/14		350	341,250

		Principal Amount (000)	U.S. $ Value
Exova Ltd.			
10.50%, 10/15/18[b]	GBP	1,044	$ 1,447,561
Interline Brands, Inc.			
7.00%, 11/15/18	U.S.$	1,753	1,713,557
Lecta SA			
5.535%, 2/15/14[a][b][c]	EUR	1,201	1,319,413
Liberty Tire Recycling			
11.00%, 10/01/16[b]	U.S.$	2,800	2,856,000
Mueller Water Products, Inc.			
7.375%, 6/01/17		700	546,000
8.75%, 9/01/20		611	601,835
Neenah Foundry Co.			
15.00%, 7/29/15[e][f]		331	320,825
New Enterprise Stone & Lime Co.			
11.00%, 9/01/18[b]		2,000	1,585,000
Pipe Holdings PLC			
9.50%, 11/01/15[b]	GBP	1,216	1,678,135
Wendel SA			
4.375%, 8/09/17	EUR	1,100	1,112,662
			15,793,878
Services 1.4%			
Ceridian Corp.			
11.25%, 11/15/15	U.S.$	2,475	2,041,875
Goodman Networks, Inc.			
12.125%, 7/01/18[b]		1,200	1,128,000
Live Nation Entertainment, Inc.			
8.125%, 5/15/18[b]		225	216,000
Lottomatica SpA			
8.25%, 3/31/66[b]	EUR	1,545	1,573,134
Mobile Mini, Inc.			
7.875%, 12/01/20	U.S.$	1,175	1,128,000
Realogy Corp.			
Series A			
11.00%, 4/15/18[b]		1,450	1,131,000
Series C			
11.00%, 4/15/18[a][b]		750	585,000
Service Corp. International/US			
6.75%, 4/01/16		1,485	1,522,125
7.50%, 4/01/27		1,500	1,398,750
ServiceMaster Co. (The)			
10.75%, 7/15/15[b][e]		2,480	2,504,800
Ticketmaster Entertainment LLC/Ticketmaster Noteco, Inc.			
10.75%, 8/01/16		670	703,500
West Corp.			
7.875%, 1/15/19		1,400	1,316,000
8.625%, 10/01/18		161	156,573
11.00%, 10/15/16		1,100	1,133,000
			16,537,757

		Principal Amount (000)	U.S. $ Value
Technology 3.5%			
Advanced Micro Devices, Inc.			
7.75%, 8/01/20	U.S.$	273	$ 267,540
8.125%, 12/15/17		1,345	1,345,000
Amkor Technology, Inc.			
6.625%, 6/01/21[(b)]		1,500	1,342,500
Aspect Software, Inc.			
10.625%, 5/15/17		2,126	2,136,630
CDW LLC/CDW Finance Corp.			
8.00%, 12/15/18[(b)]		1,750	1,715,000
8.50%, 4/01/19[(b)]		2,357	2,038,805
11.50%, 10/12/15[(e)]		115	114,427
CommScope, Inc.			
8.25%, 1/15/19[(b)]		3,300	3,217,500
CoreLogic, Inc./United States			
7.25%, 6/01/21[(b)]		1,250	1,121,875
CPI International, Inc.			
8.00%, 2/15/18		1,233	1,075,793
DCP LLC/DCP Corp.			
10.75%, 8/15/15[(b)]		1,705	1,417,281
Eagle Parent, Inc.			
8.625%, 5/01/19[(b)]		2,316	2,095,980
Eastman Kodak Co.			
7.25%, 11/15/13		141	62,040
First Data Corp.			
7.375%, 6/15/19[(b)]		750	697,500
11.25%, 3/31/16[(a)]		1,750	1,181,250
Freescale Semiconductor, Inc.			
8.875%, 12/15/14[(a)]		1,510	1,532,650
9.25%, 4/15/18[(b)]		737	757,268
10.125%, 12/15/16[(a)]		1,785	1,816,237
Interactive Data Corp.			
10.25%, 8/01/18		2,300	2,472,500
Iron Mountain, Inc.			
6.625%, 1/01/16		780	776,100
8.375%, 8/15/21		2,000	2,040,000
NXP BV/NXP Funding LLC			
2.999%, 10/15/13[(c)]		582	563,085
9.50%, 10/15/15[(a)]		730	754,638
Sanmina-SCI Corp.			
7.00%, 5/15/19[(b)]		700	616,000
8.125%, 3/01/16		2,911	2,932,832
Seagate HDD Cayman			
6.875%, 5/01/20		1,193	1,097,560
7.00%, 11/01/21[(b)]		655	602,600
Sensata Technologies BV			
6.50%, 5/15/19[(b)]		2,000	1,900,000
Serena Software, Inc.			
10.375%, 3/15/16		470	479,400

		Principal Amount (000)	U.S. $ Value
SunGard Data Systems, Inc.			
7.625%, 11/15/20	U.S.$	1,600	$ 1,488,000
10.25%, 8/15/15		300	303,000
Syniverse Holdings, Inc.			
9.125%, 1/15/19		813	796,740
			40,757,731
Transportation - Airlines 0.6%			
Air Canada			
12.00%, 2/01/16[(b)]		1,300	1,215,500
American Airlines, Inc.			
10.50%, 10/15/12		884	893,945
AMR Corp.			
9.00%, 8/01/12		1,056	992,640
Continental Airlines, Inc.			
8.75%, 12/01/11		260	260,325
Delta Air Lines, Inc.			
9.50%, 9/15/14[(b)]		1,342	1,382,260
Northwest Airlines 2000-1 Class G Pass Through Trust			
7.15%, 10/01/19		895	858,786
UAL 2007-1 Pass Through Trust			
Series 071A			
6.636%, 7/02/22		1,682	1,622,678
			7,226,134
Transportation - Railroads 0.0%			
Florida East Coast Railway Corp.			
8.125%, 2/01/17		407	394,790
Transportation - Services 0.9%			
America West Airlines 1999-1 Pass Through Trust			
Series 991G			
7.93%, 1/02/19		1,591	1,583,500
Avis Budget Car Rental LLC/Avis Budget Finance, Inc.			
7.75%, 5/15/16		2,055	1,983,075
EC Finance PLC			
9.75%, 8/01/17[(b)]	EUR	113	108,245
Hapag-Lloyd AG			
9.75%, 10/15/17[(b)]	U.S.$	1,250	862,500
Hertz Corp. (The)			
6.75%, 4/15/19		2,187	1,984,702
7.375%, 1/15/21		1,650	1,507,688
8.875%, 1/01/14		252	252,000
Oshkosh Corp.			
8.50%, 3/01/20		341	330,770
Overseas Shipholding Group, Inc.			
8.125%, 3/30/18[(a)]		1,200	996,000

		Principal Amount (000)	U.S. $ Value
Swift Services Holdings, Inc. 10.00%, 11/15/18	U.S.$	1,067	$ 949,630
			10,558,110
			558,916,804
Financial Institutions 4.4%			
Banking 1.2%			
ABN Amro Bank NV 4.31%, 3/10/16	EUR	2,295	1,784,879
Deutsche Bank AG/London 5.50%, 9/02/15[b]	UAH	15,300	1,576,112
HT1 Funding GmbH 6.352%, 6/30/17	EUR	1,550	996,774
LBG Capital No.1 PLC 8.00%, 6/15/20[b]	U.S.$	4,650	3,069,000
Regions Bank/Birmingham AL 6.45%, 6/26/37		1,500	1,260,000
Regions Financing Trust II 6.625%, 5/15/47		700	567,000
Resona Preferred Global Securities Cayman Ltd. 7.191%, 7/30/15[b]		1,300	1,215,626
Royal Bank of Scotland Group PLC Series U 7.64%, 9/29/17		50	24,000
SNS Bank NV 11.25%, 12/31/49[b]	EUR	620	564,877
Telenet Finance III Luxembourg SCA 6.625%, 2/15/21[b]		2,200	2,667,442
UT2 Funding PLC 5.321%, 6/30/16		1,293	1,022,055
			14,747,765
Brokerage 0.4%			
E*Trade Financial Corp. 6.75%, 6/01/16	U.S.$	2,205	2,199,487
Lehman Brothers Holdings, Inc. 6.875%, 5/02/18[d]		1,690	411,938
Nuveen Investments, Inc. 10.50%, 11/15/15		1,875	1,729,688
			4,341,113
Finance 1.1%			
AGFC Capital Trust I 6.00%, 1/15/67[b]		3,700	1,665,000
Ally Financial, Inc. 6.75%, 12/01/14		1	921
8.00%, 11/01/31		662	580,905
Series 8 6.75%, 12/01/14		2,590	2,476,687

		Principal Amount (000)	U.S. $ Value
CIT Group, Inc.			
7.00%, 5/01/15-5/01/17	U.S.$	2	$ 1,747
7.00%, 5/04/15-5/02/17[b]		2,071	2,028,985
ILFC E-Capital Trust II			
6.25%, 12/21/65[b]		2,000	1,480,000
International Lease Finance Corp.			
6.375%, 3/25/13		1,250	1,215,625
iStar Financial, Inc.			
Series B			
5.70%, 3/01/14		1,675	1,340,000
Residential Capital LLC			
9.625%, 5/15/15		2,662	2,063,050
			12,852,920
Insurance 1.0%			
Genworth Financial, Inc.			
6.15%, 11/15/66		2,500	1,250,000
Hartford Financial Services Group, Inc.			
8.125%, 6/15/38		3,000	2,820,000
ING Groep NV			
5.775%, 12/08/15		2,250	1,648,125
Liberty Mutual Group, Inc.			
7.80%, 3/15/37[b]		1,250	1,093,750
MBIA Insurance Corp.			
14.00%, 1/15/33[b]		3,056	1,375,200
XL Group PLC			
Series E			
6.50%, 4/15/17[a]		4,000	3,140,000
			11,327,075
Other Finance 0.5%			
Harbinger Group, Inc.			
10.625%, 11/15/15		1,420	1,384,500
Icahn Enterprises LP/Icahn Enterprises Finance Corp.			
8.00%, 1/15/18		1,950	1,942,687
iPayment Holdings, Inc.			
15.00%, 11/15/18[b][e]		1,142	1,116,305
iPayment, Inc.			
10.25%, 5/15/18[b]		2,177	1,991,955
			6,435,447
REITS 0.2%			
DDR Corp.			
7.875%, 9/01/20		1,800	1,906,805
			51,611,125
Utility 3.0%			
Electric 2.0%			
AES Corp. (The)			
7.375%, 7/01/21[b]		700	661,500

		Principal Amount (000)	U.S. $ Value
7.75%, 3/01/14	U.S.$	1,060	$ 1,081,200
8.00%, 10/15/17		868	872,340
Calpine Corp.			
7.25%, 10/15/17[b]		1,800	1,737,000
7.875%, 7/31/20-1/15/23[b]		1,875	1,809,375
Dynegy Holdings, Inc.			
7.75%, 6/01/19		1,320	798,600
8.375%, 5/01/16		635	384,175
Edison Mission Energy			
7.00%, 5/15/17		1,525	907,375
7.50%, 6/15/13[a]		1,540	1,432,200
7.75%, 6/15/16[a]		958	641,860
Energy Future Holdings Corp.			
10.00%, 1/15/20[h]		798	774,060
10.875%, 11/01/17		392	315,560
Series Q			
6.50%, 11/15/24		1,254	476,520
Energy Future Intermediate Holding Co. LLC/EFIH Finance, Inc.			
10.00%, 12/01/20		1,020	994,500
GenOn Americas Generation LLC			
8.50%, 10/01/21		1,270	1,092,200
GenOn Energy, Inc.			
7.875%, 6/15/17		1,080	993,600
9.50%, 10/15/18[a]		1,450	1,363,000
9.875%, 10/15/20[a]		1,200	1,122,000
NRG Energy, Inc.			
7.375%, 1/15/17		1,705	1,758,281
7.875%, 5/15/21[b]		797	729,255
PPL Capital Funding, Inc.			
Series A			
6.70%, 3/30/67		2,405	2,296,775
Texas Competitive Electric Holdings Co. LLC/TCEH Finance, Inc.			
11.50%, 10/01/20[b]		626	500,800
Series A			
10.25%, 11/01/15		1,570	588,750
			23,330,926
Natural Gas 1.0%			
El Paso Corp.			
Series G			
7.75%, 1/15/32		1,524	1,765,188
Enterprise Products Operating LLC			
Series A			
8.375%, 8/01/66		1,760	1,823,800
Inergy LP/Inergy Finance Corp.			
6.875%, 8/01/21		2,500	2,275,000

		Principal Amount (000)	U.S. $ Value
MarkWest Energy Partners LP/MarkWest Energy Finance Corp. 6.50%, 8/15/21	U.S.$	2,750	$ 2,818,750
Sabine Pass LNG LP 7.50%, 11/30/16		2,150	1,988,750
Targa Resources Partners LP/Targa Resources Partners Finance Corp. 6.875%, 2/01/21[(b)]		960	921,600
			11,593,088
			34,924,014
Total Corporates - Non-Investment Grades (cost $692,551,831)			645,451,943
CORPORATES - INVESTMENT GRADES 12.0%			
Financial Institutions 6.9%			
Banking 3.2%			
American Express Co. 6.80%, 9/01/66		2,550	2,470,312
Assured Guaranty Municipal Holdings, Inc. 6.40%, 12/15/66[(b)]		3,300	2,376,000
Banco Santander Chile 6.50%, 9/22/20[(b)]	CLP	1,488,500	2,810,863
Barclays Bank PLC 4.75%, 3/15/20	EUR	1,890	1,266,064
4.875%, 12/15/14		600	470,252
BBVA International Preferred SAU 4.952%, 12/31/49		1,650	1,569,517
5.919%, 4/18/17	U.S.$	1,265	858,123
Series E 8.50%, 12/31/49[(a)]	EUR	550	681,598
Cooperatieve Centrale Raiffeisen-Boerenleenbank BA/Netherlands 8.375%, 7/26/16	U.S.$	2,750	2,750,000
Credit Agricole SA 6.637%, 5/31/17[(b)]		2,908	1,679,370
Danske Bank A/S 5.914%, 6/16/14[(b)]		1,150	920,000
Itau Unibanco Holding SA/Cayman Island 10.50%, 11/23/15[(b)]	BRL	1,100	593,536
Morgan Stanley 10.09%, 5/03/17[(b)]		5,760	2,848,983
PNC Financial Services Group, Inc. 6.75%, 8/01/21	U.S.$	1,667	1,596,536
Royal Bank of Scotland PLC (The) Series 1 5.85%, 10/27/14[(c)]	AUD	1,500	1,239,304

		Principal Amount (000)	U.S. $ Value
Societe Generale SA			
6.999%, 12/19/17	EUR	1,250	$ 921,078
UBS AG/Jersey			
4.28%, 4/15/15		2,000	1,728,277
Unicredito Italiano Capital Trust III			
4.028%, 10/27/15		3,500	2,321,117
VTB Bank OJSC Via VTB Capital SA			
6.875%, 5/29/18[b]	U.S.$	6,315	6,378,150
Wells Fargo & Co.			
Series K			
7.98%, 3/15/18		2,000	2,060,000
			37,539,080
Brokerage 0.2%			
GFI Group, Inc.			
8.375%, 7/19/18[b]		1,300	1,209,000
Jefferies Group, Inc.			
6.875%, 4/15/21		1,207	1,253,671
			2,462,671
Finance 0.3%			
HSBC Finance Capital Trust IX			
5.911%, 11/30/35[a]		1,905	1,581,150
SLM Corp.			
5.125%, 8/27/12		384	383,824
Series A			
5.375%, 5/15/14		2,000	1,968,268
			3,933,242
Insurance 2.4%			
Allstate Corp. (The)			
6.125%, 5/15/37		1,300	1,168,375
American International Group, Inc.			
6.25%, 3/15/37		1,739	1,204,257
8.175%, 5/15/58		961	848,083
AON Corp.			
8.205%, 1/01/27		690	802,595
Assured Guaranty US Holdings, Inc.			
Series A			
6.40%, 12/15/66		1,550	1,094,688
Aviva PLC			
4.729%, 11/28/14	EUR	3,000	2,779,311
Coventry Health Care, Inc.			
5.95%, 3/15/17	U.S.$	2,000	2,241,152
Genworth Financial, Inc.			
7.70%, 6/15/20		600	528,808
Lincoln National Corp.			
6.05%, 4/20/67		1,858	1,504,980
8.75%, 7/01/19		604	715,902

		Principal Amount (000)	U.S. $ Value
MetLife, Inc. 10.75%, 8/01/39	U.S.$	2,350	$ 2,937,500
Nationwide Mutual Insurance Co. 9.375%, 8/15/39[b]		2,135	2,487,202
QBE Capital Funding III Ltd. 7.25%, 5/24/41[b]		1,650	1,491,450
Suncorp Metway Insurance Ltd. Series 1 6.75%, 9/23/24	AUD	1,000	901,948
Swiss Re Capital I LP 6.854%, 5/25/16[a][b]	U.S.$	3,700	3,365,076
Transatlantic Holdings, Inc. 8.00%, 11/30/39		1,261	1,494,498
Vero Insurance Ltd. 6.15%, 9/07/25	AUD	990	848,214
ZFS Finance USA Trust V 6.50%, 5/09/37[a][b]	U.S.$	1,740	1,505,100
			27,919,139
Other Finance 0.5%			
Aviation Capital Group Corp. 6.75%, 4/06/21[b]		650	625,372
7.125%, 10/15/20[b]		2,489	2,400,251
IIRSA Norte Finance Ltd. 8.75%, 5/30/24[b]		2,692	3,082,686
Red Arrow International Leasing PLC 8.375%, 6/30/12	RUB	2,707	83,220
			6,191,529
REITS 0.3%			
Entertainment Properties Trust 7.75%, 7/15/20	U.S.$	1,908	2,041,560
Ventas Realty LP/Ventas Capital Corp. 6.75%, 4/01/17		907	944,855
			2,986,415
			81,032,076
Industrial 3.9%			
Basic 1.6%			
Basell Finance Co. BV 8.10%, 3/15/27[b]		1,240	1,351,600
Braskem Finance Ltd 7.00%, 5/07/20[b]		1,800	1,827,000
Commercial Metals Co. 6.50%, 7/15/17		1,300	1,296,870
Georgia-Pacific LLC 7.125%, 1/15/17[b]		800	838,334
8.875%, 5/15/31		366	456,805
GTL Trade Finance, Inc. 7.25%, 10/20/17[b]		1,338	1,398,210

		Principal Amount (000)	U.S. $ Value
Rhodia SA			
4.355%, 10/15/13[b][c]	EUR	428	$ 572,029
Southern Copper Corp.			
7.50%, 7/27/35[a]	U.S.$	3,300	3,570,102
Usiminas Commercial Ltd.			
7.25%, 1/18/18[b]		2,428	2,561,540
Vale Overseas Ltd.			
6.875%, 11/21/36[a]		4,756	5,129,817
			19,002,307
Capital Goods 0.1%			
Owens Corning			
7.00%, 12/01/36		1,340	1,388,401
Communications - Telecommunications 0.2%			
Alltel Corp.			
7.875%, 7/01/32		160	228,176
Qwest Corp.			
6.50%, 6/01/17		610	629,825
6.875%, 9/15/33		1,570	1,483,650
			2,341,651
Consumer Cyclical - Retailers 0.4%			
CVS Caremark Corp.			
6.302%, 6/01/37		2,079	2,011,432
Macy s Retail Holdings, Inc.			
5.75%, 7/15/14		1,365	1,457,937
5.90%, 12/01/16		127	139,386
QVC, Inc.			
7.50%, 10/01/19[b]		1,000	1,065,000
			4,673,755
Energy 1.2%			
Gazprom OAO Via Gaz Capital SA			
9.25%, 4/23/19[b]		6,400	7,424,000
Petrohawk Energy Corp.			
7.25%, 8/15/18		2,650	3,027,625
Pride International, Inc.			
6.875%, 8/15/20		416	480,016
TNK-BP Finance SA			
7.50%, 7/18/16[a][b]		2,352	2,434,320
			13,365,961
Other Industrial 0.3%			
Noble Group Ltd.			
6.75%, 1/29/20[a][b]		3,932	3,460,160
Technology 0.0%			
Motorola Solutions, Inc.			
7.50%, 5/15/25		97	113,591

Portfolio of Investments

		Principal Amount (000)	U.S. $ Value
Transportation - Airlines 0.1%			
Delta Air Lines 2007-1 Class A Pass Through Trust Series 071A 6.821%, 8/10/22[a]	U.S.$	974	$ 981,473
			45,327,299
Non Corporate Sectors 1.0%			
Agencies - Not Government Guaranteed 1.0%			
AK Transneft OJSC Via TransCapitalInvest Ltd. 8.70%, 8/07/18[a][b]		850	983,875
Gazprom OAO Via Gaz Capital SA 6.51%, 3/07/22[a][b]		11,426	11,197,480
			12,181,355
Utility 0.2%			
Electric 0.2%			
Dominion Resources, Inc./VA 7.50%, 6/30/66		758	781,688
Empresas Publicas de Medellin ESP 7.625%, 7/29/19[b]		1,636	1,869,130
			2,650,818
Total Corporates - Investment Grades (cost $136,736,406)			141,191,548
EMERGING MARKETS - CORPORATE BONDS 6.0%			
Financial Institutions 1.4%			
Banking 1.0%			
ATF Bank JSC 9.00%, 5/11/16[b]		2,162	2,053,900
Banco BMG SA 9.15%, 1/15/16[b]		3,750	3,637,500
Banco Cruzeiro do Sul SA/Brazil 8.25%, 1/20/16[b]		3,280	3,075,851
8.875%, 9/22/20[b]		517	439,450
Bank CenterCredit 8.625%, 1/30/14[b]		1,654	1,571,300
Halyk Savings Bank of Kazakhstan JSC 7.25%, 1/28/21[b]		463	383,026
Renaissance Securities Trading Ltd. 11.00%, 4/21/16[b]		909	733,714
			11,894,741
Insurance 0.0%			
Stoneheath RE 6.868%, 10/31/11		600	507,000

		Principal Amount (000)	U.S. $ Value
Other Finance 0.3%			
AES El Salvador Trust			
6.75%, 2/01/16[(a)(b)]	U.S.$	1,700	$ 1,657,500
6.75%, 2/01/16[(b)]		270	263,250
DTEK Finance BV			
9.50%, 4/28/15[(b)]		1,865	1,678,500
			3,599,250
REITS 0.1%			
Shimao Property Holdings Ltd.			
9.65%, 8/03/17		2,050	1,429,559
			17,430,550
Industrial 4.5%			
Basic 1.4%			
Evraz Group SA			
8.25%, 11/10/15[(b)]		1,398	1,342,080
9.50%, 4/24/18[(b)]		3,834	3,718,980
Novelis, Inc./GA			
8.75%, 12/15/20		3,075	3,013,500
Severstal OAO Via Steel Capital SA			
9.25%, 4/19/14[(b)]		2,480	2,560,278
Vedanta Resources PLC			
8.75%, 1/15/14[(a)(b)]		4,404	4,205,820
Winsway Coking Coal Holding Ltd.			
8.50%, 4/08/16[(b)]		2,530	1,720,400
			16,561,058
Communications - Media 0.6%			
Central European Media Enterprises Ltd.			
11.625%, 9/15/16[(b)]	EUR	1,231	1,385,355
Columbus International, Inc.			
11.50%, 11/20/14[(b)]	U.S.$	4,160	4,076,800
European Media Capital SA			
10.00%, 2/01/15[(i)]		1,574	1,416,803
			6,878,958
Communications - Telecommunications 0.5%			
MTS International Funding Ltd.			
8.625%, 6/22/20[(b)]		2,495	2,470,050
Pacnet Ltd.			
9.25%, 11/09/15[(b)]		1,902	1,673,760
Vimpel Communications Via VIP Finance Ireland Ltd. OJSC			
9.125%, 4/30/18[(b)]		1,500	1,447,500
			5,591,310
Consumer Cyclical - Other 0.3%			
Central China Real Estate Ltd.			
12.25%, 10/20/15[(b)]		742	586,070
Country Garden Holdings Co.			
10.50%, 8/11/15		750	616,429
11.125%, 2/23/18[(b)]		791	601,160

		Principal Amount (000)	U.S. $ Value
Peermont Global Pty Ltd. 7.75%, 4/30/14[(a)(b)]	EUR	1,000	$ 1,038,306
Yanlord Land Group Ltd. 10.625%, 3/29/18[(b)]	U.S.$	769	499,850
			3,341,815
Consumer Cyclical - Retailers 0.1%			
Edcon Holdings Pty Ltd. 7.028%, 6/15/15[(b)(c)]	EUR	1,066	885,468
Consumer Non-Cyclical 0.4%			
CEDC Finance Corp. International, Inc. 8.875%, 12/01/16[(b)]		1,400	1,397,359
9.125%, 12/01/16[(b)]	U.S.$	1,150	828,000
Foodcorp Pty Ltd. 8.75%, 3/01/18[(b)]	EUR	827	941,777
JBS Finance II Ltd. 8.25%, 1/29/18[(b)]	U.S.$	2,400	1,980,000
			5,147,136
Energy 0.5%			
Golden Close Maritime Corp., Ltd 11.00%, 12/09/15		1,300	1,318,726
MIE Holdings Corp. 9.75%, 5/12/16[(b)]		1,500	1,155,000
Pan American Energy LLC/Argentine Branch 7.875%, 5/07/21[(b)]		1,870	1,872,244
Zhaikmunai LLP 10.50%, 10/19/15[(b)]		1,570	1,379,637
			5,725,607
Other Industrial 0.3%			
Marfrig Holding Europe BV 8.375%, 5/09/18[(b)]		1,181	744,030
Marfrig Overseas Ltd. 9.50%, 5/04/20[(b)]		1,771	1,133,440
New Reclamation Group Pty Ltd. (The) 8.125%, 2/01/13[(b)]	EUR	1,186	1,302,995
			3,180,465
Technology 0.2%			
MagnaChip Semiconductor SA/MagnaChip Semiconductor Finance Co. 10.50%, 4/15/18	U.S.$	1,490	1,571,950
STATS ChipPAC Ltd. 7.50%, 8/12/15[(b)]		541	513,950
			2,085,900
Transportation - Airlines 0.1%			
TAM Capital 3, Inc. 8.375%, 6/03/21[(b)]		2,011	1,850,120

		Principal Amount (000)	U.S. $ Value
Transportation - Services 0.1%			
Inversiones Alsacia SA			
8.00%, 8/18/18[b]	U.S.$	1,980	$ 1,701,288
			52,949,125
Utility 0.1%			
Electric 0.1%			
Inkia Energy Ltd.			
8.375%, 4/04/21[a][b]		810	793,800
Total Emerging Markets - Corporate Bonds (cost $80,394,392)			71,173,475
EMERGING MARKETS - SOVEREIGNS 5.7%			
Argentina 2.5%			
Argentina Bonos			
7.00%, 10/03/15[a]		19,339	16,121,221
7.82%, 12/31/33	EUR	4,917	3,771,456
Series NY			
2.50%, 12/31/38[a][j]	U.S.$	3,480	1,174,500
8.28%, 12/31/33[a]		1,865	1,267,974
Series X			
7.00%, 4/17/17		8,950	6,769,183
			29,104,334
Dominican Republic 0.7%			
Dominican Republic International Bond			
8.625%, 4/20/27[b]		8,385	8,720,400
El Salvador 0.7%			
El Salvador			
7.375%, 12/01/19[b]		705	750,825
7.625%, 9/21/34[b]		762	807,720
7.65%, 6/15/35[b]		6,996	6,786,120
			8,344,665
Ghana 0.3%			
Republic of Ghana			
8.50%, 10/04/17[b]		2,983	3,088,505
Jamaica 0.1%			
Republic of Jamaica			
8.00%, 6/24/19		1,074	1,041,780
Philippines 0.0%			
Republic of Philippines			
10.625%, 3/16/25		205	310,063
Serbia & Montenegro 0.3%			
		1,004	939,114

Republic of Serbia 6.75%, 11/01/24(b)

		Principal Amount (000)	U.S. $ Value
7.25%, 9/28/21[b]	U.S.$	2,467	$ 2,285,059
			3,224,173
Ukraine 0.8%			
Ukraine Government International Bond			
6.58%, 11/21/16[a][b]		2,953	2,650,317
7.65%, 6/11/13[b]		5,845	5,640,425
Ukraine-Recap Linked Note			
5.50%, 9/02/15[b]	UAH	15,300	1,574,774
			9,865,516
United Arab Emirates 0.3%			
Emirate of Dubai Government International Bonds			
7.75%, 10/05/20[b]	U.S.$	3,310	3,310,000
Total Emerging Markets - Sovereigns (cost $55,590,559)			67,009,436
COLLATERALIZED MORTGAGE OBLIGATIONS 3.7%			
Non-Agency Floating Rate 2.1%			
Bear Stearns Adjustable Rate Mortgage Trust Series 2007-2, Class 1A1 2.328%, 12/25/46[c]		1,537	927,764
Countrywide Alternative Loan Trust Series 2007-7T2, Class A3 0.835%, 4/25/37[c]		5,718	3,003,302
Countrywide Home Loan Mortgage Pass Through Trust Series 2007-13, Class A7 0.835%, 8/25/37[c]		2,668	1,975,729
Greenpoint Mortgage Funding Trust Series 2007-AR3, Class A1 0.455%, 6/25/37[c]		1,830	1,178,019
Harborview Mortgage Loan Trust Series 2007-4, Class 2A1 0.45%, 7/19/47[c]		2,040	1,277,327
Indymac Index Mortgage Loan Trust Series 2006-AR37, Class 2A1 5.427%, 2/25/37		1,181	769,560
Lehman XS Trust Series 2007-15N, Class 4A1 1.135%, 8/25/47[c]		1,123	588,122
Series 2007-4N, Class 3A2A 1.002%, 3/25/47[c]		3,027	1,746,483
Structured Adjustable Rate Mortgage Loan Trust Series 2005-18, Class 8A1 5.454%, 9/25/35		2,841	2,511,138

		Principal Amount (000)	U.S. $ Value
Series 2006-9, Class 4A1 5.834%, 10/25/36	U.S.$	1,788	$ 1,217,598
Structured Asset Mortgage Investments, Inc. Series 2007-AR6, Class A1 1.742%, 8/25/47[c]		6,201	3,416,526
WaMu Mortgage Pass Through Certificates Series 2006-AR11, Class 3A1A 1.162%, 9/25/46[c]		2,409	1,161,900
Series 2006-AR5, Class A1A 1.232%, 6/25/46[c]		1,111	731,823
Series 2007-HY3, Class 4A1 2.635%, 3/25/37		3,627	2,924,961
Series 2007-OA3, Class 2A1A 1.002%, 4/25/47[c]		1,309	838,871
Washington Mutual Alternative Mortgage Pass-Through Certificates Series 2007-OA4, Class A1A 1.002%, 4/25/47[c]		1,471	708,650
			24,977,773
Non-Agency Fixed Rate 1.5%			
Chaseflex Trust Series 2007-1, Class 1A3 6.50%, 2/25/37		1,327	822,280
Citimortgage Alternative Loan Trust Series 2007-A3, Class 1A4 5.75%, 3/25/37		3,148	2,269,082
Countrywide Alternative Loan Trust Series 2006-42, Class 1A6 6.00%, 1/25/47		1,716	1,087,410
Series 2006-J1, Class 1A10 5.50%, 2/25/36		4,350	2,959,060
Series 2006-J5, Class 1A1 6.50%, 9/25/36		2,338	1,537,667
First Horizon Alternative Mortgage Pass Through Certificates Series 2006-FA1, Class 1A3 5.75%, 4/25/36		1,784	1,272,519
Washington Mutual Alternative Mortgage Pass-Through Certificates Series 2006-7, Class A3 6.081%, 9/25/36		2,485	1,432,097
Series 2006-7, Class A4 6.171%, 9/25/36		2,615	1,491,871
Series 2006-9, Class A4 5.986%, 10/25/36		2,834	1,680,379
Wells Fargo Alternative Loan Trust Series 2007-PA3, Class 3A1 6.25%, 7/25/37		3,400	2,361,261
			16,913,626

		Principal Amount (000)	U.S. $ Value
Non-Agency ARMs 0.1%			
Citigroup Mortgage Loan Trust, Inc. Series 2006-AR1, Class 3A1 2.69%, 3/25/36[c]	U.S.$	2,091	$ 1,315,185
Total Collateralized Mortgage Obligations (cost $47,093,576)			43,206,584
COMMERCIAL MORTGAGE-BACKED SECURITIES 3.5%			
Non-Agency Fixed Rate CMBS 3.2%			
Banc of America Commercial Mortgage, Inc. Series 2007-5, Class AM 5.772%, 2/10/51		2,877	2,503,991
Banc of America Large Loan, Inc. Series 2009-UB1, Class A4B 5.691%, 6/24/50[b]		3,500	3,193,050
Bear Stearns Commercial Mortgage Securities Series 2007-PW18, Class AM 6.084%, 6/11/50		1,400	1,215,353
Citigroup/Deutsche Bank Commercial Mortgage Trust Series 2005-CD1, Class AJ 5.398%, 7/15/44		1,017	808,912
Credit Suisse Mortgage Capital Certificates Series 2006-C4, Class AM 5.509%, 9/15/39		5,900	4,701,692
GE Capital Commercial Mortgage Corp. Series 2005-C4, Class AM 5.492%, 11/10/45		800	729,394
Goldman Sachs Mortgage Securities 5.475%, 8/10/44[b]		3,152	2,576,614
JP Morgan Chase Commercial Mortgage Securities Corp. Series 2006-CB15, Class AM 5.855%, 6/12/43		1,230	1,110,562
Series 2007-CB19, Class AM 5.932%, 2/12/49		3,519	3,074,782
Series 2007-LD11, Class AM 6.005%, 6/15/49		5,105	4,069,257
Series 2007-LD12, Class AM 6.256%, 2/15/51		736	631,719
Merrill Lynch Mortgage Trust Series 2005-CIP1, Class AJ 5.137%, 7/12/38		2,000	1,631,566
Morgan Stanley Capital I Series 2005-HQ6, Class AJ 5.073%, 8/13/42		948	778,406

		Principal Amount (000)	U.S. $ Value
Series 2006-IQ12, Class AM 5.37%, 12/15/43	U.S.$	7,700	$ 7,149,481
Wachovia Bank Commercial Mortgage Trust Series 2006-C23, Class AM 5.466%, 1/15/45		2,100	2,049,688
Series 2007-C34, Class AM 5.818%, 5/15/46		400	342,115
WF-RBS Commercial Mortgage Trust Series 2011-C4, Class D 5.418%, 6/15/44(b)		1,022	824,969
WFDB Commercial Mortgage Trust Series 2011-BXR, Class E 6.403%, 7/05/24(b)		943	898,224
			38,289,775
Non-Agency Floating Rate CMBS 0.3%			
Commercial Mortgage Pass Through Certificates Series 2007-FL14, Class C 0.529%, 6/15/22(b)(c)		477	424,854
LB-UBS Commercial Mortgage Trust Series 2007-C7, Class AM 6.375%, 9/15/45		1,352	1,112,346
Lehman Brothers Series 2006-LLFA, Class E 0.519%, 9/15/21(b)(c)		532	468,585
Series 2006-LLFA, Class H 0.629%, 9/15/21(b)(c)		423	343,565
Series 2006-LLFA, Class K 1.029%, 9/15/21(b)(c)		399	300,387
Wachovia Bank Commercial Mortgage Trust Series 2006-WL7A, Class H 0.629%, 9/15/21(b)(c)		1,279	805,770
			3,455,507
Total Commercial Mortgage-Backed Securities (cost $40,803,125)			41,745,282
GOVERNMENTS - TREASURIES 3.4%			
Brazil 1.7%			
Brazil Notas do Tesouro Nacional Series F 10.00%, 1/01/14	BRL	9,146	4,774,550
Republic of Brazil 12.50%, 1/05/16-1/05/22		24,922	15,414,961
			20,189,511

		Principal Amount (000)	U.S. $ Value
Greece 0.2%			
Hellenic Republic Government Bond Series 30YR 4.60%, 9/20/40	EUR	4,895	$ 2,100,575
Hungary 0.8%			
Hungary Government Bond Series 14/C 5.50%, 2/12/14	HUF	970,820	4,288,457
Series 15/A 8.00%, 2/12/15		464,360	2,167,749
Series 16/C 5.50%, 2/12/16		697,550	2,967,408
			9,423,614
South Africa 0.7%			
South Africa Government Bond Series R204 8.00%, 12/21/18	ZAR	10,750	1,328,498
Series R207 7.25%, 1/15/20		60,872	7,086,337
Series R208 6.75%, 3/31/21		490	54,609
			8,469,444
Total Governments - Treasuries (cost $38,126,105)			40,183,144
QUASI-SOVEREIGNS 3.3%			
Quasi-Sovereign Bonds 3.3%			
Indonesia 0.3%			
Majapahit Holding BV 7.75%, 10/17/16[b]	U.S.$	2,165	2,403,150
7.875%, 6/29/37[b]		699	761,910
8.00%, 8/07/19[b]		330	369,600
			3,534,660
Kazakhstan 0.6%			
Intergas Finance BV 6.375%, 5/14/17[b]		3,640	3,630,900
KazMunayGas National Co. 7.00%, 5/05/20[a][b]		2,658	2,658,000
9.125%, 7/02/18[b]		250	281,250
			6,570,150
Philippines 0.1%			
Power Sector Assets & Liabilities Management Corp. 7.25%, 5/27/19[b]		1,250	1,418,750

		Principal Amount (000)	U.S. $ Value
Russia 1.9%			
Russian Agricultural Bank OJSC Via RSHB Capital SA			
6.299%, 5/15/17(b)	U.S.$	8,227	$ 8,124,163
7.50%, 3/25/13	RUB	86,000	2,598,776
7.75%, 5/29/18(b)	U.S.$	11,600	12,180,000
			22,902,939
Trinidad & Tobago 0.2%			
Petroleum Co. of Trinidad & Tobago Ltd.			
9.75%, 8/14/19(b)		1,675	1,980,687
Ukraine 0.2%			
NAK Naftogaz Ukraine			
9.50%, 9/30/14		2,542	2,395,835
Total Quasi-Sovereigns (cost $30,803,321)			38,803,021
BANK LOANS 2.8%			
Industrial 2.4%			
Basic 0.2%			
Ineos US Finance LLC			
7.50%, 12/16/13(c)		165	163,843
8.00%, 12/16/14(c)		188	188,358
NewPage Corporation			
4/04/13(k)		2,000	1,987,500
			2,339,701
Capital Goods 0.4%			
Harbor Freight Tools USA, Inc./Central Purchasing LLC			
6.50%, 12/22/17(c)		3,284	3,234,247
Hawker Beechcraft Acquisition Company LLC			
2.37%, 3/26/14(c)		72	49,327
10.50%, 3/26/14(c)		1,807	1,551,238
			4,834,812
Communications - Media 0.3%			
Cengage Learning Acquisitions, Inc. (Thomson Learning)			
2.49%, 7/03/14(c)		542	422,383
Charter Communications Operating, LLC			
2.24%, 3/06/14(c)		27	26,475
7.25%, 3/06/14(c)		34	33,540
Clear Channel Communications, Inc.			
3.89%, 1/29/16(c)		163	113,944
SuperMedia, Inc. (fka Idearc, Inc.)			
11.00%, 12/31/15(c)		313	136,427
Univision Communications, Inc.			
4.49%, 3/31/17(c)		2,323	1,949,143

		Principal Amount (000)	U.S. $ Value
WideOpenWest Finance, LLC 2.73%-4.75%, 6/30/14(c)	U.S.$	971	$ 901,695
			3,583,607
Consumer Cyclical - Automotive 0.2%			
Allison Transmission, Inc. 2.98%, 8/07/14(c)		11	10,415
Federal-Mogul Corporation 2.16%-2.18%, 12/29/14(c)		1,301	1,195,269
2.16%-2.18%, 12/28/15(c)		664	609,831
			1,815,515
Consumer Cyclical - Entertainment 0.2%			
ClubCorp Club Operations, Inc. 6.00%, 11/30/16(c)		1,365	1,303,277
Las Vegas Sands LLC 2.74%, 11/23/16(c)		557	517,246
			1,820,523
Consumer Cyclical - Other 0.2%			
Caesars Entertainment Operating Company, Inc. (fka Harrah s Operating Company, Inc.) 3.23%-3.25%, 1/28/15(c)		1,210	1,005,294
Great Atlantic & Pacific Tea Company, Inc., The 8.75%, 6/14/12(c)		130	129,458
Harrah s Las Vegas Propco, LLC 3.22%, 2/13/13(c)		1,500	1,041,870
			2,176,622
Consumer Cyclical - Retailers 0.1%			
Burlington Coat Factory Warehouse Corporation 6.25%, 2/23/17(c)		494	470,746
Rite Aid Corporation 1.98%-1.99%, 6/04/14(c)		962	886,784
			1,357,530
Consumer Non-Cyclical 0.2%			
HCA Inc. 3.62%, 5/01/18(c)		398	372,984
Immucor, Inc. 7.25%, 8/19/18(c)		2,000	1,967,500
			2,340,484
Energy 0.1%			
CITGO Petroleum Corporation 9.00%, 6/24/17(c)		1,234	1,252,891

		Principal Amount (000)	U.S. $ Value
Other Industrial 0.0%			
Gavilon Group LLC, The 6.00%, 12/06/16(c)	U.S.$	409	$ 402,313
Services 0.3%			
Advantage Sales & Marketing Inc. 5.25%, 12/18/17(c)		506	486,434
Aveta, Inc. 8.50%, 4/14/15(c)		408	396,689
Global Cash Access, Inc. 7.00%, 3/01/16(c)		426	416,955
Realogy Corporation 10/10/13(k)		2,100	1,883,448
Sabre, Inc. 2.24%-2.25%, 9/30/14(c)		735	615,124
ServiceMaster Co., (The) 2.72%-2.83%, 7/24/14(c)		178	165,660
2.74%, 7/24/14(c)		18	16,497
			3,980,807
Technology 0.2%			
First Data Corporation 2.98%, 9/24/14(c)		1,315	1,140,079
Smart Modular Technologies 8.25%, 8/26/17(c)		1,900	1,710,000
SunGard Data Systems, Inc. (Solar Capital Corp.) 1.98%, 2/28/14(c)		24	23,517
			2,873,596
Transportation - Services 0.0%			
Swift Transportation Co., LLC 6.00%, 12/21/16(c)		192	185,777
			28,964,178
Utility 0.2%			
Electric 0.2%			
FirstLight Power Resources, Inc. (fka NE Energy, Inc.) 2.75%, 11/01/13(c)		253	238,062
4.75%, 5/01/14(c)		1,000	907,000
Texas Competitive Electric Holdings Company LLC (TXU) 3.73%-3.77%, 10/10/14(c)		1,632	1,147,390
			2,292,452
Financial Institutions 0.2%			
Finance 0.2%			
Delos Aircraft, Inc. 7.00%, 3/17/16(c)		106	105,328

		Principal Amount (000)	U.S. $ Value
International Lease Finance Corp. (Delos Aircraft, Inc.) 6.75%, 3/17/15[c]	U.S.$	144	$ 143,438
iStar Financial, Inc. 7.00%, 6/30/14[c]		1,675	1,576,175
			1,824,941
Total Bank Loans (cost $34,840,175)			33,081,571
EMERGING MARKETS - TREASURIES 2.4%			
Colombia 0.1%			
Republic of Colombia 9.85%, 6/28/27	COP	1,927,000	1,292,228
Dominican Republic 0.5%			
Dominican Republic International Bond 16.00%, 7/10/20[b]	DOP	229,800	5,937,858
Egypt 0.2%			
Arab Republic of Egypt 8.75%, 7/18/12[b]	EGP	16,620	2,618,912
Indonesia 0.9%			
Indonesia Recap Linked Note 10.00%, 7/18/17	IDR	47,971,000	6,398,862
JP Morgan 9.50%, 5/17/41		27,844,000	3,806,297
			10,205,159
Philippines 0.3%			
Republic of Philippines 6.25%, 1/14/36	PHP	143,000	3,123,270
Turkey 0.4%			
Turkey Government Bond 11.00%, 8/06/14	TRY	9,155	5,241,563
Total Emerging Markets - Treasuries (cost $28,889,290)			28,418,990
GOVERNMENTS - SOVEREIGN BONDS 2.0%			
Brazil 0.1%			
Republic of Brazil 8.75%, 2/04/25	U.S.$	515	723,575
Cote D Ivoire 0.5%			
Ivory Coast Government International Bond 2.50%, 12/31/32[a][b][d][j]		12,917	6,264,745

		Principal Amount (000)	U.S. $ Value
Croatia 0.6%			
Republic of Croatia			
6.625%, 7/14/20[a][b]	U.S.$	4,000	$ 3,810,000
6.75%, 11/05/19[a][b]		3,350	3,174,125
			6,984,125
Iceland 0.4%			
Iceland Government International Bond			
3.75%, 12/01/11	EUR	3,250	4,331,319
Lithuania 0.1%			
Republic of Lithuania			
7.375%, 2/11/20[a][b]	U.S.$	1,498	1,617,840
Panama 0.1%			
Republic of Panama			
6.70%, 1/26/36		3	3,600
9.375%, 4/01/29[a]		1,000	1,490,000
			1,493,600
Switzerland 0.2%			
Credit Suisse			
7.50%, 3/15/18	RUB	93,062	2,856,139
Total Governments - Sovereign Bonds (cost $24,758,220)			24,271,343
ASSET-BACKED SECURITIES 1.3%			
Home Equity Loans - Fixed Rate 1.0%			
Countrywide Asset-Backed Certificates			
Series 2005-7, Class AF5W 5.054%, 10/25/35	U.S.$	895	516,899
Series 2006-1, Class AF6 5.526%, 7/25/36		2,183	1,660,589
Series 2006-15, Class A6 5.826%, 10/25/46		1,808	1,209,114
CSAB Mortgage Backed Trust Series 2006-2, Class A6A 5.72%, 9/25/36		1,602	1,102,437
GSAA Home Equity Trust Series 2005-12, Class AF5 5.659%, 9/25/35		1,800	1,295,815
Series 2006-10, Class AF3 5.985%, 6/25/36		1,800	976,037
Lehman XS Trust Series 2006-17, Class WF32 5.55%, 11/25/36		2,500	2,016,689
Series 2007-6, Class 3A5 5.72%, 5/25/37		838	583,490
Morgan Stanley Mortgage Loan Trust Series 2006-15XS, Class A3 5.988%, 11/25/36		1,870	1,100,313

		Principal Amount (000)	U.S. $ Value
Series 2007-8XS, Class A2 6.00%, 4/25/37	U.S.$	1,858	$ 1,230,724
			11,692,107
Home Equity Loans - Floating Rate 0.3%			
Countrywide Asset-Backed Certificates Series 2007-S2, Class A1 0.375%, 5/25/37[(c)]		413	403,528
Credit-Based Asset Servicing and Securitization LLC Series 2007-CB2, Class A2C 5.623%, 2/25/37[(c)]		3,400	1,763,514
GSAA Home Equity Trust Series 2006-6, Class AF5 5.319%, 3/25/36[(c)]		959	503,368
GSAA Trust Series 2006-6, Class AF4 5.319%, 3/25/36[(c)]		1,489	781,950
			3,452,360
Other ABS - Fixed Rate 0.0%			
CW Capital Cobalt Ltd. Series 2006-C1, Class AMP1 5.501%, 8/15/48[(b)]		484	403,868
Total Asset-Backed Securities (cost $16,487,158)			15,548,335
		Shares	
PREFERRED STOCKS 0.9%			
Financial Institutions 0.8%			
Banking 0.3%			
Zions Bancorporation 9.50%		138,946	3,508,386
Finance 0.5%			
Ally Financial, Inc. 7.00%[(b)]		792	530,368
8.50%		52,000	894,400
Citigroup Capital XII 8.50%		99,000	2,484,900
Citigroup Capital XIII 7.875%		49,625	1,310,596
			5,220,264
REITS 0.0%			
Sovereign Real Estate Investment Trust 12.00%[(b)]		185	213,999
			8,942,649
Industrial 0.1%			
Consumer Cyclical - Other 0.1%			
Las Vegas Sands Corp. 10.00%		16,000	1,787,904

		Shares	U.S. $ Value
Non Corporate Sectors 0.0%			
Agencies - Government Sponsored 0.0%			
Federal National Mortgage Association 8.25%		80,000	$ 152,000
Total Preferred Stocks (cost $12,084,143)			10,882,553
		Principal Amount (000)	
LOCAL GOVERNMENTS - MUNICIPAL BONDS 0.8%			
United States 0.8%			
Allegheny Cnty PA Hosp Dev Auth (West Penn Allegheny Hlth Sys) Series 2007A 5.375%, 11/15/40	U.S.$	595	493,910
California GO 7.60%, 11/01/40		750	927,892
7.95%, 3/01/36		1,915	2,172,874
Illinois GO 7.35%, 7/01/35		1,915	2,154,969
Rhode Island Hlth & Ed Bldg Corp. (Tockwotton Home) 8.375%, 1/01/46		1,520	1,556,419
Sioux Falls SD Health Facs 5.00%, 11/15/33		985	768,655
Viridian Mun Mgmt Dist TX 9.00%, 12/01/37		825	853,091
Total Local Governments - Municipal Bonds (cost $8,060,258)			8,927,810
SUPRANATIONALS 0.7%			
Eurasian Development Bank 7.375%, 9/29/14[(b)]		1,690	1,718,392
European Investment Bank Zero Coupon, 4/24/13[(b)]	IDR	65,759,400	6,520,579
Total Supranationals (cost $8,471,641)			8,238,971
LOCAL GOVERNMENTS - REGIONAL BONDS 0.6%			
Local Governments - Regional Bonds 0.6%			
Bogota Distrio Capital 9.75%, 7/26/28[(b)]	COP	7,758,000	5,063,898

		Principal Amount (000)	U.S. $ Value
Provincia de Cordoba 12.375%, 8/17/17[b]	U.S.$	2,341	$ 2,060,080
Total Local Governments - Regional Bonds (cost $5,651,716)			7,123,978
INFLATION-LINKED SECURITIES 0.4%			
Uruguay 0.4%			
Republica Orient Uruguay 3.70%, 6/26/37[a]	UYU	46,201	1,870,215
4.25%, 4/05/27[a]		54,724	2,542,847
Total Inflation-Linked Securities (cost $4,334,511)			4,413,062
		Shares	
COMMON STOCKS 0.2%			
Abitibibowater, Inc.[f][g][l]		5,000	0
American Media Operations, Inc.[f][g]		19,908	258,804
American Media, Inc.[g][i]		12,978	0
AOT Bedding Super Holdings, LLC[f][g]		52	0
Fairpoint Communications, Inc.[l]		5,519	23,732
Gallery Capital SA[g][m]		591	709,200
Greektown Superholdings, Inc.[f][g][l]		692	44,980
Keystone Automotive Operations, Inc.[f]		106,736	1,350,449
Magnachip Semiconductor[f]		3,600	0
Merisant Co.[f][g]		999	0
Neenah Enterprises, Inc.[f][g][l]		58,200	291,000
Talon Equity Co. NV		1,059	0
U.S. Shipping Corp.[f][g]		31,398	0
Total Common Stocks (cost $3,681,728)			2,678,165
GOVERNMENTS - SOVEREIGN AGENCIES 0.1%			
Spain 0.1%			
Instituto de Credito Oficial 4.53%, 3/17/16 (cost $1,189,604)	CAD	1,300	1,136,393
		Contracts	
OPTIONS PURCHASED - PUTS 0.1%			
Options on Forward Contracts 0.1%			
CNY/USD Expiration: Aug 2012, Exercise Price: CNY 7.00[l][n]		6,200,000	714,477

	Contracts	U.S. $ Value
EUR/USD Expiration: Nov 2011, Exercise Price: EUR 1.25(l)(n)	357,000	$ 245,172
Options Purchased - Puts (cost $490,311)		959,649
	Shares	
WARRANTS 0.0%		
Alion Science And Technology Corp., expiring 11/01/14(b)(f)(g)(l)	900	0
Fairpoint Communications, Inc., expiring 1/24/18(f)(g)(l)	9,408	0
Magnachip Semiconductor, expiring 12/31/49(g)(l)	18,000	0
Quality Distribution LLC, QD Capital Corp., expiring 11/01/13(l)	37,362	334,764
Total Warrants (cost $0)		334,764
SHORT-TERM INVESTMENTS 3.2%		
Investment Companies 3.2%		
AllianceBernstein Fixed-Income Shares, Inc. Government STIF Portfolio, 0.08%(o) (cost $38,210,153)	38,210,153	38,210,153
Total Investments 107.8% (cost $1,309,248,223)		1,272,990,170
Other assets less liabilities (7.8)%		(92,406,819)
Net Assets 100.0%		**$ 1,180,583,351**

FORWARD CURRENCY EXCHANGE CONTRACTS (see Note C)

Counterparty & Description	Contract Amount (000)	U.S. $ Value on Origination Date	U.S. $ Value at September 30, 2011	Unrealized Appreciation/ (Depreciation)
Buy Contracts:				
Barclays Capital Inc.: South African Rand settling 10/20/11	65,360	$ 8,960,119	$ 8,074,882	$ (885,237)
BNP Paribas SA: Turkish Lira settling 10/20/11	504	283,102	270,247	(12,855)
Brown Brothers Harriman & Co.: British Pound settling 10/07/11	52	85,604	80,618	(4,986)
Citibank: Euro settling 10/17/11	794	1,087,560	1,063,306	(24,254)

Counterparty & Description	Contract Amount (000)	U.S. $ Value on Origination Date	U.S. $ Value at September 30, 2011	Unrealized Appreciation/ (Depreciation)
Credit Suisse First Boston:				
Chinese Yuan Renminbi settling 1/13/12[(1)]	108,604	$ 16,754,044	$ 16,969,721	$ 215,677
Swedish Krona settling 10/19/11	82,577	12,867,604	12,025,387	(842,217)
Goldman Sachs:				
Brazilian Real settling 10/04/11[(1)]	3,576	1,877,152	1,901,861	24,709
Brazilian Real settling 10/04/11[(1)]	37,630	20,292,368	20,013,385	(278,983)
Brazilian Real settling 10/04/11[(1)]	34,054	18,877,047	18,111,524	(765,523)
British Pound settling 10/07/11	1,230	1,898,241	1,918,044	19,803
Euro settling 10/17/11	3,516	4,734,792	4,710,170	(24,622)
Mexican Peso settling 10/19/11	159,610	12,923,362	11,491,364	(1,431,998)
HSBC Securities Inc.:				
Euro settling 10/17/11	559	761,046	749,034	(12,012)
Norwegian Krone settling 10/19/11	72,057	13,219,727	12,266,069	(953,658)
Morgan Stanley & Co., Inc.:				
Indonesian Rupiah settling 10/21/11	5,614,408	655,965	611,504	(44,461)
Malaysian Ringgit settling 10/21/11	20,182	6,763,889	6,274,338	(489,551)
Russian Ruble settling 10/17/11[(1)]	11,409	373,198	353,376	(19,822)
Royal Bank of Scotland:				
Singapore Dollar settling 10/18/11	17,030	13,648,235	13,020,904	(627,331)
Standard Chartered Bank:				
Chinese Yuan Renminbi settling 1/13/12[(1)]	19,934	3,135,257	3,070,957	(64,300)
Chinese Yuan Renminbi settling 1/13/12[(1)]	39,441	6,199,881	6,076,072	(123,809)
Chinese Yuan Renminbi settling 1/13/12[(1)]	49,023	7,732,322	7,552,300	(180,022)
South Korean Won settling 11/10/11	14,776,762	13,653,111	12,514,693	(1,138,418)
Sale Contracts:				
Barclays Capital Inc.:				
Canadian Dollar settling 10/21/11	4,075	4,081,526	3,886,760	194,766
BNP Paribas SA:				
South African Rand settling 10/20/11	129,706	18,158,206	16,024,576	2,133,630
Credit Suisse First Boston:				
Colombian Peso settling 10/18/11[(1)]	4,369,909	2,390,541	2,262,301	128,240
Colombian Peso settling 10/18/11[(1)]	2,834,229	1,545,752	1,467,279	78,473

Counterparty & Description	Contract Amount (000)	U.S. $ Value on Origination Date	U.S. $ Value at September 30, 2011	Unrealized Appreciation/ (Depreciation)
Goldman Sachs:				
Brazilian Real settling 10/04/11(1)	37,630	$ 23,178,421	$ 20,013,385	$ 3,165,036
Brazilian Real settling 10/04/11(1)	34,054	18,363,995	18,111,524	252,471
Brazilian Real settling 10/04/11(1)	3,576	1,928,373	1,901,861	26,512
Brazilian Real settling 11/03/11(1)	34,054	18,762,641	17,971,973	790,668
Euro settling 10/17/11	73,766	101,078,582	98,817,077	2,261,505
Royal Bank of Scotland:				
Australian Dollar settling 10/26/11	2,932	3,042,452	2,828,686	213,766
British Pound settling 10/07/11	7,829	12,816,992	12,208,651	608,341
Hungarian Forint settling 10/20/11	1,946,682	10,440,775	8,885,837	1,554,938
Swedish Krona settling 10/19/11	82,422	12,414,494	12,002,923	411,571
Standard Chartered Bank:				
Chinese Yuan Renminbi settling 1/13/12(1)	49,023	7,735,372	7,660,018	75,354
Chinese Yuan Renminbi settling 1/13/12(1)	39,561	6,222,287	6,181,604	40,683
Chinese Yuan Renminbi settling 1/13/12(1)	20,019	3,154,391	3,128,098	26,293
Indonesian Rupiah settling 10/21/11(1)	157,151,962	17,128,279	17,116,518	11,761
South Korean Won settling 11/10/11	14,739,062	12,359,801	12,482,765	(122,964)
				$ 4,187,174

(1) Contract represents non-deliverable forward where payment is received from or paid to a counterparty based on the net realized gain/loss on settlement date.

INTEREST RATE SWAP TRANSACTIONS (see Note C)

Swap Counterparty	Notional Amount (000)	Termination Date	Rate Type: Payments made by the Portfolio	Rate Type: Payments received by the Portfolio	Unrealized Appreciation/ (Depreciation)
JPMorgan Chase Bank	125,200	9/13/16	1.14%	3 Month LIBOR	$ 608,656
JPMorgan Chase Bank	53,732	9/30/16	1.25%	3 Month LIBOR	669
JPMorgan Chase Bank	92,400	9/13/18	3 Month LIBOR	1.64%	(237,417)
JPMorgan Chase Bank	39,787	9/30/18	3 Month LIBOR	1.73%	95,255
Morgan Stanley	125,500	8/15/16	1.27%	3 Month LIBOR	(402,395)
Morgan Stanley	92,870	8/15/18	3 Month LIBOR	1.88%	1,495,236
					$ 1,560,004

CREDIT DEFAULT SWAP CONTRACTS ON CORPORATE, SOVEREIGN ISSUES and INDICES (see Note C)

Swap Counterparty & Referenced Obligation	Fixed Deal (Pay) Receive Rate	Implied Credit Spread at September 30, 2011	Notional Amount (000)	Market Value	Upfront Premiums Paid (Received)	Unrealized Appreciation/ (Depreciation)
Buy Contracts:						
Barclays Capital Inc.:						
Knight Ridder, Inc., 5.75% 9/1/17, 12/20/13*	(5.00)%	14.17%	$ 440	$ 69,435	$ (16,500)	$ 52,935
Liz Claiborne, Inc., 5% 7/8/13, 12/20/13*	(5.00)	8.33	440	27,467	(8,800)	18,667
Goldman Sachs Bank USA:						
Hellenic Republic Government 5.9% 10/22/22, 6/20/15*	(0.50)	74.45	6,000	1,178,715		1,178,715
JPMorgan Chase Bank, NA:						
Fiat SpA, 6.625% 2/15/13, 12/20/16*+	(5.00)	11.14	1,200	241,726	(189,000)	52,726
MBIA, Inc., 6.625% 10/1/28, 12/20/13*+	(5.00)	14.29	890	142,001	(93,450)	48,551
Republic of Iceland, 4.375% 3/10/14, 12/20/11*+	(10.50)	2.24	EUR 3,250	(95,524)		(95,524)
Sale Contracts:						
Bank of America:						
Boyd Gaming Corp., 6.75% 4/15/14, 3/20/16*+	5.00	14.03	$ 2,000	(494,852)	135,000	(359,852)
Barclays Capital Inc.:						
Alcatel-Lucent USA Inc., 6.5% 1/15/28, 6/20/16*	5.00	7.79	2,000	(192,575)	(111,193)	(303,768)
Amkor Technology, Inc., 9.25% 6/1/16, 6/20/16*	5.00	7.54	2,000	(176,394)	(76,028)	(252,422)
CDX NAIG-15 5 Yr Index, 12/20/15*	1.00	7.32	1,400	(314,467)	174,997	(139,470)
Community Health Systems, Inc., 8.875% 7/15/15, 6/20/16*	5.00	8.66	2,000	(245,700)	65,000	(180,700)
NXP BV, 8.625% 10/15/15, 6/20/16*	5.00	9.45	1,350	(189,862)	(79,842)	(269,704)
Freescale Semiconductor, Inc., 8.875% 12/15/14, 6/20/16*	5.00	12.34	1,420	(310,364)	39,052	(271,312)
Rite Aid Corporation, 7.7% 2/15/27, 3/20/12*	5.00	7.57	2,700	(27,690)	(35,073)	(62,763)
Citibank:						
CDX NAHY-16 5 Yr Index, 6/20/16*	5.00	7.61	13,400	(1,260,836)	(201,000)	(1,461,836)
Ford Motor Company, 6.5% 8/1/18, 6/20/16*	5.00	4.63	2,700	43,416	(258,290)	(214,874)
Credit Suisse First Boston:						
CDX NAHY Series 15 5 Yr Index, 12/20/15*	5.00	14.00	3,100	(825,913)	322,400	(503,513)

Swap Counterparty & Referenced Obligation	Fixed Deal (Pay) Receive Rate	Implied Credit Spread at September 30, 2011	Notional Amount (000)	Market Value	Upfront Premiums Paid (Received)	Unrealized Appreciation/ (Depreciation)
CDX NAHY Series 15 5 Yr Index, 12/20/15*	5.00%	14.00%	$ 3,500	$ (931,997)	$ 361,375	$ (570,622)
MGM Resorts International, 5.875% 2/27/14, 3/20/16*	5.00	10.35	1,300	(213,736)	42,250	(171,486)
Wind Acquisition Finance S.A., 11% 12/1/15, 6/20/16*	5.00	13.93	3,300	(833,835)	(155,766)	(989,601)
MGM Resorts International, 7.625% 1/15/17, 6/20/13*	5.00	7.09	2,000	(62,180)	(50,000)	(112,180)
Goldman Sachs Bank USA:						
CDX NAHY-11 5 Yr Index, 12/20/13*	0.00	26.19	4,685	3,870,961	(2,614,802)	1,256,159
CDX NAHY-15 3 Yr Index, 12/20/13*	5.00	32.56	13,400	(6,697,115)	2,717,128	(3,979,987)
CDX NAHY-16 5 Yr Index, 6/20/16*	5.00	7.61	6,600	(621,009)	(41,250)	(662,259)
CDX NAHY-16 5 Yr Index, 6/20/16*	5.00	7.61	6,600	(621,009)	(90,750)	(711,759)
CDX NAIG-15 5 Yr Index, 12/20/15*	1.00	7.32	2,150	(482,873)	286,219	(196,654)
Gazprom 8.625% 4/28/34, 11/20/11*	9.25	2.28	2,900	129,136		129,136
Mediacom LLC, 9.125% 8/15/19, 3/20/16*	5.00	5.62	2,750	(57,409)	116,875	59,466
Tenet Healthcare Corp., 6.875% 11/15/31, 9/20/16*	5.00	8.15	2,700	(300,292)	81,000	(219,292)
VTB Bank 4.25% 2/15/16, 11/20/11*	11.50	2.68	4,400	244,462		244,462
Morgan Stanley Capital Services Inc.:						
AK Steel Holding Corporation, 7.625% 5/15/20, 3/20/16*+	5.00	9.32	1,350	(184,880)	(21,988)	(206,868)
Boyd Gaming Corporation, 6.75% 4/15/14, 6/20/13*+	5.00	10.62	1,350	(111,225)	(30,375)	(141,600)
CDX NAHY-16 5 Yr Index, 6/20/16*+	5.00	7.61	6,600	(621,009)	(61,875)	(682,884)
RSHB 7.175% 5/16/13, 11/20/13*+	9.75	1.76	3,400	692,038		692,038
						$ (9,028,075)

* *Termination date*

\+ *The fund had collateral received from the swap counterparty. The aggregate market value of the securities amounted to $1,358,893.*

REVERSE REPURCHASE AGREEMENTS (see Note C)

Broker	Principal Amount (000 s)	Currency	Interest Rate	Maturity	U.S. $ Value at September 30, 2011
Barclays Capital Inc.	259	USD	(2.00)%*		$ 258,491
Barclays Capital Inc.	819	USD	(1.13)%*		818,744

Broker	Principal Amount (000 s)	Currency	Interest Rate	Maturity	U.S. $ Value at September 30, 2011
Barclays Capital Inc.	1,173	USD	(1.00)%*		$ 1,172,967
Barclays Capital Inc.	543	EUR	(1.00)%*		727,181
Barclays Capital Inc.	2,116	USD	(0.75)%*		2,115,706
Barclays Capital Inc.	1,158	USD	(0.75)%*		1,156,721
Barclays Capital Inc.	832	USD	(0.75)%*		830,475
Barclays Capital Inc.	758	USD	(0.75)%*		757,687
Barclays Capital Inc.	651	USD	(0.75)%*		650,986
Barclays Capital Inc.	2,105	USD	(0.50)%*		2,103,509
Barclays Capital Inc.	707	EUR	(0.50)%*		946,651
Barclays Capital Inc.	573	EUR	(0.50)%*		767,859
Barclays Capital Inc.	2,921	USD	(0.38)%*		2,920,439
Barclays Capital Inc.	2,547	USD	(0.38)%*		2,547,163
Barclays Capital Inc.	2,022	USD	(0.25)%*		2,021,861
Barclays Capital Inc.	2,005	USD	(0.25)%*		2,004,972
Barclays Capital Inc.	1,229	USD	(0.25)%*		1,228,565
Barclays Capital Inc.	630	USD	(0.25)%*		629,864
Barclays Capital Inc.	359	USD	(0.25)%*		359,230
Barclays Capital Inc.	794	EUR	(0.25)%*		1,063,294
Barclays Capital Inc.	342	EUR	(0.15)%*		458,173
Barclays Capital Inc.	2,498	USD	0.00%		2,497,787
Barclays Capital Inc.	1,814	USD	0.00%		1,814,400
Barclays Capital Inc.	1,753	USD	0.00%		1,753,000
Barclays Capital Inc.	713	USD	0.00%		712,500
Barclays Capital Inc.	1,257	EUR	0.00%		1,683,396
Barclays Capital Inc.	1,030	USD	0.10%		1,030,146
Barclays Capital Inc.	698	USD	0.45%		697,945
Euroclear Bank SA	1,515	USD	0.05%		1,515,154
HSBC	1,063	USD	0.40%		1,063,374
ING Bank Amsterdam	1,281	USD	(3.50)%*		1,276,890
ING Bank Amsterdam	197	USD	(3.50)%*		196,080
ING Bank Amsterdam	1,558	USD	(1.00)%*		1,555,500
ING Bank Amsterdam	1,166	USD	(1.00)%*		1,163,784
ING Bank Amsterdam	672	USD	(1.00)%*		672,344
ING Bank Amsterdam	2,028	USD	(0.75)%*		2,027,958
ING Bank Amsterdam	1,985	USD	(0.50)%*		1,984,001
ING Bank Amsterdam	1,264	USD	(0.50)%*		1,263,237
ING Bank Amsterdam	740	USD	(0.50)%*		739,294
ING Bank Amsterdam	463	USD	(0.50)%*		462,881
ING Bank Amsterdam	392	USD	(0.50)%*		391,711
ING Bank Amsterdam	2,462	USD	(0.38)%*		2,462,062
ING Bank Amsterdam	648	USD	(0.38)%*		647,642
ING Bank Amsterdam	1,217	USD	(0.25)%*		1,217,108
ING Bank Amsterdam	730	USD	(0.25)%*		729,736
ING Bank Amsterdam	1,250	USD	(0.10)%*		1,249,320
ING Bank Amsterdam	2,649	USD	0.00%		2,649,000
ING Bank Amsterdam	534	USD	0.00%		533,962
Jefferies & Company, Inc.	4,938	USD	0.45%		4,938,573
Jefferies & Company, Inc.	5,157	USD	0.46%		5,158,370
JPMorgan Chase Bank	513	USD	0.00%	10/03/11	512,500
JPMorgan Chase Bank	4,509	USD	(0.25)%*		4,508,906
JPMorgan Chase Bank	4,546	USD	0.00%		4,546,000
JPMorgan Chase Bank	2,502	USD	0.00%		2,502,400
JPMorgan Chase Bank	1,979	USD	0.00%		1,979,000

Broker	Principal Amount (000 s)	Currency	Interest Rate	Maturity	U.S. $ Value at September 30, 2011
JPMorgan Chase Bank	1,207	USD	0.00%		$ 1,207,050
JPMorgan Chase Bank	1,031	USD	0.00%		1,031,000
JPMorgan Chase Bank	205	USD	0.00%		205,000
JPMorgan Chase Bank	1,125	USD	0.00%		1,125,000
JPMorgan Chase Bank	4,482	USD	0.43%		4,483,135
New York Commercial Bank	12,951	USD	0.35%	10/04/11	12,951,104
New York Commercial Bank	614	USD	(0.20)%*		614,239
New York Commercial Bank	12,512	USD	0.35%		12,512,000
New York Commercial Bank	7,098	USD	0.45%		7,098,397
New York Commercial Bank	1,643	USD	0.45%		1,642,639
Nomura International	3,026	USD	0.00%	10/03/11	3,026,250
Nomura International	1,041	USD	0.10%		1,041,029
Nomura International	1,352	USD	0.25%		1,351,798
					$ 131,965,140

Unfunded Loan Commitments (See Note C.4)

As of September 30, 2011, the Fund had the following unfunded loan commitment of $3,500,000 which could be extended at the option of the borrower:

Borrower	Unfunded Loan Commitments	Cost	Value
General Motors Holding, LLC Revolver LIBOR +2.75% 10/27/15	$ 3,500,000	$	$ (380,588)

The reverse repurchase agreement matures on demand. The interest rate shown is a variable rate and was in effect on September 30, 2011

* *Interest payment due from counterparty.*

(a) *Position, or a portion thereof, has been segregated to collateralize reverse repurchase agreements. The market value of the collateral amounted to $129,178,976.*

(b) *Security is exempt from registration under Rule 144A of the Securities Act of 1933. These securities are considered liquid and may be resold in transactions exempt from registration, normally to qualified institutional buyers. At September 30, 2011, the aggregate market value of these securities amounted to $476,509,685 or 40.4% of net assets.*

(c) *Floating Rate Security. Stated interest rate was in effect at September 30, 2011.*

(d) *Security is in default and is non-income producing.*

(e) *Pay-In-Kind Payments (PIK).*

(f) Illiquid security.

(g) Fair valued.

(h) Variable rate coupon, rate shown as of September 30, 2011.

(i) Security is exempt from registration under Rule 144A of the Securities Act of 1933. These securities, which represent 0.12% of net assets as of September 30, 2011, are considered illiquid and restricted.

Restricted Securities	Acquisition Date	Cost	Market Value	Percentage of Net Assets
American Media, Inc.	3/04/09	$ 287,499	$ 0	0.00%
European Media Capital SA 10.00%, 2/01/15	8/18/10	1,651,740	1,291,525	0.11%
European Media Capital SA 10.00%, 2/01/15	8/18/10	160,252	125,278	0.01%

(j) Coupon rate adjusts periodically based upon a predetermined schedule. Stated interest rate in effect at September 30, 2011.

(k) This position or a portion of this position represents an unsettled loan purchase. At September 30, 2011, the market value and unrealized loss of these unsettled loan purchases amounted to $3,870,948 and $33,146, respectively. The coupon rate will be determined at the time of settlement and will be based upon the London-Interbank Offered Rate (LIBOR) plus a premium which was determined at the time of purchase.

(l) Non-income producing security.

(m) Restricted and illiquid security.

(n) One contract relates to 100 shares.

(o) Investment in affiliated money market mutual fund. The rate shown represents the 7-day yield as of period end.
Currency Abbreviations:

AUD Australian Dollar

BRL Brazilian Real

CAD Canadian Dollar

CLP Chilean Peso

CNY Chinese Yuan Renminbi

COP Colombian Peso

DOP Dominican Peso

EGP Egyptian Pound

EUR Euro

GBP Great British Pound

HUF Hungarian Forint

IDR Indonesian Rupiah

PHP Philippine Peso

RUB Russian Ruble

TRY Turkish Lira

UAH Ukrainian Hryvnia

UYU Uruguayan Peso

ZAR South African Rand

Glossary:

ABS Asset-Backed Securities

ARMs Adjustable Rate Mortgages

CMBS Commercial Mortgage-Backed Securities

GO General Obligation

MBIA MBIA Insurance Corporation

OJSC Open Joint Stock Company

REIT Real Estate Investment Trust

SD School District

See notes to financial statements.

STATEMENT OF ASSETS & LIABILITIES

September 30, 2011 (unaudited)

Assets		
Investments in securities, at value		
Unaffiliated issuers (cost $1,271,038,070)	$	1,234,780,017
Affiliated issuers (cost $38,210,153)		38,210,153
Foreign currencies, at value (cost $102,846)		103,364
Receivable for investment securities sold		33,827,467
Dividends and interest receivable		29,063,175
Unrealized appreciation of forward currency exchange contracts		12,234,197
Cash collateral held at broker		6,548,000(a)
Upfront premiums paid on credit default swap contracts		4,135,982
Unrealized appreciation of credit default swap contracts		3,732,855
Unrealized appreciation of interest rate swap contracts		2,199,816
Total assets		1,364,835,026
Liabilities		
Payable for reverse repurchase agreements		131,965,140
Payable for investment securities purchased		24,358,016
Unrealized depreciation of credit default swap contracts		12,760,930
Unrealized depreciation of forward currency exchange contracts		8,047,023
Upfront premiums received on credit default swap contracts		4,341,296
Advisory fee payable		1,062,253
Unrealized depreciation of interest rate swap contracts		639,812
Due to Custodian		425,632
Unfunded loan commitments, at value		380,588
Administrative fee payable		24,492
Accrued expenses and other liabilities		246,493
Total liabilities		184,251,675
Net Assets	**$**	**1,180,583,351**
Composition of Net Assets		
Capital stock, at par	$	851,718
Additional paid-in capital		1,180,054,130
Undistributed net investment income		28,678,961
Accumulated net realized gain on investment and foreign currency transactions		10,737,376
Net unrealized depreciation of investments and foreign currency denominated assets and liabilities		(39,738,834)
	$	**1,180,583,351**
Net Asset Value Per Share 100 million shares of capital stock authorized, $0.01 par value (based on 85,171,832 shares outstanding)	**$**	**13.86**

(a) Amount has been segregated to collateralize credit default swap contracts outstanding at September 30, 2011.
See notes to financial statements.

STATEMENT OF OPERATIONS

Six Months Ended September 30, 2011 (unaudited)

Investment Income		
Interest (net of foreign taxes withheld of $40,305)	$ 59,986,952	
Dividends		
Unaffiliated issuers	486,206	
Affiliated issuers	9,653	
Other fee income (see Note C.4)	155,259	$ 60,638,070
Expenses		
Advisory fee (see Note B)	5,840,587	
Custodian	117,348	
Printing	52,893	
Audit	41,775	
Directors fees	38,730	
Administrative	38,268	
Registration fees	37,632	
Transfer agency	26,307	
Legal	14,784	
Miscellaneous	15,210	
Total expenses before interest expense	6,223,534	
Interest expense	288,651	
Total expenses		6,512,185
Net investment income		54,125,885
Realized and Unrealized Gain (Loss) on Investment and Foreign Currency Transactions		
Net realized gain on:		
Investment transactions		13,367,608
Swap contracts		4,168,088
Foreign currency transactions		3,281,149
Net change in unrealized appreciation/depreciation of:		
Investments		(159,052,477)
Swap contracts		(9,665,969)
Unfunded loan commitments (see Note C.4)		(91,975)
Foreign currency denominated assets and liabilities		6,892,924
Net loss on investment and foreign currency transactions		(141,100,652)
Contributions from Adviser (see Note B)		9,025
Net Decrease in Net Assets from Operations		**$ (86,965,742)**

See notes to financial statements.

STATEMENT OF CHANGES IN NET ASSETS

	Six Months Ended September 30, 2011 (unaudited)	Year Ended March 31, 2011
Increase (Decrease) in Net Assets from Operations		
Net investment income	$ 54,125,885	$ 110,896,303
Net realized gain on investment and foreign currency transactions	20,816,845	75,088,513
Net change in unrealized appreciation/depreciation of investments and foreign currency denominated assets and liabilities	(161,917,497)	1,818,708
Contributions from Adviser (see Note B)	9,025	179,099
Net increase (decrease) in net assets from operations	(86,965,742)	187,982,623
Dividends to Shareholders from		
Net investment income	(51,103,099)	(102,203,133)
Capital Stock Transactions		
Sale of Capital Stock	0	76,982
Total increase (decrease)	(138,068,841)	85,856,472
Net Assets		
Beginning of period	1,318,652,192	1,232,795,720
End of period (including undistributed net investment income of $28,678,961 and $25,656,175, respectively)	**$ 1,180,583,351**	**$ 1,318,652,192**

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

September 30, 2011 (unaudited)

NOTE A

Significant Accounting Policies

AllianceBernstein Global High Income Fund, Inc. (the Fund) was incorporated under the laws of the State of Maryland on May 20, 1993 and is registered under the Investment Company Act of 1940, as amended, as a diversified, closed-end management investment company. The financial statements have been prepared in conformity with U.S. generally accepted accounting principles (U.S. GAAP), which require management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities in the financial statements and amounts of income and expenses during the reporting period. Actual results could differ from those estimates. The following is a summary of significant accounting policies followed by the Fund.

1. Security Valuation

Portfolio securities are valued at their current market value determined on the basis of market quotations or, if market quotations are not readily available or are deemed unreliable, at fair value as determined in accordance with procedures established by and under the general supervision of the Fund s Board of Directors.

In general, the market value of securities which are readily available and deemed reliable are determined as follows: Securities listed on a national securities exchange (other than securities listed on the NASDAQ Stock Market, Inc. (NASDAQ)) or on a foreign securities exchange are valued at the last sale price at the close of the exchange or foreign securities exchange. If there has been no sale on such day, the securities are valued at the mean of the closing bid and ask prices on such day. Securities listed on more than one exchange are valued by reference to the principal exchange on which the securities are traded; securities listed only on NASDAQ are valued in accordance with the NASDAQ Official Closing Price; listed or over the counter market (OTC) put or call options are valued at the mid level between the current bid and asked prices. If either a current bid or current ask price is unavailable, AllianceBernstein L.P. (the Adviser) will have discretion to determine the best valuation (e.g. last trade price); open futures contracts are valued using the closing settlement price or, in the absence of such a price, the most recent quoted bid price. If there are no quotations available for the day of valuation, the last available closing settlement price is used; U.S. government securities and other debt instruments having 60 days or less remaining until maturity are valued at amortized cost if their original maturity was 60 days or less; or by amortizing their fair value as of the 61st day prior to maturity if their original term to maturity exceeded 60 days; fixed-income securities, including mortgage backed and asset backed securities, may be valued on the basis of prices provided by a pricing service or at a price obtained from one or more of the major broker/dealers. In cases where broker/dealer quotes are obtained, the Adviser may establish procedures whereby changes in market yields or spreads are used to adjust, on a daily basis, a recently obtained quoted price on a security; and OTC and other derivatives are valued using the Adviser s pricing models which utilize pricing-related information from external sources. Investments in money market funds are valued at their net asset value each day.

Securities for which market quotations are not readily available (including restricted securities) or are deemed unreliable are valued at fair value. Factors considered in making this determination may include, but are not limited to, information obtained by contacting the issuer, analysts, analysis of the issuer s financial statements or other available documents. In addition, the Fund may use fair value pricing for securities primarily traded in non-U.S. markets because most foreign markets close well before the Fund values its securities at 4:00 p.m., Eastern Time. The earlier close of these foreign markets gives rise to the possibility that significant events, including broad market moves, may have occurred in the interim and may materially affect the value of those securities.

2. Fair Value Measurements

In accordance with U.S. GAAP regarding fair value measurements, fair value is defined as the price that the Fund would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date. The U.S. GAAP disclosure requirements establish a framework for measuring fair value, and a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability. Inputs may be observable or unobservable and refer broadly to the assumptions that market participants would use in pricing the asset or liability. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Fund. Unobservable inputs reflect the Fund s own assumptions about the assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. Each investment is assigned a level based upon the observability of the inputs which are significant to the overall valuation. The three-tier hierarchy of inputs is summarized below.

Level 1 quoted prices in active markets for identical investments
Level 2 other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)
Level 3 significant unobservable inputs (including the Fund s own assumptions in determining the fair value of investments)

The following table summarizes the valuation of the Fund s investments by the above fair value hierarchy levels as of September 30, 2011:

Investments in Securities	**Level 1**	**Level 2**	**Level 3**	**Total**
Corporates Non-Investment Grades	$ 0	$ 643,875,831	$ 1,576,112	$ 645,451,943
Corporates Investment Grades	0	141,191,548	0	141,191,548
Emerging Markets Corporate Bonds	0	69,756,672	1,416,803	71,173,475
Emerging Markets Sovereigns	0	65,434,662	1,574,774	67,009,436
Collateralized Mortgage Obligations	0	0	43,206,584	43,206,584
Commercial Mortgage-Backed Securities	0	2,049,688	39,695,594	41,745,282
Governments Treasuries	0	40,183,144	0	40,183,144
Quasi-Sovereigns	0	38,803,021	0	38,803,021
Bank Loans	0	0	33,081,571	33,081,571
Emerging Markets Treasuries	0	22,481,132	5,937,858	28,418,990
Governments Sovereign Bonds	2,856,139	21,415,204	0	24,271,343
Asset-Backed Securities	0	0	15,548,335	15,548,335
Preferred Stocks	10,138,186	744,367	0	10,882,553
Local Governments Municipal Bonds	0	8,927,810	0	8,927,810
Supranationals	0	8,238,971	0	8,238,971
Local Governments Regional Bonds	0	7,123,978	0	7,123,978
Inflation-Linked Securities	0	4,413,062	0	4,413,062
Common Stocks	23,732	0	2,654,433	2,678,165
Governments Sovereign Agencies	0	1,136,393	0	1,136,393
Warrants	0	0	334,764	334,764
Options Purchased-Puts	0	0	959,649	959,649
Short-Term Investments	38,210,153	0	0	38,210,153
Total Investments in Securities	51,228,210	1,075,775,483	145,986,477	1,272,990,170
Other Financial Instruments*:				
Assets				
Credit Default Swaps	0	2,554,140	1,178,715	3,732,855
Interest Rate Swaps	0	2,199,816	0	2,199,816
Forward Currency Exchange Contracts	0	12,234,197	0	12,234,197
Liabilities				
Credit Default Swaps	0	(12,760,930)	0	(12,760,930)
Interest Rate Swaps	0	(639,812)	0	(639,812)
Forward Currency Exchange Contracts	0	(8,047,023)	0	(8,047,023)
Unfunded Loan Commitments	0	0	(380,588)	(380,588)
Total	**$ 51,228,210**	**$ 1,071,315,871**	**$ 146,784,604**	**$ 1,269,328,685**

* *Other financial instruments are derivative instruments, such as futures, forwards and swap contracts, which are valued at the unrealized appreciation/depreciation on the instrument.*

Following is a reconciliation of investments in which significant unobservable inputs (Level 3) were used in determining fair value. The transfers between levels of the fair value hierarchy assumes the financial instrument was transferred at the beginning of the reporting period.

	Corporates - Non-Investment Grades	Emerging Markets - Corporate Bonds	Emerging Markets - Sovereigns	Collateralized Mortgage Obligations
Balance as of 3/31/11	**$ 9,856,900**	**$ 0**	**$ 1,917,237**	**$ 38,999,814**
Accrued discounts/ (premiums)	(385,113)	0	26,316	377,471
Realized gain (loss)	(1,580)	0	(2,742)	1,423,925
Change in unrealized appreciation/depreciation	581,414	0	(186,688)	(4,802,758)
Purchases	0	0	0	12,849,032
Sales	(189,189)	0	(179,349)	(5,640,900)
Reclassification	(1,416,803)	1,416,803	0	0
Transfers into Level 3	0	0	0	0
Transfers out of Level 3	(6,869,517)	0	0	0
Balance as of 9/30/11	**$ 1,576,112**	**$ 1,416,803**	**$ 1,574,774**	**$ 43,206,584**
Net change in unrealized appreciation/depreciation from investments held as of 9/30/11	$ (121,212)	$ 719,166	$ (150,740)	$ (3,942,805)

	Commercial Mortgage - Backed Securities	Bank Loans	Emerging Markets - Treasuries	Asset - Backed Securities
Balance as of 3/31/11	**$ 40,257,752**	**$ 33,631,807**	**$ 6,416,198**	**$ 16,842,715**
Accrued discounts/ (premiums)	125,141	235,368	(9,262)	129,136
Realized gain (loss)	1,159,371	(71,243)	0	208,106
Change in unrealized appreciation/depreciation	(5,794,417)	(2,525,287)	(469,078)	(1,247,683)
Purchases	11,928,252	11,825,792	0	454,997
Sales	(9,621,650)	(10,014,866)	0	(838,936)
Reclassification	0	0	0	0
Transfers into Level 3	1,641,145	0	0	0
Transfers out of Level 3	0	0	0	0
Balance as of 9/30/11	**$ 39,695,594**	**$ 33,081,571**	**$ 5,937,858**	**$ 15,548,335**
Net change in unrealized appreciation/depreciation from investments held as of 9/30/11	$ (4,965,352)	$ (2,378,347)	$ (469,078)	$ (1,144,771)

	Supranationals	Common Stocks	Warrants	Options Purchased - Puts
Balance as of 3/31/11	**$ 6,542,333**	**$ 1,983,469**	**$ 0**	**$ 0**
Accrued discounts/ (premiums)	0	0	0	0
Realized gain (loss)	0	482,817	0	0
Change in unrealized appreciation/depreciation	0	670,964	334,764	469,339
Purchases	0	0	0	490,310
Sales	0	(482,817)	0	0
Reclassification	0	0	0	0
Transfers into Level 3	0	0	0	0
Transfers out of Level 3	(6,542,333)	0	0	0
Balance as of 9/30/11	**$ 0**	**$ 2,654,433**	**$ 334,764**	**$ 959,649**
Net change in unrealized appreciation/depreciation from investments held as of 9/30/11	0	$ 670,964	$ 334,763	$ 469,339

	Options Purchased - Calls	Credit Default Swaps	Unfunded Loan Commitments	Total
Balance as of 3/31/11	**$ 1**	**$ 0**	**$ 0**	**$ 156,448,226**
Accrued discounts/ (premiums)	0	0	0	499,057
Realized gain (loss)	(97,200)	0	0	3,101,454
Change in unrealized appreciation/depreciation	97,199	1,068,086	(91,975)	(11,896,120)
Purchases	0	0	(258,613)	37,259,770
Sales	0	0	0	(26,967,707)
Reclassification	0	0	0	0
Transfers into Level 3	0	110,629	0	1,751,774
Transfers out of Level 3	0	0	0	(13,411,850)
Balance as of 9/30/11	**$ 0**	**$ 1,178,715**	**$ (380,588)**	**$ 146,784,604**
Net change in unrealized appreciation/depreciation from investments held as of 9/30/11	$ 0	$ 1,068,086	$ (91,975)	$ (10,001,962)**

** *The unrealized appreciation/depreciation is included in net change in unrealized appreciation/depreciation of investments and other financial instruments in the accompanying statement of operations.*

3. Currency Translation

Assets and liabilities denominated in foreign currencies and commitments under forward currency exchange contracts are translated into U.S. dollars at the mean of the quoted bid and asked prices of such currencies against the U.S. dollar. Purchases and sales of portfolio securities are translated into U.S. dollars at the rates of exchange prevailing when such securities were acquired or sold. Income and expenses are translated into U.S. dollars at the rates of exchange prevailing when accrued.

Net realized gain or loss on foreign currency transactions represents foreign exchange gains and losses from sales and maturities of foreign fixed income investments, foreign currency exchange contracts, holding of foreign currencies, currency gains or losses realized between the trade and settlement dates on foreign investment transactions, and the difference between the amounts of dividends, interest and foreign withholding taxes recorded on the Fund s books and the U.S. dollar equivalent amounts actually received or paid. Net unrealized currency gains and losses from valuing foreign currency denominated assets and liabilities at period end exchange rates are reflected as a component of net unrealized appreciation and depreciation of investments and foreign currency denominated assets and liabilities.

4. Taxes

It is the Fund s policy to meet the requirements of the Internal Revenue Code applicable to regulated investment companies and to distribute all of its investment company taxable income and net realized gains, if any, to shareholders. Therefore, no provisions for federal income or excise taxes are required. The Fund may be subject to taxes imposed by countries in which it invests. Such taxes are generally based on income and/or capital gains earned or repatriated. Taxes are accrued and applied to net investment income, net realized gains and net unrealized appreciation/depreciation as such income and/or gains are earned.

In accordance with U.S. GAAP requirements regarding accounting for uncertainties in income taxes, management has analyzed the Fund s tax positions taken or expected to be taken on federal and state income tax returns for all open tax years (the current and the prior three tax years) and has concluded that no provision for income tax is required in the Fund s financial statements.

5. Investment Income and Investment Transactions

Dividend income is recorded on the ex-dividend date or as soon as the Fund is informed of the dividend. Interest income is accrued daily. Investment transactions are accounted for on the date securities are purchased or sold. Investment gains and losses are determined on the identified cost basis. The Fund amortizes premiums and accretes discounts as adjustments to interest income.

6. Dividends and Distributions

Dividends and distributions to shareholders, if any, are recorded on the ex-dividend date. Income dividends and capital gains distributions are determined in accordance with federal tax regulations and may differ from those determined in accordance with U.S. GAAP. To the extent these differences are permanent, such amounts are reclassified within the capital accounts based on their federal tax basis treatment; temporary differences do not require such reclassification.

NOTE B

Advisory Fee and Other Transactions with Affiliates

Under the terms of the investment advisory agreement, the Fund pays the Adviser an advisory fee at an annual rate of .90% of the Fund s average weekly net assets. Such fee is accrued daily and paid monthly.

For the six months ended September 30, 2011 and the year ended March 31, 2011, the Adviser reimbursed the Fund $9,025 and $179,099, respectively, for trading losses incurred due to trade entry errors.

Pursuant to the amended administration agreement, the Fund may reimburse the Adviser for certain legal and accounting services provided to the Fund by the Adviser, provided, however, that the reimbursement may not exceed .15% annualized of average weekly net assets. For the six months ended September 30, 2011, such fee amounted to $38,268, representing .01% annualized of the Fund s average weekly net assets.

Under the terms of a Shareholder Inquiry Agency Agreement with AllianceBernstein Investor Services, Inc. (ABIS), a wholly owned subsidiary of the Adviser, the Fund reimburses ABIS for costs relating to servicing phone inquiries on behalf of the Fund. During the six months ended September 30, 2011, there was $65 reimbursement paid to ABIS.

The Fund may invest in the AllianceBernstein Fixed-Income Shares, Inc.- Government STIF Portfolio, an open-end management investment company managed by the Adviser. The Government STIF Portfolio is offered as a cash management option to mutual funds and other institutional accounts of the Adviser, and is not available for direct purchase by members of the public. The Government STIF Portfolio pays no investment management fees but does bear its own expenses. A summary of the Fund s transactions in shares of the Government STIF Portfolio for the six months ended September 30, 2011, is as follows:

Market Value March 31, 2011 (000)	Purchases at Cost (000)	Sales Proceeds (000)	Market Value September 30, 2011 (000)	Dividend Income (000)
$ 11,018	$ 244,379	$ 217,187	$ 38,210	$ 10

NOTE C

Investment Transactions

Purchases and sales of investment securities (excluding short-term investments) for the six months ended September 30, 2011 were as follows:

	Purchases	Sales
Investment securities (excluding U.S. government securities)	$ 163,470,999	$ 248,993,535
U.S. government securities	0	0

The cost of investments for federal income tax purposes was substantially the same as cost for financial reporting purposes. Accordingly, gross unrealized appreciation and unrealized depreciation (excluding foreign currency exchange contracts and swap contracts) are as follows:

Gross unrealized appreciation	$	59,445,641
Gross unrealized depreciation		(95,703,694)
Net unrealized depreciation	$	(36,258,053)

1. Derivative Financial Instruments

The Fund may use derivatives to earn income and enhance returns, to hedge or adjust the risk profile of its portfolio, to replace more traditional direct investments, or to obtain exposure to otherwise inaccessible markets.

The principal types of derivatives utilized by the Fund, as well as the methods in which they may be used are:

Forward Currency Exchange Contracts

The Fund may enter into forward currency exchange contracts in order to hedge its exposure to changes in foreign currency exchange rates on its foreign portfolio holdings, to hedge certain firm purchase and sales commitments denominated in foreign currencies and for non-hedging purposes as a means of making direct investments in foreign currencies, as described below under Currency Transactions .

A forward currency exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. The gain or loss arising from the difference between the original contract and the closing of such contract would be included in net realized gain or loss on foreign currency transactions. Fluctuations in the value of open forward currency exchange contracts are recorded for financial reporting purposes as unrealized appreciation and/or depreciation by the Fund. Risks may arise from the potential inability of a counterparty to meet the terms of a contract and from unanticipated movements in the value of a foreign currency relative to the U.S. dollar. The face or contract amount, in U.S. dollars reflects the total exposure the Fund has in that particular currency contract.

During the six months ended September 30, 2011, the Fund held foreign currency exchange contracts for hedging and non-hedging purposes.

Option Transactions

For hedging and investment purposes, the Fund may purchase and write (sell) put and call options on U.S. and foreign securities, including government securities, and foreign currencies that are traded on U.S. and foreign securities exchanges and over-the-counter markets. The Fund may also use options transactions for non-hedging purposes as a means of making direct investments in foreign currencies, as described below under Currency Transactions .

The risk associated with purchasing an option is that the Fund pays a premium whether or not the option is exercised. Additionally, the Fund bears the risk of loss of the premium and change in market value should the counterparty not perform under the contract. Put and call options purchased are accounted for in the same manner as portfolio securities. The cost of securities acquired through the exercise of call options is increased by premiums paid. The proceeds from securities sold through the exercise of put options are decreased by the premiums paid.

When the Fund writes an option, the premium received by the Fund is recorded as a liability and is subsequently adjusted to the current market value of the option written. Premiums received from written options which expire unexercised are recorded by the Fund on the expiration date as realized gains from options written. The difference between the premium received and the amount paid on effecting a closing purchase transaction, including brokerage commissions, is also treated as a realized gain, or if the premium received is less than the amount paid for the closing purchase transaction, as a realized loss. If a call option is exercised, the premium received is added to the proceeds from the sale of the underlying security or currency in determining whether the Fund has realized a gain or loss. If a put option is exercised, the premium received reduces the cost basis of the security or currency purchased by the Fund. In writing an option, the Fund bears the market risk of an unfavorable change in the price of the security or currency underlying the written option. Exercise of an option written by the Fund could result in the Fund s selling or buying a security or currency at a price different from the current market value. For the six months ended September 30, 2011, the Fund had no transactions in written options.

The Fund may also invest in options on swap agreements, also called swaptions . A swaption is an option that gives the buyer the right, but not the obligation, to enter into a swap on a future date in exchange for paying a market-based premium . A receiver swaption gives the owner the right to receive the total return of a specified asset, reference rate, or index. A payer swaption gives the owner the right to pay the total return of a specified asset, reference rate, or index. Swaptions also include options that allow an existing swap to be terminated or extended by one of the counterparties.

During the six months ended September 30, 2011, the Fund held swaptions for hedging purposes.

Swap Agreements

The Fund may enter into swaps to hedge its exposure to interest rates, credit risk, or currencies. The Fund may also enter into swaps for non-hedging purposes as a means of gaining market exposures including by making direct investments in foreign currencies, as described below under Currency Transactions . A swap is an agreement that obligates two parties to exchange a series of cash flows at specified intervals based upon or calculated by reference to changes in specified prices or rates for a specified amount of an underlying asset. The payment flows are usually netted against each other, with the difference being paid by one party to the other. In addition, collateral may be pledged or received by the Fund in accordance with the terms of the respective swap agreements to provide value and recourse to the Fund or its counterparties in the event of default, bankruptcy or insolvency by one of the parties to the swap agreement.

Risks may arise as a result of the failure of the counterparty to the swap contract to comply with the terms of the swap contract. The loss incurred by the failure of a counterparty is generally limited to the net interim payment to be received by the Fund, and/or the termination value at the end of the contract. Therefore, the Fund considers the creditworthiness of each counterparty to a swap contract in evaluating potential counterparty risk. This risk is mitigated by having a netting arrangement between the Fund and the counterparty and by the posting of collateral by the counterparty to the Fund to cover the Fund s exposure to the counterparty. Additionally, risks may arise from unanticipated movements in interest rates or in the value of the underlying securities. The Fund accrues for the interim payments on swap contracts on a daily basis, with the net amount recorded within unrealized appreciation/depreciation of swap contracts on the statement of assets and liabilities, where applicable. Once the interim payments are settled in cash, the net amount is recorded as realized gain/(loss) on swaps on the statement of operations, in addition to any realized gain/(loss) recorded upon the termination of swap contracts. Fluctuations in the value of swap contracts are recorded as a component of net change in unrealized appreciation/depreciation of swap contracts on the statement of operations.

Interest Rate Swaps:

The Fund is subject to interest rate risk exposure in the normal course of pursuing its investment objectives. Because the Fund holds fixed rate bonds, the value of these bonds may decrease if interest rates rise. To help hedge against this risk and to maintain its ability to generate income at prevailing market rates, the Fund may enter into interest rate swap contracts. Interest rate swaps are agreements between two parties to exchange cash flows based on a notional amount. The Fund may elect to pay a fixed rate and receive a floating rate, or, receive a fixed rate and pay a floating rate on a notional amount.

In addition, the Fund may also enter into interest rate swap transactions to preserve a return or spread on a particular investment or portion of its portfolio, or protecting against an increase in the price of securities the Fund anticipates purchasing at a later date. Interest rate swaps involve the exchange by a Fund with another party of their respective commitments to pay or receive interest (*e.g.*, an exchange of floating rate payments for fixed rate payments) computed based on a contractually-based principal (or notional) amount. Interest rate swaps are entered into on a net basis (*i.e.*, the two payment streams are netted out, with the Fund receiving or paying, as the case may be, only the net amount of the two payments).

During the six months ended September 30, 2011, the Fund held interest rate swap contracts for hedging purposes.

Credit Default Swaps:

The Fund may enter into credit default swaps, including to manage its exposure to the market or certain sectors of the market, to reduce its risk exposure to defaults by corporate and sovereign issuers held by the Fund, or to create exposure to corporate or sovereign issuers to which it is not otherwise exposed. The Fund may purchase credit protection (Buy Contract) or provide credit protection (Sale Contract) on the referenced obligation of the credit default swap. During the term of the swap agreement, the Fund receives/(pays) fixed payments from/(to) the respective counterparty, calculated at the agreed upon interest rate applied to the notional amount. The accrual for these interim payments is recorded within unrealized appreciation/depreciation of swap contracts on the statement of assets and liabilities. Upfront premiums paid or received in connection with credit default swap contracts are recognized as cost or proceeds on the statement of assets and liabilities and are amortized on a straight line basis over the life of the contract. Amortized upfront premiums are included in net realized gain/(loss) from swaps on the statement of operations. If the Fund is a buyer/(seller) of protection and a credit event occurs, as defined under the terms of the swap agreement, the Fund will either (i) receive from the seller/(pay to the buyer) of protection an amount equal to the notional amount of the swap contract (the Maximum Payout Amount) and deliver/(take delivery of) the referenced obligation or (ii) receive/(pay) a net settlement amount in the form of cash or securities equal to the notional amount of the swap less the recovery value of the referenced obligation.

During the six months ended September 30, 2011, the Fund held credit default swaps contracts for hedging and non-hedging purposes.

Credit default swaps may involve greater risks than if the Fund had invested in the referenced obligation directly. Credit default swaps are subject to general market risk, liquidity risk, counterparty risk and credit risk. If the Fund is a buyer of protection and no credit event occurs, it will lose its investment. If the Fund is a seller of protection and a credit event occurs, the value of the referenced obligation received by the Fund coupled with the periodic payments previously received may be less than the Maximum Payout Amount it pays to the buyer, resulting in a loss to the Fund.

Implied credit spreads over Treasuries of comparable maturity utilized in determining the market value of credit default swaps on issuers as of period end are disclosed in the portfolio of investments. The implied spreads serve as an indicator of the current status of the payment/performance risk and typically reflect the market s assessment of the likelihood of default by the issuer of the referenced obligation. The implied credit spread of a particular reference entity reflects the cost of buying/selling protection and may include upfront payments required to be made to enter into the agreement. Widening credit spreads typically represent a deterioration of the referenced entity s credit soundness and greater likelihood of default or other credit event occurring as defined under the terms of the agreement. A credit spread identified as Defaulted indicates a credit event has occurred for the referenced entity or obligation.

At September 30, 2011, the Fund had Sale Contracts outstanding with Maximum Payout Amounts aggregating $103,054,975 with net unrealized appreciation of $2,381,261 and net unrealized depreciation of $12,665,406 and terms ranging from 2 months to 5 years, as reflected in the portfolio of investments.

In certain circumstances, Maximum Payout Amounts may be partially offset by recovery values of the respective referenced obligations, upfront premium received upon entering into the agreement, or net amounts received from settlement of buy protection credit default swap agreements entered into by the Fund for the same reference obligation with the same counterparty. As of September 30, 2011, the Fund did not have Buy Contracts outstanding for the same referenced obligation with the same counterparty for its Sale Contracts outstanding.

Documentation governing the Fund s swap transactions may contain provisions for early termination of a swap in the event the net assets of the Fund decline below specific levels set forth in the documentation (net asset contingent features). If these levels are triggered, the Fund s counterparty has the right to terminate the swap and require the Fund to pay or receive a settlement amount in connection with the terminated swap transaction. As of September 30, 2011, the Fund had interest rate swap contracts and credit default swap contracts in liability positions with net asset contingent features. The fair value of such contracts amounted to $639,812 and $12,760,930, respectively at September 30, 2011.

At September 30, 2011 the Fund had entered into the following derivatives:

Derivative Type	Asset Derivatives Statement of Assets and Liabilities Location	Fair Value	Liability Derivatives Statement of Assets and Liabilities Location	Fair Value
Interest rate contracts	Unrealized appreciation of interest rate swap contracts	$ 2,199,816	Unrealized depreciation of interest rate swap contracts	$ 639,812
Foreign exchange contracts	Unrealized appreciation of forward currency exchange contracts	12,234,197	Unrealized depreciation of forward currency exchange contracts	8,047,023
Credit contracts	Unrealized appreciation of credit default swap contracts	3,732,855	Unrealized depreciation of credit default swap contracts	12,760,930
Total		$ 18,166,868		$ 21,447,765

The effect of derivative instruments on the statement of operations for the six months ended September 30, 2011:

Derivative Type	Location of Gain or (Loss) on Derivatives	Realized Gain or (Loss) on Derivatives	Change in Unrealized Appreciation or (Depreciation)
Credit contracts	Net realized gain/(loss) on swap contracts; Net change in unrealized appreciation/depreciation of swap contracts	$ 2,818,810	$ (10,708,739)
Interest rate contracts	Net realized gain/(loss) on swap contracts; Net change in unrealized appreciation/depreciation of swap contracts	1,349,278	1,042,770
Foreign exchange contracts	Net realized gain/(loss) on foreign currency transactions; Net change in unrealized appreciation/depreciation of foreign currency denominated assets and liabilities	(1,739,138)	6,736,134
Total		$ 2,428,950	$ (2,929,835)

For the six months ended September 30, 2011, the average monthly notional amount of credit default swap contracts was $100,115,846, the average monthly notional amount of interest rate swap contracts was $598,718,416 and the average monthly principal amount of forward currency exchange contracts was $462,006,689.

2. Currency Transactions

The Fund may invest in non-U.S. Dollar securities on a currency hedged or unhedged basis. The Fund may seek investment opportunities by taking long or short positions in currencies through the use of currency-related derivatives, including forward currency exchange contracts, futures and options on futures, swaps, and other options. The Fund may enter into transactions for investment opportunities when it anticipates that a foreign currency will appreciate or depreciate in value but securities denominated in that currency are not held by the Fund and do not present attractive investment opportunities. Such transactions may also be used when the Adviser believes that it may be more efficient than a direct investment in a foreign currency-denominated security. The Fund may also conduct currency exchange contracts on a spot basis (i.e., for cash at the spot rate prevailing in the currency exchange market for buying or selling currencies).

3. Reverse Repurchase Agreements

Under a reverse repurchase agreement, the Fund sells securities and agrees to repurchase them at a mutually agreed upon date and price. At the time the Fund enters into a reverse repurchase agreement, it will establish a segregated account with the custodian containing liquid assets having a value at least equal to the repurchase price. For the six months ended September 30, 2011, the average amount of reverse repurchase agreements outstanding was $145,071,326 and the daily weighted average interest rate was 0.07%.

4. Loan Participations and Assignments

The Fund may invest in direct debt instruments which are interests in amounts owed to lenders or lending syndicates by corporate, governmental, or other borrowers, either in the form of participations at the time the loan is originated (Participations) or by buying an interest in the loan in the secondary market from a financial institution or institutional investor (Assignments). A loan is often administered by a bank or other financial institution (the Lender) that acts as agent for all holders. The agent administers the terms of the loan as specified in the loan agreement. When investing in Participations, the Fund generally has no right to enforce compliance with the terms of the loan agreement with the borrower. In addition, when investing in Participations, the Fund has the right to receive payments of principal, interest and any fees to which it is entitled only from the Lender and only upon receipt of payments by the Lender from the borrower. As a result, the Fund may be subject to the credit risk of both the borrower and the Lender. When the Fund purchases Assignments from Lenders, it will typically acquire direct rights against the borrower on the loan. These loans may include participations in bridge loans , which are loans taken out by borrowers for a short period (typically less than six months) pending arrangement of more permanent financing through, for example, the issuance of bonds, frequently high-yield bonds issued for the purpose of acquisitions. The Fund may also participate in unfunded loan commitments, which are contractual obligations for investing in future Participations, and receive a commitment fee based on the amount of the commitment. Under these arrangements, the Fund may receive a fixed rate commitment fee and, if and to the extent the borrower borrows under the facility, the Fund may receive an additional funding fee.

Unfunded loan commitments and funded loans are marked to market daily.

As of September 30, 2011, the fund had the following unfunded loan commitment which could be extended at the option of the borrower pursuant to the loan agreement. In order to take on the loan commitment denoted below, the Fund received payment of $380,588. The unrealized depreciation on such loan was $91,975.

Borrower	**Unfunded Loan Participation Commitment**	**Funded**
General Motors Holdings, LLC, LIBOR + 2.75%, 10/27/15	$ 3,500,000	$ 0

In addition, the Fund had the following bridge loan commitment outstanding:

Loan	**Unfunded Loan Participation Commitment**	**Funded**
Sealed Air Corporation, Senior Unsecured Bridge Loan, 0.0%, 01/01/12	$ 3,600,000	$ 0

During the six months ended September 30, 2011, the Fund received commitment fees and additional funding fees of $155,259 and $0, respectively, which are included in Other Fee Income on the Statement of Operations.

NOTE D

Capital Stock

During the six months ended September 30, 2011, the Fund issued no shares in connection with the Fund s dividend reinvestment plan. During the year ended March 31, 2011, residual shares of capital stock held by the Fund were sold in the amount of $76,982.

NOTE E

Risks Involved in Investing in the Fund

Interest Rate Risk and Credit Risk Interest rate risk is the risk that changes in interest rates will affect the value of the Fund s investments in fixed-income debt securities such as bonds or notes. Increases in interest rates may cause the value of the Fund s investments to decline. Credit risk is the risk that the issuer or guarantor of a debt security, or the counterparty to a derivative contract, will be unable or unwilling to make timely principal and/or interest payments, or to otherwise honor its obligations. The degree of risk for a particular security may be reflected in its credit risk rating. Credit risk is greater for medium quality and lower-rated securities. Lower-rated debt securities and similar unrated securities (commonly known as junk bonds) have speculative elements or are predominantly speculative risks.

Foreign Securities Risk Investing in securities of foreign companies or foreign governments involves special risks which include changes in foreign currency exchange rates and the possibility of future political and economic developments which could adversely affect the value of such securities. Moreover, securities of many foreign companies or foreign governments and their markets may be less liquid and their prices more volatile than those of comparable U.S. companies and the U.S. government.

Foreign investment risk may be particularly high to the extent the Fund invests in emerging market securities of issuers based in countries with developing economies. These securities may present market, credit, currency, liquidity, legal, political and other risks different from, or greater than, the risks of investing in developed foreign (non-U.S.) countries.

Currency Risk This is the risk that changes in foreign currency exchange rates may negatively affect the value of the Fund s investments or reduce the returns of the Fund. For example, the value of the Fund s investments in foreign currency-denominated securities or currencies may decrease if the U.S. Dollar is strong (i.e., gaining value relative to other currencies) and other currencies are weak (i.e., losing value relative to the U.S. Dollar). Currency markets are generally not as regulated as securities markets. Independent of the Fund s investments in securities denominated in foreign currencies, the Fund s positions in various foreign currencies may cause the Portfolio to experience investment losses due to the changes in exchange rates and interest rates.

Derivatives Risk The Fund may enter into derivative transactions such as forwards, options, futures and swaps. Derivatives may be illiquid, difficult to price, and leveraged so that small changes may produce disproportionate losses for the Fund, and subject to counterparty risk to a greater degree than more traditional investments. Derivatives may result in significant losses, including losses that are far greater than the value of the derivatives reflected in the statement of assets and liabilities.

Indemnification Risk In the ordinary course of business, the Fund enters into contracts that contain a variety of indemnifications. The Fund s maximum exposure under these arrangements is unknown. However, the Fund has not had prior claims or losses pursuant to these indemnification provisions and expects the risk of loss thereunder to be remote. Therefore, the Fund has not accrued any liability in connection with these indemnification provisions.

Leverage Risk The Fund may utilize leverage through borrowings or the investment techniques of reverse repurchase agreements and dollar rolls. Reverse repurchase agreements and dollar rolls are speculative techniques and the proceeds from these transactions may be used, similar to borrowings by the Fund, for investment purposes.

Leverage may result in higher returns to the Fund than if the Fund were not leveraged, but may also adversely affect returns, particularly if the market is declining. The risks of leverage also include potentially a higher volatility of the NAV of the Common Stock, potentially more volatility in the market value of the Common Stock and the relatively greater effect on the NAV of the Common Stock caused by the favorable or adverse changes in portfolio security values or currency exchange rates. In addition, changes in the interest rate environment can increase or decrease shareholder returns. The Fund maintains asset coverage of at least 300% with respect to borrowings.

To the extent that the current interest rate on the Fund s indebtedness approaches the net return on the leveraged portion of the Fund s investment portfolio, then the benefit to the shareholders will be reduced. If the rate on indebtedness were to exceed the net return on the same portion of the portfolio, then this would result in a lower rate of return for the shareholders. Similarly, the use of leverage in a declining market can advance the decrease of the Fund s NAV more so than if the Fund were not leveraged, which would likely be reflected in a greater decline in the market price for shares of Common Stock than if the Fund were not leveraged. In extreme cases, if the Fund s current investment income were not sufficient to meet interest payments on indebtedness or if the Fund failed to maintain the asset coverage required by the 1940 Act, then it could be necessary for the Fund to liquidate certain investments at a time when it may be disadvantageous to do so. The use of derivative instruments by the Fund, such as forwards, futures, options and swaps, may result in a form of leverage.

NOTE F

Distributions to Shareholders

The tax character of distributions paid for the year ending March 31, 2012 will be determined at the end of the current fiscal year. The tax character of distributions paid during the fiscal years ended March 31, 2011 and March 31, 2010 were as follows:

	2011	2010
Distributions paid from:		
Ordinary income	$ 102,203,133	$ 92,187,081
Long-term capital gains	0	0
Total taxable distributions	102,203,133	92,187,081
Total distributions paid	$ 102,203,133	$ 92,187,081

As of March 31, 2011, the components of accumulated earnings/(deficit) on a tax basis were as follows:

Undistributed net investment income		
Undistributed ordinary income	$	30,554,137
Accumulated capital and other losses		(15,838,496)[a]
Unrealized appreciation/(depreciation)		123,398,109[b]
Total accumulated earnings/(deficit)	$	138,113,750[c]

(a) *On March 31, 2011, the Fund had a net capital loss carryover for federal income tax purposes of $10,168,184 which expires in the year 2018. To the extent future capital gains are offset by capital loss carryforwards, such gains will not be distributed. During the fiscal year, the Fund utilized capital loss carryforwards of $75,494,588. For the year ended March 31, 2011, the cumulative deferred loss on straddles was $5,670,312.*

(b) *The differences between book-basis and tax-basis unrealized appreciation/(depreciation) are attributable primarily to the tax deferral of losses on wash sales, the difference between book and tax amortization methods for premium, the difference between book and tax treatment of swap income and the realization for tax purpose of gain/losses on certain derivative instruments.*

(c) *The difference between book-basis and tax-basis components of accumulated earnings/(deficit) is attributable primarily to the tax treatment of interest on defaulted securities.*

On December 22, 2010, the Regulated Investment Company Modernization Act of 2010 (the Act) was enacted, which changed various technical rules governing the tax treatment of regulated investment companies. One important change addresses the recognition of capital loss carryforwards. Under the Act, the Fund will be permitted to carry forward capital losses incurred in taxable years beginning after December 22, 2010 for an unlimited period. However, any losses incurred during those future taxable years will be required to be utilized prior to the losses incurred in pre-enactment taxable years, which carry an expiration date. As a result, pre-enactment capital loss carryforwards may be more likely to expire unused. Additionally, post-enactment capital loss carryforwards will retain their character as either short-term or long-term capital losses rather than being considered all short-term capital loss (as permitted under previous regulation).

NOTE G

Recent Accounting Pronouncements

In April 2011, the Financial Accounting Standards Board (FASB) issued an Accounting Standard Update (ASU) related to the accounting for repurchase agreements and similar agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. The ASU modifies the criteria for determining effective control of transferred assets and, as a result, certain agreements may now be accounted for as secured borrowings. The ASU is effective prospectively for new transfers and existing transactions that are modified in the first interim or annual period beginning on or after December 15, 2011. At this time, management is evaluating the implications of this ASU and its impact on the financial statements has not been determined.

In May 2011, the FASB issued an ASU to develop common requirements for measuring fair value and for disclosing information about fair value measurements in U.S. GAAP and IFRS. The amendments are intended to improve the comparability of fair value measurements presented and disclosed in the financial statements prepared in accordance with U.S. GAAP and IFRS. The ASU is effective during interim or annual periods beginning after December 15, 2011. At this time, management is evaluating the implication of this ASU and its impact on the financial statements has not been determined.

NOTE H

Subsequent Events

Management has evaluated subsequent events for possible recognition or disclosure in the financial statements through the date the financial statements are issued. Management has determined that there are no material events that would require disclosure in the Fund s financial statements through this date.

FINANCIAL HIGHLIGHTS

Selected Data For A Share of Capital Stock Outstanding Throughout Each Period

	Six Months Ended September 30, 2011 (unaudited)	Year Ended March 31, 2011	2010	2009	2008	2007
Net asset value, beginning of period	$ 15.48	$ 14.47	$ 9.58	$ 13.81	$ 15.19	$ 14.54
Income From Investment Operations						
Net investment income[(a)]	64	1.30	1.19	1.06	1.07	.91
Net realized and unrealized gain (loss) on investment and foreign currency transactions	(1.66)	.91	4.84	(3.76)	(.77)	.72
Contributions from Adviser	.00[(b)]	.00[(b)]	0	0	0	0
Net increase (decrease) in net asset value from operations	(1.02)	2.21	6.03	(2.70)	.30	1.63
Less: Dividends and Distributions						
Dividends from net investment income	(.60)	(1.20)	(1.14)	(1.10)	(1.13)	(.98)
Distributions from net realized gain on investment and foreign currency transactions	0	0	0	(.43)	(.55)	0
Total dividends and distributions	(.60)	(1.20)	(1.14)	(1.53)	(1.68)	(.98)
Net asset value, end of period	**$ 13.86**	**$ 15.48**	**$ 14.47**	**$ 9.58**	**$ 13.81**	**$ 15.19**
Market value, end of period	**$ 13.00**	**$ 14.90**	**$ 14.23**	**$ 8.29**	**$ 13.10**	**$ 13.85**
Discount, end of period	(6.20)%	(3.75)%	(1.66)%	(13.47)%	(5.14)%	(8.82)%
Total Return						
Total investment return based on:[(c)]						
Market value	(9.13)%	13.83 %*	88.70 %	(25.76)%	7.09 %	18.52 %
Net asset value	(6.75)%	16.30 %*	66.05 %	(18.61)%	2.94 %	12.55 %
Ratios/Supplemental Data						
Net assets, end of period (000 s omitted)	$1,180,583	$1,318,652	$1,232,796	$731,003	$1,054,559	$1,027,252
Ratio to average net assets of:						
Expenses	1.00 %[(d)]	1.01 %	1.09 %	1.07 %	1.53 %	1.68 %
Expenses, excluding interest expense	96 %[(d)]	.97 %	1.01 %	1.01 %	1.00 %	1.06 %
Expenses, excluding interest and TALF administration fee	96 %[(d)]	.97 %	1.00 %	1.07 %	1.53 %	1.68 %
Net investment income	8.34 %[(d)]	8.76 %	9.44 %	9.10 %	7.34 %	6.24 %
Portfolio turnover rate	12 %	52 %	38 %	40 %	67 %	68 %

See footnote summary on page 80.

Financial Highlights

(a) Based on average shares outstanding.

(b) Amount is less than $0.005.

(c) Total investment return is calculated assuming a purchase of common stock on the opening of the first day and a sale on the closing of the last day of each period reported. Dividends and distributions, if any, are assumed, for purposes of this calculation, to be reinvested at prices obtained under the Fund s Dividend Reinvestment Plan. Generally, total investment return based on net asset value will be higher than total investment return based on market value in periods where there is an increase in the discount or a decrease in the premium of the market value to the net asset value from the beginning to the end of such periods. Conversely, total investment return based on net asset value will be lower than total investment return based on market value in periods where there is a decrease in the discount or an increase in the premium of the market value to the net asset value from the beginning to the end of such periods. Total investment return calculated for a period of less than one year is not annualized.

(d) Annualized.

** Includes the impact of proceeds received and credited to the Fund resulting from the class actions settlements, which enhanced the Fund s performance for the year ended March 31, 2011 by 0.01%.*

Includes the impact of reimbursements from the Adviser which enhanced the Fund s performance for the year ended March 31, 2011 by 0.01%.

See notes to financial statements.

ADDITIONAL INFORMATION

(unaudited)

AllianceBernstein Global High Income Fund

Shareholders whose shares are registered in their own names will automatically be participants in the Dividend Reinvestment Plan (the Plan), pursuant to which distributions to shareholders will be paid in or reinvested in additional shares of the Fund, unless they elect to receive cash. Computershare Trust Company N.A. (the Agent) will act as agent for participants under the Plan. Shareholders whose shares are held in the name of a broker or nominee should contact such broker or nominee to determine whether or how they may participate in the Plan.

If the Board declares a distribution payable either in shares or in cash, as holders of the Common Stock may have elected, non-participants in the Plan will receive cash and participants in the Plan will receive the equivalent in shares of Common Stock of the Fund valued as follows:

(i) If the shares of Common Stock are trading at net asset value or at a premium above net asset value at the time of valuation, the Fund will issue new shares at the greater of net asset value or 95% of the then current market price.

(ii) If the shares of Common Stock are trading at a discount from net asset value at the time of valuation, the Agent will receive the distribution in cash and apply it to the purchase of the Fund s shares of Common Stock in the open market on the New York Stock Exchange or elsewhere, for the participants accounts. Such purchases will be made on or shortly after the payment date for such distribution and in no event more than 30 days after such date except where temporary curtailment or suspension of purchase is necessary to comply with Federal securities laws. If, before the Agent has completed its purchases, the market price exceeds the net asset value of a share of Common Stock, the average purchase price per share paid by the Agent may exceed the net asset value of the Fund s shares of Common Stock, resulting in the acquisition of fewer shares than if the distribution had been paid in shares issued by the Fund.

The Agent will maintain all shareholders accounts in the Plan and furnish written confirmation of all transactions in the account, including information needed by shareholders for tax records. Shares in the account of each Plan participant will be held by the Agent in non-certificate form in the name of the participant, and each shareholder s proxy will include those shares purchased or received pursuant to the Plan.

There will be no charges with respect to shares issued directly by the Fund to satisfy the dividend reinvestment requirements. However, each participant will pay a pro rata share of brokerage commissions incurred with respect to the Agent s open market purchases of shares.

The automatic reinvestment of distributions will not relieve participants of any income taxes that may be payable (or required to be withheld) on distributions.

Experience under the Plan may indicate that changes are desirable. Accordingly, the Fund reserves the right to amend or terminate the Plan as applied to any voluntary cash payments made and any dividend or distribution paid subsequent to written notice of the change sent to participants in the Plan at least 90 days before the record date for such dividend or distribution. The Plan may also be amended or terminated by the Agent on at least 90 days written notice to participants in the Plan. All correspondence concerning the Plan should be directed to the Agent at Computershare Trust Company N.A., P.O. Box 43010, Providence, RI 02940-3010.

BOARD OF DIRECTORS

William H. Foulk, Jr.[1], *Chairman*

John H. Dobkin[1]

Michael J. Downey[1]

D. James Guzy[1]

Nancy P. Jacklin[1]

Robert M. Keith, *President and Chief Executive Officer*

Garry L. Moody[1]

Marshall C. Turner, Jr.[1]

Earl D. Weiner[1]

OFFICERS

Philip L. Kirstein, Senior Vice President and Independent Compliance Officer

Paul J. DeNoon[2]**,** Vice President

Marco G. Santamaria[2]**,** Vice President

Emilie D. Wrapp, Secretary

Joseph J. Mantineo, Treasurer and Chief Financial Officer

Stephen M. Woetzel, Controller

Administrator

AllianceBernstein, L.P.

1345 Avenue of the Americas

New York, NY 10105

Independent Registered Public Accounting Firm

Ernst & Young LLP

5 Times Square

New York, NY 10036

Custodian and Accounting Agent

Brown Brothers Harriman & Co.

40 Water Street

Boston, MA 02109

Legal Counsel

Seward & Kissel LLP

One Battery Park Plaza

New York, NY 10004

Dividend Paying Agent,

Transfer Agent and Registrar

Computershare Trust Company, N.A.

P.O. Box 43010

Providence, RI 02940-3010

(1) Member of the Audit Committee, the Governance and Nominating Committee and the Independent Directors Committee. Mr. Foulk is the sole member of the Fair Value Pricing Committee.

(2) The day-to-day management of, and investment decisions for, the Fund s portfolio are made by the Global Fixed-Income: Emerging Market Investment Team. While all members of the team work jointly to determine the majority of the investment strategy including stock selection for the Fund, Messrs. Paul J. DeNoon, Douglas J. Peebles, Marco G. Santamaria and Matthew S. Sheridan, members of the Global Fixed-Income: Emerging Market Investment Team, are primarily responsible for the day-to-day management of the Fund s portfolio.

Notice is hereby given in accordance with Section 23(c) of the Investment Company Act of 1940 that the Fund may purchase from time to time at market prices shares of its Common Stock in the open market.

This report, including the financial statements herein, is transmitted to the shareholders of AllianceBernstein Global High Income Fund for their information. The financial information included herein is taken from the records of the Fund. This is not a prospectus, circular or representation intended for use in the purchase of shares of the Fund or any securities mentioned in this report.

Annual Certifications As required, on April 27, 2011, the Fund submitted to the New York Stock Exchange (NYSE) the annual certification of the Fund s Chief Executive Officer certifying that he is not aware of any violation of the NYSE s Corporate Governance listing standards. The Fund also has included the certifications of the Fund s Chief Executive Officer and Chief Financial Officer required by Section 302 of the Sarbanes-Oxley Act of 2002 as exhibits to the Fund s Form N-CSR filed with the Securities and Exchange Commission for the reporting period.

Board of Directors

SUMMARY OF GENERAL INFORMATION

Shareholder Information

The Fund distributes its daily net asset value (NAV) to various financial publications or independent organizations such as Lipper, Inc., Morningstar, Inc. and Bloomberg.

The Fund s NYSE trading symbol is AWF. Weekly comparative net asset value and market price information about the Fund is published each Monday in *The Wall Street Journal*, each Saturday in Barron s and other newspapers in a table called Closed-End Funds. Daily net asset value information and market price information and additional information regarding the Fund is available at www.alliancebernstein.com and at www.nyse.com.

Dividend Reinvestment Plan

If your shares are held in your own name, you will automatically be a participant in the Plan unless you elect to receive cash. If your shares are held in nominee or street name through a broker or nominee who provides this service, you will also automatically be a participant in the Plan. If your shares are held in the name of a broker or nominee who does not provide this service, you will need to instruct them to participate in the Plan on your behalf or your distributions will not be reinvested. In such case, you will receive your distributions in cash.

For questions concerning shareholder account information, or if you would like a brochure describing the Dividend Reinvestment Plan, please call Computershare Trust Company, N.A. at (800) 219-4218.

THIS PAGE IS NOT PART OF THE SHAREHOLDER REPORT OR THE FINANCIAL STATEMENTS

ALLIANCEBERNSTEIN FAMILY OF FUNDS

Wealth Strategies Funds

Balanced Wealth Strategy

Conservative Wealth Strategy

Wealth Appreciation Strategy

Tax-Managed Balanced Wealth Strategy

Tax-Managed Conservative Wealth Strategy

Tax-Managed Wealth Appreciation Strategy

Asset Allocation/Multi-Asset

Emerging Markets Multi-Asset

International Portfolio

Real Asset Strategy

Tax-Managed International Portfolio

Growth Funds

Domestic

Growth Fund

Large Cap Growth Fund

Small Cap Growth Portfolio

Small/Mid Cap Growth Fund

U.S. Strategic Research Portfolio

Global & International

Global Thematic Growth Fund

Greater China 97 Fund

International Discovery Equity Portfolio

International Focus 40 Portfolio

International Growth Fund

Value Funds

Domestic

Core Opportunities Fund

Equity Income Fund

Growth & Income Fund

Small/Mid Cap Value Fund

Value Fund

Global & International

Global Real Estate Investment Fund

Global Value Fund

International Value Fund

Taxable Bond Funds

Bond Inflation Strategy

Global Bond Fund

High Income Fund

Intermediate Bond Portfolio

Short Duration Portfolio

Unconstrained Bond Fund*

Municipal Bond Funds

Arizona	National
California	New Jersey
High Income	New York
Massachusetts	Ohio
Michigan	Pennsylvania
Minnesota	Virginia
Municipal Bond Inflation Strategy	

Intermediate Municipal Bond Funds

Intermediate California

Intermediate Diversified

Intermediate New York

Closed-End Funds

Alliance California Municipal Income Fund

Alliance New York Municipal Income Fund

AllianceBernstein Global High Income Fund

AllianceBernstein Income Fund

AllianceBernstein National Municipal Income Fund

Alternatives

Market Neutral Strategy-Global

Market Neutral Strategy-U.S.

Balanced

Balanced Shares

Retirement Strategies Funds

2000 Retirement Strategy	2020 Retirement Strategy	2040 Retirement Strategy
2005 Retirement Strategy	2025 Retirement Strategy	2045 Retirement Strategy
2010 Retirement Strategy	2030 Retirement Strategy	2050 Retirement Strategy
2015 Retirement Strategy	2035 Retirement Strategy	2055 Retirement Strategy

We also offer Exchange Reserves,** which serves as the money market fund exchange vehicle for the AllianceBernstein mutual funds.

You should consider the investment objectives, risks, charges and expenses of any AllianceBernstein fund/portfolio carefully before investing. For free copies of our prospectuses, which contain this and other information, visit us online at www.alliancebernstein.com or contact your financial advisor. Please read the prospectus carefully before investing.

* Prior to February 3, 2011, Unconstrained Bond Fund was named Diversified Yield Fund.

** **An investment in the Fund is not a deposit in a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the Fund seeks to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in the Fund.**

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Privacy Notice (This information is not part of the Shareholder Report.)

AllianceBernstein and its affiliates (collectively AllianceBernstein) understand the importance of maintaining the confidentiality of their clients nonpublic personal information. Nonpublic personal information is personally identifiable financial information about our clients who are natural persons. To provide financial products and services to our clients, we may collect information about clients from a variety of sources, including: (1) account documentation, including applications or other forms, which may include information such as a client s name, address, phone number, social security number, assets, income and other household information, (2) client transactions with us and others, such as account balances and transactions history, and (3) information from visitors to our websites provided through online forms, site visitorship data and online information-collecting devices known as cookies.

It is our policy not to disclose nonpublic personal information about our clients, or former clients (collectively clients), except to our affiliates, or to others as permitted or required by law. From time to time, we may disclose nonpublic personal information that we collect about our clients to non-affiliated third parties, including those that perform transaction processing or servicing functions, those that provide marketing services for us or on our behalf pursuant to a joint marketing agreement or those that provide professional services to us under a professional services agreement, all of which require the third party provider to adhere to our privacy policy. We have policies and procedures to safeguard nonpublic personal information about our clients that include restricting access to nonpublic personal information and maintaining physical, electronic and procedural safeguards which comply with applicable standards.

It is also our policy to prohibit the sharing of our clients personal information among our affiliated group of investment, brokerage, service and insurance companies for the purpose of marketing their products or services to clients, except as permitted by law. This information includes, but is not limited to, a client s income and account history.

We have policies and procedures to ensure that certain conditions are met before an AllianceBernstein affiliated company may use information obtained from another affiliate to solicit clients for marketing purposes.

ALLIANCEBERNSTEIN GLOBAL HIGH INCOME FUND

1345 Avenue of the Americas

New York, NY 10105

800.221.5672

GHI-0152-0911

ITEM 2. CODE OF ETHICS.

(a) The registrant has adopted a code of ethics that applies to its principal executive officer, principal financial officer and principal accounting officer. A copy of the registrant s code of ethics is filed herewith as Exhibit 12(a)(1).

(b) During the period covered by this report, no material amendments were made to the provisions of the code of ethics adopted in 2(a) above.

(c) During the period covered by this report, no implicit or explicit waivers to the provisions of the code of ethics adopted in 2(a) above were granted.

ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT.
The registrant s Board of Directors has determined that independent directors Garry L. Moody and William H. Foulk, Jr. qualify as audit committee financial experts.

ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES.
Not applicable when filing a semi-annual report to shareholders.

ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANTS.
Not applicable when filing a semi-annual report to shareholders.

ITEM 6. SCHEDULE OF INVESTMENTS.
Please see Schedule of Investments contained in the Report to Shareholders included under Item 1 of this Form N-CSR.

ITEM 7. DISCLOSURE OF PROXY VOTING POLICIES AND PROCEDURES FOR CLOSED-END MANAGEMENT INVESTMENT COMPANIES.
Not applicable when filing a semi-annual report to shareholders.

ITEM 8. PORTFOLIO MANAGERS OF CLOSED-END MANAGEMENT INVESTMENT COMPANIES.
Not applicable when filing a semi-annual report to shareholders.

ITEM 9. PURCHASES OF EQUITY SECURITIES BY CLOSED-END MANAGEMENT INVESTMENT COMPANY AND AFFILIATED PURCHASERS.

Not applicable when filing a semi-annual report to shareholders.

ITEM 10. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

There have been no material changes to the procedures by which shareholders may recommend nominees to the Fund s Board of Directors since the Fund last provided disclosure in response to this item.

ITEM 11. CONTROLS AND PROCEDURES.

(a) The registrant s principal executive officer and principal financial officer have concluded that the registrant s disclosure controls and procedures (as defined in Rule 30a-2(c) under the Investment Company Act of 1940, as amended) are effective at the reasonable assurance level based on their evaluation of these controls and procedures as of a date within 90 days of the filing date of this document.

(b) There were no changes in the registrant s internal controls over financial reporting that occurred during the second fiscal quarter of the period that has materially affected, or is reasonably likely to materially affect, the registrant s internal control over financial reporting.

ITEM 12. EXHIBITS.

The following exhibits are attached to this Form N-CSR:

Exhibit No.	Description of Exhibit
12 (a) (1)	Code of Ethics that is subject to the disclosure of Item 2 hereof
12 (b) (1)	Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
12 (b) (2)	Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
12 (c)	Certification of Principal Executive Officer and Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

(Registrant): AllianceBernstein Global High Income Fund, Inc.

By: /s/ Robert M. Keith
Robert M. Keith
President

Date: November 21, 2011

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ Robert M. Keith
Robert M. Keith
President

Date: November 21, 2011

By: /s/ Joseph J. Mantineo
Joseph J. Mantineo
Treasurer and Chief Financial Officer

Date: November 21, 2011