

ALLIANCEBERNSTEIN GLOBAL HIGH INCOME FUND INC
Form N-Q
February 25, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM N-Q

**QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED
MANAGEMENT INVESTMENT COMPANIES**

Investment Company Act file number: 811-07732

ALLIANCEBERNSTEIN GLOBAL HIGH INCOME FUND, INC.

(Exact name of registrant as specified in charter)

1345 Avenue of the Americas, New York, New York 10105

(Address of principal executive offices) (Zip code)

Joseph J. Mantineo

AllianceBernstein L.P.

1345 Avenue of the Americas

New York, New York 10105

(Name and address of agent for service)

Registrant's telephone number, including area code: (800) 221-5672

Date of fiscal year end: March 31, 2010

Date of reporting period: December 31, 2009

ITEM 1. SCHEDULE OF INVESTMENTS.

AllianceBernstein Global High Income Fund

Portfolio of Investments

December 31, 2009 (unaudited)

| | Principal Amount (000) | U.S. \$ Value |
|--|------------------------------|---------------|
| CORPORATES - NON-INVESTMENT GRADES - 38.2% | | |
| Industrial - 30.7% | | |
| Basic - 4.9% | | |
| Abitibi-Consolidated Co. of Canada | | |
| 6.00%, 6/20/13 (a) | US\$ 5 | \$ 756 |
| AK Steel Corp. | | |
| 7.75%, 6/15/12 | 1,300 | 1,313,000 |
| Algoma Acquisition Corp. | | |
| 9.875%, 6/15/15 (b) | 1,100 | 936,375 |
| Arch Western Finance LLC | | |
| 6.75%, 7/01/13 (c) | 813 | 806,903 |
| Domtar Corp. | | |
| 5.375%, 12/01/13 | 3,050 | 2,943,250 |
| Evraz Group SA | | |
| 8.875%, 4/24/13 (b) | 598 | 598,000 |
| Georgia Gulf Corp. | | |
| 10.75%, 10/15/16 | 1,500 | 1,387,500 |
| Georgia-Pacific LLC | | |
| 7.125%, 1/15/17 (b) | 800 | 810,000 |
| 8.875%, 5/15/31 | 1,001 | 1,061,060 |
| Graphic Packaging International Corp. | | |
| 9.50%, 8/15/13 | 1,300 | 1,342,250 |
| Hexion US Finance Corp./Hexion Nova Scotia Finance ULC | | |
| 4.773%, 11/15/14 (d) | 1,765 | 1,500,250 |
| 9.75%, 11/15/14 | 115 | 112,700 |
| Huntsman International LLC | | |
| 7.875%, 11/15/14 | 1,292 | 1,262,930 |
| Ineos Group Holdings PLC | | |
| 8.50%, 2/15/16 (b) | 11,051 | 7,431,797 |
| Kronos International, Inc. | | |
| 6.50%, 4/15/13 | EUR 4,200 | 4,846,833 |
| MacDermid, Inc. | | |
| 9.50%, 4/15/17 (b) | US\$ 800 | 800,000 |
| Momentive Performance Materials, Inc. | | |
| 10.125%, 12/01/14 (e) | 973 | 914,520 |
| 11.50%, 12/01/16 | 750 | 663,750 |

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| | | |
|--|------------|------------|
| NewMarket Corp. 7.125%, 12/15/16 | 870 | 848,250 |
| NewPage Corp. 10.00%, 5/01/12 | 3,535 | 2,527,525 |
| Norske Skogindustrier ASA 6.125%, 10/15/15 (b) | 900 | 585,000 |
| 7.00%, 6/26/17 | EUR 2,150 | 2,071,193 |
| Novelis, Inc. 7.25%, 2/15/15 (c) | US\$ 1,910 | 1,819,275 |
| PE Paper Escrow GMBH 12.00%, 8/01/14 (b) | 354 | 391,170 |
| Peabody Energy Corp. Series B 6.875%, 3/15/13 | 710 | 717,988 |
| Rhodia SA 3.492%, 10/15/13 (b)(d) | EUR 2,130 | 2,832,086 |
| Steel Capital SA for OAO Severstal 9.25%, 4/19/14 (b) | US\$ 2,480 | 2,495,500 |
| 9.75%, 7/29/13 (b) | 5,738 | 5,817,184 |
| Steel Dynamics, Inc. 7.75%, 4/15/16 (c) | 650 | 676,813 |
| Teck Resources Ltd. 9.75%, 5/15/14 | 495 | 571,106 |
| United States Steel Corp. 6.65%, 6/01/37 | 1,000 | 804,482 |
| 7.00%, 2/01/18 | 1,000 | 979,494 |
| Vedanta Resources PLC 8.75%, 1/15/14 (b) | 4,404 | 4,459,050 |
| Verso Paper Holdings LLC/Verso Paper, Inc. Series B 11.375%, 8/01/16 | 800 | 644,000 |
| Weyerhaeuser Co. 7.375%, 3/15/32 | 1,490 | 1,412,627 |
| | | 58,384,617 |
| Capital Goods - 2.8% | | |
| Alion Science and Technology Corp. 10.25%, 2/01/15 | 1,340 | 1,018,400 |
| AMH Holdings, Inc. 11.25%, 3/01/14 (c) | 1,885 | 1,819,025 |
| Ardagh Glass Finance PLC 9.25%, 7/01/16 (b) | EUR 532 | 823,660 |
| Berry Plastics Corp. 8.875%, 9/15/14 (b) | US\$ 601 | 584,473 |
| Berry Plastics Holding Corp. 8.875%, 9/15/14 | 947 | 920,958 |
| 10.25%, 3/01/16 | 800 | 704,000 |

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| | | |
|--------------------------------------|------------|------------|
| Bombardier, Inc. | | |
| 6.30%, 5/01/14 (b) | 1,943 | 1,923,570 |
| 8.00%, 11/15/14 (b) | 1,400 | 1,454,250 |
| Case New Holland, Inc. | | |
| 7.125%, 3/01/14 | 2,140 | 2,172,100 |
| CNH America LLC | | |
| 7.25%, 1/15/16 | 1,775 | 1,752,813 |
| Crown Americas | | |
| 7.625%, 11/15/13 | 85 | 87,762 |
| Goodman Global Group, Inc. | | |
| Zero Coupon, 12/15/14 (b) | 1,234 | 700,295 |
| Grohe Holding GMBH | | |
| 8.625%, 10/01/14 (b) | EUR 2,602 | 3,226,534 |
| Hanson Australia Funding Ltd. | | |
| 5.25%, 3/15/13 | US\$ 1,304 | 1,284,440 |
| Hanson Ltd. | | |
| 6.125%, 8/15/16 | 389 | 371,495 |
| IFCO Systems NV | | |
| 10.00%, 6/30/16 (b) | EUR 1,200 | 1,883,685 |
| L-3 Communications Corp. | | |
| 5.875%, 1/15/15 | US\$ 1,240 | 1,238,450 |
| Masco Corp. | | |
| 6.125%, 10/03/16 | 1,825 | 1,739,117 |
| Owens Brockway Glass Container, Inc. | | |
| 6.75%, 12/01/14 | 1,388 | 1,419,230 |
| Plastipak Holdings, Inc. | | |
| 8.50%, 12/15/15 (b) | 1,835 | 1,883,169 |
| Ply Gem Industries, Inc. | | |
| 11.75%, 6/15/13 | 160 | 160,000 |
| Sequa Corp. | | |
| 11.75%, 12/01/15 (b) | 670 | 623,100 |
| Terex Corp. | | |
| 8.00%, 11/15/17 | 2,451 | 2,359,087 |
| Textron Financial Corp. | | |
| 4.60%, 5/03/10 | 204 | 203,948 |
| 5.40%, 4/28/13 | 398 | 397,811 |
| United Rentals North America, Inc. | | |
| 6.50%, 2/15/12 | 1,612 | 1,607,970 |
| 7.75%, 11/15/13 | 1,346 | 1,265,240 |
| | | 33,624,582 |

Communications - Media - 2.9%

| | | |
|---------------------------------|-------|-----------|
| Allbritton Communications Co. | | |
| 7.75%, 12/15/12 | 1,725 | 1,696,969 |
| American Media Operations, Inc. | | |
| 14.00%, 11/01/13 (b)(e) | 757 | 484,784 |
| CanWest Media, Inc. | | |
| 8.00%, 9/15/12 (a) | 1 | 860 |

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| | | | |
|---|------|-------|-----------|
| Central European Media Enterprises Ltd. 11.625%, 9/15/16 (b) | EUR | 1,051 | 1,446,395 |
| Charter Communications Operating LLC 8.00%, 4/30/12 (b)(c) | US\$ | 546 | 560,964 |
| Clear Channel Communications, Inc. 5.50%, 9/15/14 | | 5,400 | 3,537,000 |
| Clear Channel Worldwide Holdings, Inc. 9.25%, 12/15/17 (b) | | 323 | 332,040 |
| CSC Holdings, Inc. 6.75%, 4/15/12 | | 42 | 43,365 |
| 7.625%, 7/15/18 | | 2,485 | 2,559,550 |
| Dex Media West LLC/Dex Media West Finance Co. Series B 8.50%, 8/15/10 (a) | | 180 | 194,400 |
| Dex Media, Inc. 9.00%, 11/15/13 (a)(c) | | 1,250 | 315,625 |
| Gallery Capital SA 10.125%, 5/15/13 (a)(f) | | 2,816 | 844,800 |
| Hughes Network Systems LLC/HNS Finance Corp. 9.50%, 4/15/14 | | 1,050 | 1,084,125 |
| Intelsat Bermuda Ltd. 11.25%, 6/15/16 | | 2,497 | 2,703,002 |
| Lamar Media Corp. 6.625%, 8/15/15 | | 1,750 | 1,697,500 |
| Liberty Media Corp. 5.70%, 5/15/13 | | 1,480 | 1,409,700 |
| LIN Television Corp. 6.50%, 5/15/13 | | 1,650 | 1,592,250 |
| Nielsen Finance LLC / Nielsen Finance Co. 12.50%, 8/01/16 (c) | | 1,400 | 1,277,500 |
| Quebecor Media, Inc. 7.75%, 3/15/16 | | 2,810 | 2,802,975 |
| Rainbow National Services LLC 8.75%, 9/01/12 (b) | | 500 | 509,375 |
| 10.375%, 9/01/14 (b) | | 985 | 1,039,175 |
| The Reader s Digest Association, Inc. 9.00%, 2/15/17 (a)(g) | | 1,000 | 11,250 |
| RH Donnelley Corp. Series A-1 6.875%, 1/15/13 (a) | | 500 | 46,875 |
| Series A-2 6.875%, 1/15/13 (a) | | 252 | 23,625 |
| Series A-3 8.875%, 1/15/16 (a) | | 2,400 | 225,000 |
| Series A-4 8.875%, 10/15/17 (a) | | 3,010 | 282,187 |

| | | |
|---|----------|------------|
| Sinclair Television Group, Inc. 8.00%, 3/15/12 | 2 | 1,955 |
| Sirius Satellite Radio, Inc. 9.625%, 8/01/13 | 1,465 | 1,457,675 |
| TECHNICOLOR 5.75%, 9/25/15 (a)(h) | EUR 975 | 97,840 |
| Univision Communications, Inc. 12.00%, 7/01/14 (b) | US\$ 862 | 949,277 |
| Virgin Media Finance PLC 8.375%, 10/15/19 | 1,700 | 1,748,875 |
| WDAC Subsidiary Corp. 8.375%, 12/01/14 (b) | 1,550 | 124,000 |
| WMG Holdings Corp. 9.50%, 12/15/14 (c) | 3,600 | 3,645,000 |
| | | 34,745,913 |

Communications - Telecommunications - 2.1%

| | | |
|--|-------|-----------|
| Cincinnati Bell, Inc. 8.375%, 1/15/14 | 1,850 | 1,882,375 |
| Cricket Communications, Inc. 9.375%, 11/01/14 (i) | 2,275 | 2,286,375 |
| Fairpoint Communications, Inc. Series 1 13.125%, 4/02/18 (a) | 1,512 | 158,800 |
| Frontier Communications Corp. 6.25%, 1/15/13 | 1,517 | 1,520,793 |
| Level 3 Financing, Inc. 8.75%, 2/15/17 | 1,950 | 1,779,375 |
| 9.25%, 11/01/14 | 829 | 783,405 |
| MetroPCS Wireless, Inc. 9.25%, 11/01/14 | 1,010 | 1,022,625 |
| Mobile Satellite Ventures LP 14.00%, 4/01/13 (b)(j) | 1,000 | 917,500 |
| Qwest Capital Funding, Inc. 7.25%, 2/15/11 | 1,900 | 1,928,500 |
| Sprint Capital Corp. 6.875%, 11/15/28 | 3,225 | 2,680,781 |
| 8.75%, 3/15/32 | 130 | 122,525 |
| Sprint Nextel Corp. 6.00%, 12/01/16 | 400 | 365,000 |
| Terrestar Networks, Inc. 15.00%, 2/15/14 (b)(e) | 1,627 | 1,497,290 |
| Time Warner Telecom Holdings, Inc. 9.25%, 2/15/14 | 1,400 | 1,443,750 |
| VIP Finance (Vimpelcom) 8.375%, 4/30/13 (b) | 4,170 | 4,420,200 |
| Windstream Corp. 8.125%, 8/01/13 | 1,558 | 1,616,425 |

| | | |
|-----------------|-----|------------|
| 8.625%, 8/01/16 | 950 | 966,625 |
| | | 25,392,344 |

Consumer Cyclical - Automotive - 1.3%

| | | |
|--------------------------------------|-------|------------|
| Affinia Group, Inc. | | |
| 9.00%, 11/30/14 | 1,145 | 1,110,650 |
| Allison Transmission, Inc. | | |
| 11.00%, 11/01/15 (b) | 2,275 | 2,388,750 |
| Cooper-Standard Automotive , Inc. | | |
| 7.00%, 12/15/12 (a) | 1,445 | 1,369,138 |
| Ford Motor Credit Co. LLC | | |
| 3.034%, 1/13/12 (d) | 1,130 | 1,050,900 |
| 7.00%, 10/01/13 | 4,143 | 4,136,761 |
| The Goodyear Tire & Rubber Co. | | |
| 8.625%, 12/01/11 | 160 | 166,000 |
| 9.00%, 7/01/15 | 1,642 | 1,707,680 |
| Keystone Automotive Operations, Inc. | | |
| 9.75%, 11/01/13 | 2,510 | 1,079,300 |
| Tenneco, Inc. | | |
| 8.625%, 11/15/14 (i) | 1,100 | 1,109,625 |
| Visteon Corp. | | |
| 7.00%, 3/10/14 (a) | 2,185 | 573,562 |
| 8.25%, 8/01/10 (a) | 250 | 65,625 |
| | | 14,757,991 |

Consumer Cyclical - Entertainment - 0.1%

| | | |
|-------------------------|-------|-----------|
| AMC Entertainment, Inc. | | |
| 11.00%, 2/01/16 | 1,085 | 1,133,825 |

Consumer Cyclical - Other - 3.6%

| | | |
|---|-------|-----------|
| Beazer Homes USA, Inc. | | |
| 6.875%, 7/15/15 | 1,000 | 755,000 |
| Boyd Gaming Corp. | | |
| 7.75%, 12/15/12 (i) | 1,455 | 1,471,369 |
| Broder Brothers Co. | | |
| 12.00%, 10/15/13 (b)(e) | 334 | 244,142 |
| 12.00%, 10/15/13 (e)(f) | 68 | 49,525 |
| Chukchansi Economic Development Authority | | |
| 8.00%, 11/15/13 (b) | 730 | 532,900 |
| Gaylord Entertainment Co. | | |
| 6.75%, 11/15/14 | 5 | 4,650 |
| Greektown Holdings LLC | | |
| 10.75%, 12/01/13 (a)(f) | 915 | 138,394 |
| Harrah s Operating Co., Inc. | | |
| 5.625%, 6/01/15 | 4,009 | 2,385,355 |
| 5.75%, 10/01/17 | 234 | 125,190 |
| 6.50%, 6/01/16 | 2,057 | 1,182,775 |
| 10.75%, 2/01/16 | 1,152 | 938,880 |
| 11.25%, 6/01/17 (b) | 485 | 507,431 |

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| | | |
|---|-------|-----------|
| Host Hotels & Resorts LP | | |
| 6.875%, 11/01/14 | 1,135 | 1,142,094 |
| Series O | | |
| 6.375%, 3/15/15 | 1,500 | 1,470,000 |
| Series Q | | |
| 6.75%, 6/01/16 | 890 | 885,550 |
| K Hovnanian Enterprises, Inc. | | |
| 10.625%, 10/15/16 (b) | 1,100 | 1,149,500 |
| KB Home | | |
| 5.875%, 1/15/15 | 305 | 282,125 |
| Levi Strauss & Co. | | |
| 8.875%, 4/01/16 | 1,462 | 1,529,617 |
| M/I Homes, Inc. | | |
| 6.875%, 4/01/12 | 1,500 | 1,413,750 |
| Meritage Homes Corp. | | |
| 6.25%, 3/15/15 | 750 | 690,000 |
| MGM Mirage | | |
| 6.625%, 7/15/15 | 480 | 373,200 |
| 7.625%, 1/15/17 | 2,500 | 1,943,750 |
| 8.375%, 2/01/11 | 135 | 127,912 |
| Mohegan Tribal Gaming Auth | | |
| 7.125%, 8/15/14 | 2,300 | 1,566,875 |
| NCL Corp. Ltd. | | |
| 11.75%, 11/15/16 (b) | 4,600 | 4,542,500 |
| Pinnacle Entertainment, Inc. | | |
| 7.50%, 6/15/15 | 2,100 | 1,932,000 |
| Pulte Homes, Inc. | | |
| 5.25%, 1/15/14 | 500 | 491,250 |
| Quiksilver, Inc. | | |
| 6.875%, 4/15/15 | 2,340 | 1,918,800 |
| Royal Caribbean Cruises Ltd. | | |
| 6.875%, 12/01/13 | 1,000 | 982,500 |
| 7.00%, 6/15/13 | 1,000 | 997,500 |
| 8.75%, 2/02/11 | 215 | 224,944 |
| Sheraton Holding Corp. | | |
| 7.375%, 11/15/15 | 1,500 | 1,550,625 |
| Six Flags Operations, Inc. | | |
| 12.25%, 7/15/16 (a)(b) | 1,244 | 1,324,860 |
| Six Flags, Inc. | | |
| 9.625%, 6/01/14 (a) | 703 | 225,839 |
| Standard Pacific Corp. | | |
| 6.50%, 8/15/10 | 750 | 755,625 |
| Standard Pacific Escrow LLC | | |
| 10.75%, 9/15/16 (b) | 560 | 571,200 |
| Starwood Hotels & Resorts Worldwide, Inc. | | |
| 6.25%, 2/15/13 | 1,000 | 1,031,250 |

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| Station Casinos, Inc. | | |
| 6.00%, 4/01/12 (a) | 6 | 900 |
| 6.625%, 3/15/18 (a) | 4,405 | 22,025 |
| Tropicana Entertainment LLC | | |
| 9.625%, 12/15/14 (a) | 750 | 3,750 |
| Turning Stone Resort Casino Enterprise | | |
| 9.125%, 9/15/14 (b) | 800 | 782,000 |
| WCI Communities, Inc. | | |
| 6.625%, 3/15/15 (a)(g) | 750 | 7,500 |
| William Lyon Homes, Inc. | | |
| 10.75%, 4/01/13 | 2,275 | 1,603,875 |
| Wynn Las Vegas LLC/Corp. | | |
| 6.625%, 12/01/14 | 2,970 | 2,869,763 |
| | | 42,748,690 |

Consumer Cyclical - Restaurants - 0.2%

| | | |
|----------------------------|-------|-----------|
| Landry's Restaurants, Inc. | | |
| 11.625%, 12/01/15 (b) | 525 | 556,500 |
| Sbarro, Inc. | | |
| 10.375%, 2/01/15 | 1,500 | 1,177,500 |
| | | 1,734,000 |

Consumer Cyclical - Retailers - 1.8%

| | | |
|---|-------|-----------|
| Asbury Automotive Group, Inc. | | |
| 8.00%, 3/15/14 | 925 | 908,813 |
| Autonation, Inc. | | |
| 2.284%, 4/15/13 (d) | 55 | 52,319 |
| The Bon-Ton Dept Stores, Inc. | | |
| 10.25%, 3/15/14 | 1,650 | 1,522,125 |
| Burlington Coat Factory Warehouse Corp. | | |
| 11.125%, 4/15/14 (i) | 1,897 | 1,958,653 |
| Couche-Tard US/Finance | | |
| 7.50%, 12/15/13 | 1,537 | 1,563,898 |
| Dollar General Corp. | | |
| 10.625%, 7/15/15 | 904 | 1,001,180 |
| Duane Reade, Inc. | | |
| 9.75%, 8/01/11 | 870 | 886,312 |
| GSC Holdings Corp. | | |
| 8.00%, 10/01/12 | 1,200 | 1,243,500 |
| Hines Nurseries, Inc. | | |
| 10.25%, 10/01/11 (a)(g) | 1,000 | 2,500 |
| JC Penney Corp., Inc. | | |
| 7.40%, 4/01/37 | 1,000 | 992,500 |
| 8.00%, 3/01/10 | 1 | 961 |
| Limited Brands, Inc. | | |
| 5.25%, 11/01/14 | 1,060 | 1,022,900 |
| 6.90%, 7/15/17 | 382 | 381,522 |
| Macy's Retail Holdings, Inc. | | |
| 5.75%, 7/15/14 | 1,365 | 1,368,412 |

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| 5.90%, 12/01/16 | 127 | 123,825 |
| Michaels Stores, Inc. | | |
| 10.00%, 11/01/14 | 2,165 | 2,240,775 |
| 11.375%, 11/01/16 | 1,105 | 1,163,012 |
| Neiman-Marcus Group, Inc. | | |
| 9.00%, 10/15/15 (e)(i) | 860 | 840,735 |
| 10.375%, 10/15/15 (i) | 500 | 490,000 |
| Rite Aid Corp. | | |
| 6.875%, 8/15/13 | 715 | 627,412 |
| 9.50%, 6/15/17 | 160 | 139,200 |
| Sally Holdings LLC | | |
| 9.25%, 11/15/14 | 800 | 830,000 |
| Toys R US, Inc. | | |
| 7.375%, 10/15/18 | 1,525 | 1,395,375 |
| | | 20,755,929 |

Consumer Non-Cyclical - 4.0%

| | | |
|---|------------|-----------|
| ACCO Brands Corp. | | |
| 7.625%, 8/15/15 | 2,955 | 2,748,150 |
| 10.625%, 3/15/15 (b) | 380 | 418,000 |
| Aramark Corp. | | |
| 8.50%, 2/01/15 | 1,805 | 1,859,150 |
| Bausch & Lomb, Inc. | | |
| 9.875%, 11/01/15 | 1,714 | 1,808,270 |
| Biomet, Inc. | | |
| 11.625%, 10/15/17 | 2,255 | 2,491,775 |
| Catalent Pharma Solutions, Inc. | | |
| 9.50%, 4/15/15 | 873 | 787,465 |
| CEDC Finance Corp. International, Inc. | | |
| 9.125%, 12/01/16 (b) | 1,150 | 1,184,500 |
| Central European Distribution Corp. | | |
| 8.00%, 7/25/12 (b) | EUR 611 | 911,233 |
| Chaoda Modern Agriculture Holdings Ltd. | | |
| 7.75%, 2/08/10 (b) | US\$ 4,495 | 4,427,575 |
| Community Health Systems, Inc. | | |
| 8.875%, 7/15/15 | 1,779 | 1,841,265 |
| DaVita, Inc. | | |
| 7.25%, 3/15/15 | 1,160 | 1,162,900 |
| Dean Foods Co. | | |
| 7.00%, 6/01/16 | 1,175 | 1,151,500 |
| Elan Corp. PLC | | |
| 8.75%, 10/15/16 (b) | 1,550 | 1,480,250 |
| Hanger Orthopedic Group, Inc. | | |
| 10.25%, 6/01/14 | 640 | 678,400 |
| HCA, Inc. | | |
| 6.25%, 2/15/13 | 118 | 114,755 |
| 6.375%, 1/15/15 | 3,025 | 2,854,844 |
| 6.50%, 2/15/16 | 290 | 275,500 |

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| | | |
|--|-------|------------|
| 6.75%, 7/15/13 | 178 | 175,330 |
| 7.875%, 2/01/11 | 203 | 208,836 |
| 9.25%, 11/15/16 | 1,850 | 1,986,437 |
| 9.625%, 11/15/16 (e) | 510 | 552,075 |
| Healthsouth Corp. | | |
| 10.75%, 6/15/16 | 1,700 | 1,848,750 |
| IASIS Healthcare LLC/IASIS Capital Corp. | | |
| 8.75%, 6/15/14 | 1,845 | 1,868,062 |
| Invacare Corp. | | |
| 9.75%, 2/15/15 | 1,000 | 1,042,500 |
| Merisant Co. | | |
| 9.50%, 7/15/13 (a)(d)(g) | 1,000 | 125,000 |
| Multiplan, Inc. | | |
| 10.375%, 4/15/16 (b) | 900 | 877,500 |
| New Albertsons, Inc. | | |
| 7.45%, 8/01/29 | 2,455 | 2,105,163 |
| Pinnacle Foods Finance LLC | | |
| 10.625%, 4/01/17 | 1,250 | 1,300,000 |
| Select Medical Corp. | | |
| 7.625%, 2/01/15 | 1,849 | 1,793,530 |
| Simmons Co. | | |
| 10.00%, 12/15/14 (a) | 965 | 77,200 |
| Stater Brothers Holdings | | |
| 8.125%, 6/15/12 | 1,300 | 1,313,000 |
| Sun Healthcare Group, Inc. | | |
| 9.125%, 4/15/15 | 800 | 822,000 |
| Universal Hospital Services, Inc. | | |
| 3.859%, 6/01/15 (d) | 500 | 421,250 |
| Vanguard Health Holding Co. | | |
| 11.25%, 10/01/15 (c) | 1,650 | 1,736,625 |
| Viant Holdings, Inc. | | |
| 10.125%, 7/15/17 (b) | 801 | 796,995 |
| Visant Corp. | | |
| 7.625%, 10/01/12 | 1,120 | 1,125,600 |
| Visant Holding Corp. | | |
| 8.75%, 12/01/13 | 750 | 770,625 |
| | | 47,142,010 |
| Energy - 2.3% | | |
| Antero Resources Finance Corp. | | |
| 9.375%, 12/01/17 (b) | 398 | 403,970 |
| Chaparral Energy, Inc. | | |
| 8.875%, 2/01/17 | 1,510 | 1,332,575 |
| Chesapeake Energy Corp. | | |
| 6.375%, 6/15/15 | 1,800 | 1,764,000 |
| 6.50%, 8/15/17 | 600 | 588,000 |
| 6.875%, 1/15/16 | 240 | 240,000 |
| 7.50%, 9/15/13 | 105 | 106,837 |

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| | | |
|---|-------|------------|
| CIE Generale De Geophysique | | |
| 7.50%, 5/15/15 | 725 | 719,563 |
| 7.75%, 5/15/17 | 25 | 24,813 |
| Complete Production Services, Inc. | | |
| 8.00%, 12/15/16 | 1,650 | 1,627,313 |
| Energy XXI Gulf Coast, Inc. | | |
| 10.00%, 6/15/13 | 1,305 | 1,207,125 |
| Expro Finance Luxembourg SCA | | |
| 8.50%, 12/15/16 (b) | 321 | 314,179 |
| Forest Oil Corp. | | |
| 7.25%, 6/15/19 | 2,035 | 2,009,562 |
| Helix Energy Solutions Group, Inc. | | |
| 9.50%, 1/15/16 (b) | 1,000 | 1,025,000 |
| Hercules Offshore, Inc. | | |
| 10.50%, 10/15/17 (b) | 2,174 | 2,288,135 |
| Hilcorp Energy I LP/Hilcorp Finance Co. | | |
| 7.75%, 11/01/15 (b) | 2,220 | 2,175,600 |
| Key Energy Services, Inc. | | |
| 8.375%, 12/01/14 | 1,000 | 1,002,500 |
| Mariner Energy, Inc. | | |
| 11.75%, 6/30/16 | 818 | 912,070 |
| Newfield Exploration Co. | | |
| 6.625%, 9/01/14 | 1,030 | 1,040,300 |
| OPTI Canada, Inc. | | |
| 8.25%, 12/15/14 | 2,000 | 1,647,500 |
| PetroHawk Energy Corp. | | |
| 9.125%, 7/15/13 | 1,600 | 1,672,000 |
| Pioneer Natural Resources Co. | | |
| 5.875%, 7/15/16 | 500 | 478,648 |
| Plains Exploration & Production Co. | | |
| 7.75%, 6/15/15 | 1,250 | 1,271,875 |
| Range Resources Corp. | | |
| 7.50%, 5/15/16 | 500 | 513,750 |
| Tesoro Corp. | | |
| 6.25%, 11/01/12 | 164 | 163,180 |
| 6.50%, 6/01/17 | 2,195 | 2,041,350 |
| 9.75%, 6/01/19 | 135 | 139,725 |
| | | 26,709,570 |
| Other Industrial - 0.5% | | |
| Education Management LLC | | |
| 10.25%, 6/01/16 | 1,050 | 1,123,500 |
| Neenah Foundary Co. | | |
| 9.50%, 1/01/17 | 1,350 | 696,937 |
| RBS Global, Inc. and Rexnord Corp. | | |
| 9.50%, 8/01/14 | 1,935 | 1,939,838 |
| 11.75%, 8/01/16 | 350 | 346,500 |

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| | | |
|-------------------------------|-------|-----------|
| Sensus Metering Systems, Inc. | | |
| 8.625%, 12/15/13 | 1,365 | 1,394,006 |

5,500,781

Services - 1.1%

| | | |
|----------------|-------|-----------|
| Expedia, Inc. | | |
| 8.50%, 7/01/16 | 1,948 | 2,106,275 |

| | | |
|-----------------------|---------|---------|
| Lottomatica SpA | | |
| 8.25%, 3/31/66 (b)(h) | EUR 725 | 988,657 |

| | | |
|------------------|------------|-----------|
| Realogy Corp. | | |
| 10.50%, 4/15/14 | US\$ 1,610 | 1,392,650 |
| 12.375%, 4/15/15 | 500 | 388,750 |

| | | |
|-----------------------------|-------|-----------|
| Service Corp. International | | |
| 6.75%, 4/01/16 | 1,485 | 1,436,737 |

| | | |
|------------------------|-----|---------|
| The ServiceMaster Co. | | |
| 10.75%, 7/15/15 (b)(e) | 155 | 161,200 |

| | | |
|----------------------------------|-------|-----------|
| Ticketmaster Entertainment, Inc. | | |
| 10.75%, 8/01/16 | 1,370 | 1,476,175 |

| | | |
|-----------------|-------|-----------|
| Travelport LLC | | |
| 9.875%, 9/01/14 | 3,049 | 3,148,093 |

| | | |
|------------------|-------|-----------|
| West Corp. | | |
| 9.50%, 10/15/14 | 1,117 | 1,133,755 |
| 11.00%, 10/15/16 | 1,100 | 1,149,500 |

13,381,792

Technology - 2.2%

| | | |
|------------------------------|-----|---------|
| Advanced Micro Devices, Inc. | | |
| 8.125%, 12/15/17 (b) | 360 | 358,650 |

| | | |
|------------------------|-------|-----------|
| Amkor Technology, Inc. | | |
| 9.25%, 6/01/16 | 2,590 | 2,751,875 |

| | | |
|------------------|-------|-----------|
| Ceridian Corp. | | |
| 11.25%, 11/15/15 | 1,725 | 1,645,219 |

| | | |
|-------------------|-----|---------|
| Eastman Kodak Co. | | |
| 7.25%, 11/15/13 | 170 | 140,250 |

| | | |
|------------------|-------|-----------|
| First Data Corp. | | |
| 9.875%, 9/24/15 | 2,387 | 2,225,877 |

| | | |
|--------------------------------|-------|-----------|
| Flextronics International Ltd. | | |
| 6.50%, 5/15/13 | 1,785 | 1,789,462 |

| | | |
|-------------------------------|-------|-----------|
| Freescale Semiconductor, Inc. | | |
| 8.875%, 12/15/14 | 2,130 | 1,954,275 |
| 10.125%, 12/15/16 | 1,785 | 1,436,925 |

| | | |
|---------------------|-------|-----------|
| Iron Mountain, Inc. | | |
| 6.625%, 1/01/16 | 1,780 | 1,744,400 |

| | | |
|---------------------------|-----|---------|
| Lucent Technologies, Inc. | | |
| 6.45%, 3/15/29 | 800 | 573,000 |

| | | |
|--------------------------|-------|-----------|
| NXP BV / NXP Funding LLC | | |
| 6.50%, 1/15/28 | 1,850 | 1,315,812 |

| | | |
|--------------------------|-----|---------|
| NXP BV / NXP Funding LLC | | |
| 3.034%, 10/15/13 (d) | 670 | 556,100 |
| 9.50%, 10/15/15 | 930 | 795,150 |

| | | |
|--|------------|-------------|
| Sanmina Corp. | | |
| 8.125%, 3/01/16 | 2,947 | 2,939,633 |
| Seagate Technology HDD Holding | | |
| 6.375%, 10/01/11 | 1,707 | 1,736,873 |
| Sensata Technologies BV | | |
| 8.00%, 5/01/14 (c) | 800 | 784,000 |
| Serena Software, Inc. | | |
| 10.375%, 3/15/16 | 470 | 451,788 |
| Sungard Data Systems, Inc. | | |
| 9.125%, 8/15/13 | 1,220 | 1,250,500 |
| 10.25%, 8/15/15 | 300 | 319,500 |
| Telcordia Technologies, Inc. | | |
| 10.00%, 3/15/13 (b) | 1,500 | 1,335,000 |
| | | 26,104,289 |
| Transportation - Airlines - 0.2% | | |
| AMR Corp. | | |
| 9.00%, 8/01/12 | 1,056 | 871,200 |
| Continental Airlines, Inc. | | |
| 8.75%, 12/01/11 | 260 | 251,550 |
| 7.875%, 7/02/18 | 1,624 | 1,392,600 |
| | | 2,515,350 |
| Transportation - Railroads - 0.1% | | |
| Trinity Industries, Inc. | | |
| 6.50%, 3/15/14 | 1,560 | 1,569,750 |
| Transportation - Services - 0.6% | | |
| Avis Budget Car Rental | | |
| 7.75%, 5/15/16 | 3,355 | 3,136,925 |
| Hertz Corp. | | |
| 8.875%, 1/01/14 | 2,655 | 2,714,737 |
| Quality Distribution LLC/ QD Capital Corp. | | |
| 11.75%, 11/01/13 (b)(e) | 1,721 | 1,376,800 |
| US Shipping Partners LP Shipping Finance Corp. | | |
| 13.00%, 8/15/14 (a)(g)(k) | 800 | 40,000 |
| | | 7,268,462 |
| | | 363,469,895 |
| Financial Institutions - 3.9% | | |
| Banking - 1.7% | | |
| ABN Amro Bank NV | | |
| 4.31%, 3/10/16 (h) | EUR 1,295 | 905,018 |
| Bank of America Corp. | | |
| 8.00%, 1/30/18 (h) | US\$ 1,585 | 1,525,943 |
| 8.125%, 5/15/18 (h) | 3,215 | 3,095,209 |
| CenterCredit International | | |
| 8.625%, 1/30/14 (b) | 1,404 | 1,323,832 |

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| | | |
|--|------------|------------|
| Commerzbank Capital Funding Trust I | | |
| 5.012%, 4/12/16 (h) | EUR 1,450 | 966,571 |
| Dexia Credit Local | | |
| 4.30%, 11/18/15 (h) | 2,100 | 1,354,705 |
| HT1 Funding GMBH | | |
| 6.352%, 6/30/17 (h) | 1,550 | 1,305,138 |
| LBG Capital No.1 PLC | | |
| 8.00%, 12/29/49 (b) | US\$ 4,650 | 3,580,500 |
| Royal Bank of Scotland Group PLC | | |
| Series U | | |
| 7.64%, 9/29/17 (h) | 1,850 | 999,000 |
| RS Finance (RSB) | | |
| 7.50%, 10/07/10 (b) | 3,012 | 2,883,481 |
| UT2 Funding PLC | | |
| 5.321%, 6/30/16 | EUR 1,293 | 1,199,822 |
| Zions Bancorporation | | |
| 5.50%, 11/16/15 | US\$ 1,440 | 1,018,060 |
| 6.00%, 9/15/15 | 450 | 318,285 |
| | | 20,475,564 |

Brokerage - 0.2%

| | | |
|---------------------------------------|-------|-----------|
| E*Trade Financial Corp. | | |
| 7.375%, 9/15/13 | 1,233 | 1,148,231 |
| Lehman Brothers Holdings, Inc. | | |
| 6.875%, 5/02/18 (a) | 1,690 | 350,675 |
| Nuveen Investments, Inc. | | |
| 10.50%, 11/15/15 | 225 | 204,188 |
| | | 1,703,094 |

Finance - 0.8%

| | | |
|---------------------------------------|-------|-----------|
| American General Finance Corp. | | |
| 6.90%, 12/15/17 | 500 | 347,177 |
| Series I | | |
| 4.875%, 7/15/12 | 440 | 360,657 |
| CIT Group, Inc. | | |
| Zero Coupon, 3/15/67 | | |
| 7.00%, 5/01/13 - 5/01/17 | 1,473 | 1,316,550 |
| 7.00%, 5/01/16 | 491 | 432,017 |
| GMAC LLC | | |
| 6.75%, 12/01/14 (b) | 2,590 | 2,460,500 |
| 6.75%, 12/01/14 | 1 | 902 |
| 6.875%, 9/15/11 (b) | 800 | 788,000 |
| 8.00%, 11/01/31 (b) | 662 | 595,800 |
| Residential Capital LLC | | |
| 9.625%, 5/15/15 (i) | 3,962 | 3,367,700 |
| | | 9,669,303 |

Insurance - 0.7%

| | | |
|------------------------------------|-------|-----------|
| American International Group, Inc. | | |
| 6.25%, 3/15/37 | 2,739 | 1,506,450 |
| 8.175%, 5/15/58 (h) | 1,561 | 1,030,260 |
| Crum & Forster Holdings Corp. | | |
| 7.75%, 5/01/17 | 720 | 684,900 |
| Fairfax Financial Holdings Ltd. | | |
| 7.75%, 6/15/17 | 1,250 | 1,267,187 |
| Liberty Mutual Group, Inc. | | |
| 7.80%, 3/15/37 (b) | 590 | 486,750 |
| 10.75%, 6/15/58 (b) | 2,790 | 2,957,400 |
| MBIA Insurance Corp. | | |
| 14.00%, 1/15/33 (b)(h) | 1,420 | 610,600 |
| | | 8,543,547 |

Other Finance - 0.3%

| | | |
|---------------------|-------|-----------|
| Aiful Corp. | | |
| 6.00%, 12/12/11 (b) | 3,782 | 2,685,220 |
| iPayment, Inc. | | |
| 9.75%, 5/15/14 | 878 | 729,838 |
| | | 3,415,058 |

REITS - 0.2%

| | | |
|-------------------------|-------|------------|
| AMR Real Estate PTR/FIN | | |
| 7.125%, 2/15/13 | 2,500 | 2,550,000 |
| | | 46,356,566 |

Utility - 2.6%**Electric - 2.1%**

| | | |
|--------------------------------|-------|-----------|
| The AES Corp. | | |
| 7.75%, 3/01/14 | 2,560 | 2,598,400 |
| 8.00%, 10/15/17 | 868 | 890,785 |
| 8.75%, 5/15/13 (b) | 31 | 31,775 |
| Dynegy Holdings, Inc. | | |
| 7.75%, 6/01/19 | 2,220 | 1,925,850 |
| 8.375%, 5/01/16 | 1,885 | 1,790,750 |
| Edison Mission Energy | | |
| 7.00%, 5/15/17 | 2,125 | 1,678,750 |
| 7.50%, 6/15/13 | 1,200 | 1,128,000 |
| 7.75%, 6/15/16 | 958 | 814,300 |
| Energy Future Holdings Corp. | | |
| 10.875%, 11/01/17 | 1,990 | 1,626,825 |
| Mirant Americas Generation LLC | | |
| 8.50%, 10/01/21 | 2,570 | 2,441,500 |
| NRG Energy, Inc. | | |
| 7.375%, 2/01/16 - 1/15/17 | 3,140 | 3,146,056 |
| RRI Energy, Inc. | | |
| 7.625%, 6/15/14 | 2,375 | 2,351,250 |
| 7.875%, 6/15/17 | 1,080 | 1,061,100 |

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| | | |
|--|-------|------------|
| Texas Competitive Electric Holdings Co. LLC | | |
| Series A | | |
| 10.25%, 11/01/15 (i) | 1,570 | 1,271,700 |
| TXU Corp. | | |
| Series P | | |
| 5.55%, 11/15/14 | 1,801 | 1,277,266 |
| Series Q | | |
| 6.50%, 11/15/24 | 1,929 | 906,082 |
| | | 24,940,389 |

Natural Gas - 0.5%

| | | |
|-----------------------------------|-------|------------|
| El Paso Corp. | | |
| Series G | | |
| 7.375%, 12/15/12 | 1,165 | 1,196,612 |
| 7.75%, 1/15/32 | 760 | 718,666 |
| Enterprise Products Operating LLC | | |
| Series A | | |
| 8.375%, 8/01/66 (h) | 1,760 | 1,716,000 |
| Kinder Morgan Finance Co. | | |
| 5.70%, 1/05/16 | 1,410 | 1,353,600 |
| Regency Energy Partners | | |
| 8.375%, 12/15/13 | 1,031 | 1,067,085 |
| | | 6,051,963 |
| | | 30,992,352 |

Credit Default Index Holdings - 1.0%

DJ CDX.NA.HY-100 - 1.0%

| | | |
|---|-------|-------------|
| CDX North America High Yield | | |
| Series 8-T1 | | |
| 7.625%, 6/29/12 (b) | 9,657 | 10,320,919 |
| Dow Jones CDX HY | | |
| Series 4-T1 | | |
| 8.25%, 6/29/10 (b) | 856 | 859,978 |
| | | 11,180,897 |
| Total Corporates - Non-Investment Grades | | |
| (cost \$454,993,289) | | |
| | | 451,999,710 |

EMERGING MARKETS - SOVEREIGNS - 20.0%

Argentina - 4.4%

| | | |
|------------------------|------------|------------|
| Argentina Bonos | | |
| 7.00%, 10/03/15 | 54,634 | 45,806,072 |
| 7.82%, 12/31/33 | EUR 4,746 | 4,116,515 |
| 8.28%, 12/31/33 | US\$ 1,796 | 1,342,651 |
| 2.50%, 12/31/38 (c) | 3,480 | 1,209,300 |
| | | 52,474,538 |

Colombia - 1.5%

| | | |
|-----------------------------|-------|-----------|
| Republic of Colombia | | |
| 7.375%, 1/27/17 (i) | 4,907 | 5,520,375 |

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| | | |
|---------------------------|-------|------------|
| 7.375%, 3/18/19 - 9/18/37 | 9,843 | 10,734,820 |
| 11.75%, 2/25/20 | 528 | 761,640 |

17,016,835

Costa Rica - 0.0%

Republic of Costa Rica

| | | |
|--------------------|-----|---------|
| 8.05%, 1/31/13 (b) | 181 | 203,172 |
|--------------------|-----|---------|

Dominican Republic - 1.1%

Dominican Republic

| | | |
|---------------------|-------|-----------|
| 8.625%, 4/20/27 (b) | 8,385 | 8,762,325 |
|---------------------|-------|-----------|

| | | |
|--------------------|-------|-----------|
| 9.04%, 1/23/18 (b) | 4,208 | 4,565,638 |
|--------------------|-------|-----------|

13,327,963

El Salvador - 0.9%

El Salvador

| | | |
|----------------------|-----|---------|
| 7.375%, 12/01/19 (b) | 705 | 724,387 |
|----------------------|-----|---------|

| | | |
|---------------------|-------|-----------|
| 7.625%, 9/21/34 (b) | 2,792 | 2,917,640 |
|---------------------|-------|-----------|

| | | |
|--------------------|-------|-----------|
| 7.65%, 6/15/35 (b) | 6,996 | 6,891,060 |
|--------------------|-------|-----------|

| | | |
|--------------------|-----|---------|
| 8.50%, 7/25/11 (b) | 400 | 422,000 |
|--------------------|-----|---------|

10,955,087

Gabon - 0.2%

Gabonese Republic

| | | |
|---------------------|-------|-----------|
| 8.20%, 12/12/17 (b) | 2,570 | 2,695,288 |
|---------------------|-------|-----------|

Ghana - 0.2%

Republic of Ghana

| | | |
|---------------------|-------|-----------|
| 8.50%, 10/04/17 (b) | 2,295 | 2,346,638 |
|---------------------|-------|-----------|

Indonesia - 3.6%

Republic of Indonesia

| | | |
|---------------------|--------|-----------|
| 6.625%, 2/17/37 (b) | 10,170 | 9,966,600 |
|---------------------|--------|-----------|

| | | |
|--------------------|-------|-----------|
| 6.75%, 3/10/14 (b) | 8,544 | 9,354,464 |
|--------------------|-------|-----------|

| | | |
|---------------------|--------|------------|
| 6.875%, 1/17/18 (b) | 11,508 | 12,658,800 |
|---------------------|--------|------------|

| | | |
|--------------------|-----|-----------|
| 7.25%, 4/20/15 (b) | 976 | 1,102,283 |
|--------------------|-----|-----------|

| | | |
|--------------------|-----|---------|
| 7.50%, 1/15/16 (b) | 270 | 306,450 |
|--------------------|-----|---------|

| | | |
|--------------------|-------|-----------|
| 7.75%, 1/17/38 (b) | 3,049 | 3,384,390 |
|--------------------|-------|-----------|

| | | |
|---------------------|-------|-----------|
| 8.50%, 10/12/35 (b) | 3,958 | 4,749,600 |
|---------------------|-------|-----------|

| | | |
|----------------------|-------|-----------|
| 11.625%, 3/04/19 (b) | 1,039 | 1,503,953 |
|----------------------|-------|-----------|

43,026,540

Panama - 1.1%

Republic of Panama

| | | |
|----------------|---|-------|
| 6.70%, 1/26/36 | 3 | 3,165 |
|----------------|---|-------|

| | | |
|-----------------|-----|---------|
| 7.125%, 1/29/26 | 447 | 503,992 |
|-----------------|-----|---------|

| | | |
|-----------------|-------|-----------|
| 8.875%, 9/30/27 | 7,610 | 9,893,000 |
|-----------------|-------|-----------|

| | | |
|-----------------|-------|-----------|
| 9.375%, 4/01/29 | 1,621 | 2,172,140 |
|-----------------|-------|-----------|

12,572,297

Philippines - 1.8%

Republic of Philippines

| | | |
|----------------|-----|-----------|
| 7.50%, 9/25/24 | 959 | 1,083,670 |
|----------------|-----|-----------|

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| | | |
|--------------------|--------|------------|
| 8.375%, 6/17/19 | 990 | 1,207,800 |
| 8.875%, 3/17/15 | 650 | 788,125 |
| 9.50%, 2/02/30 (i) | 2,125 | 2,820,938 |
| 9.875%, 1/15/19 | 11,487 | 15,019,252 |
| 10.625%, 3/16/25 | 205 | 291,100 |

21,210,885

Serbia & Montenegro - 0.2%

| | | |
|------------------------|-------|-----------|
| Republic of Serbia | | |
| 6.75%, 11/01/24 (b)(c) | 2,070 | 2,033,775 |

Turkey - 1.3%

| | | |
|--------------------|-------|-----------|
| Republic of Turkey | | |
| 6.875%, 3/17/36 | 6,611 | 6,726,693 |
| 7.00%, 6/05/20 | 1,950 | 2,142,465 |
| 7.25%, 3/15/15 | 4,000 | 4,490,000 |
| 7.375%, 2/05/25 | 1,523 | 1,698,145 |

15,057,303

Ukraine - 1.2%

| | | |
|---------------------------------------|-------------|-----------|
| Ukraine Government International Bond | | |
| 3.20%, 12/19/10 | JPY 600,000 | 5,604,767 |
| 6.385%, 6/26/12 (b) | US\$ 1,150 | 977,500 |
| 6.58%, 11/21/16 (b) | 2,953 | 2,259,045 |
| 6.75%, 11/14/17 (b) | 670 | 509,200 |
| 7.65%, 6/11/13 (b) | 5,845 | 4,968,250 |

14,318,762

Uruguay - 1.1%

| | | |
|---------------------|-------|-----------|
| Republic of Uruguay | | |
| 7.625%, 3/21/36 | 1,840 | 1,987,200 |
| 7.875%, 1/15/33 (e) | 6,033 | 6,665,983 |
| 8.00%, 11/18/22 | 3,354 | 3,831,462 |
| 9.25%, 5/17/17 | 505 | 622,412 |

13,107,057

Venezuela - 1.4%

| | | |
|-----------------------|-------|-----------|
| Republic of Venezuela | | |
| 7.00%, 3/31/38 (b) | 80 | 44,000 |
| 7.65%, 4/21/25 | 9,654 | 5,695,860 |
| 9.00%, 5/07/23 (b) | 8,391 | 5,684,835 |
| 9.25%, 5/07/28 (b) | 6,910 | 4,681,660 |

16,106,355

Total Emerging Markets - Sovereigns

(cost \$186,771,429) 236,452,495

CORPORATES - INVESTMENT GRADES - 10.3%

Financial Institutions - 3.9%

Banking - 2.3%

| | | |
|----------------------|-----|---------|
| American Express Co. | | |
| 6.80%, 9/01/66 (h) | 225 | 201,375 |

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| | | | |
|--|------|---------|------------|
| Barclays Bank PLC | | | |
| 4.75%, 3/15/20 (h) | EUR | 1,890 | 1,564,684 |
| Countrywide Home Loans, Inc. | | | |
| Series L | | | |
| 4.00%, 3/22/11 | US\$ | 3 | 3,064 |
| Credit Agricole SA | | | |
| 6.637%, 5/31/17 (b)(h) | | 1,165 | 943,650 |
| 8.375%, 10/13/19 (b) | | 1,890 | 2,003,400 |
| Financial Security Assurance Holdings Ltd. | | | |
| 6.40%, 12/15/66 (b)(h) | | 2,800 | 2,016,000 |
| JP Morgan Chase & Co. | | | |
| 7.00%, 6/28/17 (b) | RUB | 168,000 | 4,461,933 |
| Merrill Lynch & Co., Inc. | | | |
| 5.70%, 5/02/17 | US\$ | 200 | 196,034 |
| Morgan Stanley | | | |
| 3.07%, 5/30/11 (d) | NZD | 4,600 | 3,216,557 |
| 10.09%, 5/03/17 (b) | BRL | 5,760 | 3,060,310 |
| Rabobank Nederland | | | |
| 11.00%, 6/30/19 (b) | US\$ | 280 | 341,391 |
| VTB Capital SA | | | |
| 6.609%, 10/31/12 (b) | | 3,360 | 3,423,168 |
| 6.875%, 5/29/18 (b) | | 2,915 | 2,900,425 |
| Wells Fargo & Co. | | | |
| Series K | | | |
| 7.98%, 3/15/18 (h) | | 3,000 | 3,007,500 |
| | | | 27,339,491 |

Finance - 0.4%

| | | | |
|-----------------------------------|--|-------|-----------|
| International Lease Finance Corp. | | | |
| 6.375%, 3/25/13 | | 1,895 | 1,558,031 |
| SLM Corp. | | | |
| 5.125%, 8/27/12 | | 1,683 | 1,577,769 |
| Series A | | | |
| 4.50%, 7/26/10 | | 539 | 537,069 |
| 5.375%, 5/15/14 | | 1,000 | 922,370 |
| | | | 4,595,239 |

Insurance - 0.9%

| | | | |
|------------------------------|--|-------|-----------|
| Assured Guaranty US Holdings | | | |
| Series A | | | |
| 6.40%, 12/15/66 | | 2,869 | 2,065,680 |
| Coventry Health Care, Inc. | | | |
| 5.95%, 3/15/17 | | 1,000 | 906,777 |
| Liberty Mutual Group, Inc. | | | |
| 5.75%, 3/15/14 (b) | | 760 | 749,112 |
| Lincoln National Corp. | | | |
| 8.75%, 7/01/19 | | 604 | 690,133 |
| MetLife, Inc. | | | |
| 10.75%, 8/01/39 | | 2,350 | 2,893,851 |

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| | | |
|---|-----------|------------|
| Nationwide Mutual Insurance Co. 9.375%, 8/15/39 (b) | 2,135 | 2,253,838 |
| Suncorp Metway Insurance Ltd. Series 1 6.75%, 9/23/24 (h) | AUD 1,000 | 705,521 |
| Verob Insurance Ltd. 6.15%, 9/07/25 (h) | 990 | 601,670 |
| | | 10,866,582 |

Other Finance - 0.3%

| | | |
|--|------------|------------|
| IIRSA Norte Finance Ltd. 8.75%, 5/30/24 (b) | US\$ 2,867 | 3,002,733 |
| Red Arrow International Leasing PLC 8.375%, 3/31/12 | RUB 10,001 | 324,977 |
| | | 3,327,710 |
| | | 46,129,022 |

Industrial - 3.4%

| | | |
|---|----------|------------|
| Basic - 1.5% | | |
| ArcelorMittal 9.00%, 2/15/15 | US\$ 860 | 1,015,743 |
| Freeport-McMoRan Copper & Gold, Inc. 8.375%, 4/01/17 | 2,080 | 2,277,600 |
| GTL Trade Finance, Inc. 7.25%, 10/20/17 (b) | 1,338 | 1,401,555 |
| The Mosaic Co. 7.625%, 12/01/16 (b)(c) | 445 | 486,401 |
| Southern Copper Corp. 7.50%, 7/27/35 | 3,300 | 3,269,765 |
| Usiminas Commercial Ltd. 7.25%, 1/18/18 (b) | 2,428 | 2,573,680 |
| Vale Overseas Ltd. 6.875%, 11/21/36 | 5,956 | 5,951,003 |
| | | 16,975,747 |

Capital Goods - 0.3%

| | | |
|--|-------|-----------|
| Owens Corning, Inc. 6.50%, 12/01/16 | 1,155 | 1,182,804 |
| 7.00%, 12/01/36 | 1,340 | 1,249,739 |
| 9.00%, 6/15/19 | 1,000 | 1,115,179 |
| | | 3,547,722 |

Communications - Telecommunications - 0.4%

| | | |
|--|-----|-----------|
| Alltel Corp. 7.875%, 7/01/32 | 160 | 190,277 |
| American Tower Corp. 7.00%, 10/15/17 | 685 | 758,638 |
| Centennial Communications Corp. 10.00%, 1/01/13 | 955 | 1,002,750 |
| Qwest Corp. 6.50%, 6/01/17 | 610 | 599,325 |

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| | | |
|---------------------|-------|-----------|
| 6.875%, 9/15/33 | 1,570 | 1,381,600 |
| 8.875%, 3/15/12 (c) | 1,100 | 1,182,500 |
| | | 5,115,090 |

Consumer Cyclical - Retailers - 0.0%

| | | |
|---------------------|-----|---------|
| CVS Caremark Corp. | | |
| 6.302%, 6/01/37 (h) | 215 | 185,438 |

Consumer Non-Cyclical - 0.2%

| | | |
|---------------------------------------|-------|-----------|
| Bunge Ltd. Finance Corp. | | |
| 8.50%, 6/15/19 | 377 | 429,745 |
| Ventas Realty LP/Ventas Capital Corp. | | |
| 6.75%, 4/01/17 | 1,907 | 1,845,022 |
| | | 2,274,767 |

Energy - 0.6%

| | | |
|--|-------|-----------|
| Gazstream SA | | |
| 5.625%, 7/22/13 (b) | 724 | 735,364 |
| National Oilwell Varco, Inc. Series B | | |
| 6.125%, 8/15/15 | 130 | 130,464 |
| TNK-BP Finance SA | | |
| 7.50%, 7/18/16 (b) | 6,352 | 6,526,680 |
| | | 7,392,508 |

Other Industrial - 0.3%

| | | |
|--------------------|-------|-----------|
| Noble Group Ltd. | | |
| 6.75%, 1/29/20 (b) | 2,432 | 2,495,840 |
| 8.50%, 5/30/13 (b) | 511 | 571,042 |
| | | 3,066,882 |

Technology - 0.1%

| | | |
|----------------|-------|------------|
| Motorola, Inc. | | |
| 6.50%, 9/01/25 | 1,250 | 1,086,015 |
| 7.50%, 5/15/25 | 97 | 92,815 |
| | | 1,178,830 |
| | | 39,736,984 |

Non Corporate Sectors - 2.7%

Agencies - Not Government Guaranteed - 2.7%

| | | |
|---|--------|------------|
| Gaz Capital SA | | |
| 6.212%, 11/22/16 (b) | 2,914 | 2,790,155 |
| 6.51%, 3/07/22 (b) | 12,726 | 11,676,105 |
| 8.125%, 7/31/14 (b) | 500 | 530,000 |
| 9.25%, 4/23/19 (b) | 6,400 | 7,136,000 |
| Petrobras International Finance | | |
| 5.75%, 1/20/20 | 3,150 | 3,204,454 |
| TransCapitalInvest Ltd. for OJSC AK Transneft | | |
| 5.67%, 3/05/14 (b) | 591 | 596,910 |
| 7.70%, 8/07/13 (b) | 5,401 | 5,833,404 |
| 8.70%, 8/07/18 (b) | 311 | 358,428 |

Utility - 0.3%**Electric - 0.3%**

| | | |
|-----------------------------------|-------|-----------|
| Allegheny Energy Supply Co. LLC | | |
| 8.25%, 4/15/12 (b)(c) | 210 | 229,755 |
| Aquila, Inc. | | |
| 11.875%, 7/01/12 (c) | 1,550 | 1,794,836 |
| Empresas Publicas de Medellin ESP | | |
| 7.625%, 7/29/19 (b)(i) | 1,636 | 1,799,600 |
| | | 3,824,191 |

Total Corporates - Investment Grades
(cost \$114,980,753)

121,815,653

COMMERCIAL MORTGAGE-BACKED SECURITIES - 8.8%**Non-Agency Fixed Rate CMBS - 8.8%**

| | | |
|--|--------|------------|
| Banc of America Commercial Mortgage, Inc. | | |
| Series 2007-5, Class A4 | | |
| 5.492%, 2/10/51 | 8,405 | 7,090,713 |
| Bank of America Large Loan | | |
| Series 2009-UB1, Class A4B | | |
| 5.615%, 6/24/50 (b) | 3,500 | 2,660,000 |
| Citigroup/Deutsche Bank Commercial Mortgage Trust | | |
| Series 2006-CD2, Class A2 | | |
| 5.408%, 1/15/46 + | 14,472 | 14,686,738 |
| Credit Suisse Mortgage Capital Certificates | | |
| Series 2006-C3, Class A3 | | |
| 5.826%, 6/15/38 | 6,840 | 5,878,046 |
| Series 2006-C4, Class A3 | | |
| 5.467%, 9/15/39 | 5,615 | 4,809,375 |
| Series 2006-C4, Class AM | | |
| 5.509%, 9/15/39 | 5,900 | 4,541,025 |
| GE Capital Commercial Mortgage Corp. | | |
| Series 2005-C4, Class AM | | |
| 5.334%, 11/10/45 | 800 | 652,445 |
| Greenwich Capital Commercial Funding Corp. | | |
| Series 2005-GG5, Class A2 | | |
| 5.117%, 4/10/37 + | 14,000 | 14,054,585 |
| GS Mortgage Securities Corp. II | | |
| Series 2006-GG6, Class A2 | | |
| 5.506%, 4/10/38 + | 14,000 | 14,187,106 |
| JP Morgan Chase Commercial Mortgage Securities Corp. | | |
| Series 2005-LDP4, Class AJ | | |
| 5.04%, 10/15/42 | 400 | 308,297 |
| Series 2006-CB15, Class AM | | |
| 5.855%, 6/12/43 | 1,230 | 978,046 |
| Series 2007-C1, Class A4 | | |
| 5.716%, 2/15/51 | 3,000 | 2,381,014 |

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| | | |
|---|-------|-------------|
| Series 2007-LD11, Class AM | | |
| 5.818%, 6/15/49 | 5,105 | 3,701,079 |
| LB-UBS Commercial Mortgage Trust | | |
| Series 2007-C1, Class AM | | |
| 5.455%, 2/15/40 | 8,300 | 5,628,156 |
| Merrill Lynch Mortgage Trust | | |
| Series 2007-C1, Class A4 | | |
| 5.828%, 6/12/50 | 2,000 | 1,691,675 |
| Merrill Lynch/Countrywide Commercial Mortgage Trust | | |
| Series 2006-4, Class AM | | |
| 5.204%, 12/12/49 | 8,050 | 5,803,543 |
| Morgan Stanley Capital I | | |
| Series 2006-IQ12, Class A4 | | |
| 5.332%, 12/15/43 | 7,900 | 7,330,825 |
| Series 2006-IQ12, Class AM | | |
| 5.37%, 12/15/43 | 7,700 | 5,811,495 |
| Wachovia Bank Commercial Mortgage Trust | | |
| Series 2006-C25, Class AM | | |
| 5.74%, 5/15/43 | 2,800 | 2,229,618 |
| Series 2007-C34, Class AM | | |
| 5.818%, 5/15/46 | 400 | 286,036 |
| Total Commercial Mortgage-Backed Securities | | |
| (cost \$102,680,079) | | 104,709,817 |

QUASI-SOVEREIGNS - 6.1%

Quasi-Sovereign Bonds - 6.1%

Indonesia - 0.3%

| | | |
|----------------------|-------|-----------|
| Majapahit Holding BV | | |
| 7.75%, 10/17/16 (b) | 2,165 | 2,300,312 |
| 7.875%, 6/29/37 (b) | 699 | 681,525 |
| 8.00%, 8/07/19 (b) | 330 | 348,150 |
| | | 3,329,987 |

Kazakhstan - 1.4%

| | | |
|----------------------------|-------|------------|
| Intergas Finance BV | | |
| 6.375%, 5/14/17 (b) | 8,200 | 7,790,000 |
| KazMunaiGaz Finance Sub BV | | |
| 8.375%, 7/02/13 (b) | 8,133 | 8,702,310 |
| 9.125%, 7/02/18 (b) | 250 | 277,500 |
| | | 16,769,810 |

Russia - 3.5%

| | | |
|--|-------------|------------|
| GPB Eurobond Finance PLC for Gazprombank | | |
| 7.25%, 2/22/10 | RUB 60,400 | 1,967,804 |
| RSHB Capital SA for OJSC Russian Agricultural Bank | | |
| 6.299%, 5/15/17 (b) | US\$ 13,227 | 13,326,202 |
| 7.125%, 1/14/14 (b) | 5,889 | 6,227,618 |
| 7.175%, 5/16/13 (b) | 660 | 696,300 |

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| | | |
|--|------------|------------|
| 7.75%, 5/29/18 (b) | 17,348 | 18,973,455 |
| | | 41,191,379 |
| Trinidad And Tobago - 0.1% | | |
| Petroleum Co of Trinidad & Tobago Ltd. | | |
| 9.75%, 8/14/19 (b) | 1,675 | 1,873,906 |
| Ukraine - 0.2% | | |
| NAK Naftogaz Ukraine | | |
| 9.50%, 9/30/14 | 2,542 | 2,147,965 |
| Venezuela - 0.6% | | |
| Petroleos de Venezuela SA | | |
| 5.375%, 4/12/27 | 16,067 | 7,109,648 |
| Total Quasi-Sovereigns (cost \$58,442,000) | | |
| | | 72,422,695 |
| GOVERNMENTS - SOVEREIGN BONDS - 4.8% | | |
| Brazil - 2.2% | | |
| Republic of Brazil | | |
| 6.00%, 1/17/17 | 471 | 508,680 |
| 7.125%, 1/20/37 | 7,802 | 8,952,795 |
| 8.25%, 1/20/34 | 6,699 | 8,524,478 |
| 8.75%, 2/04/25 | 515 | 666,925 |
| 8.875%, 10/14/19 | 5,697 | 7,292,160 |
| | | 25,945,038 |
| Croatia - 0.3% | | |
| Republic of Croatia | | |
| 6.75%, 11/05/19 (b) | 3,350 | 3,608,205 |
| Iceland - 0.4% | | |
| Iceland Government International Bond | | |
| 3.75%, 12/01/11 | EUR 3,250 | 4,251,060 |
| Lithuania - 0.3% | | |
| Republic of Lithuania | | |
| 6.75%, 1/15/15 (b) | US\$ 4,028 | 4,100,967 |
| Peru - 0.9% | | |
| Republic of Peru | | |
| 7.125%, 3/30/19 (i) | 2,085 | 2,397,750 |
| 7.35%, 7/21/25 | 3,875 | 4,436,875 |
| 8.375%, 5/03/16 | 226 | 272,895 |
| 8.75%, 11/21/33 | 2,257 | 2,928,457 |
| | | 10,035,977 |
| Russia - 0.7% | | |
| Russian Federation | | |
| 7.50%, 3/31/30 (b)(c) | 7,640 | 8,624,011 |
| Total Governments - Sovereign Bonds (cost \$47,727,526) | | |
| | | 56,565,258 |

GOVERNMENTS - TREASURIES - 4.6%**Brazil - 3.3%**

| | | | |
|----------------------------------|-----|--------|------------|
| Brazil Notas do Tesouro Nacional | | | |
| 10.00%, 1/01/14 | BRL | 9,146 | 4,835,289 |
| Republic of Brazil | | | |
| 12.50%, 1/05/16 (i) | | 23,525 | 15,209,906 |
| 12.50%, 1/05/22 | | 29,435 | 18,893,517 |
| | | | 38,938,712 |

Hungary - 0.9%

| | | | |
|-------------------------|-----|---------|------------|
| Hungary Government Bond | | | |
| Series 14/C | | | |
| 5.50%, 2/12/14 | HUF | 970,820 | 4,794,609 |
| Series 15/A | | | |
| 8.00%, 2/12/15 | | 589,360 | 3,162,148 |
| Series 16/C | | | |
| 5.50%, 2/12/16 | | 697,550 | 3,284,053 |
| | | | 11,240,810 |

South Africa - 0.4%

| | | | |
|---------------------------------------|-----|--------|------------|
| South Africa Government Bond | | | |
| Series R203 | | | |
| 8.25%, 9/15/17 | ZAR | 36,000 | 4,662,585 |
| Total Governments - Treasuries | | | |
| (cost \$44,814,599) | | | 54,842,107 |

EMERGING MARKETS - TREASURIES - 2.7%**Colombia - 1.1%**

| | | | |
|----------------------|-----|------------|------------|
| Republic of Colombia | | | |
| 9.85%, 6/28/27 (i) | COP | 1,927,000 | 1,091,458 |
| 12.00%, 10/22/15 | | 19,227,000 | 11,534,698 |
| | | | 12,626,156 |

Egypt - 0.2%

| | | | |
|------------------------|-----|--------|-----------|
| Arab Republic of Egypt | | | |
| 8.75%, 7/18/12 (b) | EGP | 10,120 | 1,882,018 |

Turkey - 1.4%

| | | | |
|------------------------|-----|--------|------------|
| Turkey Government Bond | | | |
| 16.00%, 3/07/12 | TRY | 22,820 | 17,215,128 |

Total Emerging Markets - Treasuries

| | | | |
|---------------------|--|--|------------|
| (cost \$25,919,954) | | | 31,723,302 |
|---------------------|--|--|------------|

BANK LOANS - 2.3%**Industrial - 1.8%****Basic - 0.1%**

| | | | |
|----------------------------------|------|-----|---------|
| Hexion Specialty Chemicals, Inc. | | | |
| 2.56%, 5/05/13 (d) | US\$ | 365 | 319,254 |
| Ineos US Finance LLC | | | |
| 7.50%, 12/16/13 (d) | | 302 | 272,435 |

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| | | |
|---------------------------|-----|-----------|
| 8.00%, 12/16/14 (d) | 302 | 273,947 |
| John Maneely Co. | | |
| 3.48%-3.53%, 12/09/13 (d) | 585 | 548,887 |
| | | 1,414,523 |

Capital Goods - 0.4%

| | | |
|---------------------------------------|-------|-----------|
| Graham Packaging Company, L.P. | | |
| 2.50%, 10/07/11 (d) | 88 | 86,708 |
| 6.75%, 4/05/14 (d) | 880 | 884,161 |
| Graphic Packaging International, Inc. | | |
| 2.98%-3.04%, 5/16/14 (d) | 651 | 632,741 |
| Hawker Beechcraft Acquisition Co. LLC | | |
| 2.23%-2.25%, 3/26/14 (d) | 121 | 90,762 |
| 2.25%, 3/26/14 (d) | 7 | 5,385 |
| 10.50%, 3/26/14 (d) | 2,893 | 2,742,327 |
| | | 4,442,084 |

Communications - Media - 0.4%

| | | |
|--|-------|-----------|
| Cengage Learning Acquisitions, Inc. (Thomson Learning) | | |
| 2.75%, 7/03/14 (d) | 730 | 661,746 |
| Charter Communications Operating LLC | | |
| 2.26%, 3/06/14 (d) | 982 | 919,687 |
| 7.25%, 3/06/14 (d) | 1,228 | 1,252,687 |
| Clear Channel Communications, Inc. | | |
| 3.88%, 1/29/16 (d) | 169 | 138,364 |
| Univision Communications, Inc. | | |
| 2.50%, 9/29/14 (d) | 1,375 | 1,189,031 |
| Wide Open West Finance LLC | | |
| 2.76%-4.75%, 6/30/14 (d) | 993 | 912,485 |
| | | 5,074,000 |

Consumer Cyclical - Automotive - 0.0%

| | | |
|---------------------------|-----|---------|
| Ford Motor Co. | | |
| 3.24%-3.29%, 12/15/13 (d) | 232 | 213,313 |

Consumer Cyclical - Other - 0.1%

| | | |
|------------------------------|-------|-----------|
| Harrah's Operating Co., Inc. | | |
| 3.28%, 1/28/15 (d) | 1,210 | 980,980 |
| Las Vegas Sands LLC | | |
| 2.01%, 5/23/14 (d) | 864 | 753,899 |
| | | 1,734,879 |

Consumer Cyclical - Retailers - 0.1%

| | | |
|---|-----|---------|
| Burlington Coat Factory Warehouse Corp. | | |
| 2.51%, 5/28/13 (d) | 284 | 262,644 |
| Michaels Stores, Inc. | | |
| 2.56%, 10/31/13 (d) | 213 | 192,580 |
| 4.81%, 7/31/16 (d) | 286 | 269,573 |
| | | 724,797 |

Consumer Non-Cyclical - 0.2%

| | | |
|------------------------------|-------|-----------|
| Carestream Health, Inc. | | |
| 2.24%, 4/30/13 (d) | 870 | 818,853 |
| HCA, Inc. | | |
| 2.50%, 11/18/13 (d) | 1,059 | 1,011,729 |
| Wm. Wrigley Jr. Co. | | |
| Zero Coupon, 10/06/14 (d)(l) | 500 | 501,140 |
| | | 2,331,722 |

Energy - 0.1%

| | | |
|------------------------------|-----|---------|
| Ashmore Energy International | | |
| 3.23%, 3/30/12 (d) | 118 | 107,764 |
| 3.25%, 3/30/14 (d) | 805 | 733,204 |
| | | 840,968 |

Other Industrial - 0.0%

| | | |
|--------------------------------|-----|---------|
| Swift Transportation Co., Inc. | | |
| Zero Coupon, 5/12/14 (d)(l) | 249 | 226,587 |

Services - 0.2%

| | | |
|--------------------------|-------|-----------|
| Sabre, Inc. | | |
| 2.48%-2.49%, 9/30/14 (d) | 750 | 674,197 |
| ServiceMaster Co. | | |
| 2.74%-2.76%, 7/24/14 (d) | 199 | 179,496 |
| West Corp. | | |
| 7.25%, 10/24/13 (d) | 1,228 | 1,231,133 |
| | | 2,084,826 |

Technology - 0.2%

| | | |
|----------------------------|-------|------------|
| Avaya, Inc. | | |
| 3.01%, 10/24/14 (d) | 348 | 300,475 |
| First Data Corp. | | |
| 3.00%, 9/24/14 (d) | 1,470 | 1,299,869 |
| Sungard Data Systems, Inc. | | |
| 1.98%, 2/28/14 (d) | 25 | 23,824 |
| 3.87%-3.90%, 2/28/16 (d) | 361 | 350,170 |
| | | 1,974,338 |
| | | 21,062,037 |

Financial Institutions - 0.3%**Finance - 0.3%**

| | | |
|---------------------|-------|-----------|
| CIT Group, Inc. | | |
| 13.00%, 1/20/12 (d) | 3,164 | 3,267,969 |

Insurance - 0.0%

| | | |
|--------------------------|-----|-----------|
| Asurion Corp. | | |
| 3.23%-3.27%, 7/03/14 (d) | 299 | 285,452 |
| | | 3,553,421 |

Utility - 0.2%**Electric - 0.2%**

| | | |
|----------------------------------|--|--|
| FirstLight Power Resources, Inc. | | |
|----------------------------------|--|--|

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| | | |
|---|-------|------------|
| 2.75%, 11/01/13 (d) | 366 | 335,491 |
| 2.81%, 11/01/13 (d) | 55 | 50,191 |
| 4.81%, 5/01/14 (d) | 1,000 | 845,000 |
| Texas Competitive Electric Holdings Co. LLC | | |
| 3.73%-3.75%, 10/10/14 (d) | 1,715 | 1,388,547 |
| | | 2,619,229 |
| Total Bank Loans (cost \$26,861,997) | | 27,234,687 |

EMERGING MARKETS - CORPORATE BONDS - 2.1%**Industrial - 1.1%****Basic - 0.4%**

| | | |
|---------------------|-------|-----------|
| Evraz Group SA | | |
| 8.25%, 11/10/15 (b) | 4,598 | 4,391,090 |

Communications - Media - 0.2%

| | | |
|------------------------------|-------|-----------|
| Columbus International, Inc. | | |
| 11.50%, 11/20/14 (b) | 2,739 | 2,875,950 |

Consumer Cyclical - Retailers - 0.2%

| | | |
|---------------------------------|-----------|-----------|
| Edcon Holdings Proprietary Ltd. | | |
| 6.214%, 6/15/15 (b)(d) | EUR 2,866 | 2,095,363 |

Consumer Non-Cyclical - 0.1%

| | | |
|---------------------|-------|-----------|
| Foodcorp Ltd. | | |
| 8.875%, 6/15/12 (b) | 1,000 | 1,369,040 |

Energy - 0.2%

| | | |
|-----------------|------------|-----------|
| Ecopetrol SA | | |
| 7.625%, 7/23/19 | US\$ 1,648 | 1,826,808 |

Technology - 0.0%

| | | |
|------------------------------|----|---|
| MagnaChip Semiconductor SA | | |
| Zero Coupon, 12/15/14 (g)(k) | 18 | 0 |
| 8.00%, 12/15/14 (g)(k) | 4 | 0 |

12,558,251

Financial Institutions - 1.0%**Banking - 0.8%**

| | | |
|------------------------|-------|-----------|
| Alfa Bond Issuance PLC | | |
| 8.625%, 12/09/15 | 2,318 | 2,219,485 |
| ATF Bank | | |
| 9.00%, 5/11/16 (b) | 3,137 | 2,909,568 |
| Banco BMG SA | | |
| 9.15%, 1/15/16 (b) | 3,750 | 3,881,250 |
| | | 9,010,303 |

Other Finance - 0.2%

| | | |
|-----------------------------|-------|-----------|
| AES El Salvador Trust | | |
| 6.75%, 2/01/16 (b) | 270 | 239,715 |
| MMG Fiduc (AES El Salvador) | | |
| 6.75%, 2/01/16 (b) | 3,100 | 2,752,282 |
| | | 2,991,997 |

12,002,300

Total Emerging Markets - Corporate Bonds
(cost \$25,002,574)

24,560,551

ASSET-BACKED SECURITIES - 1.4%**Credit Cards - Floating Rate - 1.1%**

| | | |
|-----------------------------|--------|------------|
| Citibank Omni Master Trust | | |
| Series 2009-A14A, Class A14 | | |
| 2.983%, 8/15/18 (b)(d) + | 13,000 | 13,142,860 |

Home Equity Loans - Floating Rate - 0.3%

| | | |
|---------------------------------------|-------|-----------|
| Countrywide Asset-Backed Certificates | | |
| Series 2006-S5, Class A1 | | |
| 0.34%, 6/25/35 (d) | 1,628 | 1,457,151 |
| Series 2007-S2, Class A1 | | |
| 0.371%, 5/25/37 (d) | 1,867 | 1,531,145 |
| | | 2,988,296 |

Total Asset-Backed Securities
(cost \$15,952,100) 16,131,156

CMOS - 0.4%

Non-Agency ARMs - 0.4%

| | | |
|---|-------|-----------|
| American Home Mortgage Assets | | |
| Series 2006-5, Class A1 | | |
| 1.464%, 11/25/46 (d) | 5,411 | 2,824,532 |
| Countrywide Home Loan Mortgage Pass Through Trust | | |
| Series 2007-HYB2, Class 3A1 | | |
| 5.328%, 2/25/47 (h) | 953 | 519,426 |
| Indymac Index Mortgage Loan Trust | | |
| Series 2006-AR5, Class 2A1 | | |
| 5.587%, 5/25/36 (h) | 1,650 | 1,104,681 |
| Merrill Lynch Mortgage Investors, Inc. | | |
| Series 2006-A4, Class 3A1 | | |
| 6.129%, 7/25/36 (h) | 250 | 156,866 |

Total CMOs
(cost \$3,612,205) 4,605,505

GOVERNMENTS - SOVEREIGN AGENCIES - 0.4%

Egypt - 0.3%

| | | |
|---------------------------------|------------|-----------|
| Kreditanstalt fuer Wiederaufbau | | |
| 18.50%, 2/11/10 | EGP 16,500 | 3,039,748 |

Philippines - 0.1%

| | | |
|--|------------|-----------|
| Power Sector Assets & Liabilities Management Corp. | | |
| 7.25%, 5/27/19 (b) | US\$ 1,250 | 1,340,625 |

Total Governments - Sovereign Agencies
(cost \$4,181,543) 4,380,373

COMMON STOCK - 0.3%

| | Shares | |
|----------------------------------|---------|-----------|
| American Media, Inc. (b)(m) | 12,978 | 0 |
| Broder Brothers Co. (m) | 37,868 | 0 |
| Charter Communications, Inc. (m) | 4,473 | 158,792 |
| CIT Group, Inc. (m) | 27,715 | 765,211 |
| Citigroup, Inc. | 935,384 | 3,096,121 |

Total Equities
(cost \$4,394,205) 4,020,124

| | Principal Amount (000) | |
|---|---------------------------------------|-----------|
| LOCAL GOVERNMENTS - REGIONAL BONDS - 0.3% | | |
| Colombia - 0.3% | | |
| Bogota Distrito Capital | | |
| 9.75%, 7/26/28 (b) | | |
| (cost \$3,226,548) | COP 7,758,000 | 4,019,421 |
| INFLATION-LINKED SECURITIES - 0.3% | | |
| Uruguay - 0.3% | | |
| Republic of Uruguay | | |
| 3.70%, 6/26/37 (i) | UYU 40,554 | 1,627,751 |
| Uruguay Government International Bond | | |
| 4.25%, 4/05/27 | 48,036 | 2,239,140 |
| Total Inflation-Linked Securities | | 3,866,891 |
| (cost \$3,698,444) | | |
| WARRANTS - 0.1% | | |
| | Shares | |
| Central Bank of Nigeria, expiring 11/15/20 (m) | 9,250 | 1,063,750 |
| Charter Communications, Inc., expiring 11/30/14 (m) | 9,809 | 58,364 |
| Total Warrants | | 1,122,114 |
| (cost \$3,523,590) | | |
| SUPRANATIONALS - 0.1% | | |
| Eurasian Development Bank | | |
| 7.375%, 9/29/14 (b) (cost \$840,000) | US\$ 840 | 872,550 |
| PREFERRED STOCKS - 0.1% | | |
| Financial Institutions - 0.1% | | |
| Banking - 0.1% | | |
| GMAC, Inc. | | |
| 7.00% (b) | 792 | 522,027 |

REITS - 0.0%

| | | |
|----------------|-----|---------|
| Sovereign REIT | | |
| 12.00% (b) | 185 | 207,431 |
| | | 729,458 |

Non Corporate Sectors - 0.0%**Agencies - Government Sponsored - 0.0%**

| | | |
|--|--------|---------|
| Federal National Mortgage Association | | |
| 8.25% (h) | 80,000 | 88,000 |
| Total Preferred Stocks (cost \$2,413,730) | | 817,458 |

SHORT-TERM INVESTMENTS - 1.9%**Investment Companies - 1.9%**

| | | |
|---|------------|---------------|
| AllianceBernstein Fixed-Income Shares, Inc. - Government STIF Portfolio, 0.08% (n) (cost \$23,154,903) | 23,154,903 | 23,154,903 |
| Total Investments - 105.2% (cost \$1,153,191,468) (o) | | 1,245,316,770 |
| Other assets less liabilities - (5.2)% | | (61,615,766) |

Net Assets - 100.0%**\$ 1,183,701,004****CREDIT DEFAULT SWAP CONTRACTS ON CORPORATE AND SOVEREIGN ISSUES**

| Swap Counterparty & Referenced Obligation | Fixed Deal (Pay) Receive Rate | Implied Credit Spread at December 31, 2009 | Notional Amount (000) | Market Value | Upfront Premiums (Paid) Received | Unrealized Appreciation/ (Depreciation) |
|--|-------------------------------------|--|-----------------------------|-----------------|---|---|
| Buy Contracts: | | | | | | |
| JPMorgan Chase Bank, N.A.: | | | | | | |
| Republic of Iceland | | | | | | |
| 10.50%, 12/10/11, 12/20/11* | (10.50)% | 5.027% | EUR 3,250 | \$ (478,646) | \$ 0 | \$ (478,646) |
| Sale Contracts: | | | | | | |
| Citibank, N.A.: | | | | | | |
| Federal Republic of Brazil | | | | | | |
| 12.25%, 3/6/30, 8/20/10* | 3.09 | 0.5037 | \$ 21,380 | 602,075 | 0 | 602,075 |
| Deutsche Bank: | | | | | | |
| Ukraine | | | | | | |
| 7.65%, 6/11/13, 9/20/10* | 5.00 | 16.8234 | 9,200 | (594,424) | (714,172) | 119,748 |
| Goldman Sachs Bank USA: | | | | | | |
| VTB Bank | | | | | | |
| 4.25%, 2/15/16, 11/20/11* | 11.50 | 2.8526 | 4,400 | 748,368 | 0 | 748,368 |
| Gazprom | | | | | | |
| 8.625%, 4/28/34, 11/20/11* | 9.25 | 1.8824 | 2,900 | 424,202 | 0 | 424,202 |
| JPMorgan Chase Bank, N.A.: | | | | | | |
| OAO Gazprom | | | | | | |
| 10.50%, 10/21/09, 10/20/10* | 1.04 | 1.3062 | 12,210 | (478) | 0 | (478) |
| Ukraine | | | | | | |
| 7.65%, 6/11/13, 2/20/11* | 5.00 | 16.2235 | 4,000 | (376,415) | (631,814) | 255,399 |
| Morgan Stanley Capital Services Inc.: | | | | | | |
| Republic of Kazakhstan | | | | | | |
| Zero Coupon, 1/20/10, 1/20/10* | 0.00 | 1.006 | 9,800 | (5,498) | (41,263) | 35,765 |
| RSHB | | | | | | |
| 7.175%, 5/16/13, 11/20/13* | 9.75 | 2.1707 | 3,400 | 950,249 | 0 | 950,249 |

* *Termination date.*

FORWARD CURRENCY EXCHANGE CONTRACTS

| | Contract Amount (000) | U.S. \$ Value on Origination Date | U.S. \$ Value at December 31, 2009 | Unrealized Appreciation/ (Depreciation) |
|--|--------------------------------------|--|---|--|
| Buy Contracts: | | | | |
| Brazil Real | | | | |
| settling 1/05/10 Brazil Real | 20,109 | \$ 11,549,137 | \$ 11,550,464 | \$ 1,327 |
| settling 1/05/10 Brazil Real | 10,055 | 5,720,068 | 5,775,231 | 55,163 |
| settling 1/05/10 Euro Dollar | 10,055 | 5,601,492 | 5,775,231 | 173,739 |
| settling 1/25/10 New Zealand Dollar | 1,543 | 2,321,676 | 2,211,445 | (110,231) |
| settling 1/21/10 Russian Ruble | 3,516 | 2,561,946 | 2,549,987 | (11,959) |
| settling 1/14/10 South Korea Won | 321,571 | 10,508,869 | 10,594,273 | 85,404 |
| settling 1/14/10 (1) Zloty Poland | 11,881,384 | 10,278,014 | 10,200,773 | (77,241) |
| settling 2/03/10 (2) | 27,760 | 10,055,604 | 9,675,516 | (380,088) |
| Sale Contracts: | | | | |
| Brazil Real | | | | |
| settling 1/05/10 Brazil Real | 20,109 | 11,720,925 | 11,550,463 | 170,462 |
| settling 1/05/10 Brazil Real | 10,055 | 5,774,568 | 5,775,231 | (663) |
| settling 1/05/10 Brazil Real | 10,055 | 5,774,568 | 5,775,232 | (663) |
| settling 2/02/10 Colombian Peso | 10,055 | \$ 5,566,912 | \$ 5,739,407 | \$ (172,495) |
| settling 1/20/10 Colombian Peso | 16,419,129 | 8,364,730 | 8,019,110 | 345,620 |
| settling 1/27/10 Colombian Peso | 4,261,100 | 2,156,973 | 2,081,123 | 75,850 |
| settling 1/27/10 Euro Dollar | 9,769,696 24,907 | 4,939,653 37,146,484 | 4,771,524 35,705,470 | 168,129 1,441,014 |

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| | | | | |
|--------------------------------------|---------|------------|-----------|---------|
| settling 1/25/10 Euro Dollar | | | | |
| settling 2/03/10 (2) Japanese Yen | 6,706 | 10,055,604 | 9,612,834 | 442,770 |
| settling 1/08/10 Japanese Yen | 494,780 | 5,484,271 | 5,312,585 | 171,686 |
| settling 1/14/10 (1) | 922,754 | 10,278,014 | 9,908,171 | 369,843 |

(1) Represents a cross-currency purchase of South Korean Won and a sale of Japanese Yen.

(2) Represents a cross-currency purchase of Polish Zloty and a sale of Euro.

REVERSE REPURCHASE AGREEMENTS

| Broker | Interest Rate | Maturity | Amount |
|--------------------------|---------------|----------|---------------|
| BARCLAYS CAPITAL | 0.15% | 12/31/10 | \$ 5,261,937 |
| BARCLAYS CAPITAL | 0.25 | 12/31/10 | 2,383,866 |
| BARCLAYS CAPITAL | (0.50)* | 12/31/10 | 3,113,635 |
| BARCLAYS CAPITAL | (1.00)* | 12/31/10 | 1,783,544 |
| BARCLAYS CAPITAL | (1.00)* | 12/31/10 | 1,108,983 |
| BARCLAYS CAPITAL | (3.00)* | 12/31/10 | 1,485,520 |
| CHASE MANHATTAN BANK | (1.00)* | 1/11/10 | 15,790,455 |
| CHASE MANHATTAN BANK | (0.50)* | 1/14/10 | 1,626,777 |
| CHASE MANHATTAN BANK | (0.35)* | 12/31/10 | 1,113,085 |
| FIMAT ELECTRONIC TRADING | 0.10 | 12/31/10 | 2,057,089 |
| ING BANK AMSTERDAM | (0.62)* | 12/31/10 | 1,985,566 |
| ING BANK AMSTERDAM | (0.88)* | 12/31/10 | 1,920,715 |
| ING BANK AMSTERDAM | (1.75)* | 12/31/10 | 478,329 |
| ING BANK | (0.75)* | 12/31/10 | 590,872 |
| ING BARING | (0.25)* | 12/31/10 | 2,014,838 |
| ING BARING | (0.62)%* | 12/31/10 | \$ 1,961,866 |
| RING BANK | (0.38)* | 12/31/10 | 744,219 |
| | | | \$ 45,421,296 |

- (a) Security is in default and is non-income producing.
- (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 December 31, 2009, the aggregate market value of these securities amounted to \$402,549,163 or 34.0% of net assets.
- (c) Coupon rate adjusts periodically based upon a predetermined schedule. Stated interest rate in effect at December 31, 2009.
- (d) Floating Rate Security. Stated interest rate was in effect at December 31, 2009.
- (e) Pay-In-Kind Payments (PIK).
- (f) Security is exempt from registration under Rule 144A of the Securities Act of 1933. These securities, which represent 0.08% of net assets as of December 31, 2009, are considered illiquid and restricted.

| Restricted Securities | Acquisition Date | Cost | Market Value | Percentage of Net Assets |
|------------------------|------------------|---------|--------------|--------------------------|
| Gallery Capital SA | | | | |
| 10.125%, 5/15/13 | 5/10/2006 | 248,645 | 844,800 | 0.07% |
| Broder Brothers Co. | | | | |
| 12.00%, 10/15/13 | 5/21/2009 | 132,346 | 49,525 | 0.00% |
| Greektown Holdings LLC | | | | |
| 10.75%, 12/01/13 | 11/22/2005 | 878,773 | 138,394 | 0.01% |

- (g) Illiquid security.
- (h) Variable rate coupon, rate shown as of December 31, 2009.
- (i) Position, or a portion thereof, has been segregated to collateralize reverse repurchase agreements. The aggregate market value of these securities amounted to \$44,666,018.
- (j) Indicates a security that has a zero coupon that remains in effect until a predetermined date at which time the stated coupon rate becomes effective until final maturity.

- (k) Fair valued.
- (l) This position or a portion of this position represents an unsettled loan purchase. At December 31, 2009, the market value and unrealized gain/(loss) of these unsettled loan purchases amounted to \$727,728 and \$24,683, 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.
- (m) Non-income producing security.
- (n) Investment in affiliated money market mutual fund. The rate shown represents the 7-day yield as of period end.
- (o) As of December 31, 2009, the cost basis of investment securities owned was substantially identical for both book and tax purposes. Gross unrealized appreciation of investments was \$145,603,909 and gross unrealized depreciation of investments was \$(53,478,607), resulting in net unrealized appreciation of \$92,125,302.
- + Position, or a portion thereof, has been segregated to meet the collateral requirements of the Term Asset-Backed Securities Loan Facility ("TALF") program administered by the Federal Reserve Bank of New York. The aggregate market value of these securities amounted to \$48,291,747.
- * Interest payment due from counterparty.

The fund currently owns investments collateralized by subprime mortgage loans. Subprime loans are offered to homeowners who do not have a history of debt or who have had problems meeting their debt obligations. Because repayment is less certain, subprime borrowers pay a higher rate of interest than prime borrowers. As of December 31, 2009, the fund's total exposure to subprime investments was 0.25% of net assets. These investments are valued in accordance with the fund's Valuation Policies.

Currency Abbreviations:

| | |
|-----|---------------------|
| AUD | - Australian Dollar |
| BRL | - Brazilian Real |
| COP | - Colombian Peso |
| EGP | - Egypt Pound |
| EUR | - Euro Dollar |

Amortization of Intangible Assets. Amortization expense increased slightly as a result of a full quarter of amortization of intangible assets arising from our acquisition of Formscape. We expect that total amortization expense for fiscal 2008 will approximate \$10.6 million.

Provision for Income Taxes. During the quarter ended December 31, 2007, we recorded income tax expense of \$123,000. This was largely due to income tax expense in the U.S. and Australia, offset in part by an income tax benefit associated with our U.K. operations. In the quarter ended December 31, 2006, we recorded an income tax benefit of \$317,000. This benefit was attributable to our U.K. operations, offset in part by income tax expense in the U.S., Australia and Germany. In each of the quarters ended December 31, 2007 and 2006, the income tax expense recorded in the U.S. was due to an increase in deferred tax liabilities associated with goodwill that is deductible for U.S. tax purposes but is not amortized for financial reporting purposes. The U.S. tax expense also consisted of a small amount of state income tax expense which we had incurred irrespective of our net operating loss carryforwards.

Six Months Ended December 31, 2007 Compared to the Six Months Ended December 31, 2006

Revenues by segment

As of July 1, 2007, we revised the structure of our internal operating segments and changed the nature of the financial information that is provided to and used by our chief operating decision makers. We have aggregated similar operating segments into three reportable segments: Payments and Transactional Documents, Banking Solutions

and Outsourced Solutions. The change in segment structure as of July 1, 2007 resulted in our accounts payable automation product offerings being included as a component of our segment rather than our Payment and Transactional Documents segment. The change in segment composition is reflected for all financial periods presented. The following table represents our revenues by segment:

| | Six Months Ended December 31, | | | | Increase | |
|--------------------------------------|-------------------------------|-----------|----------------|----------------|------------|----------------------|
| | 2007 | 2006 | As % of | As % of | (Decrease) | Between Periods 2007 |
| | As % of | As % of | total | total | Compared | to 2006 |
| (in thousands) | Revenue | Revenue | (in thousands) | (in thousands) | % | |
| Payments and Transactional Documents | \$ 41,220 | \$ 34,761 | 65.2 | 63.4 | \$ 6,459 | 18.6 |
| Banking Solutions | 10,408 | 8,452 | 16.5 | 15.4 | 1,956 | 23.1 |
| Outsourced Solutions | 11,566 | 11,659 | 18.3 | 21.2 | (93) | (0.8) |
| | \$ 63,194 | \$ 54,872 | 100.0 | 100.0 | \$ 8,322 | 15.2 |

Payments and Transactional Documents. The revenue increase for the six months ended December 31, 2007 was primarily attributable to a full six months revenue contribution from Formscape, which we acquired in October 2006, and an increase in foreign currency exchange rates.

Banking Solutions. The revenue increase for the six months ended December 31, 2007 was attributable to an increase in the revenue contribution from several large, ongoing, banking projects.

Outsourced Solutions. The revenue decrease for the six months ended December 31, 2007 was primarily the result of a decrease in revenues from certain of our legacy accounts payable automation products in Europe, offset in part by increases in revenues from our Legal eXchange offering as a result of new customers and an increase in foreign currency exchange rates.

Revenues by category

| | Six Months Ended December 31, | | | | Increase (Decrease) | |
|--------------------------------|-------------------------------|---------------|----------------|---------------|---------------------|------------------|
| | 2007 | | 2006 | | Between Periods | |
| | (in thousands) | As % of total | (in thousands) | As % of total | 2007 | Compared to 2006 |
| | | | | | | % |
| Revenues: | | | | | | |
| Software licenses | \$ 6,758 | 10.7 | \$ 5,933 | 10.8 | \$ 825 | 13.9 |
| Subscriptions and transactions | 14,184 | 22.4 | 13,227 | 24.1 | 957 | 7.2 |
| Service and maintenance | 35,768 | 56.6 | 28,998 | 52.9 | 6,770 | 23.3 |
| Equipment and supplies | 6,484 | 10.3 | 6,714 | 12.2 | (230) | (3.4) |
| Total revenues | 63,194 | 100.0 | 54,872 | 100.0 | 8,322 | 15.1 |

Software Licenses. The increase in software license revenues was principally due to an increase in license revenue in our Banking Solutions segment, a full six months of revenue contribution from Formscape, which we acquired in October 2006, and an increase in foreign currency exchange rates.

Subscriptions and Transactions. The increase in subscription and transaction revenues was due principally to the revenue contribution from new Legal eXchange customers, an increase in foreign currency exchange rates, and general growth in our subscription and transactional based revenue. We expect subscription and transaction revenues to increase during the remainder of the fiscal year as a result of orders for our newer subscription and transaction based product offerings and as a result of the revenue contribution from new Legal eXchange customers.

Service and Maintenance. The increase in service and maintenance revenues occurred primarily as a result of a full six months of revenue contribution from Formscape, which we acquired in October 2006, an increase in revenues associated with our Banking Solutions products as a result of several large, ongoing banking projects and an increase in foreign currency exchange rates.

Equipment and Supplies. The decrease in equipment and supplies revenues was principally due to our continued de-emphasis of lower margin transactions within this aspect of our business.

Cost of revenues by category

| | Six Months Ended December 31, | | | | Increase | |
|--|-------------------------------|---------------|----------------|----------------|------------------|------|
| | 2007 | | 2006 | | (Decrease) | |
| | (in thousands) | As % of total | (in thousands) | As % of total | Between Periods | 2007 |
| | | | | (in thousands) | Compared to 2006 | % |
| | | | | | | |

| | Revenues | | Revenues | | | |
|--------------------------------|-----------|------|-----------|------|----------|-------|
| Cost of revenues: | | | | | | |
| Software licenses | \$ 425 | 0.7 | \$ 383 | 0.7 | \$ 42 | 11.0 |
| Subscriptions and transactions | 7,884 | 12.5 | 5,393 | 9.8 | 2,491 | 46.2 |
| Service and maintenance | 14,920 | 23.6 | 13,474 | 24.6 | 1,446 | 10.7 |
| Stock compensation expense | 468 | 0.7 | 289 | 0.5 | 179 | 61.9 |
| Equipment and supplies | 4,614 | 7.3 | 4,996 | 9.1 | (382) | (7.6) |
| Total cost of revenues | \$ 28,311 | 44.8 | \$ 24,535 | 44.7 | \$ 3,776 | 15.4 |
| Gross profit | \$ 34,883 | 55.2 | \$ 30,337 | 55.3 | \$ 4,546 | 15.0 |

Software Licenses. Software license costs consist of expenses incurred by us to manufacture, package and distribute our software products and related documentation and costs of licensing third party software that is incorporated into or sold with certain of our products. Software license costs remained relatively consistent at 6% of software license revenues in the six months ended December 31, 2007 and 2006.

Subscriptions and Transactions. Subscriptions and transaction costs include salaries and other related costs for our professional services teams as well as costs related to our hosting infrastructure such as depreciation and facilities related expenses.

Subscriptions and transaction costs represented 56% of subscriptions and transaction revenues in the six months ended December 31, 2007 as compared to 41% in the six months ended December 31, 2006. The increase in subscriptions

and transaction costs was due to our continued investment in our hosted and accounts payable automation solutions, particularly our hosted infrastructure and our customer delivery capabilities.

Service and Maintenance. Service and maintenance costs include salaries and other related costs for our customer service, maintenance and help desk support staffs, as well as third party contractor expenses used to complement our professional services team. Service and maintenance costs decreased to 42% as a percentage of service and maintenance revenues during the six months ended December 31, 2007 as compared to 46% in the six months ended December 31, 2006. The decrease in service and maintenance cost of revenue as a percentage of service and maintenance revenue was due to an increase in the contribution of software maintenance revenues from Formscape, which we acquired in October 2006, and an increase in professional services gross margins in our Banking Solutions segment.

Equipment and Supplies. Equipment and supplies costs include the costs associated with equipment and supplies that we resell, as well as freight, shipping and postage costs associated with the delivery of our products. Equipment and supplies costs decreased to 71% of equipment and supplies revenues in the six months ended December 31, 2007 compared to 74% of equipment and supplies revenues in the six months ended December 31, 2006. The decrease in equipment and supplies costs as a percentage of equipment and supplies revenues was attributable to our continued de-emphasis of lower margin equipments and supplies transactions.

Operating Expenses

| | Six Months Ended December 31, | | | | Increase (Decrease) Between Periods 2007 Compared to 2006 | |
|-------------------------------------|-------------------------------|------------------------------|----------------|------------------------------|--|--------|
| | 2007 | | 2006 | | (in thousands) | % |
| | (in thousands) | As % of total revenues | (in thousands) | As % of total revenues | | |
| Operating expenses: | | | | | | |
| Sales and marketing | \$ 14,069 | 22.3 | \$ 13,360 | 24.3 | \$ 709 | 5.3 |
| Stock compensation expense | 1,297 | 2.0 | 1,457 | 2.7 | (160) | (11.0) |
| Product development and engineering | 8,069 | 12.8 | 7,461 | 13.6 | 608 | 8.1 |
| Stock compensation expense | 383 | 0.6 | 392 | 0.7 | (9) | (2.3) |
| General and administrative | 7,305 | 11.6 | 7,644 | 13.9 | (339) | (4.4) |
| Stock compensation expense | 1,880 | 3.0 | 1,802 | 3.3 | 78 | 4.3 |
| | 5,330 | 8.4 | 3,873 | 7.1 | 1,457 | 37.6 |

Amortization of
intangible assets

| | | | | | | |
|--------------------------|-----------|------|-----------|------|----------|-----|
| Total operating expenses | \$ 38,333 | 60.7 | \$ 35,989 | 65.6 | \$ 2,344 | 6.5 |
|--------------------------|-----------|------|-----------|------|----------|-----|

Sales and Marketing. Sales and marketing expenses consist primarily of salaries and other related costs for sales and marketing personnel, sales commissions, travel, public relations and marketing materials and trade show participation. The increase in sales and marketing expenses was primarily attributable to a full six months of headcount related costs associated with the Formscape acquisition and an increase in foreign currency exchange rates.

Product Development and Engineering. Product development and engineering expenses consist primarily of personnel costs to support product development, which continues to be focused on enhancements and revisions to our products based on customer feedback and general marketplace demands. The increase in product development and engineering expenses was primarily attributable to a full six months of costs associated with the Formscape acquisition, increased development costs related to our Legal eXchange product and an increase in foreign currency exchange rates.

General and Administrative. General and administrative expenses consist primarily of salaries and other related costs for operations and finance employees and legal and accounting services. The decrease in general and administrative expenses was primarily attributable to cost reductions in our U.K. operations as a result of facility consolidations, a decrease in staff recruiting and relocation fees and a decrease in third party professional services fees, offset in part by a full six months of costs associated with the Formscape acquisition and an increase in foreign currency exchange rates.

Stock Compensation Expense. Stock compensation expense remained relatively consistent during the six months ended December 31, 2007 as compared to the six months ended December 31, 2006. The expense associated with share based payments is recorded as expense within the same functional expense category in which cash compensation for the applicable employee is recorded. For the six months ended December 31, 2007 and 2006, stock compensation expense was allocated as follows:

20

| | Six Months Ended December 31, 2007 2006 (in thousands) | |
|---|--|----------|
| Cost of revenues, service and maintenance | \$ 468 | \$ 289 |
| Sales and marketing | 1,297 | 1,457 |
| Product development and engineering | 383 | 392 |
| General and administrative | 1,880 | 1,802 |
| | \$ 4,028 | \$ 3,940 |

Amortization of Intangible Assets. Amortization expense increased as a result of the amortization of intangible assets arising from our October 2006 acquisition of Formscape.

Provision for Income Taxes. We recorded a net tax benefit of \$182,000 and \$317,000 during the six months ended December 31, 2007 and 2006, respectively. In the six months ended December 31, 2007, the net benefit position was due to an income tax benefit associated with our European operations, offset in part by income tax expense in the U.S. and Australia. Further, this net benefit position included the one-time impact of a tax benefit arising from the enactment of legislation that decreased our tax rate in the U.K. and Germany. In the six months ended December 31, 2006, the net benefit position was due to an income tax benefit associated with our U.K. operations, partially offset by tax expense in the U.S. and Australia.

Liquidity and Capital Resources

One of our goals is to maintain and improve our capital structure. The key metrics we focus on in assessing the strength of our liquidity are summarized in the table below:

| | Six Months Ended December 31, 2007 2006 (in thousands) | |
|---------------------------------------|--|----------|
| Cash provided by operating activities | \$ 8,461 | \$ 4,355 |

| | December 31, 2007 | June 30, 2007 |
|--|----------------------|------------------|
| Cash, cash equivalents and marketable securities | \$ 71,212 | \$ 65,873 |
| Working capital | 60,985 | 55,321 |

We have financed our operations primarily from cash provided by operating activities and the sale of our common stock. We generated positive operating cash flows in the six months ended December 31, 2007 and in each of our last six completed fiscal years. We believe that the cash generated from our operations and the cash, cash equivalents and marketable securities on hand will be sufficient to meet our working capital and capital expenditure requirements for the foreseeable future. We also may receive additional investments from, and make investments in, customers or other companies. However, any such transactions would require the approval of our board of directors, and in some cases, stockholder and potentially bank or regulatory approval. We also may undertake additional business or asset acquisitions or divestitures.

Operating Activities

Six Months Ended
December 31,
2007 2006
(in thousands)

| | | |
|---|------------|------------|
| Net loss | \$ (1,475) | \$ (3,596) |
| Non-cash adjustments | 10,350 | 8,617 |
| Changes in working capital | (414) | (666) |
| Net cash provided by operating activities | 8,461 | 4,355 |

The increase in net cash provided by operating activities for the six months ended December 31, 2007 was due to a decrease in our net loss, affected by favorable non-cash adjustments, offset in part by decreases in accounts payable, accrued expenses and deferred revenue and an increase in accounts receivable. Net cash provided by operating activities for the six

months ended December 31, 2006 was due to our net loss, affected by favorable non-cash adjustments and collections on accounts receivable, offset in part by decreases in accrued expenses and deferred revenue. Non-cash adjustments are transactions that result in the recognition of financial statement expense but not a corresponding cash receipt or disbursement, such as stock compensation expense, amortization of intangible assets, depreciation and amortization of property and equipment and provision for allowances of accounts receivable.

Investing Activities

| | Six Months Ended | |
|--|------------------|------------|
| | 2007 | 2006 |
| | (in thousands) | |
| Acquisition of business and assets, net of cash acquired | \$ — | \$(16,970) |
| Purchases of available-for-sale securities | (225) | (10,350) |
| Proceeds from sale of available-for-sale securities | 26,050 | 20,450 |
| Purchases of held-to-maturity securities | (51) | — |
| Proceeds from sales of held-to-maturity securities | 51 | — |
| Purchases of property and equipment | (1,270) | (1,209) |
| Net cash provided by (used in) investing activities | 24,555 | (8,079) |

In the six months ended December 31, 2007, cash was primarily provided through the sale of marketable securities and, to a lesser extent, was used to acquire property and equipment. For the six months ended December 31, 2006, cash was primarily provided through the sale of marketable securities and was used to fund the acquisition of Formscape, purchase marketable securities and, to a lesser extent, to acquire property and equipment. We currently expect to incur quarterly capital expenditures during the remainder of fiscal 2008 that will be above the level of capital expenditures incurred during the first six months of the fiscal year as we continue to enhance our IT and hosted infrastructure.

Financing Activities

| | Six Months Ended | |
|---|------------------|------------|
| | 2007 | 2006 |
| | (in thousands) | |
| Repurchase of common stock | \$ (6,708) | \$ (4,003) |
| Proceeds from employee stock purchase plan and exercise of stock options proceeds | 4,988 | 1,279 |
| Excess tax benefits associated with stock compensation | 108 | 29 |
| Payment of bank financing fees | (20) | (20) |
| Capital lease payments | (15) | (29) |
| Net cash used in financing activities | (1,647) | (2,744) |

Net cash used in financing activities for the six months ended December 31, 2007 and December 31, 2006 was primarily the result of the repurchase of our common stock, offset by proceeds received from the exercise of employee stock options and from the purchase of our stock by participants in our employee stock purchase plan.

Off-Balance Sheet Arrangements

During the three months ended December 31, 2007, we did not engage in material off-balance sheet activities, including the use of structured finance, special purpose or variable interest entities, material trading activities in non-exchange traded commodity contracts or transactions with persons or entities that benefit from their non-independent relationship with us.

22

Contractual Obligations

Following is a summary of future payments that we are required to make under existing contractual obligations as of December 31, 2007:

| | Payments Due by Period * | | | | |
|-------------------------------|--------------------------|---------------------|-----------------------------|--------------|-------------------------|
| | Total | Less Than 1 Year | 1-3 Years (in thousands) | 4-5 Years | More Than 5 Years |
| Operating lease obligations | \$ 10,833 | \$ 1,383 | \$ 6,787 | \$ 1,686 | \$ 977 |
| Capital lease obligations | 58 | 18 | 40 | -- | -- |
| Other contractual obligations | 179 | -- | 179 | -- | -- |
| Total | \$ 11,070 | \$ 1,401 | \$ 7,006 | \$ 1,686 | \$ 977 |

* Payment due dates are calculated from our most recent fiscal year end of June 30, 2007

Purchase orders are not included in the table above. Our purchase orders represent authorizations to purchase rather than binding agreements. The contractual obligation amounts in the table above are associated with agreements that are enforceable and legally binding and that specify all significant terms, including: fixed or minimum services to be used; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Obligations under contract that we can cancel without a significant penalty are not included in the table above. Also excluded from the table is our estimate of unrecognized tax benefits as of December 31, 2007 in the amount of \$314,000. These amounts have been excluded because, as of December 31, 2007, we are unable to estimate the timing of future cash outflows, if any, associated with these liabilities as we do not currently anticipate settling any of these tax positions with cash payment in the foreseeable future.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to a variety of risks, including foreign currency exchange rate fluctuations and changes in the market value of our investments in marketable securities primarily due to changes in the interest rates. We have not entered into any foreign currency hedging transactions or other instruments to minimize our exposure to foreign currency exchange rate fluctuations nor do we presently plan to in the future. Also, we have not entered into any interest rate swap agreements, or other instruments to minimize our exposure to interest rate fluctuations. There has been no material change to our exposure to market risk from that which was disclosed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2007, as filed with the SEC on September 12, 2007.

Item 4. Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2007. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of December 31, 2007, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended December 31, 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1A. Risk Factors

Investing in our common stock involves a high degree of risk. You should carefully consider the risks and uncertainties described below before making an investment decision involving our common stock. The risks and uncertainties described below are not the only ones facing our company. Additional risks and uncertainties may also impair our business operations.

If any of the following risks actually occur, our business, financial condition or results of operations would likely suffer. In that case, the trading price of our common stock could fall, and you may lose all or part of the money you paid to buy our common stock.

The following risk factors do not reflect any material changes from those included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2007, as filed with the SEC on September 12, 2007.

Our common stock has experienced and may continue to undergo extreme market price and volume fluctuations

Stock markets in general, and The NASDAQ Global Market in particular, have experienced extreme price and volume fluctuations, particularly in recent years. Broad market fluctuations of this type may adversely affect the market price of our common stock. The stock prices for many companies in the technology sector have experienced wide fluctuations that often have been unrelated to their operating performance. The market price of our common stock has experienced and may continue to undergo extreme fluctuations due to a variety of factors, including:

- changes in or our failure to meet analysts' or investors' estimates or expectations;
 - general and industry-specific business, economic and market conditions;
- actual or anticipated fluctuations in operating results, including those arising as a result of any impairment of goodwill or other intangible assets related to past or future acquisitions;
- public announcements concerning us, including announcements of litigation, our competitors or our industry;
- introductions of new products or services or announcements of significant contracts by us or our competitors;
 - acquisitions, divestitures, strategic partnerships, joint ventures, or capital commitments by us or our competitors;
 - adverse developments in patent or other proprietary rights; and
 - announcements of technological innovations by our competitors.

Our future financial results will be impacted by our success in selling new products in a subscription and transaction based revenue model

A substantial portion of our revenues and profitability were historically generated from software license revenues. We are currently offering certain of our newer product sets under a subscription and transaction based revenue model, which we believe has certain advantages over a perpetual license model, including better predictability of revenue.

A subscription and transaction based revenue model typically results in no up-front revenue. Additionally, there can be no assurance that our customers, or the markets in which we compete, will respond favorably to the approach we have taken with our newer offerings. To the extent that our new subscription and transaction based offerings do not receive general marketplace acceptance, our financial results could be materially and adversely affected.

We make significant investments in existing products and new product offerings that can adversely affect our operating results and may not be successful

We operate in a highly competitive and rapidly evolving technology environment and believe that it is important to enhance existing product offerings and develop new product offerings to meet strategic opportunities as they evolve. Investments in existing product enhancements and new product offerings can have a negative impact on our operating results, and any existing product enhancements or new product offerings may not be accepted in the marketplace or generate material revenues. For example, our operating results have recently been affected by a significant increase in product development expenses as we continue to make investments in our hosted, banking and accounts payable automation products.

Integration of acquisitions could interrupt our business and our financial condition could be harmed

Part of our operating strategy is to identify and pursue strategic acquisitions that can expand our geographical footprint or complement our existing product functionality. We may in the future continue to acquire, or make investments in, other businesses, products or technologies. Any acquisition or strategic investment we have made in the past or may make in the future may entail numerous risks, including the following:

- difficulties integrating acquired operations, personnel, technologies or products;
 - inadequacy of existing operating, financial and management information systems to support the combined organization or new operations;
 - write-offs related to impairment of goodwill and other intangible assets;
- entrance into markets in which we have no or limited prior experience or knowledge;
 - diversion of management's focus from our core business concerns;
 - dilution to existing stockholders and earnings per share;
 - incurrence of substantial debt; and

• exposure to litigation from third parties, including claims related to intellectual property or other assets acquired or liabilities assumed.

Any such difficulties encountered as a result of any merger, acquisition or strategic investment could have a material adverse effect on our business, operating results and financial condition.

As a result of our acquisitions, we could be subject to significant future write-offs with respect to intangible assets, which may adversely affect our future operating results

We review our intangible assets, including goodwill, periodically for impairment. At December 31, 2007, the carrying value of our goodwill and our other intangible assets was approximately \$53 million and \$25 million, respectively. While we reviewed our goodwill and intangible assets during the fourth quarter of fiscal year 2007 and concluded that there was no impairment, we could be subject to future impairment charges with respect to these intangible assets, or intangible assets arising as a result of acquisitions in future periods. Such charges, to the extent occurring, would likely have a material adverse effect on our operating results.

Our fixed costs may lead to operating results below analyst or investor expectations if our revenues are below anticipated levels, which could adversely affect the market price of our common stock

A significant percentage of our expenses, particularly personnel and facilities costs, are relatively fixed and based in part on anticipated revenue levels. In recent years, we have experienced slowing growth rates with certain of our licensed software products. A decline in revenues without a corresponding and timely slowdown in expense growth could negatively affect our business. Significant revenue shortfalls in any quarter may cause significant declines in operating results since we may be unable to reduce spending in a timely manner.

Quarterly or annual operating results that are below the expectations of public market analysts could adversely affect the market price of our common stock. Factors that could cause fluctuations in our operating results include the following:

- economic conditions, which may affect our customers' and potential customers' budgets for information technology expenditures;

- the timing of orders and longer sales cycles;

- the timing of product implementations, which are highly dependent on customers' resources and discretion;

- the incurrence of costs relating to the integration of software products and operations in connection with acquisitions of technologies or businesses; and

- the timing and market acceptance of new products or product enhancements by either us or our competitors.

Because of these factors, we believe that period-to-period comparisons of our results of operations are not necessarily meaningful.

Our mix of products and services could have a significant effect on our financial condition, results of operations and the market price of our common stock

The gross margins for our products and services vary considerably. Our software revenues generally yield significantly higher gross margins than do our subscription and transaction, service and maintenance and equipment and supplies revenue streams. In recent fiscal years, we experienced a decrease in our software license fees. If software license fees were to again decline, or if the mix of our products and services in any given period does not match our expectations, our results of operations and the market price of our common stock could be significantly adversely affected.

We face risks associated with our international operations that could harm our financial condition and results of operations

A significant percentage of our revenues have been generated by our international operations, and our future growth rates and success are in part dependent on our continued growth and success in international markets. We have operations in the U.S., U.K., Australia, France and Germany. As is the case with most international operations, the success and profitability of these operations are subject to numerous risks and uncertainties that include, in addition to the risks our business as a whole faces, the following:

- difficulties and costs of staffing and managing foreign operations;
 - currency exchange rate fluctuations;
- differing regulatory and industry standards and certification requirements;
 - the complexities of foreign tax jurisdictions;
- reduced protection for intellectual property rights in some countries; and
 - import or export licensing requirements.

A significant percentage of our revenues to date have come from our payment management offerings and our future performance will depend on continued market acceptance of these solutions

A significant percentage of our revenues to date have come from the license and maintenance of our payment management offerings and sales of associated products and services. Any significant reduction in demand for our payment management offerings could have a material adverse effect on our business, operating results and financial condition. Our future performance could depend on the following factors:

- continued market acceptance of our payment management offerings including our overall accounts payable automation solution;

• prospective customers' dependence upon enterprises seeking to enhance their payment functions to integrate electronic payment capabilities;

our ability to introduce enhancements to meet the market's evolving needs for secure payments and cash management solutions; and

- acceptance of software solutions offered on a hosted basis.

A growing number of our customer arrangements involve selling our products and services on a hosted basis, which may have the effect of delaying revenue recognition and increasing development or start-up expenses

An increasing number of our customer arrangements involve offering certain of our products and services on a hosted basis. These arrangements typically include a contractually defined service period as well as performance criteria that our products or services are required to meet over the duration of the service period. Arrangements entered into on a hosted basis generally delay the timing of revenue recognition and often require the incurrence of up-front costs, which can be significant. We are continuing to make significant investments in certain of our hosted offerings, such as our accounts payable automation products, and there can be no assurance that these products will ultimately gain broad market acceptance. Additionally, there is a risk that we might be unable to consistently maintain the performance requirements, or service levels, called for under any such hosted arrangements. Such events, to the extent occurring, could have a material and adverse effect on our operating results.

Our future financial results will depend on our ability to manage growth effectively

In the past, rapid growth has strained our managerial and other resources. If rapid growth resumes, our ability to manage that growth will depend in part on our ability to continue to enhance our operating, financial and management information systems. We cannot assure you that our personnel, systems and controls will be adequate to support future

growth. If we are unable to manage growth effectively, the quality of our services, our ability to retain key personnel and our business, operating results and financial condition could be materially adversely affected.

We face significant competition in our targeted markets, including competition from companies with significantly greater resources

In recent years, we have encountered increasing competition in our targeted markets. We compete with a wide range of companies, ranging from small start-up enterprises with limited resources, which compete principally on the basis of technology features or specific customer relationships, to large companies, which can leverage significant customer bases and financial resources. Given the size and nature of the markets we target, the implementation of our growth strategy and our success in competing for market share is dependent on our ability to grow our sales and marketing capabilities and maintain an appropriate level of financial resources.

An increasing number of large and more complex customer contracts, or contracts that involve the delivery of services over contractually committed periods, generally delay the timing of our revenue recognition and in the short-term may adversely affect our operating results, financial condition and the market price of our stock

Due to an increasing number of large and more complex customer contracts, particularly in our Banking Solutions segment, we have experienced, and will likely continue to experience, delays in the timing of our revenue recognition. These large and complex customer contracts generally require significant implementation work, product customization and modification, resulting in the recognition of revenue over the period of project completion, which normally spans several quarters. Delays in revenue recognition on these contracts, including delays that result from customer decisions to halt or otherwise slow down a long-term project due to their own staffing challenges, could affect our operating results, financial condition and the market price of our common stock. Similarly, if we are unable to continue to generate new large orders on a regular basis, our business operating results and financial condition could be adversely affected.

We depend on key employees who are skilled in e-commerce, payment, cash and document management and invoice presentment methodology and Internet and other technologies

Our success depends upon the efforts and abilities of our executive officers and key technical employees who are skilled in e-commerce, payment methodology and regulation, and Internet, database and network technologies. The loss of one or more of these individuals could have a material adverse effect on our business. We currently do not maintain "key man" life insurance policies on any of our employees. While some of our executive officers have employment or retention agreements with us, the loss of the services of any of our executive officers or other key employees could have a material adverse effect on our business, operating results and financial condition.

We must attract and retain highly skilled personnel with knowledge in e-commerce, payment, cash and document management and invoice presentment methodology and Internet and other technologies

We believe that our success is in part dependent upon our ability to attract, hire, train and retain highly skilled technical, sales and marketing, and support personnel, particularly with expertise in e-commerce, payment, cash management and invoice methodology and Internet and other technologies. Competition for qualified personnel is intense. As a result, we may experience increased compensation costs that may not be offset through either improved productivity or higher sales prices. There can be no assurance that we will be successful in attracting, recruiting or retaining existing personnel. Based on our experience, it takes an average of nine months for a new salesperson to become fully productive. We cannot assure you that we will be successful in increasing the productivity of our sales personnel, and the failure to do so could have a material adverse effect on our business, operating results and financial condition.

Increased competition may result in price reductions and decreased demand for our product solutions

The markets in which we compete are intensely competitive and characterized by rapid technological change. Some competitors in our targeted markets have longer operating histories, significantly greater financial, technical, and marketing resources, greater brand recognition and a larger installed customer base than we do. We expect to face additional competition as other established and emerging companies enter the markets we address. In addition, current and potential competitors may make strategic acquisitions or establish cooperative relationships to expand their product offerings and to offer more comprehensive solutions. This growing competition may result in price reductions of our products and services, reduced revenues and gross margins and loss of market share, any one of which could have a material adverse effect on our business, operating results and financial condition.

27

Our success depends on our ability to develop new and enhanced products, services and strategic partner relationships

The markets in which we compete are subject to rapid technological change and our success is dependent on our ability to develop new and enhanced products, services and strategic partner relationships that meet evolving market needs. Trends that could have a critical impact on us include:

- evolving industry standards, mandates and laws, such as those mandated by the National Automated Clearing House Association and the Association for Payment Clearing Services;

• rapidly changing technology, which could cause our software to become suddenly outdated or could require us to make our products compatible with new database or network systems;

- developments and changes relating to the Internet that we must address as we maintain existing products and introduce any new products; and

• the loss of any of our key strategic partners who serve as a valuable network from which we can leverage industry expertise and respond to changing marketplace demands.

There can be no assurance that technological advances will not cause our products to become obsolete or uneconomical. If we are unable to develop and introduce new products, or enhancements to existing products, in a timely and successful manner, our business, operating results and financial condition could be materially adversely affected. Similarly, if our new products did not receive general marketplace acceptance, or if the sales cycle of any of our new products significantly delayed the timing of revenue recognition, our results could be negatively affected.

Our products could be subject to future legal or regulatory actions, which could have a material adverse effect on our operating results

Our software products and hosted services offerings facilitate the transmission of business documents and information including, in some cases, confidential financial data related to payments, invoices and cash management. Our web-based software products, and certain of our hosted services offerings, transmit this data electronically. While we believe that all of our product and service offerings comply with current regulatory and security requirements, there can be no assurance that future legal or regulatory actions will not impact our product and service offerings. To the extent that regulatory or legal developments mandate a change in any of our products or services, or alter the demand for or the competitive environment of our products and services, we might not be able to respond to such requirements in a timely or successful manner. If this were to occur, our business, operating results and financial condition could be materially adversely affected.

Any unanticipated performance problems or bugs in our product offerings could have a material adverse effect on our future financial results

If the products that we offer and continue to introduce do not sustain marketplace acceptance, our future financial results will be adversely affected. Since many of our software solutions are still in early stages of adoption and since most of our software products are continually being enhanced or further developed in response to general marketplace demands, any unanticipated performance problems or bugs that we have not been able to detect could result in additional development costs, diversion of technical and other resources from our other development efforts, negative publicity regarding us and our products, harm to our customer relationships and exposure to potential liability claims. In addition, if our products do not enjoy wide commercial success, our long-term business strategy will be adversely affected, which could have a material adverse effect on our business, operating results and financial condition.

We could incur substantial costs resulting from warranty claims or product liability claims

Our software license agreements typically contain provisions that afford customers a degree of warranty protection in the event that our software fails to conform to its written specifications. These agreements typically contain provisions intended to limit the nature and extent of our risk of warranty and product liability claims. There is a risk, however, that a court might interpret these terms in a limited way or could hold part or all of these terms to be unenforceable. Furthermore, some of our licenses with our customers are governed by non-U.S. law, and there is a risk that foreign law might provide us less or different protection. While we maintain general liability insurance, including coverage for errors and omissions, we cannot be sure that our existing coverage will continue to be available on reasonable terms or will be available in amounts sufficient to cover one or more large claims. Although we have not experienced any material warranty or product liability claims to date, a warranty or product liability claim, whether or not meritorious, could result in substantial costs and a diversion of management's attention and our resources, which could have an adverse effect on our business, operating results and financial condition.

We could be adversely affected if we are unable to protect our proprietary technology and could be subject to litigation regarding our intellectual property rights, causing serious harm to our business

We rely upon a combination of patent, copyright and trademark laws and non-disclosure and other intellectual property contractual arrangements to protect our proprietary rights. However, we cannot assure you that our patents, pending applications for patents that may issue in the future, or other intellectual property will be of sufficient scope and strength to provide meaningful protection to our technology or any commercial advantage to us, or that the patents will not be challenged, invalidated or circumvented. We enter into agreements with our employees and customers that seek to limit and protect the distribution of proprietary information. Despite our efforts to safeguard and maintain our proprietary rights, there can be no assurance that such rights will remain protected or that we will be able to detect unauthorized use and take appropriate steps to enforce our intellectual property rights.

In recent years, there has been significant litigation in the United States involving patents and other intellectual property rights. We may be a party to litigation in the future to protect our intellectual property rights or as a result of an alleged infringement of the intellectual property rights of others. Any such claims, whether or not meritorious, could require us to spend significant sums in litigation, pay damages, delay product implementations, develop non-infringing intellectual property or acquire licenses to intellectual property that is the subject of the infringement claim. These claims could have a material adverse effect on our business, operating results and financial condition.

We engage off-shore development resources which may not be successful and which may put our intellectual property at risk

In order to optimize our research and development capabilities and to meet development timeframes, we contract with off-shore third party vendors in India and elsewhere for certain development activities. While our experience to date with these resources has been positive, there are a number of risks associated with off-shore development activities that include but are not limited to the following:

- less efficient and less accurate communication and information flow as a consequence of time, distance and language barriers between our primary development organization and the off-shore resources, resulting in delays or deficiencies in development efforts;
- disruption due to political or military conflicts around the world;

• misappropriation of intellectual property from departing personnel, which we may not readily detect; and

• currency exchange rate fluctuations that could adversely impact the cost advantages intended from these agreements.

To the extent that these or unforeseen risks occur, our operating results and financial condition could be adversely impacted.

Some anti-takeover provisions contained in our charter and under Delaware law could hinder a takeover attempt

We are subject to the provisions of Section 203 of the General Corporation Law of the State of Delaware prohibiting, under some circumstances, publicly-held Delaware corporations from engaging in business combinations with some stockholders for a specified period of time without the approval of the holders of substantially all of our outstanding voting stock. Such provisions could delay or impede the removal of incumbent directors and could make more difficult a merger, tender offer or proxy contest involving us, even if such events could be beneficial, in the short-term, to the interests of the stockholders. In addition, such provisions could limit the price that some investors might be willing to pay in the future for shares of our common stock. Our certificate of incorporation and bylaws contain provisions relating to the limitations of liability and indemnification of our directors and officers, dividing our board of directors into three classes of directors serving three-year terms and providing that our stockholders can take action only at a duly called annual or special meeting of stockholders.

We may incur significant costs from class action litigation as a result of expected volatility in our common stock

In the past, companies that have experienced market price volatility of their stock have been the targets of securities class action litigation. In August 2001, we were named as a party in one of the so-called “laddering” securities class action suits relating to the underwriting of our initial public offering. We could incur substantial costs and experience a diversion of our management’s attention and resources in connection with any such litigation, which could have a material adverse effect on our business, financial condition and results of operations.

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

The following table provides information about purchases by us of our common stock during the three months ended December 31, 2007:

| Period | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Approximate Dollar Value of Shares That May Yet be Purchased Under The Plans or Programs (1) |
|------------------------------------|----------------------------------|------------------------------|--|--|
| October 1, 2007—October 31, 2007 | 29,900 | \$ 14.09 | 29,900 | \$ 4,757,000 |
| November 1, 2007—November 30, 2007 | 135,000 | 13.65 | 135,000 | 2,914,000 |
| December 1, 2007—December 31, 2007 | 55,000 | 13.72 | 55,000 | 2,159,000 |
| Total | 219,900 | \$ 13.73 | 219,900 | \$ 2,159,000 |

(1) In May 2007, our board of directors announced that it had authorized a repurchase program for the repurchase of up to \$10.0 million of our common stock.

Item 4. Submission of Matters to a Vote of Security Holders

We held our 2007 Annual Meeting of Stockholders on November 15, 2007. The following matters were voted upon at the Annual Meeting.

1. Election of Directors. Holders of 21,135,403 shares of our common stock voted to elect Daniel M. McGurl to serve for a term of three years as a Class III Director. Holders of 835,719 shares of our common stock withheld votes from such director. Holders of 20,794,796 shares of our common stock voted to elect James L. Loomis to serve for a term of three years as a Class III Director. Holders of 1,176,326 shares of our common stock withheld votes from such director. Holders of 21,184,186 shares of our common stock voted to elect Garen K. Staglin to serve for a term of three years as a Class III Director. Holders of 786,936 shares of our common stock withheld votes from such director.
2. Ratification of Independent Registered Public Accounting Firm. Holders of 21,838,170 shares of our common stock voted to ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for the current fiscal year. Holders of 130,543 shares of our common stock voted against ratifying such appointment, holders of 2,409 shares abstained from voting and no shares were broker non-votes.

Item 6. Exhibits

See the Exhibit Index on page 32 for a list of exhibits filed as part of this Quarterly Report on Form 10-Q, which Exhibit Index is incorporated herein by reference.

30

SIGNATURE

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

Bottomline Technologies (de), Inc.

Date: February 8, 2008

By: /S/ KEVIN M. DONOVAN
Kevin M. Donovan
Chief Financial Officer and
Treasurer
(Principal Financial and
Accounting Officer)

31

EXHIBIT INDEX

| Exhibit Number | Description |
|-------------------|---|
| 10.1 | Amended Executive Officer Bonus Plan for 2008 for Robert A. Eberle |
| 31.1 | Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer |
| 31.2 | Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer |
| 32.1 | Section 1350 Certification of Principal Executive Officer |
| 32.2 | Section 1350 Certification of Principal Financial Officer |

32
