

PROSPECTUS SUPPLEMENT
 (To prospectus dated February 25, 2005)



6,350,000 Units
Merrill Lynch & Co., Inc.
PROtected Covered Call EnhancED Income NoteSSM
Linked to the S&P 500 Inflation PROCEEDS Index[®]
due May 10, 2012
(the “PROCEEDSSM”)
\$10 principal amount per unit

The PROCEEDS:

- The PROCEEDS are designed for investors who are seeking exposure to the level of the S&P 500 Inflation PROCEEDS Index (the “**Reference Index**”).
- Variable monthly interest payments may be paid, depending upon the performance of the Basket Units and the Inflation Units described below.
- 100% principal protection on the maturity date.
- Senior unsecured debt securities of Merrill Lynch & Co., Inc.
- The PROCEEDS will not be listed on any securities exchange.
- The settlement date is expected to be May 10, 2005.
- The Reference Index is a composite index that measures the performance of a strategy that allocates hypothetical funds among three index components: (i) “**Basket Units**” representing the value of a hypothetical investment in the S&P 500 Index and sales of call options on that index using a “covered-call” strategy, (ii) “**Zero Coupon Bond Units**” representing the value of hypothetical zero coupon bonds and (iii) “**Inflation Units**” representing the present value of a stream of future monthly cash flows related to the year over year percentage change in the level of the Consumer Price Index as described in this prospectus supplement. The Reference Index will be rebalanced periodically between the Basket Units and the Zero Coupon Bond Units pursuant to a formula described in this prospectus supplement. This rebalancing will reflect changes in the performance of the Basket Units, prevailing interest rates and market conditions, all as more fully described in this prospectus supplement. Your return on the PROCEEDS will be reduced by certain fees, deductions and charges described in this prospectus supplement.

Payment on the maturity date:

- On the maturity date, for each unit of the PROCEEDS you own, we will pay you an amount equal to the principal amount of the PROCEEDS plus an additional amount (which may be zero) based on the percentage increase, if any, in the level of the Reference Index.

Investing in the PROCEEDS involves risks that are described in the “[Risk Factors](#)” section beginning on page S-10 of this prospectus supplement.

	Per unit	Total
Public offering price	\$10.00	\$ 63,500,000
Underwriting discount	\$.30	\$1,905,000
Proceeds, before expenses, to Merrill Lynch & Co., Inc.	\$9.70	\$ 61,595,000

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Merrill Lynch & Co.

The date of this prospectus supplement is May 4, 2005.

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SUMMARY INFORMATION—Q&A

This summary includes questions and answers that highlight selected information from this prospectus supplement and the accompanying prospectus to help you understand the PROtected Covered Call EnhancED Income NoteSSM Linked to the S&P 500 Inflation PROCEEDS Index[®] (the “Reference Index”) due May 10, 2012. You should carefully read this prospectus supplement and the accompanying prospectus to fully understand the terms of the PROCEEDS, the Reference Index and the tax and other considerations that are important to you in making a decision about whether to invest in the PROCEEDS. You should carefully review the “Risk Factors” section, which highlights certain risks associated with an investment in the PROCEEDS, to determine whether an investment in the PROCEEDS is appropriate for you.

References in this prospectus supplement to “ML&Co.,” “we,” “us” and “our” are to Merrill Lynch & Co., Inc. References to “MLPF&S” are to Merrill Lynch, Pierce, Fenner & Smith Incorporated. References to “MLI” are to Merrill Lynch International.

What are the PROCEEDS?

The PROCEEDS will be a series of senior debt securities issued by ML&Co. and will not be secured by collateral. The PROCEEDS will rank equally with all of our other unsecured and unsubordinated debt. The PROCEEDS will mature on May 10, 2012. We cannot redeem the PROCEEDS at an earlier date. We will make variable monthly interest payments only under the circumstances described in this prospectus supplement.

Each unit of the PROCEEDS represents \$10 principal amount of PROCEEDS. You may transfer the PROCEEDS only in whole units. You will not have the right to receive physical certificates evidencing your ownership except under limited circumstances. Instead, we will issue the PROCEEDS in the form of a global certificate, which will be held by The Depository Trust Company (“DTC”) or its nominee. Direct and indirect participants in DTC will record your ownership of the PROCEEDS. You should refer to the section entitled “Description of the Debt Securities—Depository” in the accompanying prospectus.

Are there any risks associated with my investment?

Yes. An investment in the PROCEEDS is subject to risks, including the risk that the PROCEEDS will only return their principal amount on the maturity date, resulting in a substantial economic opportunity loss to you. Please refer to the section entitled “Risk Factors” in this prospectus supplement.

Who publishes the Reference Index and what does the Reference Index measure?

The daily closing values of the Reference Index, the Basket Units, the Inflation Units and the Zero Coupon Bond Units determined as of 4:00 p.m. (New York City time) will be published on each business day on Reuters Page MEREDUS15 (or any successor page for the purpose of displaying those closing values as identified by MLI, as the Reference Index calculation agent (the “**Calculation Agent**”).

The Reference Index is a composite index that will track the performance of hypothetical investments in three assets, the Basket Units, the Zero Coupon Bond Units and the Inflation Units (each an “**Index Component**,” and together the “**Index Components**”). The level of the Reference Index at any time will equal the sum of the values of the Basket Units, the Zero Coupon Bond Units and the Inflation Units, as reduced by a pro rata portion of the index adjustment factor of 1.15% per annum as described below. The level of the Reference Index was set to 97 on May 4, 2005, the date the PROCEEDS were priced for initial sale to the public (the “**Pricing Date**”).

The initial allocations of hypothetical funds as set on the Pricing Date were 25.42% in Basket Units, 19.49% in Inflation Units and 55.09% in Zero Coupon Bond Units.

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There will be no further allocations of hypothetical funds to or from the Inflation Units over the term of the PROCEEDS. However, the allocations between the Basket Units and the Zero Coupon Bond Units will change upon an Allocation Determination Event, as described in the section entitled “The S&P 500 Inflation PROCEEDS Index” in this prospectus supplement.

Because the initial allocation of hypothetical funds to the Inflation Units will be fixed over the term of the PROCEEDS, the formula will never allocate 100% of the hypothetical funds to the Basket Units. The relative allocations between the Basket Units and the Zero Coupon Bond Units will be determined by the Calculation Agent based upon the formula described herein.

An investment in the PROCEEDS does not entitle you to any dividends, voting rights, option premiums or any other ownership interest in the securities included in the Reference Index.

What hypothetical investment does each Index Component track?

The Index Components are defined as follows:

A “Basket Unit” will track the value of an initial \$100 hypothetical investment in the Index Basket. The “**Index Basket**” is a hypothetical investment in a “covered call” strategy in which (i) an investment in the S&P 500 Index is purchased and (ii) call options on the S&P 500 Index are sold on a monthly basis for a one month term. The S&P 500 Index is described in the section entitled “Description of the Index Basket” in this prospectus supplement.

A “Zero Coupon Bond Unit” will track the value of a \$100 face value hypothetical investment in a hypothetical zero coupon bond maturing on the scheduled Valuation Date, as described below, with a variable yield equal to the applicable zero coupon yield based upon USD swap rates as published on Bloomberg Page EDS. The applicable zero coupon yield will be estimated from the USD swap rate yields corresponding to the published maturities closest in time to the scheduled Valuation Date. The Calculation Agent may, when necessary, estimate the applicable zero coupon yield by interpolating the appropriate USD swap rate yields based on those published maturities. The Zero Coupon Bond Units will not yield any return after the scheduled Valuation Date.

An “Inflation Unit” will track the present value of a stream of future monthly cash flows related to the year over year percentage change in the level of the Consumer Price Index, based upon a hypothetical \$100 face value investment (i.e., the present value of the cash payments that would leave the holder of \$100 indifferent as to inflation).

The “**Consumer Price Index**” for purposes of the PROCEEDS is the nonseasonally adjusted U.S. City Average All Items Consumer Price Index for All Urban Consumers, published monthly by the Bureau of Labor Statistics of the U.S. Department of Labor. The level of the Consumer Price Index for any given month will be the value reported on Bloomberg page CPURNSA or any successor page thereto.

For more specific information about the Index Components and the Consumer Price Index, please see the section entitled “The S&P 500 Inflation PROCEEDS Index” and the section entitled “The Consumer Price Index” in this prospectus supplement.

What will I receive on the maturity date of the PROCEEDS?

We have designed the PROCEEDS for investors who want to protect their investment by receiving at least the principal amount of their investment on the maturity date and who also want to participate in possible periodic interest payments and in possible increases in the level of the Reference Index (after the deduction of certain fees, deductions and charges). On the maturity date, you will receive a cash payment, in addition to any interest payment due, on the PROCEEDS equal to the sum of two amounts: the “principal amount” and the “Supplemental Redemption Amount”, if any.

Principal Amount

The “principal amount” per unit is \$10.

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Supplemental Redemption Amount

The “**Supplemental Redemption Amount**” per unit will equal:

$$\$10 \times \left(\frac{\text{Ending Value} - \text{Threshold Value}}{\text{Threshold Value}} \right)$$

provided, that in no event will the Supplemental Redemption Amount be less than zero.

The “**Ending Value**” will be determined by the Calculation Agent and will equal the level of the Reference Index at the close of the market on the Valuation Date.

The “**Threshold Value**” equals 100.

The “**Valuation Date**” will be the seventh scheduled business day before the maturity date, or an alternate date shortly thereafter as described in the section entitled “Description of the PROCEEDS—Payment on the maturity date” in this prospectus supplement.

The “**Starting Value**” was set to 97 on the Pricing Date.

Because the Starting Value was set to 97, which is less than the Threshold Value, we will pay you a Supplemental Redemption Amount only if the Ending Value is 3.1% greater than the Starting Value on the Valuation Date. If the Ending Value is less than or equal to the Threshold Value, the Supplemental Redemption Amount will be zero. We will pay you the principal amount of your PROCEEDS regardless of whether any Supplemental Redemption Amount is payable.

Examples

Here are three examples of Supplemental Redemption Amount calculations:

Example 1—On the maturity date, the Reference Index is below the Starting Value:

Starting Value: 97
Threshold Value: 100
Hypothetical Ending Value: 90

$$\text{Supplemental Redemption Amount (per unit)} = \$10 \times \left(\frac{90-100}{100} \right) = \$0 \quad \begin{array}{l} \text{(Supplemental} \\ \text{Redemption} \\ \text{Amount} \\ \text{cannot be less} \\ \text{than zero)} \end{array}$$

Total payment on the maturity date (per unit) = \$10 + \$0 = \$10

Example 2—On the maturity date, the Reference Index is above the Starting Value but below the Threshold Value:

Starting Value: 97
Threshold Value: 100
Hypothetical Ending Value: 99

$$\text{Supplemental Redemption Amount (per unit)} = \$10 \times \left(\frac{99-100}{100} \right) = \$0 \quad \begin{array}{l} \text{(Supplemental} \\ \text{Redemption} \\ \text{Amount} \\ \text{cannot be less} \\ \text{than zero)} \end{array}$$

Total payment on the maturity date (per unit) = \$10 + \$0 = \$10

Example 3—On the maturity date, the Reference Index is above the Threshold Value:

Threshold Value: 100
Hypothetical Ending Value: 105

$$\text{Supplemental Redemption Amount (per unit)} = \$10 \times \left(\frac{105-100}{100} \right) = \$.50$$

Total payment on the maturity date (per unit) = \$10 + \$.50 = \$10.50

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For more specific information about the Supplemental Redemption Amount, please see the section entitled “Description of the PROCEEDS” in this prospectus supplement.

Will I receive interest payments on the PROCEEDS?

The interest payable on the PROCEEDS will vary and may be zero. We expect to pay interest, if any, in cash monthly on the dates described under the section entitled “Description of the PROCEEDS—Interest” in this prospectus supplement.

The interest payments, if any, on the PROCEEDS will depend on (i) the hypothetical income of the Basket Units (the **Basket Unit Income**) held in the Reference Index over each monthly calculation period and the level of the Reference Index at the end of that period and (ii) the income, if any, deemed to be derived from the Inflation Units held in the Reference Index over each monthly calculation period (the **Inflation Unit Income**). The Basket Unit Income will be based on the value of the cash dividends in respect of the stocks included in the S&P 500 Index and the value of the premiums in respect of call options on the S&P 500 Index. See the section entitled “Description of the Index Basket—Calculation of the Value of the Index Basket” in this prospectus supplement. The Inflation Unit Income will be based on the positive year over year percentage change in the level of the Consumer Price Index for that monthly calculation period multiplied by the principal amount of \$10 per unit of PROCEEDS. See the section entitled “Description of the PROCEEDS—Interest” in this prospectus supplement.

If the level of the Reference Index (less any Basket Unit Income) falls below certain thresholds relative to the Floor Level as described in this prospectus supplement during any monthly calculation period, you will not receive an interest payment derived from Basket Unit Income for that monthly calculation period. Also, if Inflation Unit Income is zero for any monthly calculation period, you will not receive an interest payment derived from Inflation Unit Income for that monthly calculation period. However, the payment of interest derived from Basket Unit Income will not be affected by the determination by the Calculation Agent that no interest will be derived from Inflation Unit Income. Similarly, the payment of interest derived from Inflation Unit Income will not be affected by the determination by the Calculation Agent that no interest will be derived from Basket Unit Income. Therefore, if the level of the Reference Index (less any Basket Unit Income) falls below certain thresholds relative to the Floor Level, each reduced by the value of the Inflation Units (as further described herein), during any monthly calculation period, but there is Inflation Unit Income for that monthly calculation period, you will receive an interest payment derived solely from Inflation Unit Income for that monthly calculation period. Similarly, if Inflation Unit Income is zero for any monthly calculation period, but the level of the Reference Index (less any Basket Unit Income) for that monthly calculation period is above certain thresholds relative to the Floor Level, you will receive an interest payment derived solely from Basket Unit Income for that monthly calculation period. You will not receive any interest payment for a monthly calculation period for which the Calculation Agent determines Inflation Unit Income is zero and the level of the Reference Index (less any Basket Unit Income) falls below certain thresholds relative to the Floor Level. See the section entitled “Description of the PROCEEDS—Interest” in this prospectus supplement.

What are the costs associated with an investment in the PROCEEDS?

Your return on your PROCEEDS will reflect the deduction of the following costs over the term of the PROCEEDS:

Implicit sales charge: Because the Starting Value equals 97, while the Threshold Value equals 100, an implicit sales charge is paid to MLPF&S upon the purchase of the PROCEEDS. In order for you to receive a Supplemental Redemption Amount on the maturity date, the Ending Value must exceed 100 on the Valuation Date. Therefore, the level of the Reference Index must increase by more than 3.1% for you to receive an amount in excess of \$10 per unit of the PROCEEDS. This is analogous to paying an up front sales charge of 3% per unit of the PROCEEDS.

Basket Adjustment Factor: The value of the Index Basket will reflect a 0.75% per year daily reduction based on the value of the Index Basket at the end of the previous day (the **“Basket Adjustment Factor”**)

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that will accrue to the benefit of the Calculation Agent on the basis of a 365-day year and will be subtracted from the Basket Unit Income on the Index Basket at the end of each day prior to effecting any reallocation that day. The value of the Basket Adjustment Factor for any monthly calculation period will not exceed the value of the Basket Unit Income on the Index Basket for that monthly calculation period. Because the value of the Index Basket reflects the reduction of the Basket Adjustment Factor, the return on an investment in the “covered call” strategy (as described in the section entitled “Description of the Index Basket” in this prospectus supplement) represented by the Index Basket, and therefore the Reference Index and the PROCEEDS, will be less than a return on a “covered call” strategy on the Index Basket that did not include the Basket Adjustment Factor.

Index Adjustment Factor: The level of the Reference Index will reflect a 1.15% per year annual reduction (the “**Index Adjustment Factor**”) that will be applied and accrue daily to the benefit of the Calculation Agent on the basis of a 365-day year from the Pricing Date through the Valuation Date. The Index Adjustment Factor will remain at 1.15% per year for so long as any hypothetical funds are allocated to Basket Units. If at any time that allocation is zero, the Index Adjustment Factor will not apply.

What does the Reference Index formula do and when will the Reference Index undergo reallocations between the Basket Units and the Zero Coupon Bond Units?

The Reference Index formula (also referred to as the “formula”) determines the allocation of the hypothetical funds tracked by the Reference Index to the Basket Units (the “**Targeted Exposure**”), and the consequent allocations to the Zero Coupon Bond Units. The formula will cause these allocations to vary over the term of the PROCEEDS in order to participate in any appreciation of the Basket Units, but only to the extent consistent with the objective that the Reference Index level on the scheduled Valuation Date be at least 100.

An “**Allocation Determination Event**” will occur and a reallocation will be effected if the absolute value of the difference in (i) the closing value of the Basket Units in the Reference Index divided by the closing level of the Reference Index on any business day and (ii) the Targeted Exposure, is greater than 5% of the Targeted Exposure. In addition, if at any time during any business day the level of the S&P 500 Index has declined from its closing level on the previous business day by 10% or more, an Allocation Determination Event will have occurred.

In general, the Targeted Exposure may increase following increases in the value of the Basket Units or decreases in the Floor Level (due to interest rate increases). In general, the Targeted Exposure may decrease following decreases in the value of the Basket Units or increases in the Floor Level (due to interest rate decreases).

In some circumstances, the amount of the hypothetical funds tracked by the Reference Index allocated to the Basket Units may be reduced to zero, which will result in the hypothetical funds allocated to the Basket Units remaining at zero for the remaining term of the PROCEEDS. You should refer to the section entitled “Risk Factors—Risk Factors Relating to the PROCEEDS and the Reference Index—Less than 100% of the hypothetical funds tracked by the Reference Index will be allocated to the Basket Units and possibly none of these funds may be allocated to the Basket Units” in this prospectus supplement.

For a detailed description of the formula and the Targeted Exposure, see the section entitled “The S&P 500 Inflation PROCEEDS Index—Reallocation of the hypothetical funds tracked by the Reference Index” in this prospectus supplement.

When would the formula allocate none of the hypothetical funds to the Basket Units, and what happens in that event?

If the “**Cushion**”, a ratio which reflects the level of the Reference Index relative to the value of the Floor Level, each reduced by the value of the Inflation Units, is equal to or less than 0.05% on any business day (a “**Defeasance Event**”), the formula will not allocate any hypothetical funds to the Basket Units. The “**Floor Level**” for any date will equal the value of (i) a hypothetical zero coupon bond maturing on the scheduled Valuation Date with a yield equal to the applicable zero coupon yield based upon USD swap rates, plus (ii) the value of the Inflation Units.

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Because the amount of the interest payments on the PROCEEDS will depend in part on the performance of the Basket Units in the Reference Index, after the occurrence of a Defeasance Event, interest payments, if any, on the PROCEEDS will be based solely on Inflation Unit Income. In addition, the Reference Index will not participate in any subsequent increase in the value of the Basket Units and your payment on the maturity date will be limited to the \$10 principal amount per unit (except as described under the section entitled “The S&P 500 Inflation PROCEEDS Index—Defeasance Events” in this prospectus supplement). This means that, while a holder of the equivalent of the Basket Units would benefit from a subsequent increase in the value of the Basket Units, a holder of PROCEEDS would not.

How has the Reference Index performed historically?

The Reference Index did not exist until the Pricing Date. However, we have included tables and graphs showing the hypothetical monthly closing levels of the Reference Index during six different seven year periods beginning on the Monday following the third Friday of March in 1993, 1994, 1995, 1996, 1997 and 1998. These hypothetical closing levels have been calculated on the same basis that the Reference Index will be calculated. However, the calculations used to determine these levels contain assumptions and necessary estimates and approximations that will not be reflected in the calculation of the level of the Reference Index and interest payments over the term of the PROCEEDS. For further details on the calculation of these hypothetical values, please refer to the section entitled “The S&P 500 Inflation PROCEEDS Index—Hypothetical Historical Data on the Reference Index” in this prospectus supplement. We have also included tables and graphs for the S&P 500 Index and the Consumer Price Index showing their respective historical month-end levels. The table and graph for the S&P 500 Index, showing historical month-end levels from January 2000 through April 2005, are included in the section entitled “Description of the Index Basket” in this prospectus supplement. The table and graph for the Consumer Price Index, showing historical month-end levels from January 2000 through March 2005, are included in the section entitled “The Consumer Price Index” in this prospectus supplement.

We have provided this information to help you evaluate the past performance of the Reference Index, the S&P 500 Index and the Consumer Price Index in various economic environments; however, this past performance is not indicative of how the Reference Index, the S&P 500 Index or the Consumer Price Index will perform in the future.

What is the “Index Basket” and what does it measure?

The Index Basket is designed to track the performance of a hypothetical “covered call” strategy for the S&P 500 Index. A “covered call” strategy on an index is an investment strategy in which an investor:

- buys an investment in the index; and
- sells call options on the index with exercise prices higher than the level of the index when the options are priced.

A “covered call” strategy provides income from option premiums, or the value of the option when it is priced, helping, to a limited extent, to offset losses if there is a decline in the level of the index to which the options relate. However, the strategy limits participation in the appreciation of the index beyond the option’s exercise price. Thus, in a period of significant stock market increases, a “covered call” strategy will tend to produce lower returns than ownership of an investment in the related index. See the section entitled “Risk Factors—Risk Factors Relating to the Basket Units—The appreciation of the Index Basket will be capped due to the “covered call” strategy” in this prospectus supplement.

The value of the Index Basket is based on hypothetical purchases of investments in the S&P 500 Index, including the dividends on the stocks included in the S&P 500 Index, and the value of the hypothetical premiums on call options sold on the S&P 500 Index, as reduced by a pro rata portion of the Basket Adjustment Factor.

An investment in the PROCEEDS does not entitle you to any dividends, voting rights, option premiums or any other ownership interest in respect of the securities included in the Index Basket.

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How will the Calculation Agent determine the value of hypothetical call options included in the Index Basket?

The mark-to-market value of each hypothetical call option will be determined by the Calculation Agent in accordance with an option pricing formula and using prevailing market parameters as described in the section entitled “Description of the Index Basket—Hypothetical Call Options—Valuation of Hypothetical Call Options” in this prospectus supplement.

What about taxes?

Each year, you will be required to pay taxes on ordinary income from the PROCEEDS over their term based upon an estimated yield for the PROCEEDS, even though you may not receive any variable monthly interest payments or any other cash payments from us prior to the maturity date. We have determined this estimated yield, in accordance with regulations issued by the U.S. Treasury Department, solely in order for you to calculate the amount of taxes that you will owe each year as a result of owning a PROCEEDS. This estimated yield is neither a prediction nor a guarantee of what either the actual variable monthly interest payments or the actual Supplemental Redemption Amount will be, or that either the actual variable monthly interest payments or the actual Supplemental Redemption Amount will even exceed zero. We have determined that this estimated yield will equal 4.2% per annum, compounded monthly.

For further information, see “United States Federal Income Taxation” in this prospectus supplement.

Will the PROCEEDS be listed on a securities exchange?

The PROCEEDS will not be listed on any securities exchange and we do not expect a trading market for the PROCEEDS to develop, which may affect the price you receive for your PROCEEDS upon any sale prior to the maturity date. You should review the section entitled “Risk Factors—A trading market for the PROCEEDS is not expected to develop” in this prospectus supplement.

What is the role of MLPF&S?

Our subsidiary MLPF&S is the underwriter for the offering and sale of the PROCEEDS. After the initial offering, MLPF&S currently intends to buy and sell the PROCEEDS and may stabilize or maintain the market price of the PROCEEDS during their initial distribution. However, MLPF&S will not be obligated to engage in any of these market activities or continue them once it has started.

What is the role of Merrill Lynch International?

MLI, as the Calculation Agent, will be our agent for purposes of determining, among other things, the level of the Reference Index, the value of the Basket Units and the call options, the value of the Inflation Units, the interest payments, if any, derived from Basket Unit Income and Inflation Unit Income, the occurrence of an Allocation Determination Event, any reallocations of the hypothetical funds tracked by the Reference Index, the Ending Value and the Supplemental Redemption Amount. Under certain circumstances, MLI as Calculation Agent and its other business activities or its affiliation to ML&Co. could give rise to conflicts of interest. MLI is required to carry out its duties as Calculation Agent in good faith and using its reasonable judgement.

Who is ML&Co.?

Merrill Lynch & Co., Inc. is a holding company with various subsidiary and affiliated companies that provide investment, financing, insurance and related services on a global basis. For information about ML&Co. see the section entitled “Merrill Lynch & Co., Inc.” in the accompanying prospectus. You should also read the other documents we have filed with the Securities and Exchange Commission, which you can find by referring to the section entitled “Where You Can Find More Information” in this prospectus supplement.

RISK FACTORS

Investment in the PROCEEDS involves risks, which include, but are not limited to, the risks referred to below. The level of the Reference Index may decrease as well as increase. If you receive only the principal amount of the PROCEEDS on the maturity date, you will have incurred a significant loss of opportunity to otherwise profit from the amount invested. In addition, the PROCEEDS are illiquid and if you sell your PROCEEDS prior to the maturity date, your sale price may be substantially less than the principal amount of the PROCEEDS.

You should consult your financial and legal advisors concerning risks associated with an investment in the PROCEEDS and the suitability of investing in the PROCEEDS in light of your particular circumstances. In addition, you should consult your tax advisors concerning the characterization of the PROCEEDS as contingent payment debt instruments for United States federal income tax purposes.

RISK FACTORS RELATING TO THE PROCEEDS AND THE REFERENCE INDEX

Less than 100% of the hypothetical funds tracked by the Reference Index will be allocated to the Basket Units and possibly none of these funds may be allocated to the Basket Units

Because the initial allocation of hypothetical funds to the Inflation Units will be fixed over the term of the PROCEEDS, the formula will never allocate 100% of the hypothetical funds to the Basket Units.

In addition, the formula that determines the allocation between the Basket Units and the Zero Coupon Bond Units is designed so that the level of the Reference Index should equal at least 100 on the scheduled Valuation Date, even upon the occurrence of a Defeasance Event. The formula will allocate the hypothetical funds to the Basket Units, but only to the extent consistent with the objective that the Reference Index level on the scheduled Valuation Date equal at least 100. Certain economic or market factors, such as low interest rates or insufficient gains by the Basket Units to offset the costs embedded in the Reference Index, will cause the allocation in the Zero Coupon Bond Units to be increased.

Any allocation of the hypothetical funds to Zero Coupon Bond Units will reduce the probability that the Reference Index will reflect any increases in the value of the Basket Units, which is the primary Index Component likely to result in appreciation in the Reference Index level. If the Reference Index level does not exceed 100 on the Valuation Date, the PROCEEDS will only return their principal amount on the maturity date, and you will have incurred substantial economic opportunity losses.

The performance of the Basket Units may exceed the performance of the Reference Index

The Calculation Agent will adjust the allocations of hypothetical funds between the Basket Units and the Zero Coupon Bond Units systematically using the formula. Accordingly, the performance of the Reference Index will likely differ significantly from the performance of each of the Index Components.

Initially, 55.09% of the hypothetical funds tracked by the Reference Index will be allocated to the Zero Coupon Bond Units. However, the percentage of hypothetical funds represented by Zero Coupon Bond Units may increase or decrease during the term of the PROCEEDS, depending upon the performance of the Basket Units and the then-current interest rate environment. Changes in economic conditions may cause a change in the allocations of hypothetical funds between the Basket Units and the Zero Coupon Bond Units as determined by the formula. The timing of any rebalancing, and the magnitude of the reallocations, may result in less than full participation in the increases, if any, in the value of the Basket Units, which would in turn affect the level of the Reference Index, and as a result the Supplemental Redemption Amount.

Because the formula is designed so that the level of the Reference Index should equal at least 100 on the Scheduled Valuation Date, the allocation of hypothetical funds to the Zero Coupon Bond Units may increase during the term of the PROCEEDS depending upon the performance of the Basket Units and interest rates.

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Should the allocation to the Basket Units be reduced to zero, that allocation will remain at zero for the remaining term of the PROCEEDS and your payment on the maturity date will be limited to the \$10 principal amount per unit (except as described under “The S&P 500 Inflation PROCEEDS Index—Defeasance Events” in this prospectus supplement). This means that, while a holder of the equivalent of the Basket Units would benefit from a subsequent increase in the value of the Basket Units, a holder of PROCEEDS would not.

The level of the Reference Index will not increase or decrease directly in proportion with increases or decreases in the value of the Basket Units due to the allocation of the Reference Index’s hypothetical funds to the Zero Coupon Bond Units and the Inflation Units and the deduction of certain fees, deductions and charges. The Basket Units may increase in value substantially over the duration of the PROCEEDS, but the Supplemental Redemption Amount of the PROCEEDS may reflect little, if any, of that increase. The Supplemental Redemption Amount of the PROCEEDS may represent a yield less than the yield you would earn if you invested directly in the equivalent of the Basket Units or in the equivalent of the Zero Coupon Bond Units.

Certain other similar investments offered by our affiliates have lost all potential for appreciation

Our affiliates have offered indexed investments based upon rebalancing formulas similar to the PROCEEDS, certain of which have, in fact, terminated all exposure to the instruments equivalent to the Basket Units, which has resulted in a loss of the opportunity to profit from the amount invested.

Reference Index rebalancing procedures may adversely impact the Supplemental Redemption Amount

The Reference Index tracks the performance of a hypothetical investment in the Index Components whose allocations of hypothetical funds to the Basket Units and the Zero Coupon Bond Units will be rebalanced from time to time according to the rebalancing procedures described in this prospectus supplement. The timing and magnitude of any change in the allocations between the Basket Units and the Zero Coupon Bond Units will be based on certain threshold values used in the formula as described herein. For example, under the rebalancing procedures, we expect the allocation to the Basket Units to increase as the level of the Index Basket increases or the Floor Level decreases and to decrease as the level of the Index Basket decreases or the Floor Level increases. In addition, certain market conditions, such as high volatility of the Basket Units (which may result from high volatility of the S&P 500 Index) or low interest rates, may result in larger reallocations among the Index Components. The timing and frequency of the reallocations among the Index Components may affect the level of the Reference Index on the Valuation Date, which in turn could affect the Supplemental Redemption Amount.

Fees, deductions and charges will reduce the Supplemental Redemption Amount

Your return on the PROCEEDS will reflect the deduction of certain fees, deductions and charges. These fees, deductions and charges include explicit charges that will be reflected in the level of the Reference Index over the term of the PROCEEDS, namely the Index Adjustment Factor. See “Fees, Deductions and Charges” in this prospectus supplement. Also, there is an implicit sales charge paid upon the purchase of the PROCEEDS because the Starting Value was set below the Threshold Value on the Pricing Date. See “Fees, Deductions and Charges—Implicit Sales Charge” in this prospectus supplement. In addition, the value of the Index Basket will reflect the reduction of the Basket Adjustment Factor, which, if the Reference Index includes Basket Units, will reduce the level of the Reference Index over the term of the PROCEEDS by reducing the value of the Basket Units. See “Fees, Deductions and Charges” in this prospectus supplement. The net effect of these fees, deductions and charges will be to decrease the level of the Reference Index on the Valuation Date, thereby reducing the Ending Value. Accordingly, the Supplemental Redemption Amount payable to you on the maturity date will be less than it would have been absent these fees, deductions and charges.

Potential conflicts of interest could arise

The Calculation Agent is responsible for the calculation of the Reference Index pursuant to the formula. While the application of the formula is largely objective, there are certain situations where the Calculation Agent

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will exercise judgment in its capacity as the Calculation Agent. The Calculation Agent will also be responsible for calculating the value of the Basket Units and Inflation Units and the interest payments, if any, derived from Basket Unit Income and Inflation Unit Income.

The Calculation Agent for the PROCEEDS is MLI, our affiliate. Under certain circumstances, MLI as our subsidiary and its responsibilities as Calculation Agent for the PROCEEDS could give rise to conflicts of interest. MLI is required to carry out its duties as calculation agent in good faith and using its reasonable judgment. However, because we control MLI, potential conflicts of interest could arise.

We have entered into an arrangement with one of our subsidiaries to hedge the market risks associated with our obligations in connection with the PROCEEDS. This subsidiary expects to make a profit in connection with this arrangement. We did not seek competitive bids for this arrangement from unaffiliated parties.

In addition to the compensation paid at the time of the original sale of the PROCEEDS, MLPF&S will pay an additional amount on each anniversary of the Pricing Date in 2006 through 2011 to brokers whose clients purchased the units in the initial distribution and who continue to hold their PROCEEDS. This additional amount will accrue at a rate of .5% per unit for each day that hypothetical funds are allocated to Basket Units based on the amount payable on the maturity date of the PROCEEDS calculated as if the applicable anniversary of the Pricing Date is the maturity date and the Ending Value is equal to the closing level of the Reference Index on that date. Also, MLPF&S may from time to time pay additional amounts to brokers whose clients purchased PROCEEDS in the secondary market and continue to hold those PROCEEDS. As a result of these payments, your broker will receive a financial benefit each year you retain your investment in the PROCEEDS.

The level of the Reference Index on the Valuation Date must be more than 3.1% higher than the Starting Value for you to receive a Supplemental Redemption Amount on the maturity date

The Starting Value was set to 97 on the Pricing Date. As a result, the level of the Reference Index must increase by more than 3.1% as of the Valuation Date in order for you to receive a Supplemental Redemption Amount. If the level of the Reference Index declines, or does not increase sufficiently, you will receive only the principal amount of your investment, in addition to any interest payment due, on the maturity date, which could represent a significant loss of opportunity to otherwise profit from the amount invested in the PROCEEDS.

The interest payable on the PROCEEDS, if any, will vary

The interest payments, if any, on the PROCEEDS will depend on (i) the Basket Unit Income held in the Reference Index over each monthly calculation period and the level of the Reference Index at the end of that period and (ii) the Inflation Unit Income for each monthly calculation period.

If the level of the Reference Index (less any Basket Unit Income) falls below certain thresholds relative to the Floor Level described in this prospectus supplement during any monthly calculation period, you will not receive an interest payment derived from Basket Unit Income for that monthly calculation period. If Inflation Unit Income is zero for any monthly calculation period, you will not receive an interest payment derived from Inflation Unit Income for that monthly calculation period. However, the payment of interest derived from Basket Unit Income will not be affected by the determination by the Calculation Agent that no interest will be derived from Inflation Unit Income. Similarly, the payment of interest derived from Inflation Unit Income will not be affected by the determination by the Calculation Agent that no interest will be derived from Basket Unit Income. Therefore, if the level of the Reference Index (less any Basket Unit Income) falls below certain thresholds relative to the Floor Level during any monthly calculation period, but there is Inflation Unit Income for that monthly calculation period, you will receive an interest payment derived solely from Inflation Unit Income for that monthly calculation period. Similarly, if Inflation Unit Income is zero for any monthly calculation period, but the level of the Reference Index (less any Basket Unit Income) for that monthly calculation period is above certain thresholds relative to the Floor Level, you will receive an interest payment derived solely from Basket Unit Income for that monthly calculation period. You will not receive any interest payment for a monthly calculation period for which the Calculation Agent

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determines Inflation Unit Income is zero and the level of the Reference Index (less any Basket Unit Income) falls below certain thresholds relative to the Floor Level. See the section entitled “Description of the PROCEEDS—Interest” in this prospectus supplement.

The value of the Inflation Units is linked to the Consumer Price Index

The value of the Inflation Units (and the interest derived from Inflation Unit Income) is linked to the performance of the Consumer Price Index over twelve month periods. As a result, the possibility exists that for any monthly calculation period you could receive little or no interest derived from Inflation Unit Income. The Consumer Price Index is likely to increase only slightly or decrease during periods of deflation or little or no inflation. We have no control over a number of matters, including economic, financial and political events, that are important in determining the existence, magnitude and longevity of such events and their results. In recent years, levels of certain indices such as the Consumer Price Index have been volatile and such volatility may be expected in the future. However, past experience is not necessarily indicative of what may occur in the future.

The yield on the PROCEEDS may be lower than the yield on other debt securities of comparable maturity

Even if payment on the PROCEEDS on the maturity date exceeds the principal amount of the PROCEEDS, this payment may represent a yield less than the yield you would have earned if you had bought a traditional interest bearing debt security of ML&Co. with the same stated maturity date.

A trading market for the PROCEEDS is not expected to develop

The PROCEEDS will not be listed on any securities exchange and we do not expect a trading market for the PROCEEDS to develop. Although our affiliate MLPF&S has indicated that it currently expects to bid for PROCEEDS offered for sale to it by holders of the PROCEEDS, it is not required to do so and may cease making those bids at any time. The limited trading market for your PROCEEDS may affect the price that you receive for your PROCEEDS if you do not wish to hold your investment until the maturity date.

Ownership of the PROCEEDS does not entitle you to any rights with respect to any securities tracked by the Index Components

You will not own or have any beneficial or other legal interest in, and will not be entitled to any rights with respect to, any of the Index Components or the stocks included in the S&P 500 Index.

Changes in our credit ratings may affect the value of the PROCEEDS

Our credit ratings are an assessment of our ability to pay our obligations. Consequently, real or anticipated changes in our credit ratings may affect the trading value of the PROCEEDS. However, because your return on the PROCEEDS is dependent upon factors in addition to our ability to pay our obligations under the PROCEEDS, such as the percentage increase, if any, in the level of the Reference Index on the maturity date, an improvement in our credit ratings will not reduce the other investment risks related to the PROCEEDS.

An investment in the PROCEEDS will have tax consequences

You should consider the tax consequences of investing in the PROCEEDS. See the section entitled “United States Federal Income Taxation” in this prospectus supplement.

RISK FACTORS RELATING TO THE BASKET UNITS

Volatility of the markets may adversely affect the value of the Basket Units

Movements in the level of the S&P 500 Index may be volatile from month to month. High volatility of the Basket Units will increase the likelihood of larger allocation changes between the Basket Units and the Zero Coupon Bond Units upon an Allocation Determination Event (as described in the section entitled “The S&P 500 Inflation PROCEEDS Index—Reallocation of the Hypothetical Funds tracked by the Reference Index—Allocation Determination Events” in this prospectus supplement). A rebalancing may result in reallocation from the Basket Units to the Zero Coupon Bond Units, thus reducing or eliminating the possibility of future increases in the level of the Reference Index. A rebalancing may also result in selling or buying Basket Units at a time when prices for those sales or purchases are unfavorable due to prevailing market conditions.

There may be delays between the determination of an Allocation Determination Event and reallocation of hypothetical funds which could affect the level of the Reference Index

The Calculation Agent will determine whether an Allocation Determination Event has occurred and, if so, the Targeted Exposure at the beginning of a Business Day based on the values of the Reference Index, the Basket Units and the Cushion at the close of business on the previous Business Day, but any necessary reallocation will be effected at the close of business on the Business Day on which the occurrence of the Allocation Determination Event is determined. As a result:

- the Calculation Agent may determine that an Allocation Determination Event has occurred even if the values of the Reference Index, the Index Basket and the Floor Level at the time the reallocation is effected would not result in an Allocation Determination Event;
- the Reference Index will not participate in as fully any appreciation of the Basket Units that occurs between the determination of the occurrence of an Allocation Determination Event and the resulting reallocation as it would if a reallocation were effected immediately following determination of the Targeted Exposure; and
- the Calculation Agent may effect a greater or lesser allocation to the Basket Units than otherwise would be required if the occurrence of an Allocation Determination Event were determined by the Calculation Agent at the end of that Business Day.

The valuation of hypothetical call options for purposes of determining the occurrence of an Allocation Determination Event will be different than the valuation of hypothetical call options for purposes of effecting a reallocation

For purposes of determining the occurrence of an Allocation Determination Event, the value of hypothetical call options in the Index Basket will be determined using mid-market implied volatility (or the arithmetic mean of bid-side and offered-side implied volatility). However, reallocations will be effected through:

- deemed purchases of Basket Units at prices that reflect the value of call options determined using bid-side implied volatility, which will result in Basket Units being purchased at a higher price than will be subsequently reflected in the level of the Reference Index; and
- deemed sales of Basket Units at prices that reflect the value of call options determined using offered-side implied volatility, which will result in Basket Units being sold at a price lower than was previously reflected in the level of the Reference Index.

As a result, the level of the Reference Index will be reduced following each reallocation. See the section entitled “Description of the Index Basket—Hypothetical Call Options—Valuation of Call Options” in this prospectus supplement.

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The appreciation of the Index Basket will be capped due to the “covered call” strategy

Because the exercise price of each hypothetical call option limits the portion of any appreciation in the level of the S&P 500 Index to the amount by which the exercise price exceeds the level of the S&P 500 Index at the time the call option is priced, the Index Basket will not participate as fully in the appreciation of the S&P 500 Index as would a direct investment in the S&P 500 Index. If the level of a S&P 500 Index increases by an amount greater than the amount by which the exercise price exceeds the level of the S&P 500 Index at the time the call option is priced, the value of the Index Basket will be less than it would be if it reflected a direct investment in the S&P 500 Index.

The use of Basket Unit Income to make interest payments will reduce the value of the Basket Units at the end of each monthly calculation period and may cause an Allocation Determination Event

The value of Basket Unit Income will be removed from the value of the Index Basket on the last day of each monthly calculation period. The deduction of the value of the Basket Unit Income will reduce the value of the Basket Units and may cause an Allocation Determination Event in which the allocation of the hypothetical funds to the Basket Units is reduced, even if the level of the S&P 500 Index has not fallen. This Allocation Determination Event may reduce the allocation of the Reference Index to the Basket Units, possibly to zero, in which case it would remain at zero for the remaining term of the PROCEEDS. See the sections entitled “—Risk Factors Relating to the PROCEEDS and the Reference Index—Less than 100% of the hypothetical funds will be allocated to the Basket Units and possibly none of these funds may be allocated to the Basket Units” above.

The ability of the Calculation Agent to effect a reallocation upon a 10% decline in the level of the S&P 500 Index may not prevent greater losses in the value of the Basket Units

If at any time during any Business Day the level of the S&P 500 Index declines from its closing level on the previous Business Day by 10% or more, the Calculation Agent, as soon as reasonably practicable, will determine the Targeted Exposure and reallocate between the Basket Units and the Zero Coupon Bond Units so that the percentage of the Reference Index hypothetically invested in the Basket Units is as close as is reasonably practicable to the Targeted Exposure. However, the ability of the Calculation Agent to effect this reallocation may not prevent losses in the value of the Basket Units in excess of 10% because of potential delays in effecting the reallocation pursuant to the formula under the market conditions at that time.

DESCRIPTION OF THE PROCEEDS

ML&Co. will issue the PROCEEDS as a series of senior debt securities under the 1983 Indenture, which is more fully described in the accompanying prospectus. The PROCEEDS will mature on May 10, 2012.

The PROCEEDS will not be subject to redemption by ML&Co. or at the option of any holder of the PROCEEDS before the maturity date. If an Event of Default occurs with respect to the PROCEEDS, holders of the PROCEEDS may accelerate the maturity of the PROCEEDS, as described under the sections entitled “—Events of Default and Acceleration” in this prospectus supplement and “Description of Debt Securities—Events of Default” in the accompanying prospectus.

ML&Co. will issue the PROCEEDS in denominations of whole units, each with a principal amount of \$10 per unit. You may transfer the PROCEEDS only in whole units. You will not have the right to receive physical certificates evidencing your ownership except under limited circumstances. Instead, we will issue the PROCEEDS in the form of a global certificate, which will be held by The Depository Trust Company, also known as DTC, or its nominee. Direct and indirect participants in DTC will record your ownership of the PROCEEDS. You should refer to the section entitled “Description of the Debt Securities—Depository” in the accompanying prospectus.

The PROCEEDS will not have the benefit of any sinking fund.

Payment on the maturity date

On the maturity date, a holder of a PROCEEDS will be entitled to receive the principal amount of, in addition to any interest payment due on, that PROCEEDS plus a Supplemental Redemption Amount, if any, all as provided below. If the Ending Value does not exceed the Threshold Value, a holder will be entitled to receive only the principal amount of, in addition to any interest payment due on, the PROCEEDS.

The “Supplemental Redemption Amount” for a PROCEEDS will be determined by the Calculation Agent and will equal:

$$\text{principal amount of each PROCEEDS (\$10 per unit) x } \left(\frac{\text{Ending Value}-\text{Threshold Value}}{\text{Threshold Value}} \right) ;$$

provided that in no event will the Supplemental Redemption Amount be less than zero.

The “Ending Value” will be determined by the Calculation Agent and will equal the closing level of the Reference Index determined on the Valuation Date.

The “Threshold Value” equals 100.

The “Starting Value” was set to 97 on the date the PROCEEDS were priced for initial sale to the public (the “Pricing Date”).

The “Valuation Date” will be the seventh scheduled Business Day before the maturity date, or if that day is not a Business Day, the next Business Day; provided, however, that if no Business Day occurs between the seventh scheduled Business Day before the maturity date and the second scheduled Business Day before the maturity date, the Valuation Date will be the second scheduled Business Day before the maturity date, regardless of the occurrence of a Market Disruption Event.

A “**Business Day**” means any day on which the New York Stock Exchange (the “NYSE”), the American Stock Exchange (the “AMEX”) and The Nasdaq Stock Market (the “Nasdaq”) are open for trading.

Because the Starting Value was set to 97, which is less than the Threshold Value, we will pay you a Supplemental Redemption Amount only if the Ending Value is 3.1% greater than the Starting Value on the

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Valuation Date. If the Ending Value is less than or equal to the Threshold Value, the Supplemental Redemption Amount will be zero. We will pay you the principal amount of your PROCEEDS, in addition to any interest payment due, regardless of whether any Supplemental Redemption Amount is payable.

Interest

The interest payable on the PROCEEDS will vary and may be zero. We will pay interest, if any, in cash monthly on the third Banking Business Day following each Commencement Date and on the maturity date. A “**Commencement Date**” is the first Business Day following the Interest Determination Date for each month, beginning May 23, 2005. An “**Interest Determination Date**” for any month is the third Friday of that month. If the third Friday of any month is not a Business Day because of the occurrence of a Market Disruption Event then the Interest Determination Date will be such day as determined in accordance with the procedures of the Options Clearing Corporation. If the third Friday of any month is not otherwise a Business Day then the Interest Determination Date will be the next succeeding Business Day. If an interest payment date falls on a day that is not a Banking Business Day, the interest payment, if any, to be made on that interest payment date will be made on the next succeeding Banking Business Day with the same force and effect as if made on that interest payment date, and no additional interest will be paid as a result of the delayed payment. A “**Banking Business Day**” means any day other than a Saturday or Sunday that is not a day on which banking institutions in The City of New York are authorized or required by law, regulation or executive order to close.

The interest payments, if any, on the PROCEEDS will depend on (i) the income, if any, deemed to be derived from the Basket Units held in the Reference Index over each monthly calculation period and the level of the Reference Index at the end of that period as described in the next paragraph and (ii) the income, if any, deemed to be derived from the Inflation Units held in the Reference Index over each monthly calculation period. The Zero Coupon Bond Units will not produce hypothetical income for purposes of the interest payments on the PROCEEDS.

The hypothetical income from the Basket Units (the “Basket Unit Income”) will be determined on the Interest Determination Date for the applicable monthly calculation period and will be based on the cash dividends paid in respect of the stocks included in the S&P 500 Index and the value of premiums paid in respect of call options written on the S&P 500 Index during that monthly calculation period. See the section entitled “Description of the Index Basket—Calculation of the Value of the Index Basket” in this prospectus supplement.

The hypothetical income from the Inflation Units (the “Inflation Unit Income”) will be determined on the Interest Determination Date for the applicable monthly calculation period and will equal, for each PROCEEDS, the principal amount of \$10 multiplied by the positive year over year percentage change in the level of the Consumer Price Index for that monthly calculation period based on the actual number of days in the calculation period and the actual number of days in the calendar year. The percentage change in the level of the Consumer Price Index for any given monthly calculation period will equal:

$$[\text{CPI}_{(t)} - \text{CPI}_{(t-12)}] / \text{CPI}_{(t-12)}$$

where:

- $\text{CPI}_{(t)}$ equals the level of the Consumer Price Index for the third calendar month prior to but not including the month in which the applicable Interest Determination Date occurs; and
- $\text{CPI}_{(t-12)}$ equals the level of the Consumer Price Index for the fifteenth calendar month prior to but not including the month in which the applicable Interest Determination Date occurs.

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The interest payments, if any, for each PROCEEDS for any monthly calculation period will be based on figures determined on the Interest Determination Date and will equal:

- (i) Number of Basket Units x Adjusted Monthly Income (as described below), if any; plus
- (ii) the Inflation Unit Income, if any;

provided, however, that no interest will be paid with respect to (i) above, except on the maturity date, if the Calculation Agent determines that the level of the Reference Index (less any Basket Unit Income) is less than 105% of the Floor Level as of the close of business on the Interest Determination Date. For a description of how the Adjusted Monthly Income is calculated, see the section entitled “Description of the Index Basket—Calculation of the Value of the Index Basket” in this prospectus supplement.

Interest will be calculated from, and including, each Commencement Date to, but excluding, the next Commencement Date, provided that the initial monthly calculation period will commence on, and include, May 10, 2005 and the final monthly calculation period will extend to, and include, the Valuation Date. No interest will accrue on the PROCEEDS after the Valuation Date. The interest payment date related to any monthly calculation period with respect to which interest is paid will be the interest payment date following the Interest Determination Date of the applicable monthly calculation period or, with respect to the final monthly calculation period, the maturity date. The Calculation Agent will notify the trustee of the amount of interest payable on any interest payment date on or before the second Banking Business Day immediately following the Interest Determination Date of the applicable monthly calculation period. Interest will be payable to the persons in whose names the PROCEEDS are registered at the close of business on the Commencement Date.

As described above, the interest, if any, on the PROCEEDS will depend on (i) the allocation of the hypothetical funds to the Basket Units, (ii) the Basket Unit Income (iii) the Inflation Unit Income and (iv) the level of the Reference Index relative to the Floor Level. If at the close of business on the Interest Determination Date of any monthly calculation period (except the last monthly calculation period before the maturity date), the Calculation Agent determines that the level of the Reference Index (less any Basket Unit Income) is less than 105% of the Floor Level, the Basket Unit Income relating to that monthly calculation period will be deemed invested in the Basket Units at the close of business on the next Commencement Date (by increasing the number of Basket Units included in the Reference Index) and no interest derived from Basket Unit Income will be payable on the PROCEEDS on the interest payment date relating to that monthly calculation period. If at the close of business on the Interest Determination Date for any monthly calculation period, the Inflation Unit Income is zero, then no interest derived from Inflation Unit Income will be payable on the PROCEEDS on the interest payment date relating to that monthly calculation period.

The payment of interest derived from Inflation Unit Income will not be affected by the determination by the Calculation Agent that no interest will be derived from the Basket Units. See the section entitled “The S&P 500 Inflation PROCEEDS Index—Calculation of The Reference Index—Reinvestment of the Basket Unit Income” in this prospectus supplement. Similarly, the payment of interest derived from Basket Unit Income will not be affected by the determination by the Calculation Agent that no interest will be derived from the Inflation Units. Therefore, if the level of the Reference Index (less any Basket Unit Income) is less than 105% of the Floor Level, each reduced by the value of the Inflation Units, during any monthly calculation period, but there is Inflation Unit Income for that monthly calculation period, you will receive an interest payment derived solely from Inflation Unit Income for that monthly calculation period. Similarly, if Inflation Unit Income is zero for any monthly calculation period, but the level of the Reference Index (less any Basket Unit Income) for that monthly calculation period is above 105% of the Floor Level, you will receive an interest payment derived solely from the Basket Unit Income for that monthly calculation period.

If the amount allocated to the Basket Units is zero at any time during the term of the PROCEEDS (either following a Allocation Determination Event or a Defeasance Event), it will remain zero for the remaining term of

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the PROCEEDS and interest, if any, for the remaining term of the PROCEEDS will be derived solely from Inflation Unit Income. See the section entitled “Risk Factors—Risk Factors Relating to the PROCEEDS and the Reference Index—Less than 100% of the hypothetical funds will be allocated to the Basket Units and possibly none of these funds may be allocated to the Basket Units” in this prospectus supplement.

Adjustments to the Reference Index; Market Disruption Events

If the value (including a closing value) of any Index Component is unavailable on any Business Day because of a Market Disruption Event or otherwise, unless deferred by the Calculation Agent as described below, the Calculation Agent will determine the value of each Index Component for which no value is available as follows:

- the level of the S&P 500 Index for which no level is available will be the level of a successor or substitute index (a “successor index”) that the Calculation Agent determines, in its sole discretion, to be comparable to the S&P 500 Index. In the event that the Calculation Agent does not select a successor index or the level of the successor index is no longer published, the level of the S&P 500 Index will be the arithmetic mean, as determined by the Calculation Agent, of the level of the S&P 500 Index obtained from as many dealers in equity securities (which may include MLPF&S or any of our other subsidiaries or affiliates), but not exceeding three of those dealers, as will make that level available to the Calculation Agent;
- the value of any hypothetical call option related to the S&P 500 Index for which no value is available will be the arithmetic mean, as determined by the Calculation Agent, of the value of the option obtained from as many dealers in options (which may include MLPF&S or any of our other subsidiaries or affiliates), but not exceeding three of those dealers, as will make that value available to the Calculation Agent;
- the value of the Zero Coupon Bond Units will be the arithmetic mean, as determined by the Calculation Agent, of the value of the hypothetical bond tracked by the Zero Coupon Bond Units obtained from as many dealers in fixed-income securities (which may include MLPF&S or any of our other subsidiaries or affiliates), but not exceeding three of those dealers, as will make that value available to the Calculation Agent; or
- the value of the Inflation Units when the level of the Consumer Price Index is not available will be determined by the Calculation Agent based on the level of the Consumer Price Index determined as described in the section entitled “The Consumer Price Index—Revision or Discontinuance of the Consumer Price Index” in this prospectus supplement.

In the event that the Calculation Agent cannot determine the value of an Index Component as set forth above, the Calculation Agent shall determine the value of such Index Component based upon such information as the Calculation Agent determines is reasonable under the circumstances in consultation with ML&Co.

The Calculation Agent will use the level of the S&P 500 Index and the related hypothetical call options to determine the value of the Basket Units. The Calculation Agent will then calculate the level of the Reference Index and, if earlier than the Valuation Date, will determine whether an Allocation Determination Event has occurred. If the Calculation Agent determines that an Allocation Determination Event has occurred, it will reallocate the hypothetical funds tracked by the Reference Index as described in the section entitled “The S&P 500 Inflation PROCEEDS Index—Reallocation of the Hypothetical Funds tracked by the Reference Index” in this prospectus supplement.

The determination of any of the above values or of an Allocation Determination Event by the Calculation Agent in the event any of those values is unavailable may be deferred by the Calculation Agent for up to ten consecutive Business Days on which Market Disruption Events are occurring. Following this period, the Calculation Agent will determine the relevant values in consultation with ML&Co. No reallocation of the level of the Reference Index will occur on any day the determination of any of the above values is so deferred.

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“**Market Disruption Event**” means either of the following events as determined by the Calculation Agent:

- (A) the suspension of or material limitation on trading for more than two hours of trading, or during the one-half hour period preceding the close of trading, on the applicable exchange (without taking into account any extended or after-hours trading session), in 20% or more of the stocks which then comprise the S&P 500 Index or any successor index;
- (B) the suspension of or material limitation on trading for more than two hours of trading, or during the one-half hour period preceding the close of trading, on the applicable exchange (without taking into account any extended or after-hours trading session), whether by reason of movements in price otherwise exceeding levels permitted by the applicable exchange or otherwise, in option contracts or futures contracts related to the S&P 500 Index or any successor index; or
- (C) the discontinuation of the publication of the Consumer Price Index by the Bureau of Labor Statistics.

For the purpose of determining whether a Market Disruption Event has occurred:

- (1) a limitation on the hours in a trading day and/or number of days of trading will not constitute a Market Disruption Event if it results from an announced change in the regular business hours of the applicable exchange;
- (2) a limitation on trading imposed during the course of a day by reason of movements in price otherwise exceeding levels permitted by the applicable exchange will constitute a Market Disruption Event;
- (3) a suspension in trading in a futures or option contract on the S&P 500 Index, or any successor index, by a major securities market by reason of (a) a price change violating limits set by that securities market, (b) an imbalance of orders relating to those contracts or (c) a disparity in bid and ask quotes relating to those contracts will constitute a suspension or material limitation of trading in futures or option contracts related to the S&P 500 Index;
- (4) for the purpose of clause (A) above, any limitations on trading during significant market fluctuations under NYSE Rule 80A, or any applicable rule or regulation enacted or promulgated by the NYSE or any other self regulatory organization or the Securities and Exchange Commission of similar scope as determined by the Calculation Agent, will be considered “material”; and
- (5) an absence of trading on the applicable exchange will not include any time when that exchange is closed for trading under ordinary circumstances.

The occurrence of a Market Disruption Event could affect the calculation of the payment on the maturity date you may receive. See the section entitled “—Payment on the maturity date” in this prospectus supplement.

All determinations made by the Calculation Agent are required to be made in good faith and in a commercially reasonable manner and, absent a determination of a manifest error, will be conclusive for all purposes and binding on ML&Co. and the holders and beneficial owners of the PROCEEDS.

Events of Default and Acceleration

In case an Event of Default (as described under the section entitled “Description of Debt Securities—Events of Default” in the accompanying prospectus) with respect to any PROCEEDS has occurred and is continuing, the amount payable to a holder of a PROCEEDS upon any acceleration permitted by the PROCEEDS, with respect to each PROCEEDS, will be equal to the principal amount and the Supplemental Redemption Amount, if any, calculated as though the date of acceleration were the stated maturity date of the

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PROCEEDS, provided, however, the Index Adjustment Factor will be applied to the values used to calculate the Supplemental Redemption Amount as if the PROCEEDS had not been accelerated and had remained outstanding to the stated maturity date. See the section entitled “—Payment on the maturity date” in this prospectus supplement. If a bankruptcy proceeding is commenced in respect of ML&Co., the claim of the holder of a PROCEEDS may be limited, under Section 502(b)(2) of Title 11 of the United States Code, to the principal amount of the PROCEEDS plus an additional amount of contingent interest calculated as though the date of the commencement of the proceeding were the stated maturity date of the PROCEEDS.

In case of default in payment of the PROCEEDS, whether at the stated maturity date or upon acceleration, from and after that date the PROCEEDS will bear interest, payable upon demand of their holders, at the rate of 2.25% per year, to the extent that payment of any interest is legally enforceable on the unpaid amount due and payable on that date in accordance with the terms of the PROCEEDS to the date payment of that amount has been made or duly provided for.

FEES, DEDUCTIONS AND CHARGES

Your return on the PROCEEDS will reflect the deduction of the following costs over the term of the PROCEEDS:

Implicit Sales Charge. An implicit sales charge is paid to MLPF&S upon the purchase of the PROCEEDS because the Starting Value equals 97, while the Threshold Value equals 100. In order for you to receive a Supplemental Redemption Amount on the maturity date, the Ending Value must exceed the Threshold Value on the Valuation Date. Therefore, the level of the Reference Index must increase by more than 3.1% for you to receive an amount in excess of \$10 per unit of the PROCEEDS. This is analogous to paying an up front sales charge of 3% per unit of the PROCEEDS.

Basket Adjustment Factor. The Calculation Agent will deduct the “Basket Adjustment Factor” from the closing value of the Index Basket, thereby reducing the value of the Basket Units. Because the level of the Reference Index is based in part on the value of the Basket Units, the Basket Adjustment Factor will reduce the level of the Reference Index. The Basket Adjustment Factor will equal a pro rata amount equal to 0.75% per year of the daily value of the Index Basket at the end of the previous day accrued to the benefit of the Calculation Agent on the basis of a 365-day year and will be subtracted from the Basket Unit Income at the end of each day prior to effecting any reallocation that day; provided, however, the value of the Basket Adjustment Factor for any monthly calculation period will not exceed the value of the Basket Unit Income for that monthly calculation period. Because the value of the Index Basket reflects the reduction of the Basket Adjustment Factor, the return on an investment in the “covered call” strategy represented by the Index Basket, and therefore the Reference Index and the PROCEEDS, will be less than a return on a “covered call” strategy on the Index Basket that did not include the Basket Adjustment Factor.

Index Adjustment Factor. The level of the Reference Index will reflect a 1.15% per year annual reduction (the “Index Adjustment Factor”) that will be applied and accrue daily to the benefit of the Calculation Agent on the basis of a 365-day year from the Pricing Date through the Valuation Date. The Index Adjustment Factor will remain at 1.15% per year for so long as any hypothetical funds are allocated to Basket Units. If at any time the allocation of hypothetical funds to the Basket Units is zero, the Index Adjustment Factor will not apply.

THE S&P 500 INFLATION PROCEEDS INDEX

The S&P 500 Inflation PROCEEDS Index (the “Reference Index”) is a composite index that will track the performance of hypothetical investments in three assets, the Basket Units, the Zero Coupon Bond Units and the Inflation Units. Provided that a Defeasance Event does not occur, the amount of hypothetical funds allocated to the Basket Units and the Zero Coupon Bond Units is expected to vary over the term of the PROCEEDS. The amount of hypothetical funds allocated to the Inflation Units will remain fixed over the term of the PROCEEDS. The Calculation Agent will adjust the allocations between the Basket Units and the Zero Coupon Bond Units systematically using the Reference Index formula, which is described below under the section entitled “—Reallocation of the Hypothetical Funds tracked by the Reference Index”, that systematically shifts the hypothetical funds based on the performance of the Basket Units, prevailing interest rates and market conditions. The formula will cause the allocation of hypothetical funds in the Basket Units and the Zero Coupon Bond Units to vary over the term of the PROCEEDS in order to participate in any appreciation of the Basket Units, but only to the extent consistent with the objective that the Reference Index level is at least 100 on the scheduled Valuation Date. As a result, the performance of the Reference Index may differ significantly from the performance of each of the Index Components.

The Index Components are defined as follows:

Each “Basket Unit” will track the value of an initial \$100 hypothetical investment in the Index Basket. The “Index Basket” is a hypothetical investment in a “covered call” strategy in which (i) an investment in the S&P 500 Index is purchased and (ii) call options on the S&P 500 Index are sold on a monthly basis for a one month term. The S&P 500 Index is described in the section entitled “Description of the Index Basket—Determination of the S&P 500 Index” in this prospectus supplement.

Each “Zero Coupon Bond Unit” will track the value of a \$100 face value hypothetical investment in a hypothetical zero coupon bond maturing on the scheduled Valuation Date with a variable yield equal to the applicable zero coupon yield based upon USD swap rates as published on Bloomberg Page EDS. The applicable zero coupon yield will be estimated from the USD swap rate yields corresponding to the published maturities closest in time to the scheduled Valuation Date. The Calculation Agent may, when necessary, estimate the applicable zero coupon yield by interpolating the appropriate USD swap rate yields based on those published maturities. The Zero Coupon Bond Units will not yield any return after the scheduled Valuation Date.

Each “Inflation Unit” will track the present value, as determined by the Calculation Agent, of a stream of future monthly cash flows related to the year over year percentage change in the level of the Consumer Price Index, based upon a hypothetical \$100 face value hypothetical investment (i.e., the present value of the cash payments that would leave the holder of \$100 indifferent as to inflation). The Calculation Agent will use market quotations to determine the present value of the future cash flows.

An investment in the PROCEEDS does not entitle you to any dividends, voting rights, option premiums or any other ownership interest in the securities included in the Reference Index.

The initial allocations of hypothetical funds as set on the Pricing Date was 25.42% in Basket Units, 19.49% in Inflation Units and 55.09% in Zero Coupon Bond Units. There will be no further allocations of hypothetical funds to or from the Inflation Units over the term of the PROCEEDS. However, the allocations between the Basket Units and the Zero Coupon Units will change upon an Allocation Determination Event, as described below. Because the allocations of hypothetical funds to the Inflation Units will be fixed over the term of the PROCEEDS, the formula will never allocate 100% of the hypothetical funds to the Basket Units. The relative allocations among each Index Component will be determined by the formula described herein and calculated by the Calculation Agent.

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Defeasance Events

A “Defeasance Event” will occur if the Cushion is equal to or less than 0.05% on any Business Day. Upon the occurrence of a Defeasance Event, no hypothetical funds will be allocated to the Basket Units for the remaining term of the PROCEEDS. This means that, while a holder of the equivalent of the Basket Units would benefit from a subsequent increase in the value of the Basket Units, a holder of PROCEEDS would not.

If, at the time of a Defeasance Event, the amount resulting from the hypothetical sale of the Basket Units added to the value of the Zero Coupon Bond Units and the Inflation Units in the Reference Index is greater than the Floor Level, then that excess amount will be allocated in Zero Coupon Bond Units and the Reference Index will track the value of one Zero Coupon Bond Unit and the Inflation Units plus this additional excess amount for the remaining term of the PROCEEDS. If the amount resulting from the hypothetical sale of the Basket Units added to the value of the Zero Coupon Bond Units and the Inflation Units in the Reference Index is equal to or less than the Floor Level, then the Reference Index will track the value of one Zero Coupon Bond Unit and the Inflation Units for the remaining term of the PROCEEDS. In either of the circumstances described in the two preceding sentences there will be no further allocations of hypothetical funds to the Basket Units for the remaining term of the PROCEEDS.

Because the amount of the interest payments on the PROCEEDS, if any, will depend in part on the performance of the Basket Units in the Reference Index, after the occurrence of a Defeasance Event any interest payments on the PROCEEDS will be based solely on Inflation Unit Income. In addition, the Reference Index will not participate in any subsequent increase in the value of the Basket Units and your payment on the maturity date will be limited to the \$10 principal amount per unit (except as described in the first sentence of the immediately preceding paragraph).

Calculation of the Reference Index

The daily closing values of the Reference Index, the Basket Units, the Inflation Units and the Zero Coupon Bond Units will be published on each Business Day on Reuters Page MEREDUS15 (or any successor page for the purpose of displaying those closing values as determined by the Calculation Agent) and will be the respective values determined as of approximately 4:00 p.m. (New York City time) on any Business Day.

The level of the Consumer Price Index is published monthly by the Bureau of Labor Statistics of the U.S. Department of Labor. The level of the Consumer Price Index for any given month will be reported on Bloomberg page CPURNSA or any successor page thereto.

The level of the Reference Index and the daily closing values of each of the Index Components will be calculated by the Calculation Agent. The level of the Reference Index was set to 97 on the Pricing Date, with 25.42% of the hypothetical funds allocated to the Basket Units, 19.49% of the hypothetical funds allocated to the Inflation Units and 55.09% of the hypothetical funds allocated to the Zero Coupon Bond Units. There will be no further allocations of hypothetical funds to or from the Inflation Units over the term of the PROCEEDS. Thereafter, the level of the Reference Index on any Business Day will equal the sum of the closing value of the Basket Units in the Reference Index, the value of the Zero Coupon Bond Units in the Reference Index and the value of the Inflation Units in the Reference Index, as reduced by a pro rata portion of the Index Adjustment Factor.

In addition, the level of the Reference Index will include the value of the Basket Unit Income, if any, if that income is to be hypothetically reinvested in the Basket Units at the close of business on the Commencement Date of the next monthly calculation period, as described below under the section entitled “—Reinvestment of the Basket Unit Income”.

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The level of the Reference Index on any day that is not a Business Day will equal the level of the Reference Index on the previous day minus the Index Adjustment Factor for that day regardless of any changes in the level of the S&P 500 Index on that day.

Reinvestment of the Basket Unit Income

At the close of business on the last day of each monthly calculation period (except for the last monthly calculation period before the maturity date) and after effecting any reallocation for that day, the Calculation Agent will determine the Basket Unit Income. If, at that time, the level of the Reference Index minus (i) the value of the Inflation Units and (ii) any Basket Unit Income is less than 105% of the Floor Level minus the value of the Inflation Units, the interest payment on the PROCEEDS derived from Basket Unit Income for that monthly period will be zero. Under these circumstances, the Calculation Agent will be deemed to reinvest the Basket Unit Income at the close of business on the Commencement Date of the next monthly calculation period in additional Basket Units at a price per unit that does not include that Basket Unit Income (calculated as described under the section entitled “Description of the Index Basket—Calculation of the Index Basket”).

Reallocation of the hypothetical funds tracked by the Reference Index

After the Pricing Date, the allocation of the hypothetical funds between the Basket Units and the Zero Coupon Bond Units will be modified if an Allocation Determination Event occurs. There will be no further allocations of hypothetical funds to or from the Inflation Units over the term of the PROCEEDS. Reallocations of the hypothetical funds between the Basket Units and the Zero Coupon Bond Units are designed to allow participation in any appreciation in the value of the Basket Units, but only to the extent consistent with the objective that the level of the Reference Index is at least 100 on the scheduled Valuation Date and will be effected through the hypothetical purchase and sale of Basket Units and Zero Coupon Bond Units. Reallocations of the hypothetical funds may involve the hypothetical purchase and sale of fractional Basket Units and fractional Zero Coupon Bond Units.

Allocation Determination Events

An “Allocation Determination Event” will occur and a reallocation will be effected if the absolute value of the difference in (i) the closing value of the Basket Units in the Reference Index divided by the closing level of the Reference Index minus the value of the Inflation Units on any Business Day and (ii) the Targeted Exposure, is greater than 5% of the Targeted Exposure. In general, the Targeted Exposure may increase following increases in the value of the Basket Units or decreases in the Floor Level (due to interest rate increases). In general, the Targeted Exposure may decrease following decreases in the value of the Index Basket or increases in the Floor Level (due to interest rate decreases).

The target allocation of hypothetical funds tracked by the Reference Index to the Basket Units (the “Targeted Exposure”) upon the occurrence of an Allocation Determination Event will depend on the last available closing level of the Reference Index (the “Last Value”), the last available value of the Inflation Units (the “Inflation Unit Last Value”), the Floor Level and the Trading Multiple.

The Targeted Exposure will equal:

Cushion x Trading Multiple,

provided, the Targeted Exposure will not exceed 100%.

The “Cushion” equals: $(\text{Last Value} - \text{Floor Level}) / (\text{Last Value} - \text{Inflation Unit Last Value})$; provided, however, that in no instance will the Cushion be less than zero.

The “Floor Level” for any date will equal the (i) value of a hypothetical zero coupon bond maturing on the scheduled Valuation Date with a yield equal to the applicable zero coupon yield based upon USD swap rates plus (ii) the value of the Inflation Units.

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The “Trading Multiple” is set at 5.0.

Upon the determination of the Targeted Exposure upon the occurrence of an Allocation Determination Event, the Calculation Agent will reallocate the hypothetical funds in the Reference Index less the value of any hypothetical funds allocated to the Inflation Units (the “Allocatable Funds”) between the Basket Units and the Zero Coupon Bond Units. An amount of Allocatable Funds equal to the Targeted Exposure will be allocated to the Basket Units and the remainder of the Allocatable Funds will be allocated to the Zero Coupon Bond Units. The percentage of the Reference Index represented by the Basket Units, the Zero Coupon Bond Units and the Inflation Units may be determined by dividing the hypothetical funds allocated to each Index Component by the total level of the Reference Index.

The Calculation Agent will determine whether an Allocation Determination Event has occurred at the beginning of each Business Day up to and including the Valuation Date. For purposes of determining an Allocation Determination Event, the value of hypothetical call options in the Index Basket will be determined using mid-market implied volatility (or the arithmetic mean of bid-side and offered-side implied volatility). See section entitled “Description of the Index Basket—Hypothetical Call Options—Valuation of Call Options” in this prospectus supplement.

The Calculation Agent may defer the determination of the values of the Basket Units and the Zero Coupon Bond Units for up to ten consecutive Business Days on which Market Disruption Events are occurring. Following this deferral period, the Calculation Agent will determine the values of the Basket Units and the Zero Coupon Bond Units. No reallocation of the hypothetical funds tracked by the Reference Index will occur on any day the determination of the value of the Basket Units and the Zero Coupon Bond Units is deferred by the Calculation Agent.

If the Calculation Agent determines that an Allocation Determination Event has occurred, the Calculation Agent will determine the Targeted Exposure, or the percentage of the hypothetical funds that must be allocated to the Basket Units pursuant to the formula. The Targeted Exposure will be determined on the basis of values at the close of business on the previous Business Day. At the close of business on the Business Day on which an Allocation Determination Event has occurred, the Calculation Agent will reallocate the hypothetical funds.

The Targeted Exposure cannot be greater than 100% or less than 0%.

Reallocation procedures

Reallocations may involve hypothetical sales and purchases of Basket Units and Zero Coupon Bond Units. The number of Basket Units to be hypothetically sold or purchased will be determined by the Calculation Agent at the beginning of each Business Day on which the Calculation Agent has determined that an Allocation Determination Event has occurred. However, those hypothetical sales or purchases will be effected at the values (as determined by the Calculation Agent) of Basket Units and Zero Coupon Bond Units at the close of business on the date of reallocation. Any reallocation on the Interest Determination Date of any monthly calculation period will be effected through the hypothetical purchase or sale of Basket Units at a price that includes the Basket Unit Income for that monthly calculation period. Hypothetical purchases of Basket Units will be made at prices that reflect the value of call options determined using bid-side implied volatility and hypothetical sales of Basket Units will be made at prices that reflect the value of call options determined using offered-side implied volatility. See the sections entitled “Risk Factors—Risk Factors Relating to the Basket Units—The valuation of hypothetical call options for purposes of determining the occurrence of an Allocation Determination Event for purposes of effecting a reallocation” and “Description of the Index Basket—Hypothetical Call Options—Valuation of Hypothetical Call Options” in this prospectus supplement.

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If the reallocation results in an increased percentage of hypothetical funds tracked by the Reference Index allocated to the Basket Units, the reallocation will involve the hypothetical sale of Zero Coupon Bond Units and the hypothetical purchase of Basket Units with the hypothetical proceeds of the sale.

The hypothetical sale of Zero Coupon Bond Units will be made at prices that reflect the value of zero coupon bonds determined using relevant offered-side swap rates. The hypothetical purchase of Zero Coupon Bond Units will be made at prices that reflect the value of zero coupon bonds determined using relevant bid-side swap rates.

If the reallocation results in a decreased percentage of hypothetical funds tracked by the Reference Index allocated to the Basket Units, the reallocation will involve the hypothetical sale of Basket Units. The hypothetical proceeds of this sale will be used to make hypothetical purchases of Zero Coupon Bond Units.

The number of Basket Units and Zero Coupon Bond Units in the Reference Index will then be adjusted to reflect the units hypothetically sold or purchased as a result of the reallocation.

The Calculation Agent will determine whether an Allocation Determination Event has occurred and, if so, the Targeted Exposure based on the values of the Reference Index, the Basket Units, the Inflation Units and the Floor Level at the close of business on the previous Business Day and any necessary reallocation will be effected at the close of business on the Business Day on which the occurrence of the Allocation Determination Event is determined. As a result:

- the Calculation Agent may determine that an Allocation Determination Event has occurred even if the values of the Reference Index, the Basket Units, the Inflation Units and the Floor Level at the time the reallocation is effected would not result in an Allocation Determination Event;
- the Reference Index may not participate as fully in any appreciation of the Basket Units that occurs between the determination of the occurrence of an Allocation Determination Event and the resulting reallocation as it would if the reallocation were effected immediately following determination of the Targeted Exposure; and
- the Calculation Agent may effect a greater or lesser allocation to the Basket Units than otherwise would be required if the occurrence of an Allocation Determination Event were determined by the Calculation Agent at the end of that Business Day.

See the section entitled “Risk Factors—Risk Factors Relating to the PROCEEDS and the Reference Index—There may be delays between the determination of an Allocation Determination Event and reallocation of hypothetical funds which could affect the level of the Reference Index” in this prospectus supplement.

Reallocation upon the occurrence of Defeasance Events

Upon the occurrence of a Defeasance Event, no hypothetical funds will be allocated to the Basket Units for the remaining term of the PROCEEDS, even if at the close of business on that Business Day the value of the Cushion is greater than 0.05%.

If the amount allocated to the Basket Units falls to zero at any time, it will remain zero for the remaining term of the PROCEEDS and the reallocation procedures described in this section will no longer apply. If the value of the Basket Units subsequently increases, the Reference Index will not participate in that increase. See the section entitled “Risk Factors—Risk Factors Relating to the PROCEEDS and the Reference Index—The performance of the Basket Units may exceed the performance of the Reference Index” in this prospectus supplement.

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Reallocation following a 10% decline in the level of the S&P 500 Index

If at any time during any Business Day the level of the S&P 500 Index has declined from its closing level on the previous Business Day by 10% or more, the Calculation Agent, as soon as reasonably practicable, will determine the Targeted Exposure and reallocate the hypothetical funds tracked by the Reference Index at the close of business on the Business Day that decline is determined so that the percentage of hypothetical funds invested in the Basket Units is as close as is reasonably practicable to the Targeted Exposure, as described under the section entitled “—Reallocation of the Hypothetical Funds tracked by the Reference Index” above. This reallocation will be effected even if an Allocation Determination Event has not occurred and, if an Allocation Determination Event was determined to have occurred at the beginning of that Business Day, the reallocation of hypothetical funds determined in connection with that Allocation Determination Event will be disregarded.

Allocation Determination Events—Hypothetical Examples

The following are four hypothetical examples of the effects of Allocation Determination Events. These hypothetical examples assume that: (i) purchases and sales of Basket Units to effect reallocations are at prices that reflect the value of hypothetical call options determined using mid-market implied volatility; (ii) the level of the Reference Index does not change between the determination of an Allocation Determination Event and the subsequent reallocation; (iii) the Basket Units have a value of 100; (iv) the Inflation Units have a value of 18.90 and (v) the Zero Coupon Bond Units have a value of 75.

EXAMPLE 1: AN ALLOCATION DETERMINATION EVENT REQUIRES THE ENTIRE VALUE OF THE HYPOTHETICAL FUNDS TRACKED BY THE REFERENCE INDEX, LESS THE HYPOTHETICAL FUNDS ALLOCATED TO THE INFLATION UNITS, TO BE ALLOCATED TO THE BASKET UNITS

Before Reallocation:

Level of the Reference Index: 118.90
Floor Level: 93.90
Cushion: approximately 25%
Amount Allocated to Basket Units: 75.00
Amount Allocated to Inflation Units: 18.90
Amount Allocated to Zero Coupon Bond Units: 25.00

After Reallocation:

Level of the Reference Index: 118.90
Floor Level: 93.90
Targeted Exposure: 100%
Amount Allocated to Basket Units: 100
Amount Allocated to Inflation Units: 18.90
Amount Allocated to Zero Coupon Bond Units: 0.00

EXAMPLE 2: AN ALLOCATION DETERMINATION EVENT REQUIRES THE ALLOCATION OF THE VALUE OF THE HYPOTHETICAL FUNDS TRACKED BY THE REFERENCE INDEX TO THE BASKET UNITS TO BE REDUCED

Before Reallocation:

Level of the Reference Index: 106.90
Floor Level: 93.90
Cushion: approximately 14.77%
Amount Allocated to Basket Units: 75.00
Amount Allocated to Inflation Units: 18.90
Amount Allocated to Zero Coupon Bond Units: 13.00

After Reallocation:

Level of the Reference Index: 106.90
Floor Level: 93.90
Targeted Exposure: approximately 73.86%
Amount Allocated to Basket Units: 65.00
Amount Allocated to Inflation Units: 18.90
Amount Allocated to Zero Coupon Bond Units: 23.00

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EXAMPLE 3: A DEFEASANCE EVENT OCCURS, REQUIRING THE ALLOCATION TO THE BASKET UNITS TO BE ZERO AND THE AMOUNT RESULTING FROM THE HYPOTHETICAL SALE OF THE BASKET UNITS ADDED TO THE VALUE OF THE ZERO COUPON BOND UNITS AND THE INFLATION UNITS IN THE REFERENCE INDEX IS GREATER THAN THE FLOOR LEVEL

Upon the occurrence of a Defeasance Event, no hypothetical funds will be allocated to the Basket Units and no hypothetical funds will be allocated to the Basket Units for the remaining term of the PROCEEDS.

Before Reallocation:

Level of the Reference Index: 93.93
Floor Level: 93.90
Cushion: 0.04%
Amount Allocated to Basket Units: 3.00
Amount Allocated to Inflation Units: 18.90
Amount Allocated to Zero Coupon Bond Units: 72.03

After Reallocation:

Level of the Reference Index: 93.93
Floor Level: 93.90
Targeted Exposure: 0.00%
Amount Allocated to Basket Units: 0.00
Amount Allocated to Inflation Units: 18.90
Amount Allocated to Zero Coupon Bond Units: 75.03

EXAMPLE 4: A DEFEASANCE EVENT OCCURS, REQUIRING THE ALLOCATION TO THE BASKET UNITS TO BE ZERO AND THE AMOUNT RESULTING FROM THE HYPOTHETICAL SALE OF THE BASKET UNITS ADDED TO THE VALUE OF THE ZERO COUPON BOND UNITS AND THE INFLATION UNITS IN THE REFERENCE INDEX IS LESS THAN THE FLOOR LEVEL

Upon the occurrence of a Defeasance Event, no hypothetical funds will be allocated to the Basket Units and no hypothetical funds will be allocated to the Basket Units for the remaining term of the PROCEEDS.

Before Reallocation:

Level of the Reference Index: 92.90
Floor Level: 93.90
Cushion: -1.35%
Amount Allocated to Basket Units: 3.00
Amount Allocated to Inflation Units: 18.90
Amount Allocated to Zero Coupon Bond Units: 71.00

After Reallocation:

Level of the Reference Index: 92.90
Floor Level: 93.90
Targeted Exposure: 0.00%
Amount Allocated to Basket Units: 0.00
Amount Allocated to Inflation Units: 18.90
Amount Allocated to Zero Coupon Bond Units: 74.00

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Hypothetical Historical Data on the Reference Index

The following tables and graphs set forth hypothetical historical levels of the Reference Index, monthly income and the Index Basket price return (excluding dividends) on the third Friday of each month during six different seven year periods beginning on the Monday following the third Friday of March in 1993, 1994, 1995, 1996, 1997 and 1998. This hypothetical historical information has been calculated as if the Reference Index and each Index Component had existed during that period.

The following hypothetical historical information should not be taken as an indication of the future performance of the Reference Index over the term of the PROCEEDS or future interest payments or the actual total payment on the maturity date on the PROCEEDS.

The following hypothetical historical information has been calculated by the Calculation Agent on the same basis as the Reference Index and the interest payments will be calculated. However, the calculations used to determine the hypothetical historical closing levels of the Reference Index contain assumptions and necessary estimates and approximations that will not be reflected in the calculation of the level of the Reference Index and interest payments over the term of the PROCEEDS. As a result, the following hypothetical historical values of the Reference Index and monthly income may be different than they would be if those assumptions were not made and those estimates and approximations were not necessary to calculate the hypothetical historical values of the Reference Index and monthly income.

The calculations assume that:

- the Reference Index was created on the Monday following the third Friday of March of each seven year period with a level of 97;
- the dividends in respect of the stocks included in the S&P 500 Index used in connection with determining the value of the Index Basket and exercise price for the hypothetical call options for each monthly calculation period were equal to those reported by S&P and Bloomberg;
- the implied volatilities for the S&P 500 Index were obtained from Bloomberg as of March 15, 1994 through the present; prior to March 15, 1994 the 30-day implied volatilities as determined by the Calculation Agent were used;
- reallocations between Basket Units and Zero Coupon Bond Units were at mid-volatility or mid-swap rates (rather than at the bid-volatility or bid-swap rates which will be used for hypothetical purchases of Basket Units or Zero Coupon Bond Units, or the offered-volatility or offered-swap rates which will be used for hypothetical sales of Basket Units or Zero Coupon Bond Units, in order to effect a reallocation); and
- the cash flows generated by the year over year percentage change in the Consumer Price Index levels were reported on Bloomberg. The present value of those cash flows were derived by the Calculation Agent assuming no transaction costs.

The following hypothetical historical values have not been verified by an independent third party. Withholding taxes were ignored in calculating the dividends paid in respect of the stocks included in the S&P 500 Index. The options values were calculated using 86.67% of the historical implied mid-volatility available on Bloomberg for the one month comparable listed options and the historical short-term mid-interest rates available on Bloomberg. Swap rates used to calculate the hypothetical historical Zero Coupon Bond Units were taken from Bloomberg.

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Seven Year Period Beginning March 22, 1993 ⁽¹⁾	Year 1				Year 2				Year 3			
	Ref. Index Level	Basket Unit Income	Infl. Unit Income	Basket Price Return	Ref. Index Level	Basket Unit Income	Infl. Unit Income	Basket Price Return	Ref. Index Level	Basket Unit Income	Infl. Unit Income	Basket Price Return
April	96.86	0.04	0.03	100.01	90.16	0.03	0.02	98.00	93.82	0.04	0.02	108.49
May	95.46	0.05	0.03	99.32	90.86	0.05	0.02	99.56	95.30	0.04	0.03	110.78
June	94.81	0.04	0.03	98.84	91.08	0.03	0.02	100.34	97.36	0.03	0.03	113.96
July	94.97	0.02	0.02	99.30	90.08	0.03	0.02	99.40	98.77	0.04	0.03	116.87
August	96.00	0.04	0.02	101.35	91.19	0.03	0.02	101.48	99.26	0.05	0.02	118.05
September	96.38	0.02	0.02	101.94	91.90	0.03	0.02	103.12	100.64	0.04	0.02	120.18
October	97.04	0.03	0.02	103.13	90.46	0.05	0.02	101.75	101.00	0.04	0.02	121.02
November	94.94	0.03	0.02	101.61	89.54	0.06	0.02	101.00	102.07	0.05	0.02	122.94
December	95.26	0.04	0.02	102.44	88.77	0.05	0.02	100.41	103.09	0.04	0.02	124.73
January	96.36	0.02	0.02	104.27	89.37	0.05	0.02	101.72	102.43	0.05	0.02	123.81
February	94.65	0.03	0.02	102.73	90.88	0.04	0.02	103.99	103.95	0.04	0.02	126.61
March	94.50	0.03	0.02	103.47	92.37	0.03	0.02	106.23	102.52	0.07	0.02	125.33

Year 4				Year 5				Year 6				Year 7			
Ref. Index Level	Basket Unit Income	Infl. Unit Income	Basket Price Return	Ref. Index Level	Basket Unit Income	Infl. Unit Income	Basket Price Return	Ref. Index Level	Basket Unit Income	Infl. Unit Income	Basket Price Return	Ref. Index Level	Basket Unit Income	Infl. Unit Income	Basket Price Return
102.63	0.08	0.02	126.04	104.09	0.08	0.02	135.54	119.65	0.12	0.01	166.25	117.54	0.09	0.01	180.60
104.55	0.06	0.02	129.13	105.41	0.08	0.02	137.87	117.15	0.11	0.01	164.18	117.63	0.09	0.02	182.15
103.79	0.08	0.02	128.73	109.22	0.09	0.02	143.72	115.64	0.10	0.01	162.98	117.84	0.09	0.02	183.86
99.60	0.06	0.02	123.30	109.59	0.09	0.02	144.63	118.69	0.11	0.01	167.69	120.42	0.09	0.02	189.20
100.76	0.07	0.02	125.42	107.33	0.10	0.02	142.34	108.55	0.08	0.01	152.77	114.09	0.08	0.02	178.25
102.08	0.07	0.02	128.19	112.46	0.09	0.02	150.19	104.19	0.04	0.01	144.14	113.56	0.07	0.02	178.09
103.63	0.06	0.03	130.65	111.14	0.11	0.02	149.19	105.73	0.04	0.01	149.27	108.67	0.06	0.02	166.35
105.00	0.06	0.02	133.08	112.09	0.09	0.02	152.18	109.32	0.05	0.01	160.22	112.08	0.05	0.02	176.44
105.71	0.08	0.03	135.11	109.67	0.09	0.02	149.60	110.64	0.06	0.01	163.59	111.93	0.06	0.02	176.32
107.14	0.09	0.03	137.64	110.43	0.08	0.01	151.93	113.53	0.07	0.01	170.23	112.48	0.06	0.02	178.84
109.78	0.09	0.03	141.81	115.15	0.10	0.01	159.69	112.79	0.07	0.01	169.67	108.36	0.05	0.02	167.02
106.82	0.10	0.03	138.68	117.80	0.10	0.01	163.50	116.48	0.09	0.01	177.90	110.20	0.04	0.03	173.92

⁽¹⁾ On this date the Reference Index Level was set to 97 and the Basket Price Return was set to 100.

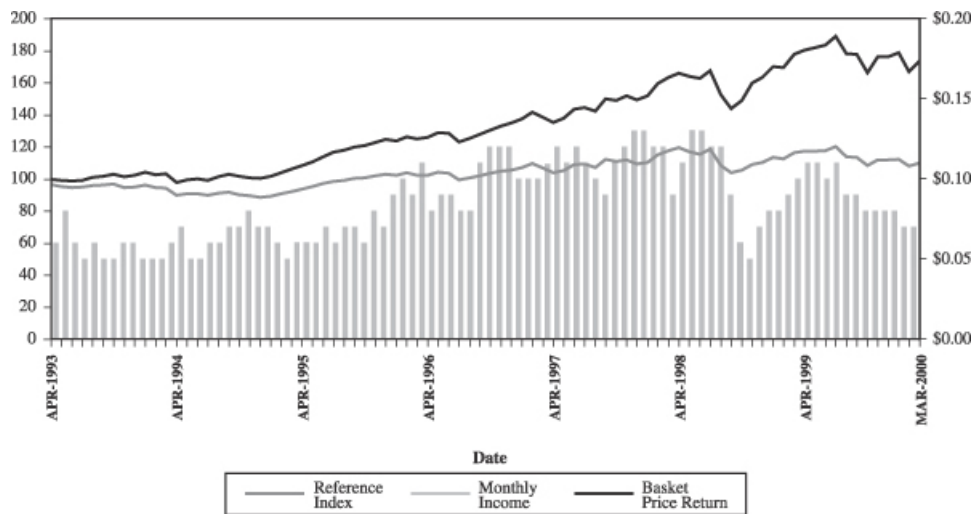


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Seven Year Period Beginning March 21, 1994 ⁽¹⁾	Year 1				Year 2				Year 3			
	Ref. Index Level	Basket Unit Income	Infl. Unit Income	Basket Price Return	Ref. Index Level	Basket Unit Income	Infl. Unit Income	Basket Price Return	Ref. Index Level	Basket Unit Income	Infl. Unit Income	Basket Price Return
April	92.28	0.04	0.02	95.23	96.28	0.05	0.02	105.42	106.47	0.11	0.02	122.47
May	93.38	0.08	0.02	96.74	97.89	0.05	0.03	107.64	109.00	0.08	0.02	125.47
June	93.65	0.04	0.02	97.49	100.18	0.04	0.03	110.73	107.95	0.12	0.02	125.08
July	92.41	0.04	0.02	96.58	102.16	0.06	0.03	113.56	102.14	0.07	0.02	119.81
August	93.83	0.05	0.02	98.61	102.78	0.06	0.02	114.71	103.43	0.09	0.02	121.86
September	94.92	0.04	0.02	100.20	104.37	0.05	0.02	116.77	105.29	0.10	0.02	124.56
October	93.15	0.06	0.02	98.86	104.72	0.06	0.02	117.60	107.14	0.08	0.03	126.95
November	91.91	0.08	0.02	98.14	105.98	0.06	0.02	119.46	108.78	0.08	0.02	129.31
December	90.71	0.07	0.02	97.57	107.24	0.05	0.02	121.19	109.96	0.11	0.03	131.28
January	91.41	0.06	0.02	98.84	105.96	0.07	0.02	120.31	111.93	0.12	0.03	133.74
February	93.11	0.06	0.02	101.04	108.04	0.06	0.02	123.03	115.44	0.13	0.03	137.79
March	94.73	0.04	0.02	103.22	106.44	0.09	0.02	121.78	111.43	0.13	0.03	134.75

Year 4				Year 5				Year 6				Year 7			
Ref. Index Level	Basket Unit Income	Infl. Unit Income	Basket Price Return	Ref. Index Level	Basket Unit Income	Infl. Unit Income	Basket Price Return	Ref. Index Level	Basket Unit Income	Infl. Unit Income	Basket Price Return	Ref. Index Level	Basket Unit Income	Infl. Unit Income	Basket Price Return
107.41	0.11	0.02	131.70	128.11	0.15	0.01	161.54	123.41	0.13	0.01	175.48	108.62	0.06	0.03	165.54
109.06	0.11	0.02	133.97	125.04	0.16	0.01	159.53	123.35	0.13	0.02	176.99	106.68	0.06	0.03	162.36
114.12	0.12	0.02	139.65	122.71	0.15	0.01	158.37	123.68	0.12	0.02	178.66	108.73	0.05	0.03	168.28
114.47	0.12	0.02	140.53	127.01	0.15	0.01	162.94	127.36	0.14	0.02	183.85	109.37	0.05	0.03	170.08
111.29	0.13	0.02	138.31	112.28	0.11	0.01	148.44	118.05	0.11	0.02	173.20	109.65	0.05	0.03	171.41
118.44	0.13	0.02	145.94	105.64	0.06	0.01	140.06	117.15	0.10	0.02	173.04	108.60	0.05	0.03	168.43
116.52	0.15	0.02	144.96	107.42	0.06	0.01	145.04	109.83	0.08	0.02	161.64	106.14	0.03	0.03	160.52
117.73	0.13	0.02	147.87	112.47	0.08	0.01	155.68	114.60	0.08	0.02	171.44	105.17	0.03	0.03	157.16
114.52	0.12	0.02	145.37	114.10	0.09	0.01	158.96	114.19	0.08	0.02	171.33	103.94	—	0.03	150.77
115.53	0.11	0.01	147.63	118.12	0.10	0.01	165.41	114.75	0.09	0.02	173.78	104.67	—	0.03	154.27
122.07	0.14	0.01	155.16	117.13	0.10	0.01	164.87	108.26	0.07	0.02	162.29	104.01	—	0.03	149.55
125.56	0.15	0.01	158.87	122.26	0.12	0.01	172.86	110.97	0.06	0.03	169.00	102.15	—	0.03	132.20

⁽¹⁾ On this date the Reference Index Level was set to 97 and the Basket Price Return was set to 100. A Defeasance Event occurred on December 15, 2000.

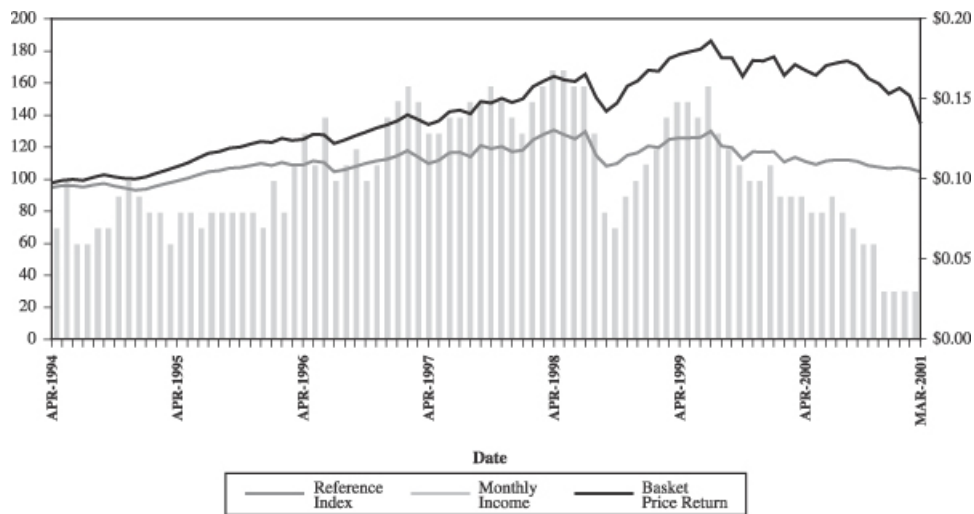
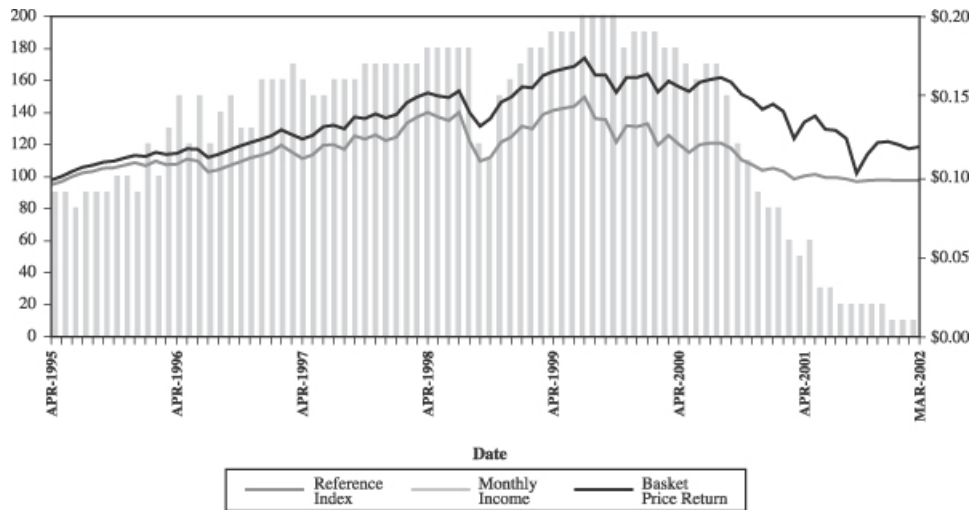


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Seven Year Period Beginning March 20, 1995 ⁽¹⁾	Year 1				Year 2				Year 3			
	Ref. Index Level	Basket Unit Income	Infl. Unit Income	Basket Price Return	Ref. Index Level	Basket Unit Income	Infl. Unit Income	Basket Price Return	Ref. Index Level	Basket Unit Income	Infl. Unit Income	Basket Price Return
April	98.98	0.07	0.02	102.00	111.77	0.13	0.02	118.50	115.26	0.14	0.02	127.43
May	100.98	0.07	0.03	104.15	114.82	0.09	0.02	121.40	117.41	0.13	0.02	129.62
June	103.93	0.05	0.03	107.14	113.72	0.12	0.02	121.02	123.52	0.14	0.02	135.12
July	106.46	0.07	0.03	109.88	106.81	0.10	0.02	115.92	124.05	0.14	0.02	135.97
August	107.26	0.07	0.02	110.99	108.37	0.12	0.02	117.91	120.89	0.14	0.02	133.82
September	109.11	0.07	0.02	112.99	110.87	0.12	0.02	120.52	129.32	0.14	0.02	141.20
October	109.49	0.08	0.02	113.78	113.18	0.10	0.03	122.83	127.40	0.16	0.02	140.26
November	111.07	0.08	0.02	115.58	115.44	0.10	0.02	125.12	130.08	0.15	0.02	143.07
December	112.61	0.07	0.02	117.26	117.15	0.13	0.03	127.02	126.46	0.15	0.02	140.65
January	110.87	0.10	0.02	116.40	119.49	0.13	0.03	129.40	128.69	0.15	0.01	142.84
February	113.56	0.08	0.02	119.04	123.64	0.14	0.03	133.32	137.29	0.16	0.01	150.13
March	111.54	0.11	0.02	117.83	119.46	0.14	0.03	130.38	141.29	0.16	0.01	153.71

Year 4				Year 5				Year 6				Year 7			
Ref. Index Level	Basket Unit Income	Infl. Unit Income	Basket Price Return	Ref. Index Level	Basket Unit Income	Infl. Unit Income	Basket Price Return	Ref. Index Level	Basket Unit Income	Infl. Unit Income	Basket Price Return	Ref. Index Level	Basket Unit Income	Infl. Unit Income	Basket Price Return
144.04	0.16	0.01	156.30	145.48	0.17	0.01	169.79	124.13	0.15	0.03	160.17	104.48	0.03	0.02	137.99
141.07	0.17	0.01	154.35	146.62	0.17	0.02	171.24	119.20	0.15	0.03	157.09	105.34	0.03	0.03	141.93
139.03	0.17	0.01	153.23	148.01	0.17	0.02	172.86	123.86	0.13	0.03	162.82	103.39	—	0.03	133.40
144.07	0.16	0.01	157.65	153.55	0.18	0.02	177.88	124.75	0.14	0.03	164.57	103.30	—	0.03	133.02
125.77	0.17	0.01	143.63	140.34	0.18	0.02	167.58	124.91	0.14	0.03	165.85	102.41	—	0.02	127.65
113.57	0.11	0.01	135.51	139.58	0.18	0.02	167.43	121.70	0.12	0.03	162.97	100.74	—	0.02	106.10
116.01	0.10	0.01	140.34	125.58	0.17	0.02	156.40	114.48	0.09	0.03	155.31	101.47	—	0.02	117.93
125.53	0.14	0.01	150.63	135.78	0.16	0.02	165.88	111.46	0.08	0.03	152.06	101.87	—	0.02	125.09
128.73	0.15	0.01	153.80	135.04	0.17	0.02	165.77	107.80	0.06	0.03	145.88	101.86	—	0.02	125.77
135.48	0.15	0.01	160.04	137.09	0.16	0.02	168.14	109.12	0.06	0.03	149.26	101.67	—	0.01	123.87
133.99	0.17	0.01	159.52	123.50	0.16	0.02	157.03	107.22	0.05	0.03	144.70	101.41	—	0.01	121.30
142.91	0.17	0.01	167.25	129.75	0.15	0.03	163.51	102.45	0.03	0.03	127.92	101.47	—	0.01	122.73

⁽¹⁾ On this date the Reference Index Level was set to 97 and the Basket Price Return was set to 100. A Defeasance Event occurred on June 15, 2001.



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Seven Year Period Beginning March 18, 1996 ⁽¹⁾	Year 1				Year 2				Year 3			
	Ref. Index Level	Basket Unit Income	Infl. Unit Income	Basket Price Return	Ref. Index Level	Basket Unit Income	Infl. Unit Income	Basket Price Return	Ref. Index Level	Basket Unit Income	Infl. Unit Income	Basket Price Return
April	95.64	0.08	0.02	98.83	95.51	0.08	0.02	106.28	109.60	0.10	0.01	130.36
May	97.51	0.07	0.02	101.25	96.66	0.08	0.02	108.11	107.27	0.10	0.01	128.74
June	96.70	0.09	0.02	100.94	100.33	0.08	0.02	112.70	105.81	0.10	0.01	127.80
July	92.12	0.05	0.02	96.68	100.65	0.08	0.02	113.41	108.56	0.10	0.01	131.49
August	93.08	0.07	0.02	98.34	98.41	0.09	0.02	111.61	99.09	0.07	0.01	119.79
September	94.47	0.07	0.02	100.51	103.43	0.09	0.02	117.77	95.57	0.04	0.01	113.02
October	95.78	0.06	0.03	102.44	102.11	0.10	0.02	116.98	97.09	0.03	0.01	117.05
November	96.87	0.06	0.02	104.35	102.69	0.09	0.02	119.33	99.46	0.04	0.01	125.63
December	97.69	0.08	0.03	105.94	100.53	0.08	0.02	117.31	100.53	0.05	0.01	128.27
January	99.08	0.09	0.03	107.92	101.32	0.07	0.01	119.13	102.62	0.05	0.01	133.48
February	101.50	0.09	0.03	111.19	105.59	0.09	0.01	125.21	101.73	0.06	0.01	133.04
March	98.38	0.10	0.03	108.74	107.88	0.10	0.01	128.20	104.70	0.07	0.01	139.49

Year 4				Year 5				Year 6				Year 7			
Ref. Index Level	Basket Unit Income	Infl. Unit Income	Basket Price Return	Ref. Index Level	Basket Unit Income	Infl. Unit Income	Basket Price Return	Ref. Index Level	Basket Unit Income	Infl. Unit Income	Basket Price Return	Ref. Index Level	Basket Unit Income	Infl. Unit Income	Basket Price Return
105.38	0.08	0.01	141.61	95.36	0.04	0.03	133.59	95.95	—	0.02	115.09	99.71	—	0.01	98.76
105.25	0.08	0.02	142.82	93.39	0.04	0.03	131.02	95.97	—	0.03	118.37	99.82	—	0.01	97.13
105.20	0.08	0.02	144.17	95.39	0.03	0.03	135.79	96.27	—	0.03	111.26	100.19	—	0.01	86.82
107.63	0.08	0.02	148.36	95.84	0.03	0.03	137.25	96.41	—	0.03	110.94	100.45	—	0.01	74.41
101.73	0.07	0.02	139.77	96.12	0.03	0.03	138.32	96.79	—	0.02	106.46	100.66	—	0.01	78.87
101.44	0.06	0.02	139.64	95.76	0.03	0.03	135.92	98.12	—	0.02	88.49	100.74	—	0.02	71.79
96.62	0.05	0.02	130.44	94.69	0.02	0.03	129.53	98.47	—	0.02	98.35	100.72	—	0.01	75.11
99.58	0.05	0.02	138.35	94.10	—	0.03	126.82	98.18	—	0.02	104.32	100.86	—	0.02	77.27
99.05	0.05	0.02	138.26	94.39	—	0.03	121.67	98.14	—	0.02	104.90	100.90	—	0.02	76.07
99.21	0.06	0.02	140.23	95.54	—	0.03	124.49	98.67	—	0.01	103.31	100.85	—	0.02	76.58
94.83	0.04	0.02	130.96	95.33	—	0.03	120.69	98.75	—	0.01	101.17	100.82	—	0.02	72.03
96.71	0.04	0.03	136.37	95.13	—	0.03	106.68	98.25	—	0.01	102.36	100.73	—	0.02	75.15

⁽¹⁾ On this date the Reference Index Level was set to 97 and the Basket Price Return was set to 100. A Defeasance Event occurred on November 17, 2000.

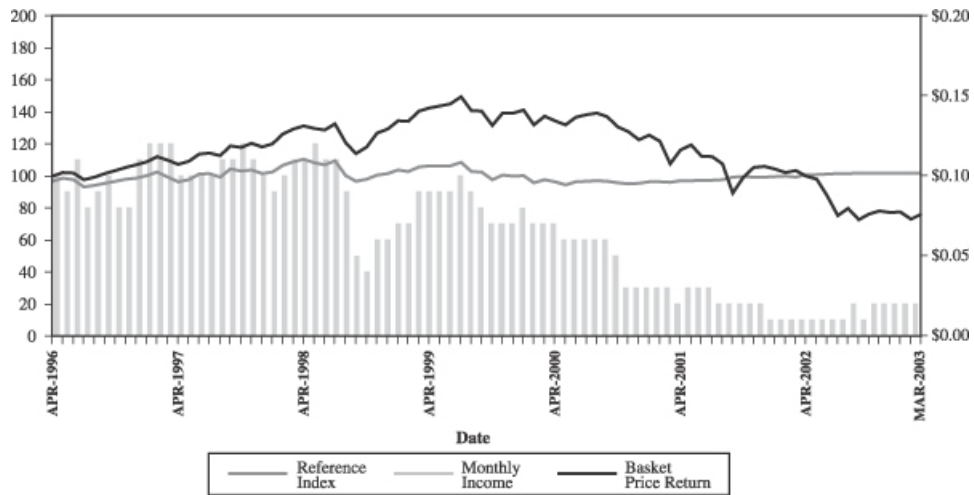


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Seven Year Period Beginning March 24, 1997 ⁽¹⁾	Year 1				Year 2				Year 3			
	Ref. Index Level	Basket Unit Income	Infl. Unit Income	Basket Price Return	Ref. Index Level	Basket Unit Income	Infl. Unit Income	Basket Price Return	Ref. Index Level	Basket Unit Income	Infl. Unit Income	Basket Price Return
April	93.24	0.08	0.02	96.89	106.42	0.10	0.01	118.85	101.28	0.07	0.01	129.11
May	94.43	0.08	0.02	98.56	104.18	0.10	0.01	117.37	101.21	0.07	0.02	130.21
June	98.07	0.08	0.02	102.74	102.66	0.09	0.01	116.51	101.03	0.07	0.02	131.44
July	98.38	0.08	0.02	103.39	105.24	0.09	0.01	119.88	103.26	0.08	0.02	135.26
August	95.99	0.09	0.02	101.76	96.04	0.07	0.01	109.21	97.51	0.07	0.02	127.43
September	100.96	0.09	0.02	107.37	92.79	0.03	0.01	103.04	97.30	0.06	0.02	127.31
October	99.55	0.10	0.02	106.65	94.16	0.03	0.01	106.71	92.41	0.05	0.02	118.92
November	100.11	0.09	0.02	108.79	96.14	0.04	0.01	114.54	95.34	0.05	0.02	126.13
December	97.91	0.08	0.02	106.95	97.11	0.05	0.01	116.95	94.69	0.05	0.02	126.05
January	98.63	0.07	0.01	108.61	98.87	0.05	0.01	121.69	94.79	0.06	0.02	127.85
February	102.61	0.09	0.01	114.16	97.91	0.06	0.01	121.30	90.47	0.04	0.02	119.40
March	104.88	0.09	0.01	116.88	100.59	0.07	0.01	127.18	92.38	0.04	0.03	124.33

Year 4				Year 5				Year 6				Year 7			
Ref. Index Level	Basket Unit Income	Infl. Unit Income	Basket Price Return	Ref. Index Level	Basket Unit Income	Infl. Unit Income	Basket Price Return	Ref. Index Level	Basket Unit Income	Infl. Unit Income	Basket Price Return	Ref. Index Level	Basket Unit Income	Infl. Unit Income	Basket Price Return
91.10	0.03	0.03	121.79	92.27	—	0.02	104.93	97.41	—	0.01	90.04	101.12	—	0.03	68.23
88.97	0.04	0.03	119.45	92.72	—	0.03	107.92	97.50	—	0.01	88.56	101.19	—	0.02	71.49
91.17	0.03	0.03	123.80	93.27	—	0.03	101.44	98.50	—	0.01	79.16	101.30	—	0.02	72.07
91.52	0.03	0.03	125.13	93.49	—	0.03	101.14	99.30	—	0.01	67.84	101.11	—	0.02	71.89
91.91	0.03	0.03	126.11	94.28	—	0.02	97.06	99.62	—	0.01	71.91	100.93	—	0.02	71.70
91.68	0.03	0.03	123.92	96.06	—	0.02	80.68	100.10	—	0.02	65.45	100.91	—	0.02	74.16
90.83	—	0.03	118.10	96.57	—	0.02	89.67	99.94	—	0.01	68.47	100.78	—	0.02	74.37
90.23	—	0.03	115.63	95.98	—	0.02	95.11	100.26	—	0.02	70.44	100.74	—	0.02	74.08
91.03	—	0.03	110.93	95.53	—	0.02	95.63	100.48	—	0.02	69.35	100.70	—	0.01	76.79
92.23	—	0.03	113.50	96.48	—	0.01	94.19	100.60	—	0.02	69.82	100.67	—	0.02	78.63
92.07	—	0.03	110.03	96.63	—	0.01	92.23	100.73	—	0.02	65.67	100.61	—	0.02	78.93
92.31	—	0.03	97.26	95.65	—	0.01	93.32	100.48	—	0.02	68.52	100.56	—	0.01	76.56

⁽¹⁾ On this date the Reference Index Level was set to 97 and the Basket Price Return was set to 100. A Defeasance Event occurred on October 20, 2000.

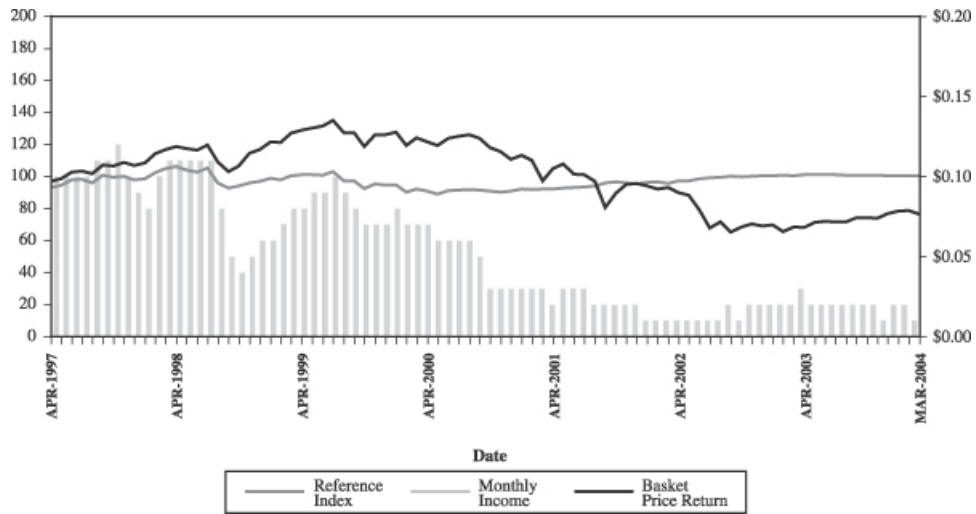
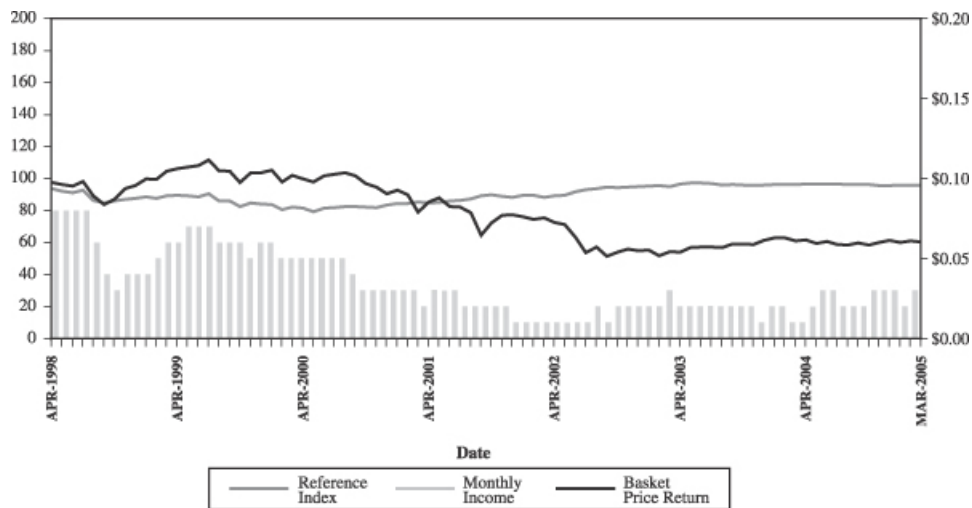


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Seven Year Period Beginning March 23, 1998 ⁽¹⁾	Year 1				Year 2				Year 3			
	Ref. Index Level	Basket Unit Income	Infl. Unit Income	Basket Price Return	Ref. Index Level	Basket Unit Income	Infl. Unit Income	Basket Price Return	Ref. Index Level	Basket Unit Income	Infl. Unit Income	Basket Price Return
April	98.40	0.07	0.01	102.02	94.26	0.04	0.01	110.82	86.18	0.02	0.03	104.54
May	96.78	0.07	0.01	100.75	93.77	0.05	0.02	111.77	83.96	0.02	0.03	102.53
June	95.61	0.07	0.01	100.01	93.35	0.05	0.02	112.82	86.22	0.02	0.03	106.27
July	97.39	0.07	0.01	102.90	95.02	0.06	0.02	116.10	86.51	0.02	0.03	107.41
August	90.80	0.05	0.01	93.75	90.75	0.05	0.02	109.38	86.96	0.02	0.03	108.25
September	89.33	0.02	0.01	88.45	90.72	0.04	0.02	109.28	87.04	0.02	0.03	106.37
October	90.66	0.02	0.01	91.60	87.20	0.03	0.02	102.08	86.87	—	0.03	101.37
November	91.54	0.03	0.01	98.31	89.43	0.03	0.02	108.27	86.38	—	0.03	99.25
December	92.31	0.03	0.01	100.38	88.70	0.03	0.02	108.20	87.92	—	0.03	95.22
January	93.24	0.03	0.01	104.46	88.38	0.04	0.02	109.74	89.06	—	0.03	97.42
February	92.13	0.04	0.01	104.12	85.27	0.03	0.02	102.49	89.01	—	0.03	94.45
March	93.70	0.04	0.01	109.17	86.81	0.03	0.03	106.72	89.86	—	0.03	83.49

Year 4				Year 5				Year 6				Year 7			
Ref. Index Level	Basket Unit Income	Infl. Unit Income	Basket Price Return	Ref. Index Level	Basket Unit Income	Infl. Unit Income	Basket Price Return	Ref. Index Level	Basket Unit Income	Infl. Unit Income	Basket Price Return	Ref. Index Level	Basket Unit Income	Infl. Unit Income	Basket Price Return
89.35	—	0.02	90.06	93.76	—	0.01	77.29	101.05	—	0.03	58.57	101.22	—	0.01	66.34
89.63	—	0.03	92.64	94.05	—	0.01	76.01	101.88	—	0.02	61.37	101.15	—	0.02	63.94
90.56	—	0.03	87.07	96.46	—	0.01	67.95	101.99	—	0.02	61.86	101.10	—	0.03	65.32
90.90	—	0.03	86.82	97.58	—	0.01	58.23	101.36	—	0.02	61.71	101.05	—	0.03	63.39
91.87	—	0.02	83.31	98.18	—	0.01	61.73	100.69	—	0.02	61.55	100.98	—	0.02	63.21
93.96	—	0.02	69.25	99.21	—	0.02	56.18	100.93	—	0.02	63.65	100.93	—	0.02	64.32
94.45	—	0.02	76.97	98.81	—	0.01	58.78	100.56	—	0.02	63.84	100.88	—	0.02	63.16
93.64	—	0.02	81.64	99.33	—	0.02	60.47	100.63	—	0.02	63.59	100.36	—	0.03	64.76
92.82	—	0.02	82.09	99.67	—	0.02	59.53	100.64	—	0.01	65.92	100.38	—	0.03	66.09
94.02	—	0.01	80.85	99.82	—	0.02	59.93	100.80	—	0.02	67.50	100.44	—	0.03	64.63
94.24	—	0.01	79.17	100.22	—	0.02	56.37	100.73	—	0.02	67.75	100.50	—	0.02	65.69
92.94	—	0.01	80.11	99.64	—	0.02	58.81	100.94	—	0.01	65.72	100.60	—	0.03	65.03

⁽¹⁾ On this date the Reference Index Level was set to 97 and the Basket Price Return was set to 100. A Defeasance Event occurred on October 20, 2000.



DESCRIPTION OF THE INDEX BASKET

The “Index Basket” is designed to track the performance of a hypothetical investment in a portfolio using a “covered call” strategy on the S&P 500 Index. A “covered call” strategy on an index is an investment strategy in which an investor:

- buys an investment in the index; and
- sells call options on the index with exercise prices higher than the level of the index when the options are priced.

A “covered call” strategy provides income from option premiums, or the value of the option when it is priced, helping, to a limited extent, to offset losses if there is a decline in the level of the index to which the options relate. However, the strategy limits participation in appreciation of the index beyond the option’s exercise price. Thus, in a period of significant stock market increases, the “covered call” strategy will tend to produce lower returns than ownership of an investment in the related index. See the section entitled “Risk Factors—Risk Factors Relating to the Basket Units—The appreciation of the Index Basket will be capped due to the “covered call” strategy” in this prospectus supplement.

The hypothetical call options included in the Index Basket will be sold on a monthly basis for a one month term. The hypothetical call options are not intended to represent or indicate that any of those options exist or are capable of being traded. For more information about the hypothetical call options, see the section entitled “—Hypothetical Call Options” in this prospectus supplement.

The value of the Index Basket will also include the value of dividends on the stocks included in the S&P 500 Index. The **dividend yield** for the S&P 500 Index is determined by annualizing, for each stock included in that S&P 500 Index, the last quarterly, semi-annual or annual ordinary cash dividend for which the ex-dividend date has occurred, excluding any extraordinary dividend, summing the result and then dividing that result by the last available level of the S&P 500 Index on the date that dividend yield is to be determined. As of May 4, 2005, the dividend yield for the S&P 500 Index was 2.06% as obtained by Bloomberg Financial Markets.

Adjustments to the S&P 500 Index

If at any time Standard & Poor’s, a division of The McGraw-Hill Companies, Inc. (“Standard & Poor’s” or “S&P”) makes a material change in the formula for or the method of calculating the S&P 500 Index or any successor index or in any other way materially modifies the S&P 500 Index so that the S&P 500 Index does not, in the opinion of the Calculation Agent, fairly represent the level of the S&P 500 Index had those changes or modifications not been made, then, from and after that time, the Calculation Agent will, at the close of business in New York, New York, on each date that the closing level of the S&P 500 Index is to be calculated, make any adjustments as, in the good faith judgment of the Calculation Agent, may be necessary in order to arrive at a calculation of a level of a stock index comparable to the S&P 500 Index as if those changes or modifications had not been made, and calculate the closing level with reference to that index, as so adjusted. Accordingly, if the method of calculating the S&P 500 Index or successor index is modified so that the level of the S&P 500 Index is a fraction or a multiple of what it would have been if it had not been modified, e.g., due to a split, then the Calculation Agent will make appropriate adjustments to the S&P 500 Index in order to arrive at a level of the S&P 500 Index as if it had not been modified, e.g., as if a split had not occurred.

Discontinuance of the S&P 500 Index

If S&P discontinues publication of the S&P 500 Index and the S&P or another entity publishes a successor or substitute index that the Calculation Agent determines, in its sole discretion, to be comparable to the S&P 500 Index (a “**successor index**”), then, upon the Calculation Agent’s notification of that determination to

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the trustee and ML&Co., the Calculation Agent will substitute the successor index as calculated by S&P or any other entity for the S&P 500 Index and calculate the Ending Value as described above under the section entitled “Description of the PROCEEDS—Payment on the maturity date”. Upon any selection by the Calculation Agent of a successor index, ML&Co. will cause notice to be given to holders of the PROCEEDS.

In the event that S&P discontinues publication of the S&P 500 Index and:

- the Calculation Agent does not select a successor index; or
- the successor index is not published on the Valuation Date,

the Calculation Agent will compute a substitute level for the S&P 500 Index in accordance with the procedures last used to calculate the S&P 500 Index before any discontinuance. If a successor index is selected or the Calculation Agent calculates a level as a substitute for the S&P 500 Index as described below, the successor index or level will be used as a substitute for the S&P 500 Index for all purposes, including the purpose of determining whether a Market Disruption Event exists.

If S&P discontinues publication of the S&P 500 Index before the Valuation Date and the Calculation Agent determines that no successor index is available at that time, then on each Business Day until the earlier to occur of:

- the determination of the Ending Value; or
- a determination by the Calculation Agent that a successor index is available,

the Calculation Agent will determine the value that would be used in computing the Supplemental Redemption Amount as described in the preceding paragraph as if that day were the Valuation Date. The Calculation Agent will cause notice of each value to be published not less often than once each month in *The Wall Street Journal* or another newspaper of general circulation and arrange for information with respect to these values to be made available by telephone.

Notwithstanding these alternative arrangements, discontinuance of the publication of the S&P 500 Index may adversely affect trading in, or the trading value of, the PROCEEDS.

Calculation of the Value of the Index Basket

The value of the Index Basket will be calculated at the close of business on each Business Day by the Calculation Agent and published on Reuters Page MEREDUS15 (or any successor page for the purpose of displaying that value as identified by the Calculation Agent). The value of the Index Basket will be equal to 100 on the Pricing Date. The value of the Index Basket on each Business Day will equal the closing level of the S&P 500 Index and the Adjusted Monthly Income, less the Current Option Value (determined as described under “—Hypothetical Call Options—Valuation of hypothetical call options” in this prospectus supplement). The value of the Index Basket on any day that is not a Business Day will equal the value of the Index Basket on the previous Business Day as reduced by the pro rata portion of the Basket Adjustment Factor for that day.

The “**Adjusted Monthly Income**” will be the hypothetical income related to the S&P 500 Index (the “Monthly Income”), reduced by the pro rata portion of the Basket Adjustment Factor. The Monthly Income for the S&P 500 Index will be the sum of (i) the cash dividends per share in respect of the stocks included in that S&P 500 Index during that monthly calculation period and the Targeted Monthly Premium, less the Premium Adjustment, if any, and (ii) the value of premiums in respect of hypothetical call options.

The “Targeted Monthly Premium” equals the adjusted annual target yield less the dividend yield as determined by the Calculation Agent on the S&P 500 Index on the Commencement Date of that monthly calculation period, multiplied by the closing level of the S&P 500 Index on the day the hypothetical call option is

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priced, divided by 12. The adjusted annual target yield is obtained by increasing the annual target yield of 10% on the Index Basket on the Commencement Date of each monthly calculation period by an amount intended to, but which may or may not, offset the value of the Basket Adjustment Factor. The annual target yield has the rate described above, and does not represent a guarantee, representation or estimate of the actual annual yield of the PROCEEDS.

If the highest exercise price bid for any option is less than 102% of the closing level of the S&P 500 Index on the day the hypothetical call option is priced, a premium adjustment will be subtracted from the cash dividends and the Targeted Monthly Premium. A “premium adjustment” is the difference between the Target Monthly Premium in respect of the S&P 500 Index and the actual highest monthly premium in respect of that hypothetical call option with an exercise price equal to 102% of the closing level of the S&P 500 Index.

If any hypothetical call option has a value greater than zero at expiration, the value of that option will be removed from the value of the Index Basket at the close of business on the day the option expires. Because these reductions will have the effect of ensuring the continuity of the value of the Index Basket, they will not result in Allocation Determination Events.

The value of a cash dividend or distribution will be included in the Basket Unit Income at the close of business on the ex-dividend date for that dividend or distribution. The value of premiums in respect of hypothetical call options will be included in the Basket Unit Income at the close of business on the day on which the hypothetical call option is priced.

The Basket Unit Income will be removed from the value of the Index Basket at the close of business on the Interest Determination Date of the related monthly calculation period. The Basket Unit Income will be zero until hypothetical call options are priced during the following monthly calculation period or until the next ex-dividend date for a stock included in the S&P 500 Index. The removal of Basket Unit Income will reduce the value of the Index Basket and may therefore cause an Allocation Determination Event in which the allocation to the Basket Units is reduced, even if the level of the S&P 500 Index has not fallen. For risks associated with the occurrence of an Allocation Determination Event under these circumstances, see the section entitled “Risk Factors—Risk Factors Relating to the Basket Units—The removal of the value of the Basket Unit Income will reduce the value of the Basket Units at the end of each monthly calculation period and may cause an Allocation Determination Event” in this prospectus supplement.

Hypothetical Call Options

Terms of hypothetical call options

The Calculation Agent will price hypothetical cash-settled call options relating to the S&P 500 Index on a monthly basis for a one month term, beginning on the Pricing Date. Hypothetical call options on the S&P 500 Index will be priced on the Commencement Date of each monthly calculation period. The value of the hypothetical call options relating to the S&P 500 Index will correlate to the value of the notional amount of the S&P 500 Index used to calculate the value of the Index Basket on the day the options are priced.

Each hypothetical call option will:

- expire on the Interest Determination Date of the monthly calculation period;
- be automatically settled on the Interest Determination Date of the monthly calculation period if the closing level of the S&P 500 Index on that day exceeds the exercise price; and
- have an exercise price greater than or equal to 102% of the closing level of the S&P 500 Index on the day the hypothetical call option is priced.

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The exercise price of each hypothetical call option will be determined through the bidding process described below. Before seeking bids on the exercise price of a hypothetical call option, the Calculation Agent will determine the option's Target Monthly Premium. Once the Calculation Agent has determined the Target Monthly Premium for a hypothetical call option, it will seek exercise prices for that hypothetical call option from as many dealers in options (which may include MLPF&S or any of our other subsidiaries or affiliates), but not exceeding five of those dealers, as will make bid prices available to the Calculation Agent. The exercise price for the hypothetical call option will equal the highest exercise price quoted by these dealers or, in the Calculation Agent's absolute discretion, any higher exercise price as the Calculation Agent determines to be quoted by another principal market participant, and the value of this hypothetical call option and the related Target Monthly Premium will be included in the value of the Index Basket at close of business on the day the hypothetical call option is priced.

If the highest exercise price bid is less than 102% of the closing level of the S&P 500 Index on the day the hypothetical call option is priced, the Calculation Agent will set the exercise price of the hypothetical call option at 102% of the closing level of the S&P 500 Index on the day the hypothetical call option is priced and will seek quotations for premiums for the hypothetical call option from as many dealers in options (which may include MLPF&S or any of our other subsidiaries or affiliates), but not exceeding five of those dealers, as will make bid prices available to the Calculation Agent. The premium for the hypothetical call option will equal the highest premium quoted by these dealers or, in the Calculation Agent's absolute discretion, any higher exercise price as the Calculation Agent determines to be quoted by another principal market participant, and the value of this hypothetical call option and the related premium will be included in the value of the Index Basket at the close of business on the day the hypothetical call option is priced. Under these circumstances, the Basket Unit Income will be less than it would have been if the highest exercise price bid had been greater than or equal to 102% of the closing level of the S&P 500 Index on the day the hypothetical call option was priced, except to the extent that the dividends on the stocks included in the S&P 500 Index are higher than the historical dividends on those stocks by an amount sufficient to offset the difference between the actual Basket Unit Income and the Basket Unit Income that would have resulted if the premium in respect of each hypothetical call option had been equal to its Target Monthly Premium.

In seeking exercise prices or premiums from dealers in options in respect of hypothetical call options relating to the S&P 500 Index, the Calculation Agent may reject any exercise price or premium that does not meet the requirements for hypothetical call options stated above or that relates to a notional amount of the S&P 500 Index that is different than the notional amount of the S&P 500 Index used to calculate the value of the Index Basket with respect to the outstanding number of PROCEEDS at the close of business on the Business Day for the S&P 500 Index prior to the date on which the options are priced.

The level of the S&P 500 Index on any Business Day will be the level as published by S&P. The level of the S&P 500 Index on any day that is not a Business Day where a Market Disruption Event has not occurred will equal the level of the S&P 500 Index on the previous Business Day.

The terms of the hypothetical call options will provide for adjustments to reflect the occurrence of a modification affecting the S&P 500 Index (such as, for example, a split).

Valuation of hypothetical call options

The "Current Option Value" is the sum of the mark-to-market value of each hypothetical call option and will be determined by the Calculation Agent at the close of business on each Business Day using accepted option valuation methods. The valuation methods take into account variables such as:

- the closing level of the S&P 500 Index as of the time the hypothetical call option is valued;
- the cumulative normal distribution function (a fixed statistical function), which determines the probability of a variable falling within a given range under specified conditions;

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- the exercise price of the hypothetical call option;
- the computed continuously compounded annualized current dividend yield on the S&P 500 Index based on expected dividends;
- the U.S. dollar interest rate as of the time the hypothetical call option is valued, converted into a continuously compounded rate; and
- the implied volatility of the S&P 500 Index (determined by the Calculation Agent as described below).

At the time the hypothetical call option is priced, the U.S. dollar interest rate will equal U.S. dollar LIBOR as calculated and published at that time by Bloomberg Financial Markets, or another recognized source selected by the Calculation Agent at that time, based on the time to maturity of that hypothetical call option. During the remaining term of the hypothetical call option, the interest rate will equal the published interest rate for a term identical to the remaining term of the hypothetical call option. If an interest rate for a term identical to the remaining term of the hypothetical call option is not published, the Calculation Agent will determine the interest rate used to compute the value of an option by interpolating between the published rate for a shorter term nearest to the term of the hypothetical call option and the published rate for a longer term nearest to the term of the hypothetical call option. All interest rates will be converted by the Calculation Agent into a rate compounded on a continuous basis.

The annualized current dividend yield for the S&P 500 Index on which an option is priced will be calculated on any Business Day by annualizing (based on a 365-day year) to the end of that monthly calculation period the result obtained by summing the ordinary dividend or dividends (as described above in the section entitled “Description of the Index Basket” in this prospectus supplement) historically paid by each issuer of a stock included in the S&P 500 Index during the most recent period corresponding to the current monthly calculation period (or if the issuer of that stock has publicly disclosed that any dividend payable during the monthly calculation period in which the hypothetical call option is being priced will be a different amount than the most recent corresponding historical dividend, the amount publicly disclosed by that issuer) and then dividing that result by the closing level of the S&P 500 Index on that day. The annualized current dividend yield for any stock included in the S&P 500 Index on which an option is priced will be zero:

- for the remainder of each monthly calculation period following the ex-dividend date for that stock corresponding to the final ex-dividend date in the most recent period corresponding to the current monthly calculation period; and
- in each monthly calculation period in which an ordinary dividend has not been payable historically (because the dividend is payable annually, semiannually, quarterly or otherwise),

in either case, unless and until the issuer of that stock publicly discloses a dividend payable during the remainder of that monthly calculation period, in which case the annualized current dividend yield will be calculated using the amount publicly disclosed by that issuer.

The implied volatility of a hypothetical call option on any Business Day is:

- when hypothetically purchasing Basket Units, the bid-side implied volatility;
- when hypothetically selling Basket Units, the offered-side implied volatility; and
- under all other circumstances, the mid-market implied volatility (i.e., the arithmetic mean of the bid-side and offered-side implied volatility)

of the S&P 500 Index as determined by the Calculation Agent by interpolating from the implied volatility surface for the most comparable call options listed on the AMEX, the Chicago Board Options Exchange, the International Securities Exchange or other applicable exchanges on the S&P 500 Index as determined by the

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Calculation Agent in accordance with option pricing methodologies selected by the Calculation Agent, taking into account the nearest exercise price and maturity and using the U.S. dollar interest rate and dividend yield determined as described above.

If no value of a hypothetical call option is available on any date because of a Market Disruption Event, because the Calculation Agent determines that the market for the listed options described above is not sufficiently liquid (based upon factors including, but not limited to, the time elapsed since the last trade in options relating to the S&P 500 Index, the size of the open interest in call options with related exercise prices and maturities relating to the S&P 500 Index and the size of the bid-offer relative to the number of hypothetical options related to the S&P 500 Index to be priced on that day in respect of the PROCEEDS then outstanding) for the purpose of calculating the implied volatility of any hypothetical call option or otherwise, or if the reported prices for the listed options described above contain or are the result of manifest error, unless deferred by the Calculation Agent as described in the next paragraph, the value of that hypothetical call option will be the arithmetic mean, as determined by the Calculation Agent, of the value of that option obtained from as many dealers in options (which may include MLPF&S or any of our other subsidiaries or affiliates), but not exceeding three of these dealers, as will make that value available to the Calculation Agent.

The Calculation Agent may defer the determination of the United States dollar values of the hypothetical call options for up to ten consecutive Business Days on which Market Disruption Events are occurring. Following this period, the Calculation Agent will determine the values of the hypothetical call options in consultation with ML&Co. No determination of the value of the Index Basket or reallocation of hypothetical funds in the Reference Index will occur on any day the determination of the values of the hypothetical call options is deferred by the Calculation Agent.

The S&P 500 Index

S&P publishes the S&P 500 Index. The S&P 500 Index (index symbol "SPX") is intended to provide an indication of the pattern of common stock price movement in the United States. The calculation of the level of the S&P 500 Index, discussed below in further detail, is based on the relative value of the aggregate market value of the common stocks of 500 companies as of a particular time compared to the aggregate average market value of the common stocks of 500 similar companies during the base period of the years 1941 through 1943. As of April 29, 2005, 425 companies or 85.8% of the market capitalization of the S&P 500 Index traded on the NYSE; 74 companies or 14.1% of the market capitalization of the S&P 500 Index traded on the Nasdaq; and 1 company or 0.1% of the market capitalization of the S&P 500 Index traded on the AMEX. S&P chooses these companies for inclusion in the S&P 500 Index with the aim of achieving a distribution by broad industry groupings that approximates the distribution of these groupings in the common stock population of the Standard & Poor's Stock Guide Database, which S&P uses as an assumed model for the composition of the total market. Relevant criteria employed by S&P include the viability of the particular company, the extent to which that company represents the industry group to which it is assigned, the extent to which the market price of that company's common stock is generally responsive to changes in the affairs of the respective industry and the market value and trading activity of the common stock of that company. Ten main groups of companies comprise the S&P 500 Index with the percentage weight of the companies currently included in each group indicated in parentheses: Consumer Discretionary (11.0%); Consumer Staples (10.4%); Energy (8.5%); Financials (20.2%); Health Care (13.7%); Industrials (11.8%); Information Technology (14.8%); Materials (3.1%); Telecommunication Services (3.2%) and Utilities (3.4%). S&P may from time to time, in its sole discretion, add companies to, or delete companies from, the S&P 500 Index to achieve the objectives stated above.

Computation of the S&P 500 Index

S&P currently computes the S&P 500 Index as of a particular time as follows:

- (a) the product of the market price per share and the number of then outstanding shares of each component stock is determined as of that time (referred to as the "market value" of that stock);

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- (b) the market values of all component stocks as of that time are aggregated;
- (c) the mean average of the market values as of each week in the base period of the years 1941 through 1943 of the common stock of each company in a group of 500 substantially similar companies is determined;
- (d) the mean average market values of all these common stocks over the base period are aggregated (the aggregate amount being referred to as the “base value”);
- (e) the current aggregate market value of all component stocks is divided by the base value; and
- (f) the resulting quotient, expressed in decimals, is multiplied by ten.

While S&P currently employs the above methodology to calculate the S&P 500 Index, no assurance can be given that S&P will not modify or change this methodology in a manner that may affect the Supplemental Redemption Amount payable to holders of the PROCEEDS on the maturity date or otherwise.

S&P adjusts the foregoing formula to offset the effects of changes in the market value of a component stock that are determined by S&P to be arbitrary or not due to true market fluctuations. These changes may result from causes such as:

- the issuance of stock dividends;
- the granting to shareholders of rights to purchase additional shares of stock;
- the purchase of shares by employees pursuant to employee benefit plans;
- consolidations and acquisitions;
- the granting to shareholders of rights to purchase other securities of the issuer;
- the substitution by S&P of particular component stocks in the S&P 500 Index; and
- other reasons.

In these cases, S&P first recalculates the aggregate market value of all component stocks, after taking account of the new market price per share of the particular component stock or the new number of outstanding shares of that stock or both, as the case may be, and then determines the new base value in accordance with the following formula:

$$\text{Old Base Value} \times \left(\frac{\text{New Market Value}}{\text{Old Market Value}} \right) = \text{New Base Value}$$

The result is that the base value is adjusted in proportion to any change in the aggregate market value of all component stocks resulting from the causes referred to above to the extent necessary to negate the effects of these causes upon the S&P 500 Index.

On September 28, 2004, S&P announced that it would transition the S&P 500 Index to a full float-adjusted weighted index, whereby the value of the S&P 500 Index will be calculated by, for each component, multiplying the number of shares in the public float of the component by the price per share of the component. Thus, the float-adjusted methodology will exclude blocks of stocks that do not publicly trade, including blocks held by affiliates or governments. The transition to the float-adjusted methodology is being implemented in two phases. On March 18, 2005, the S&P 500 Index shifted to a half float-adjusted calculation. On September 16, 2005, the S&P 500 Index will shift to a full float-adjusted calculation.

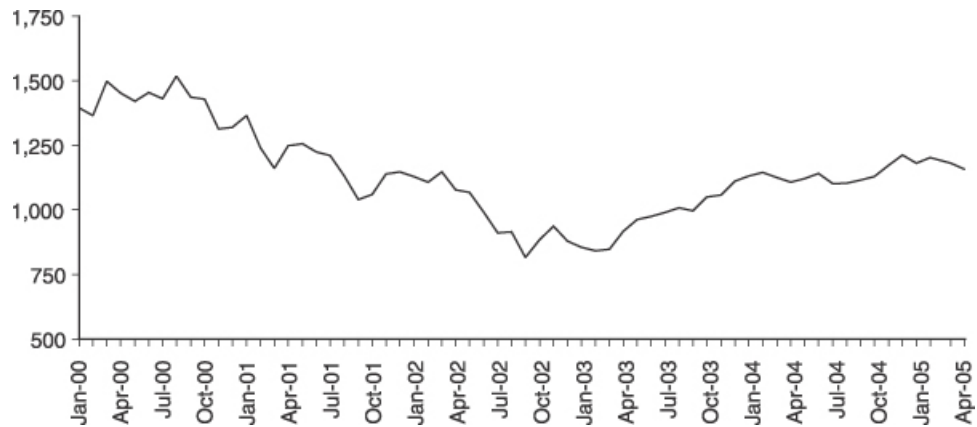
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Historical Data on the S&P 500 Index

The following table sets forth the level of the S&P 500 Index at the end of each month, in the period from January 2000 through April 2005. These historical data on the S&P 500 Index are not indicative of the future performance of the S&P 500 Index or what the future value of the PROCEEDS may be. Any historical upward or downward trend in the level of the S&P 500 Index during any period set forth below is not an indication that the S&P 500 Index is more or less likely to increase or decrease at any time during the term of the PROCEEDS.

	2000	2001	2002	2003	2004	2005
January	1,394.46	1,366.01	1,130.20	855.70	1,131.13	1,181.27
February	1,366.42	1,239.94	1,106.73	841.15	1,144.94	1,203.60
March	1,498.58	1,160.33	1,147.39	848.18	1,126.21	1,180.59
April	1,452.43	1,249.46	1,076.92	916.92	1,107.30	1,156.85
May	1,420.60	1,255.82	1,067.14	963.59	1,120.68	
June	1,454.60	1,224.42	989.82	974.50	1,140.84	
July	1,430.83	1,211.23	911.62	990.31	1,101.72	
August	1,517.68	1,133.58	916.07	1,008.01	1,104.24	
September	1,436.51	1,040.94	815.28	995.97	1,114.58	
October	1,429.40	1,059.78	885.76	1,050.71	1,130.20	
November	1,314.95	1,139.45	936.31	1,058.20	1,173.82	
December	1,320.28	1,148.08	879.82	1,111.92	1,211.92	

The following graph sets forth the historical performance of the S&P 500 Index presented in the preceding table. Past movements of the S&P 500 Index are not necessarily indicative of the future S&P 500 Index levels.



License Agreement

S&P and MLPF&S have entered into a non-exclusive license agreement providing for the license to MLPF&S, in exchange for a fee, of the right to use indices owned and published by S&P in connection with some securities, including the Notes and the Warrants, and ML&Co. is an authorized sublicensee of MLPF&S.

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All disclosures contained in this prospectus supplement regarding the S&P 500 Index, including its make-up, method of calculation and changes in its components, are derived from publicly available information prepared by S&P. ML&Co. and MLPF&S do not assume any responsibility for the accuracy or completeness of that information.

THE CONSUMER PRICE INDEX

The Consumer Price Index for purposes of the PROCEEDS is the nonseasonally adjusted U.S. City Average All Items Consumer Price Index for All Urban Consumers, published monthly by the Bureau of Labor Statistics of the U.S. Department of Labor (the "BLS"). The level of the Consumer Price Index for any given month will be the value reported on Bloomberg page CPURNSA or any successor page thereto.

The Consumer Price Index is a measure of the average change in consumer prices over time for a fixed market basket of goods and services, including food, clothing, shelter, fuels, transportation, charges for doctors and dentists services, and drugs. In calculating the Consumer Price Index, price changes for the various items are averaged together with weights that represent their importance in the spending of urban households in the United States. The contents of the market basket of goods and services and the weights assigned to the various items are updated periodically by the BLS to take into account changes in consumer expenditure patterns.

The Consumer Price Index is expressed in relative terms in relation to a time base reference period for which the level is set at 100. The base reference period for the PROCEEDS is the 1982-1984 average.

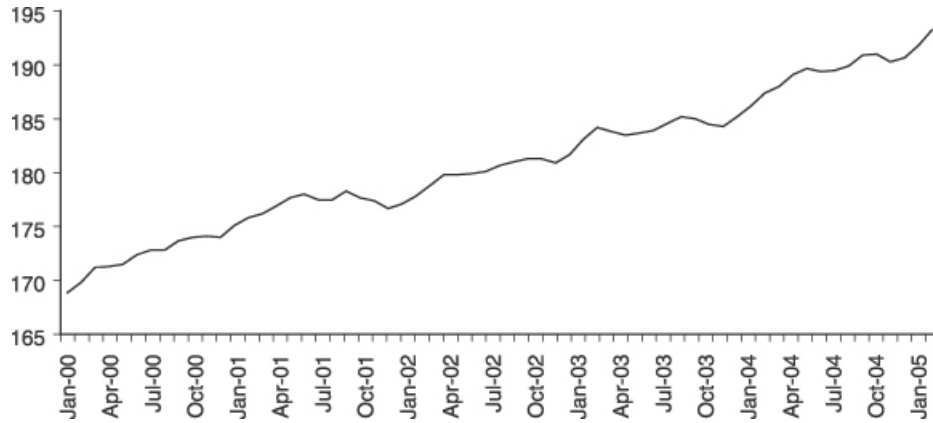
Historical data on the Consumer Price Index

The following table sets forth the level of the Consumer Price Index from January 2000 to March 2005, as published by the BLS and reported on Bloomberg CPURNSA. This historical data is presented for information purposes only and are not necessarily indicative of the future changes in the Consumer Price Index or what the future value of the PROCEEDS may be. Any historical upward or downward trend in the level of the Consumer Price Index during any period set forth below is not an indication that the Consumer Price Index is more or less likely to increase or decrease at any time during the term of the PROCEEDS.

	2000	2001	2002	2003	2004	2005
January	168.8	175.1	177.1	181.7	185.2	190.7
February	169.8	175.8	177.8	183.1	186.2	191.8
March	171.2	176.2	178.8	184.2	187.4	193.3
April	171.3	176.9	179.8	183.8	188.0	
May	171.5	177.7	179.8	183.5	189.1	
June	172.4	178.0	179.9	183.7	189.7	
July	172.8	177.5	180.1	183.9	189.4	
August	172.8	177.5	180.7	184.6	189.5	
September	173.7	178.3	181.0	185.2	189.9	
October	174.0	177.7	181.3	185.0	190.9	
November	174.1	177.4	181.3	184.5	191.0	
December	174.0	176.7	180.9	184.3	190.3	

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The following graph sets forth the historical performance of the Consumer Price Index presented in the preceding table. Past movements of the Consumer Price Index are not necessarily indicative of future Consumer Price Index levels.



Revision or Discontinuance of the Consumer Price Index

If the Consumer Price Index is not reported on Bloomberg CPURNSA for a particular month by 3:00 P.M., New York City time, on an Interest Determination Date, but has otherwise been published by the BLS, the Calculation Agent will determine the Consumer Price Index as published by the BLS for such month using a source it deems appropriate.

In determining the final Consumer Price Index level used to determine the interest payable for a monthly calculation period, the Calculation Agent will use the most recently available level of the Consumer Price Index for the relevant month, even if that value has been adjusted from a prior reported value for that month.

The BLS occasionally rebases the Consumer Price Index. The Consumer Price Index was last rebased in January 1988. The current standard reference base period is 1982-1984, when the Consumer Price Index was set at 100. Prior to the release of the Consumer Price Index for January 1988, the standard reference base was 1967. If the BLS changes the base reference period of the Consumer Price Index during the time the PROCEEDS are outstanding, the Calculation Agent will continue to calculate the increase or decrease in the Consumer Price Index using the existing base year of 1982-1984 as long as the old Consumer Price Index is still published. The conversion to the new reference base does not affect the measurement of the year over year percentage change in the Consumer Price Index from one point in time to another, except for rounding differences. Therefore, rebasing might affect the published “headline” number often quoted by the financial press, however, the calculation of the year over year percentage change in the Consumer Price Index for the PROCEEDS would not be adversely affected by any such rebasing because changes in the old-based Consumer Price Index can be calculated by using the year over year percentage changes of the new rebased Consumer Price Index.

If the old-based Consumer Price Index is not published, the Calculation Agent will use the new based Consumer Price Index to calculate the year over year percentage change in the Consumer Price Index. However, as stated above, the conversion to a new reference base does not affect the measurement of the percentage changes from one time period to another, except for rounding differences.

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If, while the PROCEEDS are outstanding, the Consumer Price Index is discontinued or, if in the opinion of the BLS, as evidenced by a public release, the Consumer Price Index is substantially altered, the Calculation Agent will determine the year over year percentage change in the Consumer Price Index by reference to a substitute index. The Calculation Agent will determine the substitute index, in its sole discretion, by a computation methodology that the Calculation Agent determines will as closely as reasonably possible replicate the Consumer Price Index or use another methodology which is in accordance with general market practice at the time. In doing this, the Calculation Agent may (but is not required to) determine the substitute index by selecting any substitute index that is chosen by the Secretary of the Treasury for the Department of The Treasury's Inflation-Linked Treasuries, as described at 62 Federal Register 846-874 (January 6, 1997).

UNITED STATES FEDERAL INCOME TAXATION

General

Set forth in full below is the opinion of Sidley Austin Brown & WoodLLP, our counsel, as to certain United States federal income tax consequences of the purchase, ownership and disposition of the PROCEEDS. This opinion is based upon laws, regulations, rulings and decisions now in effect, all of which are subject to change (including retroactive changes in effective dates) or possible differing interpretations. The discussion below deals only with PROCEEDS held as capital assets and does not purport to deal with persons in special tax situations, such as financial institutions, insurance companies, real estate investment trusts, regulated investment companies, dealers in securities or currencies, tax-exempt entities (except to the extent specifically discussed below), persons holding PROCEEDS in a tax-deferred or tax-advantaged account, or persons holding PROCEEDS as a hedge against currency risks, as a position in a “straddle” or as part of a “hedging”, “conversion” or “integrated” transaction for tax purposes. It also does not deal with holders other than original purchasers (except where otherwise specifically noted in this prospectus supplement). Persons considering the purchase of the PROCEEDS should consult their own tax advisors concerning the application of the United States federal income tax laws to their particular situations as well as any consequences of the purchase, ownership and disposition of the PROCEEDS arising under the laws of any other taxing jurisdiction.

We do not address all of the tax consequences that may be relevant to an investor. In particular, we do not address:

- the United States federal income tax consequences to shareholders in, or partners or beneficiaries of, an entity that is a holder of PROCEEDS;
- the United States federal estate, gift or alternative minimum tax consequences of the purchase, ownership or disposition of PROCEEDS;
- persons who hold the PROCEEDS whose functional currency is not the United States dollar; or
- any state, local or foreign tax consequences of the purchase, ownership or disposition of PROCEEDS.

Accordingly, you should consult your own tax advisor regarding the tax consequences of purchasing, owning and disposing of the PROCEEDS in light of your own circumstances.

A U.S. Holder is a beneficial owner of the PROCEEDS who or which is:

- a citizen or individual resident of the United States, as defined in Section 7701(b) of the Internal Revenue Code of 1986, as amended (the “Code”);
- a corporation or partnership, including any entity treated as a corporation or partnership for United States federal income tax purposes, that is created or organized in or under the laws of the United States, any state thereof or the District of Columbia unless, in the case of a partnership, Treasury regulations are enacted that provide otherwise;
- an estate if its income is subject to United States federal income taxation regardless of its source; or
- a trust if (1) a United States court can exercise primary supervision over its administration and (2) one or more United States persons have the authority to control all of its substantial decisions.

Notwithstanding the preceding sentence, certain trusts in existence on August 20, 1996, and treated as a U.S. Holder prior to such date, may also be treated as U.S. Holders. A Non-U.S. Holder is a beneficial owner of PROCEEDS other than a U.S. Holder.

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We urge you to consult your own tax advisor with respect to the tax consequences to you of the purchase, ownership and disposition of the PROCEEDS in light of your own particular circumstances, including the tax consequences under state, local, foreign and other tax laws and the possible effects of changes in United States federal or other tax laws.

Classification of the PROCEEDS

We have received an opinion from our counsel, Sidley Austin Brown & WoodLLP, that the PROCEEDS will be treated as indebtedness for United States federal income tax purposes and that the PROCEEDS will be subject to the special regulations issued by the U.S. Treasury Department governing contingent payment debt instruments (the "CPDI regulations").

Accrual of Interest on the PROCEEDS

Pursuant to the terms of the PROCEEDS, we and you will agree, for United States federal income tax purposes, to treat the PROCEEDS as debt instruments that are subject to the CPDI regulations. Pursuant to these regulations, U.S. Holders of the PROCEEDS will be required to accrue interest income on the PROCEEDS, in the amounts described below, regardless of whether the U.S. Holder uses the cash or accrual method of tax accounting.

The CPDI regulations provide that a U.S. Holder must accrue an amount of ordinary interest income, as original issue discount for United States federal income tax purposes, for each accrual period prior to and including the maturity date of the PROCEEDS that equals:

- (1) the product of (i) the adjusted issue price (as defined below) of the PROCEEDS as of the beginning of the accrual period; and (ii) the comparable yield to maturity (as defined below) of the PROCEEDS, adjusted for the length of the accrual period;
- (2) divided by the number of days in the accrual period; and
- (3) multiplied by the number of days during the accrual period that the U.S. Holder held the PROCEEDS.

A PROCEEDS's issue price is the first price to the public at which a substantial amount of the PROCEEDS is sold, excluding sales to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers. The adjusted issue price of a PROCEEDS is its issue price increased by any interest income previously accrued, determined without regard to any adjustments to interest accruals described below, and decreased by the amount of any projected payments, as defined below, scheduled to have previously been made with respect to the PROCEEDS.

The CPDI regulations require that we provide to U.S. Holders, solely for United States federal income tax purposes, a schedule of the projected amounts of payments, which we refer to as projected payments, on the PROCEEDS. This schedule must produce the comparable yield. Solely for purposes of applying the CPDI regulations to the PROCEEDS, ML&Co. has determined that the projected payments for the PROCEEDS consist of (i) estimates of the variable monthly interest payments on the PROCEEDS and (ii) a payment on the maturity date of the principal amount thereof. In particular, ML&Co. has determined that, per \$10 principal amount of PROCEEDS, the comparable yield is 4.2%, compounded monthly, and the projected payments consist of (i) projected variable monthly interest payments equal to \$.02 on May 26, 2005, \$.03 on March 28, 2006, March 28, 2007, March 27, 2008, March 26, 2009, March 26, 2010, March 28, 2011 and March 28, 2012, \$.01 on May 10, 2012 and \$.04 for each of the other variable monthly interest payments, and (ii) a projected payment per \$10 principal amount of PROCEEDS on May 10, 2012 equal to \$10 (representing the principal amount of the PROCEEDS equal to \$10 and a projected Supplemental Redemption Amount equal to \$0). U.S. Holders may also obtain the projected payment schedule by submitting a written request for such information to Merrill Lynch & Co., Inc., Corporate Secretary's Office, 222 Broadway, 17th Floor, New York, New York 10038 or to corporatesecretary@exchange.ml.com.

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For United States federal income tax purposes, a U.S. Holder must use the comparable yield and the schedule of projected payments in determining its interest accruals, and the adjustments thereto described below, in respect of the PROCEEDS, unless a U.S. Holder timely discloses and justifies the use of other estimates to the Internal Revenue Service (the “IRS”). A U.S. Holder that determines its own comparable yield or schedule of projected payments must also establish that our comparable yield or schedule of projected payments is unreasonable.

The comparable yield and the schedule of projected payments are not determined for any purpose other than for the determination of a U.S. Holder’s interest accruals and adjustments thereof in respect of the PROCEEDS for United States federal income tax purposes and do not constitute a projection or representation regarding the actual amounts payable on the PROCEEDS.

Amounts treated as interest under the CPDI regulations are treated as original issue discount for all purposes of the Code.

Adjustments to Interest Accruals on the PROCEEDS

If, during any taxable year, a U.S. Holder receives actual payments with respect to the PROCEEDS for that taxable year that in the aggregate exceed the total amount of projected payments for that taxable year, the U.S. Holder will incur a “net positive adjustment” under the CPDI regulations equal to the amount of that excess. The U.S. Holder will treat a “net positive adjustment” as additional interest income for the taxable year. For this purpose, the payments in a taxable year include the fair market value of property received in that year.

If a U.S. Holder receives in a taxable year actual payments with respect to the PROCEEDS for that taxable year that in the aggregate were less than the amount of projected payments for that taxable year, the U.S. Holder will incur a “net negative adjustment” under the CPDI regulations equal to the amount of such deficit. This adjustment will (a) reduce the U.S. Holder’s interest income on the PROCEEDS for that taxable year, and (b) to the extent of any excess after the application of (a), give rise to an ordinary loss to the extent of the U.S. Holder’s interest income on the PROCEEDS during prior taxable years, reduced to the extent that interest was offset by prior net negative adjustments.

Sale or Exchange of the PROCEEDS

Generally, the sale or exchange of a PROCEEDS will result in taxable gain or loss to a U.S. Holder. The amount of gain or loss on a taxable sale or exchange will be equal to the difference between (a) the amount realized by the U.S. Holder on that sale or exchange and (b) the U.S. Holder’s adjusted tax basis in the PROCEEDS. A U.S. Holder’s adjusted tax basis in a PROCEEDS on any date will generally be equal to the U.S. Holder’s original purchase price for the PROCEEDS, increased by any interest income previously accrued by the U.S. Holder (determined without regard to any adjustments to interest accruals described above), and decreased by the amount of any projected payments, as defined above, previously made to the U.S. Holder through that date. Gain recognized upon a sale or exchange of a PROCEEDS will generally be treated as ordinary interest income; any loss will be ordinary loss to the extent of interest previously included in income, and thereafter, capital loss (which will be long-term if the PROCEEDS is held for more than one year). The deductibility of net capital losses by individuals and corporations is subject to limitations.

Unrelated Business Taxable Income

Section 511 of the Code generally imposes a tax, at regular corporate or trust income tax rates, on the “unrelated business taxable income” of certain tax-exempt organizations, including qualified pension and profit sharing plan trusts and individual retirement accounts. In general, if the PROCEEDS are held for investment purposes, the amount of income or gain realized with respect to the PROCEEDS will not constitute unrelated business taxable income. However, if a PROCEEDS constitutes debt-financed property (as defined in

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Section 514(b) of the Code) by reason of indebtedness incurred by a holder of a PROCEEDS to purchase the PROCEEDS, all or a portion of any income or gain realized with respect to such PROCEEDS may be classified as unrelated business taxable income pursuant to Section 514 of the Code. Moreover, prospective investors in the PROCEEDS should be aware that whether or not any income or gain realized with respect to a PROCEEDS which is owned by an organization that is generally exempt from U.S. federal income taxation pursuant to Section 501(a) of the Code constitutes unrelated business taxable income will depend upon the specific facts and circumstances applicable to such organization. Accordingly, any potential investors in the PROCEEDS that are generally exempt from U.S. federal income taxation pursuant to Section 501(a) of the Code are urged to consult with their own tax advisors concerning the U.S. federal income tax consequences to them of investing in the PROCEEDS.

Treatment of Non-U.S. Holders

All payments on the PROCEEDS made to a Non-U.S. Holder, including any payment of monthly interest, and any gain realized on a sale or exchange of the PROCEEDS, will be exempt from United States income or withholding tax, provided that: (i) the Non-U.S. Holder does not own, actually or constructively, 10 percent or more of the total combined voting power of all classes of our stock entitled to vote, is not a controlled foreign corporation related, directly or indirectly, to us through stock ownership and is not a bank receiving interest described in Section 881(c)(3)(A) of the Code; (ii) the statement requirement set forth in Section 871(h) or Section 881(c) of the Code has been fulfilled with respect to the beneficial owner, as discussed below; and (iii) the payments and gain are not effectively connected with the conduct by the Non-U.S. Holder of a trade or business in the United States.

The statement requirement referred to in the preceding paragraph will be fulfilled if the beneficial owner of a PROCEEDS certifies on IRS Form W-8BEN, under penalties of perjury, that it is not a United States person and provides its name, address and other information as the form may require.

If a Non-U.S. Holder of the PROCEEDS is engaged in a trade or business in the United States, and if interest on the PROCEEDS is effectively connected with the conduct of that trade or business, the Non-U.S. Holder, although exempt from the withholding tax discussed in the preceding paragraphs, will generally be subject to regular United States federal income tax on interest and on any gain realized on the sale or exchange of the PROCEEDS in the same manner as if it were a U.S. Holder. In lieu of the certificate described in the preceding paragraph, a Non-U.S. Holder will be required to provide to the withholding agent a properly executed IRS Form W-8ECI (or successor form) in order to claim an exemption from withholding tax. In addition, if a Non-U.S. Holder is a foreign corporation, the Non-U.S. Holder may be subject to a branch profits tax equal to 30% (or a lower rate provided by an applicable treaty) of its effectively connected earnings and profits for the taxable year, subject to certain adjustments.

Backup Withholding Tax and Information Reporting

Payments of principal, premium, if any, and interest (including original issue discount) on, and the proceeds from a disposition of, the PROCEEDS may be subject to information reporting and United States federal backup withholding tax at the applicable statutory rate if the U.S. Holder thereof fails to supply an accurate taxpayer identification number or otherwise fails to comply with applicable United States information reporting or certification requirements. A Non-U.S. Holder may be subject to United States backup withholding tax on payments on the PROCEEDS and the proceeds from a sale or other disposition of the PROCEEDS unless the Non-U.S. Holder complies with certification procedures to establish that it is not a United States person. Any amounts so withheld will be allowed as a credit against the holder's United States federal income tax liability and may entitle a holder to a refund, provided the required information is timely furnished to the IRS.

ERISA CONSIDERATIONS

Each fiduciary of a pension, profit-sharing or other employee benefit plan or an individual retirement account or a Keogh Plan (a “plan”) should consider whether an investment in the PROCEEDS would be consistent with the documents and instruments governing the plan, and whether the investment would involve a prohibited transaction under Section 406 of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), or Section 4975 of the Code.

Section 406 of ERISA and Section 4975 of the Code prohibit plans from engaging in certain transactions involving “plan assets” with persons who are “parties in interest” under ERISA or “disqualified persons” under the Code (“parties in interest”) with respect to the plan or account. A violation of these prohibited transaction rules may result in civil penalties or other liabilities under ERISA and/or an excise tax under Section 4975 of the Code for those persons, unless exemptive relief is available under an applicable statutory, regulatory or administrative exemption. Certain employee benefit plans and arrangements including those that are governmental plans (as defined in Section 3(32) of ERISA), certain church plans (as defined in Section 3(33) of ERISA) and foreign plans (as described in Section 4(b)(4) of ERISA) (“similar law arrangements”) are not subject to the requirements of ERISA or Section 4975 of the Code but may be subject to similar provisions under applicable federal, state, local, foreign or other regulations, rules or laws (“similar laws”).

The acquisition of the PROCEEDS by a plan with respect to which we, MLPF&S or certain of our affiliates is or becomes a party in interest may constitute or result in prohibited transaction under ERISA or Section 4975 of the Code, unless those PROCEEDS are acquired pursuant to and in accordance with an applicable exemption. The U.S. Department of Labor has issued five prohibited transaction class exemptions, or “PTCEs”, that may provide exemptive relief if required for direct or indirect prohibited transactions that may arise from the purchase or holding of the PROCEEDS. These exemptions are:

- (1) PTCE 84-14, an exemption for certain transactions determined or effected by independent qualified professional asset managers;
- (2) PTCE 90-1, an exemption for certain transactions involving insurance company pooled separate accounts;
- (3) PTCE 91-38, an exemption for certain transactions involving bank collective investment funds;
- (4) PTCE 95-60, an exemption for transactions involving certain insurance company general accounts; and
- (5) PTCE 96-23, an exemption for plan asset transactions managed by in-house asset managers.

The PROCEEDS may not be purchased or held by (1) any plan, (2) any entity whose underlying assets include “plan assets” by reason of any plan’s investment in the entity (a “plan asset entity”) or (3) any person investing “plan assets” of any plan, unless in each case the purchaser or holder is eligible for the exemptive relief available under one or more of the prohibited transaction class exemptions, or “PTCEs”, listed above or another applicable similar exemption. Any purchaser or holder of the PROCEEDS or any interest in the PROCEEDS will be deemed to have represented by its purchase and holding of the PROCEEDS that either (1) it is not a plan or a plan asset entity and is not purchasing those PROCEEDS on behalf of or with “plan assets” of any plan or plan asset entity or (2) with respect to the purchase or holding, it is eligible for the exemptive relief available under any of the PTCEs listed above or another applicable exemption. In addition, any purchaser or holder of the PROCEEDS or any interest in the PROCEEDS which is subject to any similar laws will be deemed to have represented by its purchase and holding of the PROCEEDS that its purchase and holding will not violate the provisions of those laws.

The sale of any PROCEEDS to a plan is in no respect a representation by us, MLPF&S or any of our affiliates that an investment in the PROCEEDS meets all relevant legal requirements with respect to investments by plans generally or any particular plan, or that an investment in the PROCEEDS is otherwise appropriate for plans generally or any particular plan.

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Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is important that fiduciaries or other persons considering purchasing the PROCEEDS on behalf of or with “plan assets” of any plan, plan asset entity or non-ERISA arrangement consult with their counsel regarding the availability of exemptive relief under any of the PTCEs listed above or any other applicable exemption, or the potential consequences of any purchase or holding under similar laws, as applicable.

USE OF PROCEEDS AND HEDGING

The net proceeds from the sale of the PROCEEDS will be used as described under “Use of Proceeds” in the accompanying prospectus and to hedge market risks of ML&Co. associated with its obligation to pay the principal amount and the Supplemental Redemption Amount, if any.

WHERE YOU CAN FIND MORE INFORMATION

We file reports, proxy statements and other information with the Securities and Exchange Commission (the “SEC”). Our SEC filings are also available over the Internet at the SEC’s web site at <http://www.sec.gov>. The address of the SEC’s Internet site is provided solely for the information of prospective investors and is not intended to be an active link. You may also read and copy any document we file at the SEC’s public reference rooms in Washington, D.C. Please call the SEC at 1-800-SEC-0330 for more information on the public reference rooms and their copy charges. You may also inspect our SEC reports and other information at the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005.

We have filed a registration statement on Form S-3 with the SEC covering the PROCEEDS and other securities. For further information on ML&Co. and the PROCEEDS, you should refer to our registration statement and its exhibits. The prospectus accompanying this prospectus supplement summarizes material provisions of contracts and other documents that we refer you to. Because the prospectus may not contain all the information that you may find important, you should review the full text of these documents. We have included copies of these documents as exhibits to our registration statement.

You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not, and MLPF&S has not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and MLPF&S is not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted.

You should assume that the information appearing in this prospectus supplement and the accompanying prospectus is accurate as of the date on the front cover of this prospectus supplement only. Our business, financial condition and results of operations may have changed since that date.

UNDERWRITING

MLPF&S has agreed, subject to the terms and conditions of the underwriting agreement and a terms agreement, to purchase from ML&Co. \$63,500,000 aggregate principal amount of PROCEEDS. The underwriting agreement provides that the obligations of MLPF&S are subject to certain conditions and that MLPF&S will be obligated to purchase all of the PROCEEDS if any are purchased.

MLPF&S has advised ML&Co. that it proposes initially to offer all or part of the PROCEEDS directly to the public, and that it may offer a part of the PROCEEDS to certain dealers, at the offering price set forth on the cover page of this prospectus supplement. MLPF&S is offering the PROCEEDS subject to receipt and acceptance and subject to MLPF&S' right to reject any order in whole or in part. Proceeds to be received by ML&Co. will be net of the underwriting discount and expenses payable by ML&Co.

In addition to the compensation paid at the time of the original sale of the PROCEEDS, MLPF&S will pay an additional amount on each anniversary of the Pricing Date in 2006 through 2011 to brokers whose clients purchased the units in the initial distribution and who continue to hold their PROCEEDS. This additional amount will accrue at a rate of .5% per unit for each day that hypothetical funds are allocated to Basket Units based on the amount payable on the maturity date of the PROCEEDS calculated as if the applicable anniversary of the Pricing Date is the maturity date and the Ending Value is equal to the closing level of the Reference Index on that date. Also, MLPF&S may from time to time pay additional amounts to brokers whose clients purchased PROCEEDS in the secondary market and continue to hold those PROCEEDS.

MLPF&S, a broker-dealer subsidiary of ML&Co. is a member of the National Association of Securities Dealers, Inc. (the "NASD") and will participate in distributions of the PROCEEDS. Accordingly, offerings of the PROCEEDS will conform to the requirements of Rule 2720 of the Conduct Rules of the NASD.

MLPF&S is permitted to engage in certain transactions that stabilize the price of the PROCEEDS. These transactions consist of bids or purchases for the purpose of pegging, fixing or maintaining the price of the PROCEEDS.

If MLPF&S creates a short position in the PROCEEDS in connection with the offering, i.e., if it sells more units of the PROCEEDS than are set forth on the cover page of this prospectus supplement, MLPF&S may reduce that short position by purchasing units of the PROCEEDS in the open market. In general, purchases of a security for the purpose of stabilization or to reduce a short position could cause the price of the security to be higher than it might be in the absence of these purchases. "Naked" short sales are sales in excess of the underwriter's overallocation option or, where no overallocation option exists, sales in excess of the number of units an underwriter has agreed to purchase from the issuer. Because MLPF&S, as underwriter for the PROCEEDS, has no overallocation option, it would be required to closeout a short position in the PROCEEDS by purchasing PROCEEDS in the open market. Neither ML&Co. nor MLPF&S makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the PROCEEDS. In addition, neither ML&Co. nor MLPF&S makes any representation that MLPF&S will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

MLPF&S may use this prospectus supplement and the accompanying prospectus for offers and sales related to market-making transactions in the PROCEEDS. MLPF&S may act as principal or agent in these transactions, and the sales will be made at prices related to prevailing market prices at the time of sale.

VALIDITY OF THE PROCEEDS

The validity of the PROCEEDS will be passed upon for ML&Co. and for MLPF&S by Sidley Austin Brown & WoodLLP, New York, New York.

EXPERTS

The consolidated financial statements, the related financial statement schedule, and management's report on the effectiveness of internal control over financial reporting incorporated in the accompanying prospectus by reference from the Annual Report on Form 10-K of Merrill Lynch & Co., Inc. for the year ended December 31, 2004, have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their reports dated March 2, 2005, which reports (1) express an unqualified opinion on the financial statement and financial statement schedule, (2) express an unqualified opinion on management's assessment regarding the effectiveness of internal control over financial reporting, and (3) express an unqualified opinion on the effectiveness of internal control over financial reporting, and have been so incorporated in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.

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6,350,000 Units

Merrill Lynch & Co., Inc.

**PROtected Covered Call EnhancED Income NoteSSM
Linked to the S&P 500 Inflation PROCEEDS Index[®]
due May 10, 2012
(the “PROCEEDSSM”)**

\$10 principal amount per unit

PROSPECTUS SUPPLEMENT

Merrill Lynch & Co.

May 4, 2005

“PROtected Covered Call EnhancED Income NoteS” and “PROCEEDS” are service marks of Merrill Lynch & Co., Inc.
