

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended **June 30, 2006**

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number **1-7182**

**MERRILL LYNCH & CO., INC.**

(Exact name of Registrant as specified in its charter)

**Delaware**

**13-2740599**

(State or Other Jurisdiction of  
Incorporation or Organization)

(I.R.S. Employer Identification No.)

**4 World Financial Center,  
New York, New York**

**10080**

(Address of Principal Executive Offices)

(Zip  
Code)

**(212) 449-1000**

Registrant's telephone number, including Area Code:

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES  NO

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

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer

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

YES  NO

**APPLICABLE ONLY TO CORPORATE ISSUERS:**

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

883,809,515 shares of Common Stock and 2,663,196 Exchangeable Shares as of the close of business on July 28, 2006. The Exchangeable Shares, which were issued by Merrill Lynch & Co., Canada Ltd. in connection with the merger with Midland Walwyn Inc., are exchangeable at any time into Common Stock on a one-for-one basis and entitle holders to dividend, voting, and other rights equivalent to Common Stock.

**MERRILL LYNCH & CO., INC. QUARTERLY REPORT ON FORM 10-Q  
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2006  
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**Available Information**

Merrill Lynch & Co., Inc. (“ML & Co.” or “Merrill Lynch”) files annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (“SEC”). You may read and copy any document we file with the SEC at the SEC’s Public Reference Room at 100 F Street, NE, Room 1580, Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for information on the Public Reference Room. The SEC maintains an internet site that contains annual, quarterly and current reports, proxy and information statements and other information that issuers (including Merrill Lynch) file electronically with the SEC. The SEC’s internet site is [www.sec.gov](http://www.sec.gov).

ML & Co.’s internet address is [www.ml.com](http://www.ml.com), and the investor relations section of our website can be accessed directly at [www.ir.ml.com](http://www.ir.ml.com). ML & Co. makes available, free of charge, our proxy statements, Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. These reports are available through our website as soon as reasonably practicable after such reports are electronically filed with, or furnished to, the SEC. Also posted on our website are corporate governance materials including Merrill Lynch’s Guidelines for Business Conduct, Code of Ethics for Financial Professionals, Director Independence Standards, Corporate Governance Guidelines and charters for the committees of our Board of Directors. In addition, our website includes information on purchases and sales of our equity securities by our executive officers and directors, as well as disclosures relating to certain non-GAAP financial measures (as defined in the SEC’s Regulation G) that we may make public orally, telephonically, by webcast, by broadcast or by similar means from time to time.

We will post on our website amendments to our Guidelines for Business Conduct and Code of Ethics and any waivers that are required to be disclosed by the rules of either the SEC or the New York Stock Exchange. The information on Merrill Lynch’s website is not incorporated by reference into this Report. Shareholders may obtain printed copies of these documents, free of charge, upon written request to Judith A. Witterschein, Corporate Secretary, Merrill Lynch & Co., Inc., 222 Broadway, 17th Floor, New York, NY 10038 or by email at [corporate\\_secretary@ml.com](mailto:corporate_secretary@ml.com).

**PART I. FINANCIAL INFORMATION**

**ITEM 1. Financial Statements**

Merrill Lynch & Co., Inc. and Subsidiaries

Condensed Consolidated Statements of Earnings (Unaudited)

	<b>For the Three Months Ended</b>		<b>Percent Inc. (Dec.)</b>
	<b>June 30, 2006</b>	<b>July 1, 2005</b>	
<i>(in millions, except per share amounts)</i>			
<b>Net Revenues</b>			
Asset management and portfolio service fees	\$ 1,773	\$ 1,431	23.9%
Commissions	1,586	1,247	27.2
Principal transactions	1,182	1,006	17.5
Investment banking	1,162	920	26.3
Revenues from consolidated investments	186	84	121.4
Other	1,110	664	67.2
Subtotal	6,999	5,352	30.8
Interest and dividend revenues	9,690	5,974	62.2
Less interest expense	8,531	5,007	70.4
Net interest profit	1,159	967	19.9
<b>Total Net Revenues</b>	<b>8,158</b>	<b>6,319</b>	<b>29.1</b>
<b>Non-Interest Expenses</b>			
Compensation and benefits	3,980	3,148	26.4
Communications and technology	429	395	8.6
Brokerage, clearing, and exchange fees	253	216	17.1
Occupancy and related depreciation	249	227	9.7
Professional fees	196	183	7.1
Advertising and market development	191	160	19.4
Expenses of consolidated investments	145	35	314.3
Office supplies and postage	57	51	11.8
Other	309	309	-
<b>Total Non-Interest Expenses</b>	<b>5,809</b>	<b>4,724</b>	<b>23.0</b>
<b>Earnings Before Income Taxes</b>	<b>2,349</b>	<b>1,595</b>	<b>47.3</b>
Income tax expense	716	460	55.7
<b>Net Earnings</b>	<b>\$ 1,633</b>	<b>\$ 1,135</b>	<b>43.9</b>
<b>Preferred Stock Dividends</b>	<b>45</b>	<b>17</b>	<b>164.7</b>
<b>Net Earnings Applicable to Common Stockholders</b>	<b>\$ 1,588</b>	<b>\$ 1,118</b>	<b>42.0</b>
<b>Earnings Per Common Share</b>			
Basic	\$ 1.79	\$ 1.25	
Diluted	\$ 1.63	\$ 1.14	
<b>Dividend Paid Per Common Share</b>	<b>\$ 0.25</b>	<b>\$ 0.20</b>	
<b>Average Shares Used in Computing Earnings Per Common Share</b>			
Basic	885.4	897.5	
Diluted	973.3	978.5	

See Notes to Condensed Consolidated Financial Statements.

**Merrill Lynch & Co., Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Earnings (Unaudited)**

	<b>For the Six Months Ended</b>		<b>Percent Inc. (Dec.)</b>
	<b>June 30, 2006</b>	<b>July 1, 2005</b>	
<i>(in millions, except per share amounts)</i>			
<b>Net Revenues</b>			
Asset management and portfolio service fees	\$ 3,452	\$ 2,866	20.4%
Commissions	3,188	2,588	23.2
Principal transactions	3,175	1,951	62.7
Investment banking	2,127	1,733	22.7
Revenues from consolidated investments	290	211	37.4
Other	1,664	1,034	60.9
Subtotal	<u>13,896</u>	<u>10,383</u>	33.8
Interest and dividend revenues	18,354	11,505	59.5
Less interest expense	16,130	9,337	72.8
Net interest profit	<u>2,224</u>	<u>2,168</u>	2.6
<b>Total Net Revenues</b>	<u>16,120</u>	<u>12,551</u>	28.4
<b>Non-Interest Expenses</b>			
Compensation and benefits	9,730	6,244	55.8
Communications and technology	882	791	11.5
Brokerage, clearing, and exchange fees	501	435	15.2
Occupancy and related depreciation	490	460	6.5
Professional fees	396	361	9.7
Advertising and market development	335	286	17.1
Expenses of consolidated investments	192	120	60.0
Office supplies and postage	114	103	10.7
Other	538	487	10.5
<b>Total Non-Interest Expenses</b>	<u>13,178</u>	<u>9,287</u>	41.9
<b>Earnings Before Income Taxes</b>	2,942	3,264	(9.9)
Income tax expense	834	917	(9.1)
<b>Net Earnings</b>	<u>\$ 2,108</u>	<u>\$ 2,347</u>	(10.2)
<b>Preferred Stock Dividends</b>	88	24	266.7
<b>Net Earnings Applicable to Common Stockholders</b>	<u>\$ 2,020</u>	<u>\$ 2,323</u>	(13.0)
<b>Earnings Per Common Share</b>			
Basic	<u>\$ 2.28</u>	<u>\$ 2.57</u>	
Diluted	<u>\$ 2.07</u>	<u>\$ 2.36</u>	
<b>Dividend Paid Per Common Share</b>	<u>\$ 0.50</u>	<u>\$ 0.36</u>	
<b>Average Shares Used in Computing Earnings Per Common Share</b>			
Basic	<u>884.6</u>	<u>902.7</u>	
Diluted	<u>977.2</u>	<u>985.9</u>	

See Notes to Condensed Consolidated Financial Statements.

**Merrill Lynch & Co., Inc. and Subsidiaries**  
**Condensed Consolidated Balance Sheets (Unaudited)**

<i>(dollars in millions)</i>	<b>June 30, 2006</b>	<b>Dec. 30, 2005</b>
<b>ASSETS</b>		
<b>Cash and cash equivalents</b>	\$ 22,450	\$ 14,586
<b>Cash and securities segregated for regulatory purposes or deposited with clearing organizations</b>	18,307	11,949
<b>Securities financing transactions</b>		
Receivables under resale agreements	210,268	163,021
Receivables under securities borrowed transactions	111,580	92,484
	<u>321,848</u>	<u>255,505</u>
<b>Trading assets, at fair value</b> (includes securities pledged as collateral that can be sold or repledged of \$50,594 in 2006 and \$38,678 in 2005)		
Equities and convertible debentures	35,395	32,933
Mortgages, mortgage-backed, and asset-backed	31,601	29,233
Corporate debt and preferred stock	30,883	27,436
Contractual agreements	30,818	26,216
Non-U.S. governments and agencies	17,782	15,157
U.S. Government and agencies	11,747	8,936
Municipals and money markets	6,083	5,694
Commodities and related contracts	2,621	3,105
	<u>166,930</u>	<u>148,710</u>
<b>Investment securities</b>	66,647	69,273
<b>Securities received as collateral</b>	20,721	16,808
<b>Other receivables</b>		
Customers (net of allowance for doubtful accounts of \$47 in 2006 and \$46 in 2005)	44,890	40,451
Brokers and dealers	13,844	12,127
Interest and other	23,279	15,619
	<u>82,013</u>	<u>68,197</u>
<b>Loans, notes, and mortgages</b> (net of allowances for loan losses of \$463 in 2006 and \$406 in 2005)	70,442	66,041
<b>Separate accounts assets</b>	15,876	16,185
<b>Equipment and facilities</b> (net of accumulated depreciation and amortization of \$5,137 in 2006 and \$4,865 in 2005)	2,546	2,313
<b>Goodwill and other intangible assets</b>	6,936	6,035
<b>Other assets</b>	4,472	5,413
<b>Total Assets</b>	<u>\$ 799,188</u>	<u>\$ 681,015</u>

**Merrill Lynch & Co., Inc. and Subsidiaries**  
**Condensed Consolidated Balance Sheets (Unaudited)**

<i>(dollars in millions, except per share amount)</i>	<b>June 30, 2006</b>	<b>Dec. 30, 2005</b>
<b>LIABILITIES</b>		
<b>Securities financing transactions</b>		
Payables under repurchase agreements	\$ 254,014	\$ 198,152
Payables under securities loaned transactions	23,299	19,335
	277,313	217,487
<b>Commercial paper and other short-term borrowings</b>	13,402	3,902
<b>Deposits</b>	79,442	80,016
<b>Trading liabilities, at fair value</b>		
Contractual agreements	33,183	28,755
Equities and convertible debentures	24,692	19,119
Non-U.S. governments and agencies	20,707	19,217
U.S. Government and agencies	11,296	12,478
Corporate debt and preferred stock	6,736	6,203
Commodities and related contracts	1,725	2,029
Municipals, money markets and other	1,398	1,132
	99,737	88,933
<b>Obligation to return securities received as collateral</b>	20,721	16,808
<b>Other payables</b>		
Customers	47,079	35,619
Brokers and dealers	26,110	19,528
Interest and other	37,033	28,501
	110,222	83,648
<b>Liabilities of insurance subsidiaries</b>	2,852	2,935
<b>Separate accounts liabilities</b>	15,876	16,185
<b>Long-term borrowings</b>	139,990	132,409
<b>Long-term debt issued to TOPr<sup>SM</sup> partnerships</b>	3,092	3,092
<b>Total Liabilities</b>	762,647	645,415
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>STOCKHOLDERS' EQUITY</b>		
<b>Preferred Stockholders' Equity</b> (liquidation preference of \$30,000 per share; issued: 2006 - 105,000 shares; 2005 - 93,000 shares)		
Less: Treasury stock, at cost (2005 - 3,315 shares)	3,147	2,773
	—	100
<b>Total Preferred Stockholders' Equity</b>	3,147	2,673
<b>Common Stockholders' Equity</b>		
Shares exchangeable into common stock	39	41
Common stock (par value \$1.33 <sup>1</sup> / <sub>3</sub> per share; authorized: 3,000,000,000 shares; issued: 2006 - 1,192,313,740 shares; 2005 - 1,148,714,008 shares)	1,589	1,531
Paid-in capital	17,270	13,320
Accumulated other comprehensive loss (net of tax)	(1,062)	(844)
Retained earnings	28,383	26,824
	46,219	40,872
Less: Treasury stock, at cost (2006 - 297,531,184 shares; 2005 - 233,112,271 shares)	12,825	7,945
<b>Total Common Stockholders' Equity</b>	33,394	32,927
<b>Total Stockholders' Equity</b>	36,541	35,600
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 799,188</b>	<b>\$ 681,015</b>

See Notes to Condensed Consolidated Financial Statements.

**Merrill Lynch & Co., Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Cash Flows (Unaudited)**

	For the Six Months Ended	
	June 30, 2006	July 1, 2005
<i>(dollars in millions)</i>		
<b>Cash flows from operating activities:</b>		
Net earnings	\$ 2,108	\$ 2,347
Noncash items included in earnings:		
Depreciation and amortization	243	242
Stock-based compensation plan expense	2,462	517
Deferred taxes	(586)	256
Policyholder reserves	62	65
Undistributed earnings from equity investments	(189)	(168)
Other	631	465
Changes in operating assets and liabilities:		
Trading assets	(18,321)	6,877
Cash and securities segregated for regulatory purposes or deposited with clearing organizations	(5,303)	3,108
Receivables under resale agreements	(47,247)	(14,769)
Receivables under securities borrowed transactions	(19,096)	14,526
Customer receivables	(4,430)	(1,522)
Brokers and dealers receivables	(1,718)	190
Proceeds from loans, notes, and mortgages held for sale	10,152	8,982
Other changes in loans, notes, and mortgages held for sale	(15,212)	(9,510)
Trading liabilities	6,078	(3,332)
Payables under repurchase agreements	55,862	(10,697)
Payables under securities loaned transactions	3,964	(1,478)
Customer payables	11,460	4,996
Brokers and dealers payables	6,582	(715)
Other, net	465	(4,081)
Cash used for operating activities	(12,033)	(3,701)
<b>Cash flows from investing activities:</b>		
Proceeds from (payments for):		
Maturities of available-for-sale securities	7,969	13,816
Sales of available-for-sale securities	9,721	19,632
Purchases of available-for-sale securities	(14,500)	(32,984)
Maturities of held-to-maturity securities	2	13
Loans, notes, and mortgages held for investment, net	650	(6,013)
Other investments and other assets	(904)	105
Equipment and facilities, net	(476)	(94)
Cash provided by (used for) investing activities	2,462	(5,525)
<b>Cash flows from financing activities:</b>		
Proceeds from (payments for):		
Commercial paper and other short-term borrowings	9,500	2,859
Issuance and resale of long-term borrowings	29,409	16,430
Settlement and repurchases of long-term borrowings	(22,521)	(14,925)
Deposits	(574)	(277)
Derivative and other financing transactions	4,959	2,968
Issuance of common stock	945	426
Issuance of preferred stock	360	1,110
Common stock repurchases	(5,008)	(2,131)
Other stock transactions	572	91
Dividends paid on common and preferred stock	(549)	(364)
Excess tax benefits related to stock-based compensation	342	-
Cash provided by financing activities	17,435	6,187
Increase (decrease) in cash and cash equivalents	7,864	(3,039)
Cash and cash equivalents, beginning of period	14,586	20,790
Cash and cash equivalents, end of period	\$ 22,450	\$ 17,751
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Cash paid for:		
Income taxes	\$ 1,569	\$ 655
Interest	15,564	8,803

See Notes to Condensed Consolidated Financial Statements.



**Merrill Lynch & Co., Inc. and Subsidiaries**

**Notes to Condensed Consolidated Financial Statements (Unaudited)  
June 30, 2006**

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**Note 1. Summary of Significant Accounting Policies**

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For a complete discussion of Merrill Lynch's accounting policies, refer to the Annual Report on Form 10-K for the year ended December 30, 2005 ("2005 Annual Report").

*Basis of Presentation*

The Condensed Consolidated Financial Statements include the accounts of Merrill Lynch & Co., Inc. ("ML & Co.") and subsidiaries (collectively, "Merrill Lynch"), whose subsidiaries are generally controlled through a majority voting interest but may be controlled by means of a significant minority ownership, by contract, lease or otherwise. In certain cases, Merrill Lynch subsidiaries (i.e., Variable Interest Entities ("VIEs")) may also be consolidated based on a risks and rewards approach as required by Financial Accounting Standards Board ("FASB") revised Interpretation No. 46 ("FIN 46R"). Intercompany transactions and balances have been eliminated. The interim Condensed Consolidated Financial Statements for the three- and six-month periods are unaudited; however, in the opinion of Merrill Lynch management, all adjustments (consisting of normal recurring accruals) necessary for a fair statement of the Condensed Consolidated Financial Statements have been included.

These unaudited Condensed Consolidated Financial Statements should be read in conjunction with the audited consolidated financial statements included in the 2005 Annual Report. The December 30, 2005 unaudited Condensed Consolidated Balance Sheet was derived from the audited 2005 Consolidated Financial Statements. The nature of Merrill Lynch's business is such that the results of any interim period are not necessarily indicative of results for a full year. In presenting the Condensed Consolidated Financial Statements, management makes estimates that affect the reported amounts and disclosures in the financial statements. Estimates, by their nature, are based on judgment and available information. Therefore, actual results could differ from those estimates and could have a material impact on the Condensed Consolidated Financial Statements, and it is possible that such changes could occur in the near term. Certain reclassifications have been made to the prior period financial statements to conform to the current period presentation. During the second quarter of 2006, Merrill Lynch reclassified cash flows from loans held for sale to operating activities, whereas in prior periods, these loans were classified as investing activities. Merrill Lynch believes that classifying cash flows from loans held for sale as operating activities correctly presents the cash flows associated with these loans as they have been acquired primarily for resale. All prior period amounts have been reclassified to conform to the current period presentation.

Merrill Lynch offers a broad array of products and services to its diverse client base of individuals, small to mid-size businesses, employee benefit plans, corporations, financial institutions, and governments around the world. These products and services are offered from a number of locations around the world. In some cases, the same or similar products and services may be offered to both individual and institutional clients, utilizing the same infrastructure. In other cases, a single infrastructure may be used to support multiple products and services offered to clients. When Merrill Lynch analyzes its profitability, it does not focus on the profitability of a single product or service. Instead, Merrill Lynch looks at the profitability of businesses offering an array of products and services to various types of clients. The profitability of the products and services offered to individuals, small to mid-size businesses, and employee benefit plans is analyzed separately from the profitability of products and services offered to corporations, financial institutions, and governments,

regardless of whether there is commonality in products and services infrastructure. As such, we do not separately disclose the costs associated with the products and services sold or our general and administrative costs, in total or by product.

When pricing its various products and services, Merrill Lynch considers multiple factors, including prices being offered in the market for similar products and services, the competitiveness of its pricing compared to competitors, the profitability of its businesses and its overall profitability, as well as the profitability, creditworthiness, and importance of the overall client relationships.

Expenses which are incurred to support products and services and infrastructures shared by businesses are allocated to the businesses based on various methodologies which may include headcount, square footage, and certain other criteria. Similarly, certain revenues may be shared based upon agreed methodologies. When looking at the profitability of various businesses, Merrill Lynch considers all expenses incurred, including overhead and the costs of shared services, as all are considered integral to the operation of the businesses.

#### *New Accounting Pronouncements*

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109* ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 will be effective for Merrill Lynch beginning in the first quarter of 2007. Merrill Lynch is currently evaluating the impact of adopting the Interpretation.

In April 2006, the FASB issued a FASB Staff Position FIN 46(R)-6, *Determining the Variability to be Considered in Applying FIN 46R* ("the FSP"). The FSP requires that the variability to be included when applying FIN 46R be based on a "by-design" approach and should consider what risks the variable interest entity was designed to create. The FSP is effective beginning in the third quarter of 2006 for all new entities with which Merrill Lynch becomes involved, and to all entities previously required to be analyzed under FIN 46R when a reconsideration event occurs as defined under paragraph 7 of the Interpretation. Merrill Lynch does not expect the adoption of the FSP to have a material impact on the Condensed Consolidated Financial Statements.

In March 2006, the FASB issued Statement No. 156, *Accounting for Servicing of Financial Assets* ("SFAS No. 156"). SFAS No. 156 amends Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, to require all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable. SFAS No. 156 also permits servicers to subsequently measure each separate class of servicing assets and liabilities at fair value rather than at the lower of cost or market. For those companies that elect to measure their servicing assets and liabilities at fair value, SFAS No. 156 requires the difference between the carrying value and fair value at the date of adoption to be recognized as a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year in which the election is made. Merrill Lynch will adopt SFAS No. 156 beginning in the first quarter of 2007. Merrill Lynch is currently assessing the impact of adopting SFAS No. 156 but does not expect the standard to have a material impact on the Condensed Consolidated Financial Statements.

In February 2006, the FASB issued Statement No. 155, *Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140* ("SFAS No. 155"). SFAS No. 155 clarifies the bifurcation requirements for certain financial instruments and permits interests in hybrid financial instruments that contain an embedded derivative that would otherwise require bifurcation to

be accounted for as a single financial instrument at fair value with changes in fair value recognized in earnings. This election is permitted on an instrument-by-instrument basis for all hybrid financial instruments held, obtained, or issued as of the adoption date. Merrill Lynch will adopt SFAS No. 155 beginning in the first quarter of 2007. At adoption, any difference between the total carrying amount of the individual components of the existing bifurcated hybrid financial instruments and the fair value of the combined hybrid financial instruments will be recognized as a cumulative-effect adjustment to beginning retained earnings. Merrill Lynch is currently assessing the impact of adopting SFAS No. 155.

During the first quarter of 2006, Merrill Lynch adopted the provisions of Statement No. 123 (revised 2004), *Share-Based Payment*, a revision of SFAS No. 123, *Accounting for Stock-Based Compensation* ("SFAS No. 123R"). Under SFAS No. 123R, compensation expenses for share-based awards that do not require future service are recorded immediately, and share-based awards that require future service continue to be amortized into expense over the relevant service period. Merrill Lynch adopted SFAS No. 123R under the modified prospective method whereby the provisions of SFAS No. 123R are generally applied only to share-based awards granted or modified subsequent to adoption. Thus, for Merrill Lynch, SFAS No. 123R required the immediate expensing of share-based awards granted or modified in 2006 to retirement-eligible employees, including awards that are subject to non-compete provisions.

Prior to the adoption of SFAS No. 123R, Merrill Lynch had recognized expense for share-based compensation over the vesting period stipulated in the grant for all employees. This included those who had satisfied retirement eligibility criteria but were subject to a non-compete agreement that applied from the date of retirement through each applicable vesting period. Previously, Merrill Lynch had accelerated any unrecognized compensation cost for such awards if a retirement-eligible employee left Merrill Lynch. However, because SFAS No. 123R applies only to awards granted or modified in 2006, expenses for share-based awards granted prior to 2006 to employees who were retirement-eligible with respect to those awards must continue to be amortized over the stated vesting period.

In addition, beginning with performance year 2006, for which Merrill Lynch expects to grant stock awards in early 2007, Merrill Lynch will accrue the expense for future awards granted to retirement-eligible employees over the award performance year instead of recognizing the entire expense related to the award on the grant date. Compensation expense for all future stock awards granted to employees not eligible for retirement with respect to those awards will be recognized over the applicable vesting period.

SFAS No. 123R also requires expected forfeitures of share-based compensation awards for non-retirement-eligible employees to be included in determining compensation expense. Prior to the adoption of SFAS No. 123R, any benefits of employee forfeitures of such awards were recorded as a reduction of compensation expense when the employee left Merrill Lynch and forfeited the award. In the first quarter of 2006, Merrill Lynch recorded a benefit based on expected forfeitures which was not material to the results of operations for the quarter.

The adoption of SFAS No. 123R resulted in a first quarter charge to compensation expense of approximately \$550 million on a pre-tax basis and \$370 million on an after-tax basis.

The adoption of SFAS No. 123R, combined with other business and competitive considerations, prompted Merrill Lynch to undertake a comprehensive review of the company's stock-based incentive compensation awards, including vesting schedules and retirement eligibility requirements, examining their impact to both Merrill Lynch and its employees. Upon the completion of this review, the Management Development and Compensation Committee of Merrill Lynch's Board of Directors determined that to fulfill the objective of retaining high quality personnel, future stock grants should

contain more stringent retirement provisions. These provisions include a combination of increased age and length of service requirements. While the stock awards of employees who retire continue to vest, retired employees are subject to continued compliance with the strict non-compete provisions of those awards. To facilitate transition to the more stringent future requirements, the terms of most outstanding stock awards previously granted to employees, including certain executive officers, were modified, effective March 31, 2006, to permit employees to be immediately eligible for retirement with respect to those earlier awards. While Merrill Lynch modified the retirement-related provisions of the previous stock awards, the vesting and non-compete provisions for those awards remain in force.

Since the provisions of SFAS No. 123R apply to awards modified in 2006, these modifications required Merrill Lynch to record additional one-time compensation expense in the first quarter of 2006 for the remaining unamortized amount of all awards to employees who had not previously been retirement-eligible under the original provisions of those awards.

The one-time, non-cash charge associated with the adoption of SFAS No. 123R, and the policy modifications to previous awards resulted in a net charge to compensation expense in the first quarter of 2006 of approximately \$1.8 billion pre-tax, and \$1.2 billion after-tax, or a net impact of \$1.34 and \$1.21 on basic and diluted earnings per share, respectively. Policy modifications to previously granted awards amounted to \$1.2 billion of the pre-tax charge and impacted approximately 6,300 employees.

Prior to the adoption of SFAS No. 123R, Merrill Lynch presented the cash flows related to income tax deductions in excess of the compensation expense recognized on share-based compensation as operating cash flows in the Condensed Consolidated Statements of Cash Flows. SFAS No. 123R requires cash flows resulting from tax deductions in excess of the grant-date fair value of share-based awards to be included in cash flows from financing activities. The excess tax benefits of \$283 million related to total share-based compensation included in cash flows from financing activities in the first quarter of 2006 would have been included in cash flows from operating activities if Merrill Lynch had not adopted SFAS No. 123R.

As a result of adopting SFAS No. 123R, approximately \$600 million of liabilities associated with the Financial Advisor Capital Accumulation Award Plan ("FACAAP") were reclassified to stockholders' equity. In addition, as a result of adopting SFAS No. 123R, the unamortized portion of employee stock grants, which was previously reported as a separate component of stockholders' equity on the Condensed Consolidated Balance Sheets, has been reclassified to Paid-in Capital. Refer to Note 12 to the Condensed Consolidated Financial Statements for additional information.

In June 2005, the FASB ratified the consensus reached by the Emerging Issues Task Force on Issue 04-5, *Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights* ("EITF 04-5"). EITF 04-5 presumes that a general partner controls a limited partnership, and should therefore consolidate a limited partnership, unless the limited partners have the substantive ability to remove the general partner without cause based on a simple majority vote or can otherwise dissolve the limited partnership, or unless the limited partners have substantive participating rights over decision making. The guidance in EITF 04-5 was effective beginning in the third quarter of 2005 for all new limited partnership agreements and any limited partnership agreements that were modified. For those partnership agreements that existed at the date EITF 04-5 was issued, the guidance became effective in the first quarter of 2006. The adoption of this guidance did not have a material impact on the Condensed Consolidated Financial Statements.

## Note 2. Segment Information

Merrill Lynch's operations are organized into three business segments: Global Markets and Investment Banking ("GMI"), Global Private Client ("GPC"), and Merrill Lynch Investment Managers ("MLIM"). Prior period amounts have been reclassified to conform to the current period presentation. For information on each segment's business activities, refer to Note 3 to the 2005 Annual Report.

The six month comparisons in the results by business segment table below include the impact of the \$1.8 billion, pre-tax, one-time compensation expenses incurred in the first quarter of 2006. These one-time compensation expenses were recorded as follows: \$1.4 billion to GMI, \$281 million to GPC and \$109 million to MLIM; refer to Note 1 to the Condensed Consolidated Financial Statements for further information on one-time compensation expenses.

Results by business segment are as follows:

(dollars in millions)

	GMI	GPC	MLIM	Corporate Items (including intersegment eliminations)	Total
<b>Three Months Ended June 30, 2006</b>					
Non-interest revenues	\$ 3,920	\$ 2,500	\$ 618	\$ (39) <sup>(1)</sup>	\$ 6,999
Net interest profit <sup>(2)</sup>	660	545	12	(58) <sup>(3)</sup>	1,159
Net revenues	4,580	3,045	630	(97)	8,158
Non-interest expenses	3,087	2,344	390	(12) <sup>(1)</sup>	5,809
Pre-tax earnings (loss)	\$ 1,493	\$ 701	\$ 240	\$ (85)	\$ 2,349
Quarter-end total assets	\$ 705,854	\$ 77,139	\$ 8,711	\$ 7,484	\$ 799,188
<b>Three Months Ended July 1, 2005</b>					
Non-interest revenues	\$ 2,759	\$ 2,190	\$ 403	\$ — <sup>(1)</sup>	\$ 5,352
Net interest profit <sup>(2)</sup>	680	378	2	(93) <sup>(3)</sup>	967
Net revenues	3,439	2,568	405	(93)	6,319
Non-interest expenses	2,341	2,111	284	(12) <sup>(1)</sup>	4,724
Pre-tax earnings (loss)	\$ 1,098	\$ 457	\$ 121	\$ (81)	\$ 1,595
Quarter-end total assets	\$ 540,230	\$ 70,250	\$ 9,366	\$ 6,294	\$ 626,140
<b>Six Months Ended June 30, 2006</b>					
Non-interest revenues	\$ 7,780	\$ 4,919	\$ 1,174	\$ 23 <sup>(1)</sup>	\$ 13,896
Net interest profit <sup>(2)</sup>	1,353	1,065	26	(220) <sup>(3)</sup>	2,224
Net revenues	9,133	5,984	1,200	(197)	16,120
Non-interest expenses	7,428	4,918	847	(15) <sup>(1)</sup>	13,178
Pre-tax earnings (loss)	\$ 1,705	\$ 1,066	\$ 353	\$ (182)	\$ 2,942
<b>Six Months Ended July 1, 2005</b>					
Non-interest revenues	\$ 5,141	\$ 4,422	\$ 821	\$ (1) <sup>(1)</sup>	\$ 10,383
Net interest profit <sup>(2)</sup>	1,615	749	(3)	(193) <sup>(3)</sup>	2,168
Net revenues	6,756	5,171	818	(194)	12,551
Non-interest expenses	4,534	4,204	570	(21) <sup>(1)</sup>	9,287
Pre-tax earnings (loss)	\$ 2,222	\$ 967	\$ 248	\$ (173)	\$ 3,264

(1) Primarily represents the elimination of intersegment revenues and expenses.

(2) Management views interest income net of interest expense in evaluating results.

(3) Represents acquisition financing costs and other corporate interest, including the impact of Trust Originated Preferred Securities ("TOPrSSM").

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**Note 3. Securities Financing Transactions**

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Merrill Lynch enters into secured borrowing and lending transactions in order to meet customers' needs and earn residual interest rate spreads, obtain securities for settlement and finance trading inventory positions.

Under these transactions, Merrill Lynch either receives or provides collateral, including U.S. Government and agencies, asset-backed, corporate debt, equity, and non-U.S. governments and agencies securities. Merrill Lynch receives collateral in connection with resale agreements, securities borrowed transactions, customer margin loans, and other loans. Under many agreements, Merrill Lynch is permitted to sell or repledge the securities received (e.g., use the securities to secure repurchase agreements, enter into securities lending transactions, or deliver to counterparties to cover short positions). At June 30, 2006 and December 30, 2005, the fair value of securities received as collateral where Merrill Lynch is permitted to sell or repledge the securities was \$575 billion and \$538 billion, respectively, and the fair value of the portion that has been sold or repledged was \$461 billion and \$402 billion, respectively. Merrill Lynch may use securities received as collateral for resale agreements to satisfy regulatory requirements such as Rule 15c3-3 of the SEC. At June 30, 2006 and December 30, 2005, the fair value of collateral used for this purpose was \$19.3 billion, and \$15.5 billion, respectively.

Merrill Lynch pledges firm-owned assets to collateralize repurchase agreements and other secured financings. Pledged securities that can be sold or repledged by the secured party are parenthetically disclosed in trading assets on the Condensed Consolidated Balance Sheets. The carrying value and classification of securities owned by Merrill Lynch that have been pledged to counterparties where those counterparties do not have the right to sell or repledge at June 30, 2006 and December 30, 2005 are as follows:

*(dollars in millions)*

	<b>June 30, 2006</b>	<b>Dec. 30, 2005</b>
<b>Trading asset category</b>		
Mortgages, mortgage-backed, and asset-backed	\$ 14,520	\$ 14,457
Corporate debt and preferred stock	12,179	10,394
U.S. Government and agencies	8,145	6,711
Non-U.S. governments and agencies	3,474	3,353
Equities and convertible debentures	3,262	4,019
Municipals and money markets	1,044	100
<b>Total</b>	<b>\$ 42,624</b>	<b>\$ 39,034</b>

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**Note 4. Investment Securities**

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Investment securities at June 30, 2006 and December 30, 2005 are presented below:

*(dollars in millions)*

	<b>June 30, 2006</b>	<b>Dec. 30, 2005</b>
<b>Investment securities</b>		
Available-for-sale <sup>(1)</sup>	\$ 50,799	\$ 54,471
Trading	6,855	5,666
Held-to-maturity	280	271
<b>Non-qualifying<sup>(2)</sup></b>		
Equity investments	10,537	9,795
Investments of insurance subsidiaries <sup>(3)</sup>	1,142	1,174
Deferred compensation hedges <sup>(4)</sup>	1,600	1,457
Investments in TOPrS <sup>SM</sup> partnerships and other investments	788	738
<b>Total</b>	<b>\$ 72,001</b>	<b>\$ 73,572</b>

*(1) At June 30, 2006 and December 30, 2005, includes \$5.4 billion and \$4.3 billion, respectively, of investment securities reported in cash and securities segregated for regulatory purposes or deposited with clearing organizations.*

*(2) Non-qualifying for SFAS No. 115 purposes.*

*(3) Primarily represents insurance policy loans.*

*(4) Represents investments which economically hedge deferred compensation liabilities.*

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**Note 5. Securitization Transactions and Transactions with Special Purpose Entities (“SPEs”)**

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Securizations

In the normal course of business, Merrill Lynch securitizes: commercial and residential mortgage and home equity loans; municipal, government, and corporate bonds; and other types of financial assets. SPEs, frequently referred to as Variable Interest Entities, or VIEs, are often used when entering into or facilitating securitization transactions. Merrill Lynch’s involvement with SPEs used to securitize financial assets includes: structuring and/or establishing SPEs; selling assets to SPEs; managing or servicing assets held by SPEs; underwriting, distributing, and making loans to SPEs; making markets in securities issued by SPEs; engaging in derivative transactions with SPEs; owning notes or certificates issued by SPEs; and/or providing liquidity facilities and other guarantees to SPEs.

Merrill Lynch securitized assets of approximately \$63.9 billion and \$45.9 billion for the six months ended June 30, 2006 and July 1, 2005, respectively. For the six months ended June 30, 2006 and July 1, 2005, Merrill Lynch received \$64.3 billion and \$46.3 billion, respectively, of proceeds, and other cash inflows, from securitization transactions, and recognized net securitization gains of \$259.9 million and \$263.7 million, respectively, in Merrill Lynch’s Condensed Consolidated Statements of Earnings.

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For the first six months of 2006 and 2005, cash inflows from securitizations related to the following asset types:

(dollars in millions)

Asset category	Six Months Ended	
	June 30, 2006	July 1, 2005
Residential mortgage loans	\$ 43,767	\$ 30,810
Municipal bonds	9,770	8,637
Corporate and government bonds	1,698	1,374
Commercial loans and other	9,106	5,517
	\$ 64,341	\$ 46,338

Retained interests in securitized assets were approximately \$5.2 billion and \$4.0 billion at June 30, 2006 and December 30, 2005, which related primarily to residential mortgage loan and municipal bond securitization transactions. The majority of the retained interest balance consists of mortgage-backed securities that have observable market prices. These retained interests include mortgage-backed securities that Merrill Lynch has committed to purchase and expects to sell to investors in the normal course of its underwriting activity.

The following table presents information on retained interests, excluding the offsetting benefit of financial instruments used to hedge risks, held by Merrill Lynch as of June 30, 2006 arising from Merrill Lynch's residential mortgage loan, municipal bond and other securitization transactions. The sensitivities of the current fair value of the retained interests to immediate 10% and 20% adverse changes in assumptions and parameters are also shown.

(dollars in millions)

	Residential Mortgage Loans	Municipal Bonds	Other
Retained interest amount	\$ 4,445	\$ 669	\$ 70
Weighted average credit losses (rate per annum)	0.8%	0.0%	0.6%
Range	0.0 – 9.4%	0.0%	0.0 – 8.0%
Impact on fair value of 10% adverse change	\$ (68)	\$ –	\$ (2)
Impact on fair value of 20% adverse change	\$ (114)	\$ –	\$ (3)
Weighted average discount rate	8.1%	4.3%	10.3%
Range	0.0 – 63.0%	0.5 – 10.0%	0.0 – 23.2%
Impact on fair value of 10% adverse change	\$ (137)	\$ (52)	\$ (7)
Impact on fair value of 20% adverse change	\$ (262)	\$ (88)	\$ (14)
Weighted average life (in years)	3.6	1.5	4.5
Range	0.0 – 27.1	0.4 – 3.0	1.5 – 16.6
Weighted average prepayment speed (CPR)	16.5%	11.0%(1)	15.0%
Range	0.0 – 70.0%	2.0 – 23.9%(1)	15.0 – 44.0%
Impact on fair value of 10% adverse change	\$ (82)	\$ –	\$ (1)
Impact on fair value of 20% adverse change	\$ (133)	\$ –	\$ (2)

CPR = Constant Prepayment Rate

(1) Relates to select securitization transactions where assets are prepayable.

The preceding sensitivity analysis is hypothetical and should be used with caution. In particular, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated independent of changes in any other assumption; in practice, changes in one factor may result in changes in another, which might magnify or counteract the sensitivities. Further, changes in fair value based on a 10% or 20% variation in an assumption or parameter generally cannot be extrapolated



because the relationship of the change in the assumption to the change in fair value may not be linear. Also, the sensitivity analysis does not include the offsetting benefit of financial instruments that Merrill Lynch utilizes to hedge risks, including credit, interest rate, and prepayment risk, that are inherent in the retained interests. These hedging strategies are structured to take into consideration the hypothetical stress scenarios above such that they would be effective in principally offsetting Merrill Lynch's exposure to loss in the event these scenarios occur.

The weighted average assumptions and parameters used initially to value retained interests relating to securitizations that were still held by Merrill Lynch as of June 30, 2006 are as follows:

	<b>Residential Mortgage Loans</b>	<b>Municipal Bonds</b>	<b>Other</b>
Credit losses (rate per annum)	0.8%	0.0%	0.3%
Weighted average discount rate	8.1%	3.9%	10.4%
Weighted average life (in years)	3.6	3.5	3.0
Prepayment speed assumption (CPR)	15.6%	9.0%	9.1%

*CPR = Constant Prepayment Rate*

For residential mortgage loan and other securitizations, the investors and the securitization trust generally have no recourse to Merrill Lynch's other assets for failure of mortgage holders to pay when due.

For municipal bond securitization SPEs, in the normal course of dealer market-making activities, Merrill Lynch acts as liquidity provider. Specifically, the holders of beneficial interests issued by municipal bond securitization SPEs have the right to tender their interests for purchase by Merrill Lynch on specified dates at a specified price. Beneficial interests that are tendered are then sold by Merrill Lynch to investors through a best efforts remarketing where Merrill Lynch is the remarketing agent. If the beneficial interests are not successfully remarketed, the holders of beneficial interests are paid from funds drawn under a standby liquidity letter of credit issued by Merrill Lynch.

In addition to standby letters of credit, in certain municipal bond securitizations, Merrill Lynch also provides default protection or credit enhancement to investors in securities issued by certain municipal bond securitization SPEs. Interest and principal payments on beneficial interests issued by these SPEs are secured by a guarantee issued by Merrill Lynch. In the event that the issuer of the underlying municipal bond defaults on any payment of principal and/or interest when due, the payments on the bonds will be made to beneficial interest holders from an irrevocable guarantee by Merrill Lynch.

The maximum commitment under these liquidity and default guarantees totaled \$30.9 billion and \$29.9 billion at June 30, 2006 and December 30, 2005, respectively. The fair value of the guarantees approximated \$34 million and \$14 million at June 30, 2006 and December 30, 2005, respectively, which is reflected in the Condensed Consolidated Financial Statements. Of these arrangements, \$6.6 billion and \$6.9 billion at June 30, 2006 and December 30, 2005, respectively, represent agreements where the guarantee is provided to the SPE by a third-party financial intermediary and Merrill Lynch enters into a reimbursement agreement with the financial intermediary. In these arrangements, if the financial intermediary incurs losses, Merrill Lynch has up to one year to fund those losses. Additional information regarding these commitments is provided in Note 10 to the Condensed Consolidated Financial Statements and in Note 12 of the 2005 Annual Report.

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The following table summarizes principal amounts outstanding and delinquencies of securitized financial assets as of June 30, 2006 and December 30, 2005:

*(dollars in millions)*

	<b>Residential Mortgage Loans</b>	<b>Municipal Bonds</b>	<b>Other</b>
<b>June 30, 2006</b>			
Principal Amount Outstanding	\$ 104,845	\$ 15,486	\$ 10,005
Delinquencies	502	-	11
<b>December 30, 2005</b>			
Principal Amount Outstanding	\$ 82,468	\$ 19,745	\$ 10,416
Delinquencies	688	-	-

Net credit losses associated with securitized financial assets for the six months ended June 30, 2006 and July 1, 2005 approximated \$45 million and \$3 million, respectively.

*Variable Interest Entities*

In January 2003, the FASB issued FIN 46, which provided additional guidance on the application of Accounting Research Bulletin No. 51, *Consolidated Financial Statements*, for enterprises that have interests in entities that meet the definition of a VIE, and on December 24, 2003, the FASB issued FIN 46R. FIN 46R requires that an entity shall consolidate a VIE if that enterprise has a variable interest that will absorb a majority of the VIE's expected losses, receive a majority of the VIE's expected residual returns, or both.

QSPEs are a type of VIE that holds financial instruments and distributes cash flows to investors based on preset terms. QSPEs are commonly used in mortgage and other securitization transactions. In accordance with Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, and FIN 46R, Merrill Lynch does not consolidate QSPEs. Information regarding QSPEs can be found in the Securitization section of this Note and the Guarantees section in Note 10 to the Condensed Consolidated Financial Statements.

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The following tables summarize Merrill Lynch's involvement with VIEs as of June 30, 2006 and December 30, 2005, respectively. The table below does not include information on QSPEs.

Where an entity is a significant variable interest holder, FIN 46R requires that entity to disclose its maximum exposure to loss as a result of its interest in the VIE. It should be noted that this measure does not reflect Merrill Lynch's estimate of the actual losses that could result from adverse changes because it does not reflect the economic hedges Merrill Lynch enters into to reduce its exposure.

(dollars in millions)

Description	Primary Beneficiary			Significant Variable Interest Holder		Other Involvement with VIEs	
	Total Asset Size <sup>(4)</sup>	Net Asset Size <sup>(5)</sup>	Recourse to Merrill Lynch <sup>(6)</sup>	Total Asset Size <sup>(4)</sup>	Maximum Exposure	Total Asset Size <sup>(4)</sup>	Maximum Exposure
<b>June 30, 2006</b>							
Loan and Real Estate VIEs	\$ 5,369	\$ 5,121	\$ -	\$ 186	\$ 186	\$ -	\$ -
Tax Planning VIEs <sup>(1)(2)</sup>	30,871	9,407	6,125	657	27	-	-
Guaranteed and Other Funds	2,022	1,530	535	2,984	2,973	-	-
Credit Linked Note and Other VIEs <sup>(3)</sup>	155	55	-	-	-	9,909	695
<b>December 30, 2005</b>							
Loan and Real Estate VIEs	\$ 5,144	\$ 5,140	\$ -	\$ 116	\$ 63	\$ -	\$ -
Tax Planning VIEs <sup>(1)(2)</sup>	29,617	8,365	5,823	5,416	2,297	-	-
Guaranteed and Other Funds	1,802	1,349	464	2,981	2,973	-	-
Credit Linked Note and Other VIEs <sup>(3)</sup>	130	30	-	-	-	8,835	780

- (1) Recourse to Merrill Lynch associated with Tax Planning VIEs primarily relates to transactions where the investors in the debt issued by the VIEs have recourse to both the assets of the VIEs and to Merrill Lynch, as well as certain indemnifications made by Merrill Lynch to the investors in the VIEs.
- (2) The maximum exposure for Tax Planning VIEs reflects the fair value of investments in the VIEs and derivatives entered into with the VIEs, as well as the maximum exposure to loss associated with indemnifications made by Merrill Lynch to investors in the VIEs.
- (3) The maximum exposure for Credit-Linked Note and Other VIEs is the fair value of the derivatives entered into with the VIEs if they are in an asset position as of June 30, 2006 and December 30, 2005, respectively.
- (4) This column reflects the total size of the assets held in the VIE.
- (5) This column reflects the size of the assets held in the VIE after accounting for intercompany eliminations and any balance sheet netting of assets and liabilities as permitted by FASB Interpretation No. 39.
- (6) This column reflects the extent, if any, to which investors have recourse to Merrill Lynch beyond the assets held in the VIE.

**Note 6. Loans, Notes, Mortgages and Related Commitments to Extend Credit**

Loans, Notes, Mortgages and related commitments to extend credit at June 30, 2006 and December 30, 2005, are presented below. This disclosure includes commitments to extend credit that may result in loans held for investment and loans held for sale.

(dollars in millions)

	Loans		Commitments <sup>(1)</sup>	
	June 30, 2006	Dec. 30, 2005	June 30, 2006 <sup>(2)(3)</sup>	Dec. 30, 2005 <sup>(3)</sup>
Consumer and small- and middle-market business:				
Mortgages	\$ 17,073	\$ 18,172	\$ 7,539	\$ 6,376
Small- and middle-market business	3,851	4,994	2,406	3,062
Other	2,936	2,558	77	75
Commercial:				
Secured	41,067	36,571	44,190	34,583
Unsecured investment grade	4,481	3,283	21,680	22,061
Unsecured non-investment grade	1,497	869	1,571	980
	70,905	66,447	77,463	67,137
Allowance for loan losses	(463)	(406)	-	-
Reserve for lending-related commitments	-	-	(310)	(281)
Total, net	\$ 70,442	\$ 66,041	\$ 77,153	\$ 66,856

- (1) Commitments are outstanding as of the date the commitment letter is issued and are comprised of closed and contingent commitments. Closed commitments represent the unfunded portion of existing commitments available for draw down. Contingent commitments are contingent on the borrower fulfilling certain conditions or upon a particular event, such as an acquisition. A portion of these contingent commitments may be syndicated among other lenders or replaced with capital markets funding.
- (2) See Note 10 to the Condensed Consolidated Financial Statements for a maturity profile of these commitments.
- (3) In addition to the loan origination commitments included in the table above, at June 30, 2006, Merrill Lynch entered into agreements to purchase \$222 million of loans that, upon settlement date, are likely to be classified in loans held for investment and loans held for sale. Similar loan purchase commitments totaled \$96 million at December 30, 2005. See Note 10 to the Condensed Consolidated Financial Statements for further information.

Activity in the allowance for loan losses is presented below:

(dollars in millions)

	Six Months Ended	
	June 30, 2006	July 1, 2005
Allowance for loan losses at beginning of period	\$ 406	\$ 283
Provision for loan losses	74	84
Charge-offs	(26)	(45)
Recoveries	7	6
Net charge-offs	(19)	(39)
Other	2	-
Allowance for loan losses at end of period	\$ 463	\$ 328

Consumer and small- and middle-market business loans, which are substantially secured, consisted of approximately 297,000 individual loans at June 30, 2006, and included residential mortgages, home

equity loans, small- and middle-market business loans, and other loans to individuals for household, family, or other personal expenditures. Commercial loans, which at June 30, 2006 consisted of approximately 12,000 separate loans, include corporate and institutional loans, commercial mortgages, asset-based loans, and other loans to businesses. The principal balance of nonaccrual loans was \$217 million at June 30, 2006 and \$256 million at December 30, 2005. The investment grade and non-investment grade categorization is determined using the credit rating agency equivalent of internal credit ratings. Non-investment grade counterparties are those rated lower than BBB. In some cases, Merrill Lynch enters into credit default swaps to mitigate credit exposure related to funded and unfunded commercial loans. The notional value of these swaps totaled \$9.2 billion and \$7.9 billion at June 30, 2006 and December 30, 2005, respectively. For information on credit risk management see Note 6 of the 2005 Annual Report.

The above amounts include \$17.3 billion and \$12.3 billion of loans held for sale at June 30, 2006 and December 30, 2005, respectively. Loans held for sale are loans that management expects to sell prior to maturity. At June 30, 2006, such loans consisted of \$5.0 billion of consumer loans, primarily residential mortgages and automobile loans, and \$12.3 billion of commercial loans, approximately 23% of which are to investment grade counterparties. At December 30, 2005, such loans consisted of \$3.4 billion of consumer loans, primarily automobile loans and residential mortgages, and \$8.9 billion of commercial loans, approximately 22% of which are to investment grade counterparties.

For further information on loans, notes and mortgages, see Notes 1 and 8 of the 2005 Annual Report.

**Note 7. Commercial Paper, Short- and Long-Term Borrowings, and Deposits**

ML & Co. is the primary issuer of all debt instruments. For local tax or regulatory reasons, debt is also issued by certain subsidiaries.

On May 16, 2006, ML & Co. issued \$2.0 billion of subordinated debt. ML & Co. pays interest on this subordinated debt at an annual rate of 6.05%. The subordinated debt matures on May 16, 2016 and is junior in right of payment to all of ML & Co.'s senior indebtedness.

Total borrowings at June 30, 2006 and December 30, 2005, which is comprised of commercial paper and other short-term borrowings, long-term borrowings and long-term debt issued to TOPrSM<sup>SM</sup> partnerships, consisted of the following:

*(dollars in millions)*

	June 30, 2006	Dec. 30, 2005
Senior debt issued by ML & Co.	\$ 121,625	\$ 111,533
Senior debt issued by subsidiaries — guaranteed by ML & Co.	16,907	13,036
Subordinated debt issued by ML & Co.	1,970	-
Subordinated debt issued to TOPrSM <sup>SM</sup> partnerships	3,092	3,092
Other subsidiary financing — not guaranteed by ML & Co.	1,676	1,391
Other subsidiary financing — non-recourse	11,214	10,351
<b>Total</b>	<b>\$ 156,484</b>	<b>\$ 139,403</b>

These borrowing activities may create exposure to market risk, most notably interest rate, equity, and currency risk. Refer to Note 1 of the 2005 Annual Report, Derivatives section, for additional information on the use of derivatives to hedge these risks and the accounting for derivatives embedded in these instruments. Other subsidiary financing — non-recourse is primarily attributable to

consolidated entities that are VIEs. Additional information regarding VIEs is provided in Note 5 to the Condensed Consolidated Financial Statements.

Borrowings and Deposits at June 30, 2006 and December 30, 2005, are presented below:

*(dollars in millions)*

	June 30, 2006	Dec. 30, 2005
<b>Commercial paper and other short-term borrowings</b>		
Commercial paper	\$ 12,827	\$ 3,420
Other	575	482
Total	<u>\$ 13,402</u>	<u>\$ 3,902</u>
<b>Long-term borrowings<sup>(1)</sup></b>		
Fixed-rate obligations <sup>(2)(4)</sup>	\$ 47,263	\$ 54,104
Variable-rate obligations <sup>(3)(4)</sup>	93,579	79,071
Zero-coupon contingent convertible debt (LYONS <sup>®</sup> )	2,240	2,326
Total	<u>\$143,082</u>	<u>\$135,501</u>
<b>Deposits</b>		
U.S.	\$ 59,819	\$ 61,784
Non U.S.	19,623	18,232
Total	<u>\$ 79,442</u>	<u>\$ 80,016</u>

*(1) Includes long-term debt issued to TOPrSSM partnerships.*

*(2) Fixed-rate obligations are generally swapped to floating rates.*

*(3) Variable interest rates are generally based on rates such as LIBOR, the U.S. Treasury Bill Rate, or the Federal Funds Rate.*

*(4) Included are various equity-linked or other indexed instruments.*

Long-term borrowings, including adjustments related to fair value hedges and various equity-linked or other indexed instruments, and long-term debt issued to TOPrSSM partnerships at June 30, 2006, mature as follows:

*(dollars in millions)*

	\$	%
Less than 1 year	24,628	17%
1 – 2 years	28,174	20
2+ – 3 years	17,169	12
3+ – 4 years	21,041	15
4+ – 5 years	14,783	10
Greater than 5 years	<u>37,287</u>	<u>26</u>
Total	<u>\$ 143,082</u>	<u>100%</u>

Certain long-term borrowing agreements contain provisions whereby the borrowings are redeemable at the option of the holder at specified dates prior to maturity. These borrowings are reflected in the above table as maturing at their put dates, rather than their contractual maturities. Management believes, however, that a portion of such borrowings will remain outstanding beyond their earliest redemption date.

A limited number of notes whose coupon or repayment terms are linked to the performance of equity, other indices, or baskets of securities may be accelerated based on the value of a referenced index or security, in which case Merrill Lynch may be required to immediately settle the obligation for cash or other securities. Refer to Note 1 of the 2005 Annual Report, Embedded Derivatives section for additional information.

Except for the \$2.2 billion of LYONS® that were outstanding at June 30, 2006, senior debt obligations issued by ML & Co. and senior debt issued by subsidiaries and guaranteed by ML & Co. do not contain provisions that could, upon an adverse change in ML & Co.'s credit rating, financial ratios, earnings, cash flows, or stock price, trigger a requirement for an early payment, additional collateral support, changes in terms, acceleration of maturity, or the creation of an additional financial obligation.

The fair values of long-term borrowings and related hedges approximated the carrying amounts at June 30, 2006 and December 30, 2005.

The effective weighted-average interest rates for borrowings, at June 30, 2006 and December 30, 2005 were:

	June 30, 2006	Dec. 30, 2005
Commercial paper and other short-term borrowings	4.62%	3.46%
Long-term borrowings, contractual rate	4.01	3.70
Long-term debt issued to TOPrS <sup>sm</sup> partnerships	7.31	7.31

See Note 9 of the 2005 Annual Report for additional information on Borrowings.

*Other*

Merrill Lynch also obtains standby letters of credit from issuing banks to satisfy various counterparty collateral requirements, in lieu of depositing cash or securities collateral. Such standby letters of credit aggregated \$3.3 billion and \$1.1 billion at June 30, 2006 and December 30, 2005, respectively.

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**Note 8. Comprehensive Income**

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The components of comprehensive income are as follows:

*(dollars in millions)*

	Three Months Ended		Six Months Ended	
	June 30, 2006	July 1, 2005	June 30, 2006	July 1, 2005
Net Earnings	\$ 1,633	\$ 1,135	\$ 2,108	\$ 2,347
Other comprehensive loss, net of tax:				
Foreign currency translation adjustment	(42)	(146)	(44)	(205)
Net unrealized gain (loss) on investment securities available-for-sale	(107)	61	(175)	19
Deferred gain (loss) on cash flow hedges	1	2	-	(20)
Minimum pension liability	1	(1)	1	(1)
Total other comprehensive loss, net of tax	(147)	(84)	(218)	(207)
Comprehensive income	\$ 1,486	\$ 1,051	\$ 1,890	\$ 2,140

**Note 9. Stockholders' Equity and Earnings Per Share**

The following table presents the computations of basic and diluted EPS:

*(dollars in millions, except per share amounts)*

	Three Months Ended		Six Months Ended	
	June 30, 2006	July 1, 2005	June 30, 2006	July 1, 2005
Net earnings	\$ 1,633	\$ 1,135	\$ 2,108	\$ 2,347
Preferred stock dividends	(45)	(17)	(88)	(24)
Net earnings applicable to common shareholders — for basic EPS	\$ 1,588	\$ 1,118	\$ 2,020	\$ 2,323
Interest expense on LYONs®(1)	-	-	1	1
Net earnings applicable to common shareholders — for diluted EPS	\$ 1,588	\$ 1,118	\$ 2,021	\$ 2,324
<i>(shares in thousands)</i>				
Weighted-average basic shares outstanding(2)	885,373	897,524	884,555	902,669
Effect of dilutive instruments				
Employee stock options(3)	40,088	38,363	42,577	41,306
FACAAP shares(3)	21,460	21,438	21,262	21,363
Restricted shares and units(3)	25,979	18,617	27,708	17,691
Convertible LYONs®(1)	415	2,551	1,090	2,854
ESPP shares(3)	9	11	13	6
Dilutive potential common shares	87,951	80,980	92,650	83,220
Diluted Shares(4)	973,324	978,504	977,205	985,889
Basic EPS	\$ 1.79	\$ 1.25	\$ 2.28	\$ 2.57
Diluted EPS	1.63	1.14	2.07	2.36

(1) See Note 9 of the 2005 Annual Report for further information on LYONs®.

(2) Includes shares exchangeable into common stock.

(3) See Note 14 of the 2005 Annual Report for a description of these instruments.

(4) Excludes 33 million instruments for the three and six month periods ended June 30, 2006, and 43 million instruments for the three and six month periods ended July 1, 2005 that were considered anti-dilutive and thus were not included in the above calculations.

The Board of Directors authorized the repurchase of an additional \$6 billion of Merrill Lynch's outstanding common shares under a program announced on February 26, 2006. During the second quarter of 2006, Merrill Lynch repurchased 41.4 million common shares at an average repurchase price of \$73.26 per share.

On February 28, 2006, Merrill Lynch issued \$360 million face value of floating rate, non-cumulative, perpetual preferred stock.

On January 18, 2006, the Board of Directors declared an additional 25% increase in the regular quarterly dividend to 25 cents per common share.



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**Note 10. Commitments, Contingencies and Guarantees**

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*Litigation*

Merrill Lynch has been named as a defendant in various legal actions, including arbitrations, class actions, and other litigation arising in connection with its activities as a global diversified financial services institution. The general decline of equity securities prices between 2000 and 2003 resulted in increased legal actions against many firms, including Merrill Lynch.

Some of the legal actions include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. In some cases, the issuers who would otherwise be the primary defendants in such cases are bankrupt or otherwise in financial distress. Merrill Lynch is also involved in investigations and/or proceedings by governmental and self-regulatory agencies. The number of these investigations has also increased in recent years with regard to many firms, including Merrill Lynch.

Merrill Lynch believes it has strong defenses to, and where appropriate, will vigorously contest, many of these matters. Given the number of these matters, it is likely that some may result in adverse judgments, penalties, injunctions, fines, or other relief. Merrill Lynch may explore potential settlements before a case is taken through trial because of the uncertainty and risks inherent in the litigation process. In accordance with SFAS No. 5, *Accounting for Contingencies*, Merrill Lynch will accrue a liability when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. In many lawsuits and arbitrations, including almost all of the class action lawsuits, it is not possible to determine whether a liability has been incurred or to estimate the ultimate or minimum amount of that liability until the case is close to resolution, in which case no accrual is made until that time. In view of the inherent difficulty of predicting the outcome of such matters, particularly in cases in which claimants seek substantial or indeterminate damages, Merrill Lynch cannot predict what the eventual loss or range of loss related to such matters will be. Merrill Lynch continues to assess these cases and believes, based on information available to it, that the resolution of these matters will not have a material adverse effect on the financial condition of Merrill Lynch as set forth in the Condensed Consolidated Financial Statements, but may be material to Merrill Lynch's operating results or cash flows for any particular period and may impact ML & Co.'s credit ratings.

*Tax Matters*

Merrill Lynch is under examination by the Internal Revenue Service ("IRS") and other tax authorities in major countries such as Japan and the United Kingdom, and states in which Merrill Lynch has significant business operations, such as New York. The tax years under examination vary by jurisdiction. An IRS examination covering the years 2001-2003 is expected to be completed in 2006, subject to the resolution of the Japanese issue discussed below. There are carryback claims from the years of 2001 and 2002 of approximately \$250 million to \$300 million, which are now under Joint Committee review. A tax benefit would be recorded to the extent that Merrill Lynch is successful in obtaining the tax benefit from these carryback claims. IRS audits have also commenced for the 2004 and 2005 tax years.

In the second quarter of 2005, Merrill Lynch paid a tax assessment from the Tokyo Regional Tax Bureau for the years 1998-2002. The assessment reflected the Japanese tax authority's view that certain income on which Merrill Lynch previously paid income tax to other international jurisdictions, primarily the United States, should have been allocated to Japan. Merrill Lynch has begun the process of obtaining clarification from international authorities on the appropriate allocation of income among multiple jurisdictions to prevent double taxation.

Merrill Lynch regularly assesses the likelihood of additional assessments in each of the tax jurisdictions resulting from these examinations. Tax reserves have been established, which Merrill Lynch believes to be adequate in relation to the potential for additional assessments. However, there is a reasonable possibility that additional amounts may be incurred. The estimated additional possible amounts are no more than \$150 million. Merrill Lynch will adjust the level of reserves when there is more information available, or when an event occurs requiring a change to the reserves. The reassessment of tax reserves could have a material impact on Merrill Lynch's effective tax rate in the period in which it occurs.

*Commitments*

At June 30, 2006, Merrill Lynch's commitments had the following expirations:

*(dollars in millions)*

	Total	Commitment expiration			
		Less than 1 Year	1 – 3 Years	3+ – 5 Years	Over 5 Years
Commitments to extend credit <sup>(1)</sup>	\$ 77,463	\$ 39,141	\$ 11,036	\$ 19,423	\$ 7,863
Purchasing and other commitments	7,748	5,548	675	576	949
Operating leases	3,243	561	1,016	815	851
Commitments to enter into resale agreements	12,169	12,169	-	-	-
<b>Total</b>	<b>\$ 100,623</b>	<b>\$ 57,419</b>	<b>\$ 12,727</b>	<b>\$ 20,814</b>	<b>\$ 9,663</b>

*(1) See Note 6 to the Condensed Consolidated Financial Statements.*

*Lending Commitments*

Merrill Lynch primarily enters into commitments to extend credit, predominantly at variable interest rates, in connection with corporate finance, corporate and institutional transactions and asset-based lending transactions. Clients may also be extended loans or lines of credit collateralized by first and second mortgages on real estate, certain liquid assets of small businesses, or securities. These commitments usually have a fixed expiration date and are contingent on certain contractual conditions that may require payment of a fee by the counterparty. Once commitments are drawn upon, Merrill Lynch may require the counterparty to post collateral depending upon creditworthiness and general market conditions. See Note 6 to the Condensed Consolidated Financial Statements for additional information.

The contractual amounts of these commitments represent the amounts at risk should the contract be fully drawn upon, the client defaults, and the value of the existing collateral becomes worthless. The total amount of outstanding commitments may not represent future cash requirements, as commitments may expire without being drawn upon.

*Purchasing and Other Commitments*

Merrill Lynch had commitments to purchase partnership interests, primarily related to private equity and principal investing activities, of \$1,048 million and \$734 million at June 30, 2006 and December 30, 2005, respectively. Merrill Lynch also has entered into agreements with providers of market data, communications, systems consulting, and other office-related services. At June 30, 2006 and December 30, 2005, minimum fee commitments over the remaining life of these agreements aggregated \$310 million and \$517 million, respectively. Merrill Lynch entered into commitments to purchase loans of \$5.5 billion (\$5.3 billion of which may be included in trading assets and \$221 million of which may be included in loans, notes, and mortgages) at June 30, 2006. Such

commitments totaled \$3.3 billion at December 30, 2005. In addition, Merrill Lynch entered into institutional and margin-lending transactions, some of which are on a committed basis, but most of which are not. Merrill Lynch's binding margin lending commitments totaled \$434 million at June 30, 2006 and \$381 million at December 30, 2005. Other purchasing commitments amounted to \$468 million and \$856 million at June 30, 2006 and December 30, 2005, respectively.

On July 24, 2006, Merrill Lynch, along with a consortium of additional investors, announced the execution of an agreement to acquire HCA Inc. HCA Inc. is a holding company whose affiliates own and operate hospitals and related health care entities.

#### *MLIM*

On February 15, 2006, Merrill Lynch announced that it had signed a definitive agreement under which it would combine its MLIM investment management business with BlackRock, Inc. ("BlackRock") in exchange for a 49.8% interest in the combined firm, including a 45% voting interest. Merrill Lynch expects to recognize a gain upon the closing of this transaction which, based upon the price at the time of the announcement, is estimated to be over \$1 billion. This transaction is expected to close around the end of the third quarter of 2006, subject to regulatory and shareholder approvals. The actual gain will be contingent upon BlackRock's share price at closing, as well as closing adjustments. Merrill Lynch plans to account for its investment in BlackRock under the equity method of accounting.

#### *Leases*

As disclosed in Note 12 of the 2005 Annual Report, Merrill Lynch has entered into various noncancellable long-term lease agreements for premises that expire through 2024. Merrill Lynch has also entered into various noncancellable short-term lease agreements, which are primarily commitments of less than one year under equipment leases.

#### *Guarantees*

The derivatives in the following table meet the FASB issued Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others — an interpretation of FASB Statements No. 5, 57, and 107 and rescission of FASB Interpretation No. 34* ("FIN 45"), definition of guarantees and include certain written options and credit default swaps that contingently require Merrill Lynch to make payments based on changes in an underlying. Because the maximum exposure to loss could be unlimited for certain derivatives (e.g., interest rate caps) and the maximum exposure to loss is not considered when assessing the risk of contracts, the notional value of these contracts has been included to provide information about the magnitude of Merrill Lynch's involvement with these types of transactions. Merrill Lynch records all derivative instruments at fair value on its Condensed Consolidated Balance Sheets.

The liquidity facilities and default facilities in the following table relate primarily to municipal bond securitization SPEs and Merrill Lynch-sponsored asset-backed commercial paper conduits. Merrill Lynch acts as liquidity provider to municipal bond securitization SPEs. As of June 30, 2006, the value of the assets held by the SPE plus any additional collateral pledged to Merrill Lynch exceeds the amount of beneficial interests issued, which provides additional support to Merrill Lynch in the event that the standby facility is drawn. As of June 30, 2006, the maximum payout if the standby facilities are drawn was \$26.0 billion and the value of the municipal bond assets to which Merrill Lynch has recourse in the event of a draw was \$29.6 billion. In certain instances, Merrill Lynch also provides default protection in addition to liquidity facilities. If the default protection is drawn, Merrill Lynch may claim the underlying assets held by the SPEs. As of June 30, 2006, the maximum payout if an issuer defaults was \$4.9 billion, and the value of the assets to which Merrill

Lynch has recourse, in the event that an issuer of a municipal bond held by the SPE defaults on any payment of principal and/or interest when due, was \$6.2 billion. In addition, Merrill Lynch provides a \$3.0 billion liquidity facility and \$60 million credit facility to a Merrill Lynch-sponsored asset-backed commercial paper conduit. The maximum exposure to loss for these two facilities combined is \$3.1 billion and assumes a total loss on a portfolio of highly rated assets. In June 2006, Merrill Lynch sponsored a second asset backed commercial paper conduit where Merrill Lynch provides a \$5 billion liquidity facility and a \$400 million standby letter of credit to a conduit that holds asset backed loans. The combined maximum exposure is zero and no letters of credit were issued pursuant to the commitment as of June 30, 2006. For additional information on these facilities, see Note 12 of the 2005 Annual Report and Note 5 to the Condensed Consolidated Balance Sheets.

In addition, Merrill Lynch makes guarantees to counterparties in the form of standby letters of credit. Merrill Lynch holds marketable securities of \$570 million as collateral to secure these guarantees.

Further, in conjunction with certain principal-protected mutual funds, Merrill Lynch guarantees the return of the initial principal investment at the termination date of the fund. At June 30, 2006, Merrill Lynch's maximum potential exposure to loss with respect to these guarantees is \$634 million assuming that the funds are invested exclusively in other general investments (i.e., the funds hold no risk-free assets), and that those other general investments suffer a total loss. As such, this measure significantly overstates Merrill Lynch's exposure or expected loss at June 30, 2006. These transactions met the FASB issued Statement No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities* ("SFAS No. 149") definition of derivatives and, as such, were carried as a liability with a fair value of \$7 million at June 30, 2006.

Merrill Lynch also provides indemnifications related to the U.S. tax treatment of certain foreign tax planning transactions. The maximum exposure to loss associated with these transactions at June 30, 2006 is \$165 million; however, Merrill Lynch believes that the likelihood of loss with respect to these arrangements is remote.

These guarantees and their expiration are summarized at June 30, 2006 as follows:

*(dollars in millions)*

	<b>Maximum Payout/ Notional</b>	<b>Less than 1 Year</b>	<b>1 – 3 Years</b>	<b>3+ – 5 Years</b>	<b>Over 5 Years</b>	<b>Carrying Value</b>
Derivative contracts <sup>(1)</sup>	\$ 1,397,508	\$ 330,612	\$ 378,340	\$ 240,228	\$ 448,328	\$ 37,779
Liquidity facilities with SPEs <sup>(2)</sup>	29,094	28,651	333	110	-	33
Liquidity and default facilities with SPEs <sup>(3)</sup>	10,359	9,013	1,100	-	246	3
Residual value guarantees <sup>(4)</sup>	1,069	66	169	330	504	25
Standby letters of credit and other guarantees <sup>(5)(6)(7)</sup>	3,918	1,547	584	1,475	312	19

*(1) As noted above, the notional value of derivative contracts is provided rather than the maximum payout amount, although the notional value should not be considered as a reliable indicator of Merrill Lynch's exposure to these contracts.*

*(2) Amounts relate primarily to facilities provided to municipal bond securitization SPEs. Includes \$6.6 billion of guarantees provided to SPEs by third-party financial institutions where Merrill Lynch has agreed to reimburse the financial institution if losses occur, and has up to one year to fund losses.*

*(3) Amounts relate to liquidity facilities and credit default protection provided to municipal bond securitization SPEs and asset-backed commercial paper conduits sponsored by Merrill Lynch.*

*(4) Includes residual value guarantees associated with the Hopewell campus and aircraft leases of \$322 million.*

(5) Includes \$173 million of reimbursement agreements with the Mortgage 100SM program.

(6) Includes guarantees related to principal-protected mutual funds.

(7) Includes certain indemnifications related to foreign tax planning strategies.

See Note 12 of the 2005 Annual Report for additional information on guarantees.

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**Note 11. Employee Benefit Plans**

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Merrill Lynch provides pension and other postretirement benefits to its employees worldwide through defined contribution pension, defined benefit pension, and other postretirement plans. These plans vary based on the country and local practices. Merrill Lynch reserves the right to amend or terminate these plans at any time. Refer to Note 13 of the 2005 Annual Report for a complete discussion of employee benefit plans.

*Defined Benefit Pension Plans*

Pension cost for the three and six month periods ended June 30, 2006 and July 1, 2005, for Merrill Lynch's defined benefit pension plans, included the following components:

*(dollars in millions)*

	Three Months Ended					
	June 30, 2006			July 1, 2005		
	U.S. Plans	Non-U.S. Plans	Total	U.S. Plans	Non-U.S. Plans	Total
Service cost	\$ -	\$ 7	\$ 7	\$ -	\$ 5	\$ 5
Interest cost	24	15	39	24	14	38
Expected return on plan assets	(28)	(15)	(43)	(24)	(12)	(36)
Amortization of unrecognized items and other	-	5	5	-	4	4
<b>Total defined benefit pension cost</b>	<b>\$ (4)</b>	<b>\$ 12</b>	<b>\$ 8</b>	<b>\$ -</b>	<b>\$ 11</b>	<b>\$ 11</b>

*(dollars in millions)*

	Six Months Ended					
	June 30, 2006			July 1, 2005		
	U.S. Plans	Non-U.S. Plans	Total	U.S. Plans	Non-U.S. Plans	Total
Service cost	\$ -	\$ 14	\$ 14	\$ -	\$ 11	\$ 11
Interest cost	48	31	79	48	29	77
Expected return on plan assets	(56)	(30)	(86)	(48)	(25)	(73)
Amortization of unrecognized items and other	-	9	9	-	8	8
<b>Total defined benefit pension cost</b>	<b>\$ (8)</b>	<b>\$ 24</b>	<b>\$ 16</b>	<b>\$ -</b>	<b>\$ 23</b>	<b>\$ 23</b>

Merrill Lynch disclosed in its 2005 Annual Report that it expected to pay \$3 million of benefit payments to participants in the U.S. non-qualified pension plans and Merrill Lynch expected to contribute \$103 million to its non-U.S. defined benefit pension plans in 2006. Merrill Lynch periodically updates these estimates, and currently expects to contribute \$7 million to its U.S. non-qualified pension plans and \$65 million to its non-U.S. defined benefit pension plans in 2006. The overall decrease in total estimated contributions can primarily be attributed to changes in funding requirements relating to the U.K. pension plan.

*Postretirement Benefits Other Than Pensions*

Other postretirement benefit cost for the three and six month periods ended June 30, 2006 and July 1, 2005, included the following components:

*(dollars in millions)*

	Three Months Ended		Six Months Ended	
	June 30, 2006	July 1, 2005	June 30, 2006	July 1, 2005
Service cost	\$ 2	\$ 4	\$ 4	\$ 9
Interest cost	4	8	8	16
Other	(2)	3	(3)	5
Total other postretirement benefits cost <sup>(1)</sup>	\$ 4	\$ 15	\$ 9	\$ 30

*(1) The decrease in postretirement benefits cost can primarily be attributed to amendments to the U.S. postretirement plan.*

Approximately 87% of the postretirement benefit cost components for the period relate to the U.S. postretirement plan.

**Note 12. Employee Incentive Plans**

Merrill Lynch adopted the provisions of SFAS No. 123R in the first quarter of 2006. See Note 1, *Summary of Significant Accounting Policies — New Accounting Pronouncements*, to the Condensed Consolidated Financial Statements for further information.

To align the interests of employees with those of stockholders, Merrill Lynch sponsors several employee compensation plans that provide eligible employees with shares of ML & Co. common stock or options to purchase such stock. The total pre-tax compensation cost and related tax benefits recognized in earnings for share-based compensation plans for the three months ended June 30, 2006 was \$321 million and \$129 million, respectively. The total pre-tax compensation cost and related tax benefits recognized in earnings for share-based compensation plans for the six months ended June 30, 2006 was \$2.5 billion and \$846 million, respectively, which includes approximately \$1.8 billion associated with one-time, non-cash compensation expenses further described in Note 1 to the Condensed Consolidated Financial Statements. For the three months ended July 1, 2005, the total pre-tax compensation cost and related tax benefits recognized in earnings for stock-based compensation plans was \$270 million and \$96 million, respectively. For the six months ended July 1, 2005, the total pre-tax compensation cost and related tax benefits recognized in earnings for stock-based compensation plans was \$520 million and \$179 million, respectively.

As of June 30, 2006, there was \$2.1 billion of total unrecognized compensation cost related to non-vested share-based compensation arrangements. This cost is expected to be recognized over a weighted average period of 2.3 years.

Below is a description of our share-based incentive plans.

*Long-Term Incentive Compensation Plans (“LTIC Plans”), Employee Stock Compensation Plan (“ESCP”) and Equity Capital Accumulation Plan (“ECAP”)*

LTIC Plans, ESCP and ECAP provide for grants of equity and equity-related instruments to certain employees. LTIC Plans consist of the Long-Term Incentive Compensation Plan, a shareholder approved plan used for grants to executive officers, and the Long-Term Incentive Compensation Plan

for Managers and Producers, a broad-based plan which was approved by the Board of Directors, but has not been shareholder approved. LTIC Plans provide for the issuance of Restricted Shares, Restricted Units, and Non-qualified Stock Options, as well as Incentive Stock Options, Performance Shares, Performance Units, Performance Options, Stock Appreciation Rights, and other securities of Merrill Lynch. ESCP, a broad-based plan approved by shareholders in 2003, provides for the issuance of Restricted Shares, Restricted Units, Non-qualified Stock Options and Stock Appreciation Rights. ECAP, a shareholder-approved plan, provides for the issuance of Restricted Shares and Performance Shares. All plans under LTIC, ESCP and ECAP may be satisfied using either treasury or newly issued shares. As of June 30, 2006, no instruments other than Restricted Shares, Restricted Units, Non-qualified Stock Options, Performance Options, Participation Units and Stock Appreciation Rights had been granted.

*Restricted Shares and Units*

Restricted Shares are shares of ML & Co. common stock carrying voting and dividend rights. A Restricted Unit is deemed equivalent in fair market value to one share of common stock. Substantially all awards are settled in shares of common stock. Recipients of Restricted Unit awards receive cash payments equivalent to dividends. Under these plans, such shares and units are restricted from sale, transfer, or assignment until the end of the restricted period. Such shares and units are subject to forfeiture during the vesting period, for grants under LTIC Plans, or the restricted period for grants under ECAP. Restricted Share and Restricted Unit grants made prior to 2003 generally cliff vest in three years. Restricted Share and Restricted Unit grants made in 2003 through 2005 generally cliff vest in four years. Restricted Shares and Restricted Units granted in January 2006 generally vest ratably over four years.

In January 2006, Participation Units were granted from the Long-Term Incentive Compensation Plan under Merrill Lynch’s Managing Partners Incentive Program. The awards granted under this program are fully at risk, and the potential payout will vary depending on Merrill Lynch’s financial performance against pre-determined return on average common stockholders’ equity (“ROE”) targets. One-third of the Participation Units shall convert into Restricted Shares on each of January 31, 2007, January 31, 2008 and January 31, 2009 (each a “Conversion Date”), based on ROE determined for the most recently completed fiscal year. Participation Units converted on the Conversion Date will cease to be outstanding immediately following conversion. If the minimum target is not met, the Participation Units will expire without being converted.

The activity for Restricted Shares and Units (including Restricted Units and Participation Units) under these plans during the six months ended June 30, 2006 follows:

	LTIC Plans		ECAP	ESCP		Total
	Restricted Shares	Units	Restricted Shares	Restricted Shares	Restricted Units	Restricted Shares and Units
<b>Authorized for issuance at:</b>						
<b>June 30, 2006</b>	660,000,000	N/A	104,800,000	75,000,000	N/A	N/A
<b>July 1, 2005</b>	660,000,000	N/A	104,800,000	75,000,000	N/A	N/A
<b>Available for issuance at:</b>						
<b>June 30, 2006</b>	64,470,541	N/A	10,831,281	39,312,483	N/A	N/A
<b>July 1, 2005</b>	65,837,103	N/A	10,832,121	56,862,843	N/A	N/A
<b>Outstanding, December 30, 2005</b>	28,967,539	4,720,546	20,856	15,683,787	2,157,894	51,550,622
Granted — 2006	1,401,356	3,537,944	840	15,746,146	2,899,131	23,585,417
Delivered	(564,526)	(285,436)	-	-	-	(849,962)
Forfeited	(746,929)	(88,600)	-	(673,032)	(126,409)	(1,634,970)
<b>Outstanding, June 30, 2006</b>	29,057,440	7,884,454	21,696	30,756,901	4,930,616	72,651,107

N/A = Not Applicable

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SFAS No. 123R requires the immediate expensing of share-based awards granted or modified in 2006 to retirement-eligible employees, including awards that are subject to non-compete provisions. The above activity contains awards with or without a future service requirement, as follows:

	No Future Service Required		Future Service Required	
	Shares/ Units	Weighted Avg Grant Price	Shares/ Units	Weighted Avg Grant Price
<b>Outstanding, December 30, 2005</b>	38,877,644	51.00	12,672,978	54.01
Granted — 2006	7,429,380	71.57	16,156,037	71.58
Delivered	(849,962)	48.78	-	-
Forfeited	(1,221,155)	57.35	(413,815)	61.78
Service Criteria Satisfied <sup>(1)</sup>	20,211,184	64.71	(20,211,184)	64.71
<b>Outstanding, June 30, 2006</b>	64,447,091	57.58	8,204,016	61.85

(1) Represents those awards where employees attained retirement-eligibility during 2006, subsequent to the grant date.

The total fair value of Restricted Shares and Units granted to retirement-eligible employees or for which service criteria were satisfied during the three and six months ended June 30, 2006 was \$18 million and \$2.1 billion respectively. The total fair value of Restricted Shares and Units vested during the six months ended July 1, 2005 was \$680 million. No Restricted Shares and Units vested during the three months ended July 1, 2005.

The weighted-average fair value per share or unit granted for the three and six months ended June 30, 2006 follows:

	Three Months Ended	Six Months Ended
	June 30, 2006	June 30, 2006
<b>LTIC Plans</b>		
Restricted Shares	\$76.76	\$72.34
Restricted Units	77.35	71.37
<b>ECAP Restricted Shares</b>	N/A	71.49
<b>ESCP Plans</b>		
Restricted Shares	N/A	71.54
Restricted Units	77.35	71.67

N/A = Not Applicable

*Non-Qualified Stock Options*

Non-qualified Stock Options granted under LTIC Plans in 1996 through 2000 generally became exercisable over five years; options granted in 2001 and 2002 became exercisable after approximately six months. Option and Stock Appreciation Right grants made after 2002 generally become exercisable over four years. The exercise price of these grants is equal to 100% of the fair market value (as defined in LTIC Plans) of a share of ML & Co. common stock on the date of grant. Options and Stock Appreciation Rights expire ten years after their grant date.



The activity for Options and Stock Appreciation Rights under LTIC Plans for the six months ended June 30, 2006 follows:

	Quantity Outstanding	Weighted-Average Exercise Price	Weighted-Average Remaining Life (in years)
<b>Outstanding, December 30, 2005</b>	176,713,075	\$49.10	4.44
Granted	333,598	71.43	4.01
Exercised	(25,879,934)	36.53	3.26
Forfeited	(218,906)	48.12	7.04
<b>Outstanding, June 30, 2006</b>	150,947,833	51.31	4.48
<b>Exercisable, June 30, 2006</b>	140,445,057	51.46	4.31

All Options and Stock Appreciation Rights outstanding as of June 30, 2006 are fully vested or expected to vest.

The weighted-average fair value of options granted in the three months ended July 1, 2005 was \$17.98 per option. No options were granted in the three months ended June 30, 2006. The weighted-average fair value of options granted in the six months ended June 30, 2006 and July 1, 2005 was \$17.86 and \$17.99, respectively. The fair value of each option award is estimated on the date of grant based on a Black-Scholes option pricing model using the following weighted-average assumptions. Expected volatilities are based on historical volatility of ML & Co. common stock. The expected life of options granted is equal to the contractual life of the options. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The dividend yield is based on the current dividend rate at the time of grant.

	Three Months Ended		Six Months Ended	
	June 30, 2006(1)	July 1, 2005	June 30, 2006	July 1, 2005
Risk-free interest rate	N/A	4.0%	4.3%	3.8%
Expected life	N/A	5.0 yrs	4.4 yrs	4.6 yrs
Expected volatility	N/A	34.95%	29.49%	35.43%
Dividend yield	N/A	1.44%	1.44%	1.14%

N/A = Not Applicable

(1) No options were granted during the second quarter of 2006.

Merrill Lynch received approximately \$238 million and \$919 million in cash from the exercise of stock options during the three and six months ended June 30, 2006. The net tax benefit realized from the exercise of these options was \$52 million and \$231 million, respectively.

The total intrinsic value of options exercised during the quarters ended June 30, 2006 and July 1, 2005 was \$233 million and \$52 million, respectively. The total intrinsic value of options exercised during the six months ended June 30, 2006 and July 1, 2005 was \$985 million and \$413 million, respectively. As of June 30, 2006, the total intrinsic value of options outstanding and exercisable was \$2.8 billion and \$2.6 billion, respectively.

*Financial Advisor Capital Accumulation Award Plans (“FACAAP”)*

Under FACAAP, eligible employees in GPC are granted awards generally based upon their prior year’s performance. Payment for an award is contingent upon continued employment for a period of time and is subject to forfeiture during that period. Awards granted in 2003 and thereafter are generally payable eight years from the date of grant in a fixed number of shares of ML & Co. common stock. For outstanding awards granted prior to 2003, payment is generally made ten years from the date of grant in a fixed number of shares of ML & Co. common stock unless the fair market value of such shares is less than a specified minimum value, in which case the minimum value is paid in cash. Eligible participants may defer awards beyond the scheduled payment date. Only shares of common stock held as treasury stock may be issued under FACAAP. FACAAP, which was approved by the Board of Directors, has not been shareholder approved.

At June 30, 2006, shares subject to outstanding awards totaled 35,684,312 while 15,247,382 shares were available for issuance through future awards. The weighted-average fair value of awards granted under FACAAP during the three and six months ended June 30, 2006 was \$77.35 and \$73.82 respectively.

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**Note 13. Regulatory Requirements**

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Effective January 1, 2005, Merrill Lynch became a consolidated supervised entity (“CSE”) as defined by the SEC. As a CSE, Merrill Lynch is subject to group-wide supervision, which requires Merrill Lynch to compute allowable capital and risk allowances on a consolidated basis. As of June 30, 2006, Merrill Lynch is in compliance with applicable CSE standards.

Certain U.S. and non-U.S. subsidiaries are subject to various securities, banking, and insurance regulations and capital adequacy requirements promulgated by the regulatory and exchange authorities of the countries in which they operate. These regulatory restrictions may impose regulatory capital requirements and limit the amounts that these subsidiaries can pay in dividends or advance to Merrill Lynch. Merrill Lynch’s principal regulated subsidiaries are discussed below.

*Securities Regulation*

As a registered broker-dealer and futures commission merchant, MLPF&S is subject to the net capital requirements of Rule 15c3-1 under the Securities Exchange Act of 1934 (“the Rule”). Under the alternative method permitted by the Rule, the minimum required net capital, as defined, shall be the greater of 2% of aggregate debit items (“ADI”) arising from customer transactions or \$500 million. At June 30, 2006, MLPF&S’s regulatory net capital of \$2,579 million was approximately 15.3% of ADI, and its regulatory net capital in excess of the minimum required was \$2,072 million.

MLPF&S is also subject to the capital requirements of the Commodity Futures Trading Commission, which requires that minimum net capital should not be less than 8% of the total customer risk margin requirement plus 4% of the total non-customer risk margin requirement. MLPF&S substantially exceeds both standards.

Merrill Lynch International (“MLI”), a U.K. regulated investment firm, is subject to capital requirements of the U.K. Financial Services Authority (“FSA”). Financial resources, as defined, must exceed the total financial resources requirement of the FSA. At June 30, 2006, MLI’s financial resources were \$11,689 million, exceeding the minimum requirement by \$1,655 million.

Merrill Lynch Government Securities Inc. (“MLGSI”), a primary dealer in U.S. Government securities, is subject to the capital adequacy requirements of the Government Securities Act of 1986. This rule requires dealers to maintain liquid capital in excess of market and credit risk, as defined, by 20% (a 1.2-to-1 capital-to-risk standard). At June 30, 2006, MLGSI’s liquid capital of \$1,461 million was 217% of its total market and credit risk, and liquid capital in excess of the minimum required was \$654 million.

Merrill Lynch Japan Securities Co. Ltd. (“MLJS”), a Japan-based regulated broker-dealer, is subject to capital requirements of the Japanese Financial Services Agency (“JFSA”). Net capital, as defined, must exceed 120% of the total risk equivalents requirement of the JFSA. At June 30, 2006, MLJS’s net capital was \$1,360 million, exceeding the minimum requirement by \$768 million.

*Banking Regulation*

Merrill Lynch Bank USA (“MLBUSA”) is a Utah-chartered industrial bank, regulated by the Federal Deposit Insurance Corporation (“FDIC”) and the State of Utah Department of Financial Institutions. Merrill Lynch Bank & Trust Co. (“MLB&T”) is a New Jersey-chartered state bank regulated by the FDIC and the New Jersey Department of Banking and Insurance. Both MLBUSA and MLB&T are required to maintain capital levels that at least equal minimum capital levels specified in federal banking laws and regulations. Failure to meet the minimum levels will result in certain mandatory, and possibly additional discretionary, actions by the regulators that, if undertaken, could have a direct material effect on the banks. The following table illustrates the actual capital ratios and capital amounts for MLBUSA and MLB&T as of June 30, 2006.

*(dollars in millions)*

	Well Capitalized Minimum	MLBUSA		MLB&T	
		Actual Ratio	Actual Amount	Actual Ratio	Actual Amount
Tier 1 leverage (to average assets)	5%	10.39%	\$ 6,101	8.32%	\$ 853
Tier 1 capital (to risk-weighted assets)	6%	9.55	6,101	24.05	853
Total capital (to risk-weighted assets)	10%	10.61	6,776	24.19	859

Merrill Lynch Capital Markets Bank Limited (“MLCMBL”), an Ireland-based regulated bank, is required to meet minimum regulatory capital requirements under the European Union (“EU”) banking law as implemented in Ireland by the Financial Regulator. At June 30, 2006, MLCMBL’s capital ratio was above the minimum requirement at 10.2% and its financial resources, as defined, were \$3,487 million, exceeding the minimum requirement by \$472 million.

Merrill Lynch International Bank Limited (“MLIB”), a U.K.-based regulated bank, is required to meet minimum regulatory capital requirements under the EU banking law as implemented in the U.K. MLIB’s consolidated capital ratio (including its subsidiary Merrill Lynch Bank (Suisse) S.A.), is above the minimum capital requirements established by the FSA. At June 30, 2006, MLIB’s consolidated capital ratio was 11.3% and its consolidated financial resources were \$3,948 million, exceeding the minimum requirement by \$350 million.

Prior to April 28, 2006, MLCMBL and MLIB were subsidiaries of Merrill Lynch International Finance Corporation (“MLIFC”) and were subject to capital requirements imposed by the State of New York Banking Department. Pursuant to an internal corporate reorganization, MLIFC is no longer a direct or indirect parent company of MLCMBL or MLIB, and therefore is no longer subject to such capital requirements.

On July 28, 2006, the High Court of Justice of England and Wales approved the transfer to MLCMBL of substantially all the business of MLIB. It is anticipated that the asset transfer will be completed at the end of the third quarter 2006, subject to appropriate regulatory approvals, court recognition of the English court order in Singapore and execution of business transfer agreements in jurisdictions where the English court order is not recognized. On the asset transfer date, MLCMBL will be renamed Merrill Lynch International Bank Limited, with the existing UK entity being renamed mlib (historic) Limited.

In July 2006, Merrill Lynch Trust Company, FSB (“MLTC-FSB”) received approval from the Office of Thrift Supervision (“OTS”) to become a full service thrift institution as the first step in an internal reorganization of certain banking businesses of Merrill Lynch. The reorganization is expected to provide Merrill Lynch with a more efficient platform to deliver banking products and services to clients and to provide a more effective avenue for future growth. As the second step in the internal reorganization, during the third quarter of 2006, MLB&T is expected to be merged with MLTC-FSB, and MLTC-FSB will be renamed Merrill Lynch Bank & Trust Co., FSB (“MLBT-FSB”). The new entity will be regulated by the OTS and its deposits insured by the FDIC.

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of Merrill Lynch & Co., Inc.:

We have reviewed the accompanying condensed consolidated balance sheet of Merrill Lynch & Co., Inc. and subsidiaries (“Merrill Lynch”) as of June 30, 2006, and the related condensed consolidated statements of earnings for the three-month and six-month periods ended June 30, 2006 and July 1, 2005, and the condensed consolidated statements of cash flows for the six-month periods ended June 30, 2006 and July 1, 2005. These interim financial statements are the responsibility of Merrill Lynch’s management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to such condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the condensed consolidated financial statements, in 2006 Merrill Lynch changed its method of accounting for share-based payments to conform to Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment*.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Merrill Lynch as of December 30, 2005, and the related consolidated statements of earnings, changes in stockholders’ equity, comprehensive income and cash flows for the year then ended (not presented herein); and in our report dated February 27, 2006, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 30, 2005 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Deloitte & Touche LLP

New York, New York  
August 4, 2006

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## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Forward-Looking Statements

Certain statements in this report may be considered forward-looking, including those about management expectations, strategic objectives, growth opportunities, business prospects, anticipated financial results, the impact of off balance sheet arrangements, significant contractual obligations, anticipated results of litigation and regulatory investigations and proceedings, and other similar matters. These forward-looking statements represent only Merrill Lynch & Co., Inc.'s ("ML & Co." and, together with its subsidiaries, "Merrill Lynch") beliefs regarding future performance, which is inherently uncertain. There are a variety of factors, many of which are beyond Merrill Lynch's control, which affect its operations, performance, business strategy and results and could cause its actual results and experience to differ materially from the expectations and objectives expressed in any forward-looking statements. These factors include, but are not limited to, actions and initiatives taken by both current and potential competitors, general economic conditions, the effects of current, pending and future legislation, regulation and regulatory actions, and the other risks and uncertainties detailed in this report. See Risk Factors that Could Affect Our Business in the Annual Report on Form 10-K for the year ended December 30, 2005 ("2005 Annual Report"). Accordingly, readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the dates on which they are made. Merrill Lynch does not undertake to update forward-looking statements to reflect the impact of circumstances or events that arise after the dates they are made. The reader should, however, consult further disclosures Merrill Lynch may make in future filings of its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K.

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### Overview

#### Introduction

Merrill Lynch was formed in 1914 and became a publicly traded company on June 23, 1971. In 1973, Merrill Lynch created the holding company, ML & Co., a Delaware corporation that, through its subsidiaries, provides broker-dealer, investment banking, financing, wealth management, advisory, asset management, insurance, lending, and related products and services on a global basis.

Merrill Lynch's activities are conducted through three business segments:

- *Global Markets and Investment Banking Group ("GMI")*, Merrill Lynch's institutional business segment provides equity, debt and commodities trading, capital market services, investment banking and advisory services to corporations, financial institutions, and governments around the world. GMI's Global Markets division facilitates client transactions and is a market maker in securities, derivatives, currencies, commodities and other financial instruments to satisfy client demands, and in connection with proprietary trading activities. Global Markets also provides clients with financing, securities clearing, settlement, and custody services and also engages in principal investments and private equity investing for the account of Merrill Lynch. GMI's Investment Banking division provides a wide range of origination and strategic advisory services for issuer clients, including underwriting and placement of public and private equity, debt and related securities, as well as lending and other financing activities for clients globally. These services also include advising clients on strategic issues, valuation, mergers, acquisitions and restructurings. GMI's growth strategy entails a program of significant investments in personnel and technology to gain further scale in certain asset classes and geographies.

- *Global Private Client (“GPC”)*, Merrill Lynch’s full-service retail wealth management segment, provides brokerage and investment advisory services, offering a broad range of both proprietary and third-party wealth management products and services globally to individuals, small-to mid-size businesses, investment advisors and employee benefit plans. The largest portion of this business is offered through the Advisory Division, where services are delivered by Merrill Lynch Financial Advisors (“FAs”) through a global network of branch offices. GPC’s offerings include commission and fee-based investment accounts; banking, cash management, and credit services, including consumer and small business lending and credit cards; trust and generational planning; retirement services; and insurance products. GPC’s growth priorities include the hiring of additional FAs, client segmentation, annuitization of revenues through fee-based products, diversification of revenues through adding products and services, investments in technology to enhance productivity and efficiency, and disciplined expansion into additional geographic areas globally.
- *Merrill Lynch Investment Managers (“MLIM”)*, Merrill Lynch’s asset management segment, offers a wide range of investment management capabilities to retail and institutional investors through proprietary and third-party distribution channels globally. Asset management capabilities include equity, fixed income, money market, index, enhanced index and alternative investments (including hedge funds, private equity and property), which are offered through vehicles such as mutual funds, privately managed accounts, and both retail and institutional separate accounts. MLIM’s growth priorities include driving strong relative long-term investment performance and broadening the distribution of its products through multiple channels, while maintaining discipline on expenses. MLIM is committed to increasing sales in both the proprietary and non-proprietary channels in the United States, as well as non-U.S. regions. On February 15, 2006, Merrill Lynch entered into an agreement with BlackRock, Inc. (“BlackRock”), to combine the MLIM business with BlackRock. This transaction is expected to close around the end of the third quarter of 2006, subject to regulatory and shareholder approvals.

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### **Critical Accounting Policies and Estimates**

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The following is a summary of Merrill Lynch’s critical accounting policies. For a full description of these and other accounting policies see Note 1 of the 2005 Annual Report and Note 1 to the Condensed Consolidated Financial Statements.

#### *Use of Estimates*

In presenting the Condensed Consolidated Financial Statements, management makes estimates regarding:

- Valuations of assets and liabilities requiring fair value estimates including:
  - Trading inventory and investment securities;
  - Private equity investments;
  - Loans and allowance for loan losses;
- The outcome of litigation;
- The realization of deferred tax assets and tax reserves;
- Assumptions and cash flow projections used in determining whether variable interest entities (“VIEs”) should be consolidated and the determination of the qualifying status of special purpose entities (“QSPEs”);
- The carrying amount of goodwill and other intangible assets;
- Valuation of employee stock options;
- Insurance reserves and recovery of insurance deferred acquisition costs;

- Interim compensation and benefits accruals, particularly cash and stock incentive awards and FA compensation; and
- Other matters that affect the reported amounts and disclosure of contingencies in the financial statements.

Estimates, by their nature, are based on judgment and available information. Therefore, actual results could differ from those estimates and could have a material impact on the Condensed Consolidated Financial Statements, and it is possible that such changes could occur in the near term. For more information regarding the specific methodologies used in determining estimates, refer to Use of Estimates in Note 1 of the 2005 Annual Report.

The following is a summary of Merrill Lynch's critical accounting policies and estimates.

#### *Valuation of Financial Instruments*

Proper valuation of financial instruments is a critical component of Merrill Lynch's financial statement preparation. Fair values for exchange-traded securities and certain exchange-traded derivatives, principally futures and certain options, are based on quoted market prices. Fair values for over-the-counter ("OTC") derivative financial instruments, principally forwards, options, and swaps, represent amounts estimated to be received from or paid to a third party in settlement of these instruments. These derivatives are valued using pricing models based on the net present value of estimated future cash flows, and directly observed prices from exchange-traded derivatives, other OTC trades, or external pricing services, while taking into account the counterparty's credit ratings, or Merrill Lynch's own credit ratings as appropriate.

New and/or complex instruments may have immature or limited markets. As a result, the pricing models used for valuation often incorporate significant estimates and assumptions, which may impact the level of precision in the Condensed Consolidated Financial Statements. For long-dated and illiquid contracts, extrapolation methods are applied to observed market data in order to estimate inputs and assumptions that are not directly observable. This enables Merrill Lynch to mark-to-market all positions consistently when only a subset of prices is directly observable. Values for OTC derivatives are verified using observed information about the costs of hedging the risk and other trades in the market. As the markets for these products develop, Merrill Lynch continually refines its pricing models based on experience to correlate more closely to the market risk of these instruments. Obtaining the fair value for OTC derivative contracts requires the use of management judgment and estimates. At the inception of the contract, unrealized gains for these instruments are not recognized unless significant inputs to the valuation model are observable in the market.

Merrill Lynch holds investments that may have quoted market prices but that are subject to restrictions (e.g., consent of the issuer or other investors to sell) that may limit Merrill Lynch's ability to realize the quoted market price. Accordingly, Merrill Lynch estimates the fair value of these securities based on management's best estimate, which incorporates pricing models based on projected cash flows, earnings multiples, comparisons based on similar market transactions and/or review of underlying financial conditions and other market factors.

Valuation adjustments are an integral component of the mark-to-market process and may be taken where either the sheer size of the trade or other specific features of the trade or particular market (such as counterparty credit quality, concentration or market liquidity) requires adjustment to the values derived by the pricing models.

Because valuation may involve significant estimation where readily observable prices are not available, a categorization of Merrill Lynch's financial instruments based on liquidity of the instrument and the amount of estimation required in determining its value as recorded in the Condensed Consolidated



Financial Statements is provided below. In preparing the categorization, certain estimates have been made regarding the allocation of netting adjustments permitted under FASB Interpretation No. 39, *Offsetting of Amounts Related to Certain Contracts*, and other adjustments.

Assets and liabilities recorded on the Condensed Consolidated Balance Sheets can be broadly categorized as follows:

Category 1. Highly liquid cash and derivative instruments, primarily carried at fair value, for which quoted market prices are readily available (for example, exchange-traded equity securities, certain listed options, and U.S. Government securities).

Category 2. Liquid instruments, primarily carried at fair value, including:

- a) Cash instruments for which quoted prices are available but which trade less frequently such that there may not be complete pricing transparency for these instruments across all market cycles (for example, corporate and municipal bonds and certain physical commodities);
- b) Derivative instruments that are valued using a model, where inputs to the model are directly observable in the market (for example, U.S. dollar interest rate swaps); and
- c) Instruments that are priced with reference to financial instruments whose parameters can be directly observed (for example, certain mortgage loans).

Category 3. Less liquid instruments that are valued using management's best estimate of fair value and instruments which are valued using a model, where either the inputs to the model and/or the models themselves require significant judgment by management. Areas where these valuation methodologies are primarily applied include private equity investments, long-dated or complex derivatives such as certain foreign exchange options and credit default swaps, distressed debt and commodity derivatives, such as long-dated options on gas and power and weather derivatives. In applying these models, management considers such factors as projected cash flows, market comparables, slope to the yield curve, volatility, and various market inputs.

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At June 30, 2006 and December 30, 2005, certain assets and liabilities on the Condensed Consolidated Balance Sheets can be categorized using the above classification scheme as follows:

(dollars in millions)

<b>June 30, 2006</b>	<b>Category 1</b>	<b>Category 2</b>	<b>Category 3</b>	<b>Total</b>
<b>Assets</b>				
Trading assets, excluding contractual agreements	\$ 64,995	\$ 68,723	\$ 2,394	\$ 136,112
Contractual agreements	6,628	19,216	4,974	30,818
Investment securities	5,883	49,432	11,332	66,647
<b>Liabilities</b>				
Trading liabilities, excluding contractual agreements	\$ 50,570	\$ 15,954	\$ 30	\$ 66,554
Contractual agreements	5,271	20,472	7,440	33,183
<b>December 30, 2005</b>				
<b>Assets</b>				
Trading assets, excluding contractual agreements	\$ 56,556	\$ 63,344	\$ 2,594	\$ 122,494
Contractual agreements	5,008	18,177	3,031	26,216
Investment securities	6,115	54,805	8,353	69,273
<b>Liabilities</b>				
Trading liabilities, excluding contractual agreements	\$ 48,688	\$ 11,248	\$ 242	\$ 60,178
Contractual agreements	4,623	17,490	6,642	28,755

In addition, other trading-related assets recorded in the Condensed Consolidated Balance Sheets at June 30, 2006 and December 30, 2005, include \$321.8 billion and \$255.5 billion, respectively, of receivables under resale agreements and receivables under securities borrowed transactions. Trading-related liabilities recorded in the Condensed Consolidated Balance Sheets at June 30, 2006 and December 30, 2005, include \$277.3 billion and \$217.5 billion, respectively, of payables under repurchase agreements and payables under securities loaned transactions. These securities financing transactions are recorded at their contractual amounts, which approximate fair value, and for which little or no estimation is required by management.

### *Litigation*

Merrill Lynch has been named as a defendant in various legal actions, including arbitrations, class actions, and other litigation arising in connection with its activities as a global diversified financial services institution. Merrill Lynch is also involved in investigations and/or proceedings by governmental and self-regulatory agencies. In accordance with SFAS No. 5, *Accounting for Contingencies*, Merrill Lynch will accrue a liability when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. In many lawsuits and arbitrations, including class action lawsuits, it is not possible to determine whether a liability has been incurred or to estimate the ultimate or minimum amount of that liability until the case is close to resolution, in which case no accrual is made until that time. In view of the inherent difficulty of predicting the outcome of such matters, particularly in cases in which claimants seek substantial or indeterminate damages, Merrill Lynch cannot predict what the eventual loss or range of loss related to such matters will be. See Note 12 and Other Information (Unaudited) — Legal Proceedings of the 2005 Annual Report for further information.

### *Variable Interest Entities*

In the normal course of business, Merrill Lynch enters into a variety of transactions with VIEs. The applicable accounting guidance requires Merrill Lynch to perform a qualitative and/or quantitative analysis of each new VIE at inception to determine whether it must consolidate the VIE. In

performing this analysis, Merrill Lynch makes assumptions regarding future performance of assets held by the VIE, taking into account estimates of credit risk, estimates of the fair value of assets, timing of cash flows, and other significant factors. Although a VIE's actual results may differ from projected outcomes, a revised consolidation analysis is generally not required subsequent to the initial assessment. If a VIE meets the conditions to be considered a QSPE, it is typically not required to be consolidated by Merrill Lynch. A QSPE's activities must be significantly limited. A servicer of the assets held by a QSPE may have discretion in restructuring or working out assets held by the QSPE as long as the discretion is significantly limited and the parameters of that discretion are fully described in the legal documents that established the QSPE. Determining whether the activities of a QSPE and its servicer meet these conditions requires the use of judgment by management.

*Income Taxes*

Merrill Lynch is under examination by the Internal Revenue Service ("IRS") and other tax authorities in major countries such as Japan and the United Kingdom, and states in which Merrill Lynch has significant business operations, such as New York. The tax years under examination vary by jurisdiction. An IRS examination covering the years 2001–2003 is expected to be completed in 2006, subject to the resolution of the Japanese issue discussed below. There are carryback claims from the years 2001 and 2002 of approximately \$250 million to \$300 million, which are now under Joint Committee review. A tax benefit would be recorded to the extent that Merrill Lynch is successful in obtaining the tax benefit from these carryback claims. IRS audits have also commenced for the 2004 and 2005 tax years.

In the second quarter of 2005, Merrill Lynch paid a tax assessment from the Tokyo Regional Tax Bureau for the years 1998–2002. The assessment reflected the Japanese tax authority's view that certain income on which Merrill Lynch previously paid income tax to other international jurisdictions, primarily the United States, should have been allocated to Japan. Merrill Lynch has begun the process of obtaining clarification from international authorities on the appropriate allocation of income among multiple jurisdictions to prevent double taxation.

Merrill Lynch regularly assesses the likelihood of additional assessments in each of the tax jurisdictions resulting from these examinations. Tax reserves have been established, which Merrill Lynch believes to be adequate in relation to the potential for additional assessments. However, there is a reasonable possibility that additional amounts may be incurred. The estimated additional possible amounts are no more than \$150 million. Merrill Lynch will adjust the level of reserves when there is more information available, or when an event occurs requiring a change to the reserves. The reassessment of tax reserves could have a material impact on Merrill Lynch's effective tax rate in the period in which it occurs.

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## **Business Environment<sup>(1)</sup>**

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Following a generally strong first quarter global market conditions initially remained robust, but became less favorable midway through the second quarter. Market sentiment became cautious amid signs of inflation, high oil prices and fears that the Federal Reserve would raise interest rates more than expected. During the second quarter, both debt and equity markets conditions weakened as concerns grew over the tightening of monetary policy worldwide. The yield curve remained relatively flat, and for much of June became inverted as long-term Treasury yields dropped slightly below those of shorter term Treasury notes. Long-term interest rates, as measured by the 10-year U.S. Treasury bond, ended the quarter at 5.15%, up from 4.86% at the end of the first quarter. The U.S. Federal Reserve System's Federal Open Market Committee raised the federal funds rate twice during the quarter to 5.25%, up from 4.75%.

Major U.S. equity indices generally declined from where they ended the first quarter, with particular weakness in May. The Nasdaq Composite declined 7.2% over the quarter and 1.5% on a year-to-date basis, while the Standard & Poor's 500 index fell 1.9% for the quarter but was up 1.8% compared to where it started the year. The exception was the Dow Jones Industrial Average which rose 0.4% for the quarter and was up 4.0% since the start of the year.

International equity indices experienced similar declines during the second quarter as a result of indications that authorities in Europe and Asia would continue raising interest rates. The FTSE 100 Index declined 2.2% in the quarter but was up 3.8% year-to-date, while the Dow Jones Stoxx 50 Index declined 3.7% sequentially, but rose 0.9% year-to-date. In Japan, the Nikkei Stock Exchange Index fell 9.1% in the quarter and 3.8% year-to-date. After a particularly strong first quarter, emerging market indices also declined in the second quarter. Brazil's Bovespa Index declined 3.5% in the second quarter, but was up 9.5% from the start of the year, while India's Sensex Index declined 5.9% sequentially, but was up 12.9% year-to-date.

Second quarter global debt and equity underwriting volumes of \$1.7 trillion were down 6% compared to the first quarter, but were essentially unchanged from the year-ago quarter. Global debt underwriting volumes of \$1.5 trillion were down 9% compared to the first quarter and 5% compared to the year-ago quarter, while global equity underwriting volumes of \$196 billion were up 14% compared to the first quarter and 73% compared to the year-ago quarter. Global debt and equity underwriting fees for the second quarter were \$9.8 billion, up 2% sequentially and 23% from the second quarter of 2005.

Merger and acquisition ("M&A") activity maintained the strong momentum experienced in the first quarter as the value of global announced deals rose to \$1 trillion, up 9% from the first quarter and 36% from the year-ago quarter. In the United States, the value of announced deals increased to \$371 billion, up 17% from the first quarter and 12% from the year-ago quarter. Globally, completed M&A activity totaled \$640 billion in the second quarter, down 9% from the first quarter, but up 16% from the year-ago quarter. In the United States, completed deal volume totaled \$235 billion, down 24% sequentially, but up 21% from the 2005 second quarter.

Merrill Lynch continually evaluates its businesses for profitability, performance, and client service to ensure alignment with its long-term strategic objectives under varying market and competitive conditions. The strategy of maintaining long-term client relationships, closely monitoring costs and risks, diversifying revenue sources, and growing fee-based and recurring revenues all continue as objectives to mitigate the effects of a volatile market environment on Merrill Lynch's business as a whole.

*(1) Debt and equity underwriting and merger and acquisition statistics were obtained from Dealogic.*

**Results of Operations**

(dollars in millions, except per share amounts)

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2006	July 1, 2005	June 30, 2006	July 1, 2005
<b>Net Revenues</b>				
Asset management and portfolio service fees	\$ 1,773	\$ 1,431	\$ 3,452	\$ 2,866
Commissions	1,586	1,247	3,188	2,588
Principal transactions	1,182	1,006	3,175	1,951
Investment banking	1,162	920	2,127	1,733
Revenues from consolidated investments	186	84	290	211
Other	1,110	664	1,664	1,034
Subtotal	6,999	5,352	13,896	10,383
Interest and dividend revenues	9,690	5,974	18,354	11,505
Less interest expense	8,531	5,007	16,130	9,337
Net interest profit	1,159	967	2,224	2,168
Total Net Revenues	8,158	6,319	16,120	12,551
<b>Non-interest expenses:</b>				
Compensation and benefits	3,980	3,148	9,730	6,244
Communications and technology	429	395	882	791
Brokerage, clearing, and exchange fees	253	216	501	435
Occupancy and related depreciation	249	227	490	460
Professional fees	196	183	396	361
Advertising and market development	191	160	335	286
Expenses of consolidated investments	145	35	192	120
Office supplies and postage	57	51	114	103
Other	309	309	538	487
Total non-interest expenses	5,809	4,724	13,178	9,287
Earnings before income taxes	\$ 2,349	\$ 1,595	\$ 2,942	\$ 3,264
Net earnings	\$ 1,633	\$ 1,135	\$ 2,108	\$ 2,347
<b>Earnings per common share:</b>				
Basic	\$ 1.79	\$ 1.25	\$ 2.28	\$ 2.57
Diluted	1.63	1.14	2.07	2.36
<b>Annualized return on average common stockholders' equity</b>				
	18.6%	14.3%	11.9%	14.9%
<b>Pre-tax profit margin</b>				
	28.8%	25.2%	18.3%	26.0%
<b>Compensation and benefits as a percentage of net revenues</b>				
	48.8%	49.8%	60.4%	49.7%
<b>Non-compensation expenses as a percentage of net revenues</b>				
	22.4%	24.9%	21.4%	24.2%
Book value per common share	\$ 37.18	\$ 33.63	\$ 37.18	\$ 33.63

*Quarterly Results of Operations*

Merrill Lynch's second quarter 2006 net earnings were \$1.6 billion, on record net revenues of \$8.2 billion, up 44% and 29%, respectively, from the second quarter of 2005. Earnings per common share were \$1.79 basic and \$1.63 diluted for the 2006 second quarter, both up 43% from the year-ago quarter. Pre-tax earnings were \$2.3 billion, an increase of 47% from the prior-year period, and the pre-tax profit margin was 28.8%, up from 25.2% in the year-ago quarter.

Asset management and portfolio services fees primarily consist of (i) fees earned from the management and administration of retail mutual funds and separately managed accounts for retail investors, as well as institutional funds such as pension assets, (ii) performance fees earned on certain separately managed accounts and institutional money management arrangements, (iii) servicing fees related to these accounts and (iv) annual account fees and certain other account-related fees. Asset management and portfolio service fees were \$1.8 billion, up 24% from the second quarter of 2005. The increase in asset management fees reflects the impact of net inflows of higher-yielding assets as well as higher average equity market values. The increase in portfolio service fees reflects the impact of net inflows into asset-priced accounts.

Commissions revenues primarily arise from agency transactions in listed and OTC equity securities and commodities, insurance products and options. Commissions revenues also include distribution fees for promoting and distributing mutual funds (“12b-1 fees”), as well as contingent deferred sales charges earned when a shareholder redeems shares prior to the required holding period. Commissions revenues were \$1.6 billion, up 27% from the 2005 second quarter, due primarily to an increase in global transaction volumes, particularly in listed equities and mutual funds.

Principal transactions revenues include realized gains and losses from the purchase and sale of securities, such as equity securities, fixed income securities, including government bonds and municipal securities, in which Merrill Lynch acts as principal, as well as unrealized gains and losses on trading assets and liabilities, including commodities, derivatives, and loans. Principal transactions revenues were \$1.2 billion, 17% higher than the year-ago quarter, due primarily to increased revenues in the trading of equity products.

Net interest profit is a function of (i) the level and mix of total assets and liabilities, including trading assets owned, deposits, financing and lending transactions, and trading strategies associated with the institutional securities business, and (ii) the prevailing level, term structure and volatility of interest rates. Net interest profit was \$1.2 billion, up 20% from the 2005 second quarter, due primarily to the impact of rising short-term interest rates on deposit spreads earned, partially offset by the higher interest expenses. Net interest profit is an integral component of trading activity. In assessing the profitability of its client facilitation and trading activities, Merrill Lynch views principal transactions and net interest profit in the aggregate as net trading revenues. Changes in the composition of trading inventories and hedge positions can cause the mix of principal transactions and net interest profit to fluctuate.

Investment banking revenues include (i) origination revenues representing fees earned from the underwriting of debt, equity and equity-linked securities, as well as loan syndication and commitment fees and (ii) strategic advisory services revenues including merger and acquisition and other investment banking advisory fees. Investment banking revenues were \$1.2 billion, up 26% from the year-ago quarter, driven primarily by increased equity origination and merger and acquisition advisory revenues, partially offset by a slight decline in debt origination revenues.

Revenues from consolidated investments include revenues from consolidated investments which are less than 100% owned. Revenues from consolidated investments were \$186 million, up from \$84 million in the 2005 second quarter, reflecting higher investment gains and additional investments.

Other revenues include realized investment gains and losses, equity income from unconsolidated subsidiaries, distributions on cost method investments, fair value adjustments on private equity investments that are held for capital appreciation and/or current income, gains related to the sale of mortgages, write-downs of certain available-for-sale securities, and translation gains and losses on foreign denominated assets and liabilities. Other revenues were \$1.1 billion, 67% higher than the 2005 second quarter, due principally to revenues from private equity investments. The increase in private equity revenues was driven primarily by gains from several private equity investments that resulted from fair value adjustments associated with initial public offerings, the recapitalization of an underlying company, and the application of valuation methodologies. Revenues recorded in other

revenues associated with gains from private equity investments were almost three times the amount recorded during the second quarter of 2005.

Compensation and benefits expenses were \$4.0 billion in the second quarter of 2006, or 48.8% of net revenues, down from 49.8% in the year-ago quarter.

Non-compensation expenses were \$1.8 billion in the second quarter of 2006, up 16% from the year-ago quarter. The ratio of total non-compensation expenses to total net revenues was 22.4% during the second quarter of 2006, down from 24.9% in the year-ago quarter. Communications and technology costs were \$429 million, up 9% from the second quarter of 2005 due primarily to higher market information and communications costs and system consulting costs related to investments for growth. Brokerage, clearing and exchange fees were \$253 million, up 17% from the 2005 second quarter, due primarily to higher transaction volumes. Occupancy costs and related depreciation of \$249 million increased 10% from the year-ago quarter, principally due to higher office rental expenses. Professional fees were \$196 million, up 7% from the prior-year quarter due to higher legal and other professional fees. Advertising and market development expenses were \$191 million, up 19% from the year-ago quarter due primarily to higher travel expenses associated with increased activity levels and increased advertising costs. Expenses of consolidated investments were \$145 million, up from \$35 million in the 2005 second quarter, principally due to increased minority interest expenses associated with the related increase in revenues from consolidated investments. Other expenses were \$309 million, essentially unchanged from the year-ago quarter.

#### *Year-to-date Results of Operations*

For the first six months of 2006, net earnings were \$2.1 billion, on record net revenues of \$16.1 billion that grew 28% from the first half of 2005. Net earnings for the first six months of 2006 included \$1.2 billion, after-tax, or \$1.21 per diluted share, of one-time non-cash compensation expenses (\$1.8 billion pre-tax) incurred in the first quarter 2006, arising from modifications to the retirement eligibility requirements for existing stock-based employee compensation awards and the adoption of SFAS No. 123 as revised in 2004 ("SFAS No. 123R"); (together, "one-time compensation expenses"). Refer to Note 1 to the Condensed Consolidated Financial Statements for further detail on the one-time compensation expenses.

Excluding the one-time compensation expenses, net earnings of \$3.3 billion for the first six months of 2006 were up 40% from the prior-year period, and pre-tax earnings would have been \$4.7 billion, up 44% from the first six months of 2005. On the same basis the pre-tax profit margin would have been 29.2%, up 3.2 percentage points from the first half of 2005, and the annualized return on average common equity was 19.0%, up 4.1 percentage points from the 14.9% in the first six months of 2005. Also on the same basis, earnings per common share would have been \$3.63 basic and \$3.28 diluted, up 41% and 39%, respectively, from the prior-year period. Management believes that, while the results excluding the one-time compensation expenses are considered "non-GAAP" measures, they depict the operating performance of the company more clearly and enable more meaningful period-to-period comparisons. See Exhibit 99.1 for a reconciliation of "non-GAAP" measures.

Merrill Lynch's second quarter 2006 effective tax rate was 30.5%, bringing the year-to-date effective tax rate to 28.3%. Excluding the one-time compensation expenses, the effective tax rate for the first six months of 2006 was 30.1%, up from 28.1% for the prior-year period.

## Business Segments

The following discussion provides details of net revenues by segment. Certain prior period amounts have been reclassified to conform to the current year presentation.

Merrill Lynch reports its results in three business segments: GMI, GPC, and MLIM. GMI provides full service global markets and origination capabilities, products and services to corporate, institutional, and government clients around the world, and in connection with proprietary trading activities. GPC provides wealth management products and services globally to individuals, small- to mid-size businesses, and employee benefit plans. MLIM manages financial assets for individual, institutional and corporate clients.

Certain MLIM and GMI products are distributed through GPC distribution channels, and, to a lesser extent, certain MLIM products are distributed through GMI. Revenues and expenses associated with these inter-segment activities are recognized in each segment and eliminated at the corporate level. In addition, revenue and expense sharing agreements for joint activities between segments are in place, and the results of each segment reflect the agreed-upon apportionment of revenues and expenses associated with these activities. The following segment results represent the information that is relied upon by management in its decision-making processes. These results exclude items reported in the Corporate segment. Business segment results are reclassified to reflect reallocations of revenues and expenses that result from changes in Merrill Lynch's business strategy and organizational structure. See Note 2 to the Condensed Consolidated Financial Statements for further information.

## Global Markets and Investment Banking

### GMI's Results of Operations

(dollars in millions)

	For the Three Months Ended			For the Six Months Ended		
	June 30, 2006	July 1, 2005	% Inc. (Dec.)	June 30, 2006	July 1, 2005	% Inc. (Dec.)
<b>Global Markets</b>						
Debt	\$ 1,725	\$ 1,606	7%	\$ 3,816	\$ 3,268	17%
Equity	1,877	1,022	84	3,450	1,993	73
Total Global Markets net revenues	3,602	2,628	37	7,266	5,261	38
<b>Investment Banking</b>						
Origination Debt	367	374	(2)	762	656	16
Equity	315	223	41	552	465	19
Strategic Advisory Services	296	214	38	553	374	48
Total Investment Banking net revenues	978	811	21	1,867	1,495	25
Total net revenues	4,580	3,439	33	9,133	6,756	35
Non-interest expenses before one-time compensation expenses	3,087	2,341	32	6,059	4,534	34
One-time compensation expenses	-	-	-	1,369	-	N/M
Pre-tax earnings	\$ 1,493	\$ 1,098	36	\$ 1,705	\$ 2,222	(23)
Pre-tax profit margin	32.6%	31.9%		18.7%	32.9%	

N/ M = Not Meaningful

Despite challenging market conditions during the second quarter of 2006, each of GMI's major business lines — Debt Markets, Equity Markets and Investment Banking — recorded increased net



revenues compared with the second quarter of 2005. GMI's record net revenues of \$4.6 billion were up 33% from the year-ago quarter. Pre-tax earnings were \$1.5 billion, 36% higher from the prior-year period, driven by strong revenue growth and operating leverage. The pre-tax profit margin was 32.6%, up from 31.9% in the year-ago quarter.

For the first six months of 2006, GMI's net revenues were a record at \$9.1 billion, an increase of 35% from the first half of 2005. Pre-tax earnings of \$1.7 billion and the pre-tax profit margin of 18.7% included \$1.4 billion in one-time compensation expenses incurred in the first quarter of 2006. Excluding these one-time compensation expenses, pre-tax earnings for the first six months of 2006 were \$3.1 billion, up 38% from the year-ago period, and the pre-tax profit margin was 33.7%, up from 32.9% in the prior year period. Refer to Note 1 to the Condensed Consolidated Financial Statements and Exhibit 99.1 for further detail on the one-time compensation expenses.

From a geographic perspective, Europe, Middle East and Africa ("EMEA") and the United States were the largest dollar contributors to growth over the prior year quarter, whereas the Pacific Rim and Canada had the strongest growth on a percentage basis compared to the prior year quarter.

A detailed discussion of GMI's net revenues follows:

### ***Global Markets***

In the second quarter of 2006, Global Markets net revenues were \$3.6 billion, up 37% from the year-ago period. For the first half of 2006, Global Markets net revenues were \$7.3 billion, up 38% from the prior-year period.

### ***Debt Markets***

Debt Markets net revenues include principal transactions and net interest profit (which management believes should be viewed in aggregate to assess trading results), commissions, revenues from principal investments, fair value adjustments on private equity investments made by non-broker-dealer subsidiaries that are held for capital appreciation and/or current income, and other revenues. In the second quarter of 2006, Debt Markets net revenues were \$1.7 billion, up 7% from the second quarter of 2005, driven primarily by revenues in the principal investing and secured finance business and increased revenues from foreign exchange. These increases were partially offset by lower net revenues in trading interest rate products and commodities.

Year-to-date Debt Markets net revenues were \$3.8 billion, up 17% from the year-ago period, driven principally by the increased net revenues in the principal investing and secured finance business and the trading of credit products.

### ***Equity Markets***

Equity Markets net revenues include commissions, principal transactions and net interest profit (which management believes should be viewed in aggregate to assess trading results), revenues from equity method investments, fair value adjustments on private equity investments that are held for capital appreciation and/or current income, and other revenues. During the second quarter of 2006, Equity Markets net revenues were \$1.9 billion, an increase of 84% over the year-ago quarter with strong performances in every major revenue category, including a nearly threefold increase in revenues from private equity investments. The increase in private equity revenues was driven primarily by gains from several private equity investments that resulted from fair value adjustments associated with initial public offerings, the recapitalization of an underlying company, and the application of valuation methodologies.

Year-to-date Equity Markets net revenues were \$3.5 billion, up 73% from the year-ago period, driven primarily by private equity-related gains, increased equity-linked and cash trading revenues, and higher equity financing net revenues.

***Investment Banking***

Investment Banking net revenues of \$978 million were 21% higher than the 2005 second quarter, driven by increases in equity origination mandates and merger and acquisition advisory services, partly offset by a slight decline in debt origination revenues. For the first half of 2006, Investment Banking net revenues were \$1.9 billion, up 25% from the prior-year period.

*Origination*

Origination revenues represent fees earned from the underwriting of debt, equity and equity-linked securities as well as loan syndication fees.

Origination revenues in the second quarter of 2006 were \$682 million, up 14% from the year-ago quarter on higher equity origination revenues, which increased 41% from a year ago, as a result of a more robust environment, including a higher volume of convertible deals, as well as the benefits of continued investments in the business. The increase was partially offset by a 2% decline in debt origination revenues.

Year-to-date origination revenues increased 17% to \$1.3 billion from the year-ago period, as a result of a more robust environment and benefits of continued investment in the business. Equity and debt origination revenues were up 19% and 16%, respectively, compared with the first six months of 2005.

*Strategic Advisory Services*

Strategic advisory services revenues, which include merger and acquisition and other advisory fees, were \$296 million in the second quarter of 2006, up 38% from the year-ago quarter as overall deal volume as well as Merrill Lynch's share of global completed merger and acquisition volume increased. Year-to-date strategic advisory services revenues increased 48% from the year-ago period, to \$553 million on higher activity.

For additional information on GMI's segment results, refer to Note 2 to the Condensed Consolidated Financial Statements.

**Global Private Client****GPC's Results of Operations***(dollars in millions)*

	For the Three Months Ended			For the Six Months Ended		
	June 30, 2006	July 1, 2005	% Inc. (Dec.)	June 30, 2006	July 1, 2005	% Inc. (Dec.)
Fee-based revenues	\$ 1,533	\$ 1,286	19%	\$ 2,991	\$ 2,557	17%
Transactional and origination revenues	902	786	15	1,801	1,643	10
Net interest profit and related hedges <sup>(1)</sup>	554	420	32	1,081	821	32
Other revenues	56	76	(26)	111	150	(26)
Total net revenues	3,045	2,568	19	5,984	5,171	16
Non-interest expenses before one-time compensation expenses	2,344	2,111	11	4,637	4,204	10
One-time compensation expenses	-	-	-	281	-	N/M
Pre-tax earnings	\$ 701	\$ 457	53	\$ 1,066	\$ 967	10
Pre-tax profit margin	23.0%	17.8%		17.8%	18.7%	

*N/M = Not Meaningful**(1) Includes interest component of non-qualifying derivatives which are included in other revenues on the Condensed Consolidated Statement of Earnings.*

GPC's second quarter 2006 net revenues were \$3.0 billion, up 19% from the year-ago quarter. The increase was primarily driven by record fee-based revenues, including record fees from annuitized-revenue products, record net interest profit as spreads on deposits increased with interest rates, and also higher transactional and origination revenues. GPC's second quarter 2006 pre-tax earnings were a record \$701 million, up 53% from the 2005 second quarter, and the pre-tax profit margin was also a record 23.0%, up by more than five percentage points from the prior-year period.

Total client assets in GPC accounts increased 11% from the year-ago quarter, to \$1.5 trillion. Second quarter net inflows of client assets into annuitized-revenue products were \$10 billion, bringing the year-to-date total to \$23 billion. Total net new money for the second quarter and first six months of 2006 was \$7 billion and \$25 billion, respectively.

Financial Advisor headcount reached 15,520 at the end of the second quarter of 2006, a net increase of 1,100 since the second quarter of 2005, reflecting low turnover rates, recruiting efforts and the acquisition of Advest.

From a geographic viewpoint, GPC's non-U.S. revenue growth was stronger than in the U.S. during the first half of 2006. Additionally, GPC continues to invest in the business internationally as evidenced by the private banking joint venture launched during the second quarter of 2006 with Mitsubishi UFJ Financial Group ("MUFG") in Japan, bringing GPC's private banking platform to MUFG's large high-net-worth client base.

For the first six months of 2006, GPC's net revenues increased 16% to \$6.0 billion, driven by growth in nearly every major revenue category. Year-to-date pre-tax earnings of \$1.1 billion and the pre-tax profit margin of 17.8% included \$281 million in one-time compensation expenses incurred in the first quarter of 2006. Excluding these one-time compensation expenses, GPC's year-to-date pre-tax earnings were \$1.3 billion, up 39% from the year-ago period, and the pre-tax margin was 22.5%.

Refer to Note 1 to the Condensed Consolidated Financial Statements and Exhibit 99.1 for further detail on the one-time compensation expenses.

A detailed discussion of GPC’s revenues follows:

*Fee-based revenues*

Fee-based revenues are comprised of portfolio service fees which are primarily derived from accounts that charge an annual fee based on net asset value, such as Merrill Lynch Consults® (a separately managed account product) and Unlimited Advantage<sup>SM</sup> (a fee based brokerage account), as well as fees from insurance products, taxable and tax-exempt money market funds, and alternative investment products. Also included in fee-based revenues are fixed annual account fees and other account-related fees, and commissions related to distribution fees on mutual funds.

GPC generated \$1.5 billion of fee-based revenues in the 2006 second quarter, up 19% from the year-ago quarter. On a year-to-date basis, fee-based revenues increased 17% from the year-ago period to \$3.0 billion. This increase reflected growth in client assets due to higher market valuations and net inflows into annuitized products. This asset growth resulted in higher portfolio service fees and increased distribution fees related to mutual fund sales.

The value of client assets in GPC accounts at June 30, 2006 and July 1, 2005 follows.

*(dollars in billions)*

	<b>June 30, 2006</b>	<b>July 1, 2005</b>
Assets in GPC accounts		
U.S.	\$ 1,370	\$ 1,234
Non-U.S.	124	115
Total	<u>\$ 1,494</u>	<u>\$ 1,349</u>

*Transactional and origination revenues*

Transactional and origination revenues include certain commission revenues, such as those that arise from agency transactions in listed and OTC equity securities, mutual funds, and insurance products. Also included are principal transactions revenues which primarily represent bid-offer revenues on government bonds and municipal securities, as well as new issue revenues which include selling concessions on newly issued debt and equity securities, including shares of closed-end funds.

Transactional and origination revenues were \$902 million in the second quarter of 2006, 15% higher than the year-ago quarter. This increase is due principally to higher origination revenues driven by a few particularly large transactions in addition to a moderate increase in transactional revenues. Year-to-date transactional and origination revenues were \$1.8 billion, up 10% from the year-ago period.

*Net interest profit and related hedges*

Net interest profit (interest revenues less interest expenses) and related hedges includes GPC’s allocation of the interest spread earned in Merrill Lynch’s banks for deposits, as well as interest earned on margin, small- and middle-market business and other loans, corporate funding allocations, and the interest component of non-qualifying derivatives.

GPC’s net interest profit and related hedges were \$554 million in the second quarter of 2006, up 32% from the 2005 second quarter. This increase primarily reflects higher margins on deposits resulting from rising short-term interest rates. On a year-to-date basis, GPC’s net interest profit was \$1.1 billion, 32% higher than the year-ago period.

*Other revenues*

GPC's other revenues were \$56 million in the second quarter of 2006, down 26% from \$76 million in the year-ago period, due largely to lower mortgage-related revenues. For the first six months of 2006, other revenues were also down 26%, totaling \$111 million.

For additional information on GPC's segment results, refer to Note 2 to the Condensed Consolidated Financial Statements.

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***Merrill Lynch Investment Managers***

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**MLIM's Results of Operations**

*(dollars in millions)*

	For the Three Months Ended			For the Six Months Ended		
	June 30, 2006	July 1, 2005	% Inc. (Dec.)	June 30, 2006	July 1, 2005	% Inc. (Dec.)
Asset management fees	\$ 522	\$ 367	42%	\$ 1,014	\$ 737	38%
Commissions	29	25	16	61	53	15
Other revenues	79	13	508	125	28	346
Total net revenues	630	405	56	1,200	818	47
Non-interest expenses before one-time compensation expenses	390	284	37	738	570	29
One-time compensation expenses	-	-	-	109	-	N/M
Pre-tax earnings	\$ 240	\$ 121	98	\$ 353	\$ 248	42
Pre-tax profit margin	38.1%	29.9%		29.4%	30.3%	

*N/M = Not Meaningful*

MLIM's second quarter 2006 net revenues were \$630 million, up 56% from the 2005 second quarter. This increase was driven principally by net inflows and higher average long-term asset values. MLIM's pre-tax earnings for the 2006 second quarter were \$240 million, up 98% from the 2005 second quarter, and the pre-tax margin was 38.1%, compared with 29.9% in the prior-year period. The increase in pre-tax earnings and pre-tax margin can be attributed to strong operating leverage which was enhanced by net benefits related to the pending merger with BlackRock. These net benefits pertain to certain projects which have been curtailed and employee attrition not replaced in advance of the BlackRock transaction.

For the first six months of 2006, MLIM's net revenues were up 47% over the first half of 2005, to \$1.2 billion. Pre-tax earnings of \$353 million and the pre-tax profit margin of 29.4% included \$109 million in one-time compensation expenses recognized during the first quarter of 2006. Excluding the one-time compensation expenses, the pre-tax earnings for the first half of 2006 were \$462 million, up 86% from the year-ago period, and the pre-tax margin was 38.5%, up from 30.3% due primarily to strong operating leverage. Refer to Note 1 to the Condensed Consolidated Financial Statements and Exhibit 99.1 for further detail on the one-time compensation expenses.

On February 15, 2006, Merrill Lynch announced that it had signed a definitive agreement under which it would combine its MLIM investment management business with BlackRock in exchange for a 49.8% interest in the combined firm, including a 45% voting interest. Merrill Lynch expects to recognize a gain upon the closing of this transaction which, based upon the price at the time of the announcement, is estimated to be over \$1 billion. This transaction is expected to close around the end of the third quarter of 2006, subject to regulatory and shareholder approvals. The actual gain will be

contingent upon BlackRock’s share price at closing, as well as closing adjustments. Merrill Lynch plans to account for its investment in BlackRock under the equity method of accounting.

A detailed discussion of MLIM’s revenues follows:

*Asset management fees*

Asset management fees primarily consist of fees earned from the management and administration of retail mutual funds and separately managed accounts for retail investors, as well as institutional funds such as pension assets. Asset management fees also include performance fees, which are generated in some cases by separately managed accounts and institutional money management arrangements.

Asset management fees were \$522 million, up 42% from the second quarter of 2005 due to higher average equity market values and an improvement in the fee profile of assets under management and new money inflows. Year-to-date asset management fees were \$1.0 billion, up 38% from the year-ago period. At the end of the second quarter of 2006, firmwide assets under management totaled \$589 billion, with \$583 billion managed by MLIM and \$6 billion managed by GPC. Compared with the 2005 second quarter, assets under management increased 23%, due principally to positive market movement and net new money inflows. Net inflows for the quarter were \$8 billion, primarily driven by the EMEA-Pacific retail business.

An analysis of changes in firmwide assets under management from July 1, 2005 to June 30, 2006 is as follows:

*(dollars in billions)*

	July 1, 2005(1)	Net Changes Due To			June 30, 2006(1)
		New Money	Asset Appreciation	Other(2)	
Assets under management	\$ 478	\$ 46	\$ 34	\$ 31	\$ 589

(1) Includes \$5 billion and \$6 billion of assets managed by GPC as of July 1, 2005 and June 30, 2006, respectively.

(2) Includes \$18 billion of new assets from the acquisition of the pension business of Royal Philips Electronics, the impact of foreign exchange movements, reinvested dividends and other changes.

*Commissions*

Commissions for MLIM principally consist of distribution fees and contingent deferred sales charges (“CDSC”) related to mutual funds. The distribution fees represent revenues earned for promoting and distributing mutual funds, and the CDSC represents fees earned when a shareholder redeems shares prior to the specified holding period. Commissions revenues were \$29 million in the second quarter of 2006, up 16% from the year-ago quarter on increased activity levels. Year-to-date commissions were \$61 million, up 15% from the prior-year period.

*Other revenues*

Other revenues primarily include net interest profit, investment gains and losses and revenues from consolidated investments. Other revenues, totaled \$79 million for the second quarter of 2006, up from \$13 million a year ago reflecting increased investment gains from consolidated investments. Other revenues for the first six months of 2006 were \$125 million, compared to \$28 million for the first six months of 2005.

For additional information on MLIM’s segment results, refer to Note 2 to the Condensed Consolidated Financial Statements.

**CONSOLIDATED BALANCE SHEETS**

Management continually monitors and evaluates the size and composition of the Consolidated Balance Sheet. The following table summarizes the June 30, 2006 and December 30, 2005 period-end, and first six months of 2006 and full-year 2005 average balance sheets:

*(dollars in billions)*

	June 30, 2006	2006 Six Month Average(1)	Dec. 30, 2005	2005 Full Year Average(1)
<b>Assets</b>				
<b>Trading-Related</b>				
Securities financing assets	\$ 342.6	\$ 336.9	\$ 272.3	\$ 268.3
Trading assets	166.9	187.1	148.7	182.9
Other trading-related receivables	61.1	60.9	54.3	60.9
	<u>570.6</u>	<u>584.9</u>	<u>475.3</u>	<u>512.1</u>
<b>Non-Trading-Related</b>				
Cash	40.8	35.7	26.5	38.7
Investment securities	66.6	68.2	69.3	71.2
Loans, notes, and mortgages, net	70.4	68.7	66.0	60.6
Other non-trading assets	50.8	45.0	43.9	47.8
	<u>228.6</u>	<u>217.6</u>	<u>205.7</u>	<u>218.3</u>
<b>Total assets</b>	<u>\$ 799.2</u>	<u>\$ 802.5</u>	<u>\$ 681.0</u>	<u>\$ 730.4</u>
<b>Liabilities</b>				
<b>Trading-Related</b>				
Securities financing liabilities	\$ 298.0	\$ 315.4	\$ 234.3	\$ 272.7
Trading liabilities	99.7	117.1	88.9	105.7
Other trading-related payables	75.5	71.0	56.9	63.8
	<u>473.2</u>	<u>503.5</u>	<u>380.1</u>	<u>442.2</u>
<b>Non-Trading-Related</b>				
Commercial paper and other short-term borrowings	13.4	9.3	3.9	6.5
Deposits	79.4	81.3	80.0	79.2
Long-term borrowings	140.0	130.0	132.4	122.4
Long-term debt issued to TOPrSSM partnerships	3.1	3.1	3.1	3.1
Other non-trading liabilities	53.6	38.4	45.9	43.8
	<u>289.5</u>	<u>262.1</u>	<u>265.3</u>	<u>255.0</u>
<b>Total liabilities</b>	<u>762.7</u>	<u>765.6</u>	<u>645.4</u>	<u>697.2</u>
<b>Total stockholders' equity</b>	<u>36.5</u>	<u>36.9</u>	<u>35.6</u>	<u>33.2</u>
<b>Total liabilities and stockholders' equity</b>	<u>\$ 799.2</u>	<u>\$ 802.5</u>	<u>\$ 681.0</u>	<u>\$ 730.4</u>

(1) Averages represent management's daily balance sheet estimates, which may not fully reflect netting and other adjustments included in period-end balances. Balances for certain assets and liabilities are not revised on a daily basis.

## Off Balance Sheet Arrangements

As a part of its normal operations, Merrill Lynch enters into various off balance sheet arrangements that may require future payments. The table below outlines the significant off balance sheet arrangements, as well as the future expiration as of June 30, 2006:

(dollars in millions)

	Expiration				
	Total	Less than 1 Year	1 - 3 Years	3+ - 5 Years	Over 5 Years
Liquidity facilities with SPEs <sup>(1)</sup>	\$29,094	\$28,651	\$ 333	\$ 110	\$ -
Liquidity and default facilities with SPEs <sup>(2)</sup>	10,359	9,013	1,100	-	246
Residual value guarantees <sup>(3)</sup>	1,069	66	169	330	504
Standby letters of credit and other guarantees <sup>(4)(5)(6)</sup>	3,918	1,547	584	1,475	312

(1) Amounts relate primarily to facilities provided to municipal bond securitization SPEs and an asset-backed commercial paper conduit sponsored by Merrill Lynch.

(2) Amounts relate to liquidity facilities and credit default protection provided to municipal bond securitization SPEs and asset-backed commercial paper conduits sponsored by Merrill Lynch.

(3) Includes residual value guarantees associated with the Hopewell campus and aircraft leases of \$322 million.

(4) Includes \$173 million of reimbursement agreements with the Mortgage 100 <sup>SM</sup> program.

(5) Includes guarantees related to principal-protected mutual funds.

(6) Includes certain indemnifications related to foreign tax planning strategies.

Refer to Note 10 to the Condensed Consolidated Financial Statements for additional information.

## Contractual Obligations and Commitments

### Contractual Obligations

In the normal course of business, Merrill Lynch enters into various contractual obligations that may require future cash payments. The accompanying table summarizes Merrill Lynch's contractual obligations by remaining maturity at June 30, 2006. Excluded from this table are obligations recorded on the Condensed Consolidated Balance Sheets that are: (i) generally short-term in nature, including securities financing transactions, trading liabilities, commercial paper and other short-term borrowings and other payables; (ii) deposits; (iii) obligations that are related to Merrill Lynch's insurance subsidiaries, including liabilities of insurance subsidiaries, which are subject to significant variability; and (iv) separate accounts liabilities, which fund separate accounts assets.

(dollars in millions)

	Expiration				
	Total	Less than 1 Year	1 - 3 Years	3+ - 5 Years	Over 5 Years
Long-term borrowings <sup>(1)</sup>	\$143,082	\$24,628	\$45,343	\$35,824	\$37,287
Purchasing and other commitments	7,748	5,548	675	576	949
Operating lease commitments	3,243	561	1,016	815	851

(1) Includes long-term debt issued to TOPrS <sup>SM</sup> partnerships.



## Commitments

At June 30, 2006, Merrill Lynch commitments had the following expirations:

*(dollars in millions)*

	Expiration				
	Total	Less than 1 Year	1 - 3 Years	3+ - 5 Years	Over 5 Years
Commitments to extend credit	\$77,463	\$ 39,141	\$11,036	\$19,423	\$ 7,863
Commitments to enter into resale agreements	12,169	12,169	-	-	-

## Capital and Funding

The primary objectives of Merrill Lynch's capital structure and funding policies are to support the successful execution of Merrill Lynch's business strategies while ensuring:

- sufficient equity capital to support existing businesses and future growth plans and
- liquidity across market cycles and through periods of financial stress.

These objectives and Merrill Lynch's capital and funding policies are discussed more fully in the 2005 Annual Report.

### Capital

At June 30, 2006, equity capital, as defined by Merrill Lynch, was comprised of \$33.4 billion of common equity, \$3.1 billion of preferred stock, and \$2.5 billion of long-term debt issued to TOPrS<sup>sm</sup> partnerships (net of related investments). Equity capital is Merrill Lynch's view of capital available to support its businesses and differs from stockholders' equity as defined by U.S. generally accepted accounting principles, which does not include long-term debt issued to TOPrS<sup>sm</sup> partnerships, net of related investments.

Merrill Lynch regularly reviews overall equity capital needs to ensure that its equity capital base can support the estimated risks and needs of its businesses, the regulatory and legal capital requirements of its subsidiaries, and standards pursuant to the Consolidated Supervised Entity rules. Merrill Lynch determines the appropriateness of its equity capital composition, taking into account that its preferred stock and TOPrS<sup>sm</sup> are perpetual. In the event that capital is generated beyond estimated needs, Merrill Lynch returns capital to shareholders through share repurchases and dividends.

Merrill Lynch continued to grow its equity capital base in the first half of 2006 primarily through net earnings, additional preferred stock issuances, and the net effect of employee stock transactions, including the adoption of SFAS No. 123R, partially offset by common stock repurchases and dividends. Equity capital of \$39.1 billion at June 30, 2006 was 2% higher than at December 30, 2005.

On February 28, 2006, Merrill Lynch issued \$360 million face value of floating rate, non-cumulative, perpetual preferred stock.

The Board of Directors authorized the repurchase of an additional \$6 billion of Merrill Lynch's outstanding common shares under a program announced on February 26, 2006. During the second quarter of 2006, Merrill Lynch repurchased 41.4 million common shares at an average repurchase price of \$73.26 per share.

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On January 18, 2006, the Board of Directors declared an additional 25% increase in the regular quarterly dividend to 25 cents per common share.

Major components of the changes in equity capital for the first six months of 2006 are as follows:

*(dollars in millions)*

Balance at December 30, 2005	\$38,144
Net earnings	2,108
Issuance of preferred stock	360
Common and preferred stock dividends	(549)
Common stock repurchases	(5,008)
Net effect of employee stock transactions and other <sup>(1)</sup>	4,030
Balance at June 30, 2006	\$39,085

*(1) Includes effect of Accumulated other comprehensive loss, the reclassification of FACAAP liabilities to equity associated with the adoption of SFAS No. 123R, and other items.*

### **Balance Sheet Leverage**

Asset-to-equity leverage ratios are commonly used to assess a company's capital adequacy. When assessing its capital adequacy, Merrill Lynch considers the risk profiles of the assets, the impact of hedging, off-balance sheet exposures, operational risk and other considerations. As leverage ratios are not risk sensitive, Merrill Lynch does not rely on them as a measure of capital adequacy.

Merrill Lynch believes that a leverage ratio adjusted to exclude certain assets considered to have low risk profiles and assets in customer accounts financed primarily by customer liabilities provides a more meaningful measure of balance sheet leverage in the securities industry than an unadjusted ratio. Adjusted assets are calculated by reducing total assets by (1) securities financing transactions and securities received as collateral less trading liabilities net of contractual agreements and (2) segregated cash and securities and separate account assets.

The following table provides calculations of Merrill Lynch's leverage ratios at June 30, 2006 and December 30, 2005:

(dollars in millions)

	June 30, 2006	Dec. 30, 2005
Total assets	\$ 799,188	\$ 681,015
Less:		
Receivables under resale agreements	210,268	163,021
Receivables under securities borrowed transactions	111,580	92,484
Securities received as collateral	20,721	16,808
Add:		
Trading liabilities, at fair value, excluding contractual agreements	66,554	60,178
Sub-total	523,173	468,880
Less:		
Segregated cash and securities balances	18,307	11,949
Separate account assets	15,876	16,185
Adjusted assets	488,990	440,746
Less:		
Goodwill and other intangible assets	6,936	6,035
Tangible adjusted assets	\$ 482,054	\$ 434,711
Stockholders' equity	\$ 36,541	\$ 35,600
Add:		
Long-term debt issued to TOPrSSM partnerships, net of related investments(1)	2,544	2,544
Equity capital	\$ 39,085	\$ 38,144
Tangible equity capital(2)	\$ 32,149	\$ 32,109
Leverage ratio(3)	20.4x	17.9x
Adjusted leverage ratio(4)	12.5x	11.6x
Tangible adjusted leverage ratio(5)	15.0x	13.5x

(1) Due to the perpetual nature of TOPrSSM and other considerations, Merrill Lynch views the long-term debt issued to TOPrSSM partnerships (net of related investments) as a component of equity capital. However, the Long-term debt issued to TOPrSSM partnerships is reported as a liability for accounting purposes. TOPrSSM related investments were \$548 million at June 30, 2006 and December 30, 2005.

(2) Equity capital less goodwill and other intangible assets.

(3) Total assets divided by equity capital.

(4) Adjusted assets divided by equity capital.

(5) Tangible adjusted assets divided by tangible equity capital.

## Funding

### Liquidity Risk Management

Merrill Lynch seeks to assure liquidity across market cycles and through periods of financial stress. Merrill Lynch's primary liquidity objective is to ensure that all unsecured debt obligations maturing within one year can be repaid without issuing new unsecured debt or requiring liquidation of business assets. Toward this goal, Merrill Lynch has established a set of liquidity practices that are outlined below. In addition, Merrill Lynch maintains a contingency funding plan that outlines actions that would be taken in the event of a funding disruption.

*Maintain sufficient long-term capital:* Merrill Lynch regularly reviews its mix of assets, liabilities and commitments to ensure the maintenance of adequate long-term capital sources to meet long-term capital requirements. Merrill Lynch's long-term capital sources include equity capital, long-term debt

obligations and certain deposit liabilities in banking subsidiaries which are considered by management to be long-term or stable in nature.

At June 30, 2006 and December 30, 2005, total long-term capital was as follows:

*(dollars in billions)*

	June 30, 2006	Dec. 30, 2005
Equity capital	\$ 39.1	\$ 38.1
Long-term debt obligations <sup>(1)</sup>	104.1	99.3
Deposit liabilities <sup>(2)</sup>	66.6	69.9
Total long-term capital	\$ 209.8	\$ 207.3

*(1) Total long-term borrowings (excluding long term debt issued to TOPRS<sup>sm</sup> partnerships) less (1) the current portion and (2) other subsidiary financing — non-recourse. Borrowings that mature in more than one year, but contain provisions whereby the holder has the option to redeem the obligations within one year, are reflected as current portion of long-term borrowings and are not included in long-term capital. Management believes, however, that a portion of such borrowings will remain outstanding beyond their earliest redemption date.*

*(2) Includes \$56.0 billion and \$10.6 billion of deposits in U.S. and non-U.S. banking subsidiaries, respectively, at June 30, 2006, and \$60.2 billion and \$9.7 billion of deposits, respectively, at December 30, 2005 that are considered by management to be long-term.*

The following items are generally financed with long-term capital:

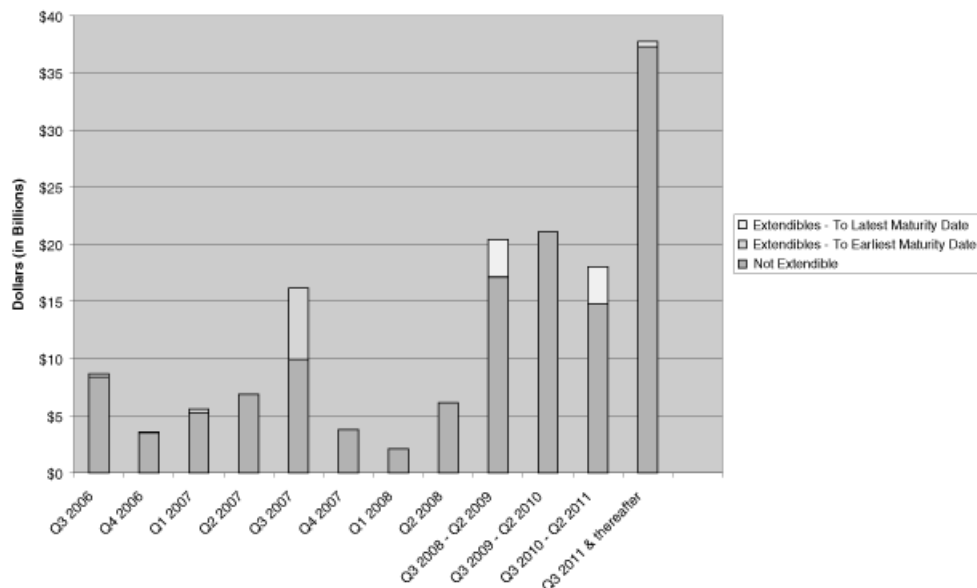
- The portion of assets that cannot be self-funded in the secured financing markets, considering stressed market conditions, including long-term, illiquid assets such as certain loans, goodwill and other intangible assets and fixed assets;
- Subsidiaries' regulatory capital;
- Collateral on derivative contracts that may be required in the event of changes in Merrill Lynch's ratings or movements in underlying instruments; and
- Portions of commitments to extend credit based on management's estimate of the probability of drawdown.

At June 30, 2006, Merrill Lynch's long-term capital sources of \$209.8 billion exceeded Merrill Lynch's estimated long-term capital requirements.

In assessing the appropriateness of its long-term capital, Merrill Lynch seeks to: (1) ensure sufficient matching of its assets based on factors such as holding period, contractual maturity and regulatory restrictions and (2) limit the amount of liabilities maturing in any particular period. Merrill Lynch also considers circumstances that might cause contingent funding obligations, including early repayment of debt.

On May 16, 2006, ML & Co. issued \$2.0 billion of subordinated debt. ML & Co. pays interest on this subordinated debt at an annual rate of 6.05%. The subordinated debt matures on May 16, 2016 and is junior in right of payment to all of ML & Co.'s senior indebtedness.

The following chart presents Merrill Lynch’s long-term borrowings maturity profile as of June 30, 2006 (quarterly for two years and annually thereafter):



*Note: Extensibles are debt instruments with an extendible maturity date. Unless debt holders instruct Merrill Lynch to redeem their debt with at least a one-year notification period, the maturity date of these instruments is automatically extended. Extensibles are included in long-term borrowings if the earliest maturity date is at least one year away. Based on past experience, the majority of Merrill Lynch’s extensibles are expected to remain outstanding beyond their earliest maturity date.*

Major components of the change in long-term borrowings, including long-term debt issued to TOPrS<sup>SM</sup> partnerships, during the first six months of 2006 are as follows:

*(dollars in billions)*

Balance at December 30, 2005	\$135.5
Issuance and resale	29.4
Settlement and repurchase	(22.5)
Other <sup>(1)</sup>	0.7
<b>Balance at June 30, 2006<sup>(2)</sup></b>	<b>\$143.1</b>

*(1) Relates to foreign exchange and other movements.*

*(2) See Note 7 to the Condensed Consolidated Financial Statements for the long-term borrowings maturity schedule.*

**Maintain sufficient funding to repay short-term obligations:** The main alternative funding sources to unsecured borrowings are repurchase agreements, securities loaned, other secured borrowings, which require pledging unencumbered securities held for trading or investment purposes, or collateral and proceeds from maturing loans and other assets. Nonetheless, a key funding assumption is accessibility to a repurchase market for highly rated government, agency and certain other securities.

Merrill Lynch maintains a liquidity portfolio of U.S. Government and agency obligations and other instruments of high credit quality, funded predominantly with long term capital sources. The carrying value of this portfolio, net of related hedges, was \$15.0 billion and \$18.0 billion at June 30, 2006 and December 30, 2005, respectively. ML & Co. also maintained cash and cash equivalents, investments in short-term money market mutual funds, and certain highly liquid unencumbered securities of \$7.1 billion and \$7.4 billion at June 30, 2006 and December 30, 2005, respectively.

Merrill Lynch monitors the extent to which other unencumbered assets are available to ML & Co. as a source of funds, considering that some subsidiaries are restricted in their ability to upstream unencumbered assets to ML & Co. As of June 30, 2006 unencumbered assets, including amounts that may be restricted, were in excess of \$150.1 billion, including the carrying value of the liquidity portfolio and cash balances. Of this amount, \$40.1 billion, including the liquidity portfolio and cash, was available to ML & Co. at June 30, 2006, free of regulatory restrictions.

For liquidity planning purposes, Merrill Lynch considers as short-term debt obligations: (i) commercial paper and other short-term borrowings and (ii) the current portion of long-term borrowings. At June 30, 2006 and December 30, 2005, these short-term debt obligations are as follows:

*(dollars in billions)*

	<b>June 30, 2006</b>	<b>Dec. 30, 2005</b>
Commercial paper and other short-term borrowings	\$ 13.4	\$ 3.9
Current portion of long-term borrowings	24.6	22.8
<b>Total short-term obligations</b>	<b>\$ 38.0</b>	<b>\$ 26.7</b>

At June 30, 2006, Merrill Lynch's liquidity portfolio, cash balances, maturing short-term assets and other unencumbered assets, some of which may be held in regulated entities but which management believes may be reasonably upstreamed to ML & Co., free of regulatory restrictions, were more than the amount that would be required to repay Merrill Lynch's short-term obligations and other contingent cash outflows.

In addition to the sources of funding available to meet short-term obligations described above, Merrill Lynch maintains credit facilities that are available to cover immediate funding needs. Merrill Lynch maintains a committed, multi-currency, unsecured bank credit facility that totaled \$4.5 billion at June 30, 2006 and \$4.0 billion at December 30, 2005. This 364-day facility permits borrowings by ML & Co. and select subsidiaries and expires in June 2007. The facility includes a one year term-out feature that allows ML & Co., at its option, to extend borrowings under the facility for a further year beyond the expiration date in June 2007. At June 30, 2006 and December 30, 2005, there were no borrowings outstanding under this credit facility, although Merrill Lynch borrows regularly from this facility.

Merrill Lynch also maintains two committed, secured credit facilities which totaled \$7.0 billion at June 30, 2006 and \$5.5 billion at December 30, 2005. The facilities expire in December 2006 and May 2007 respectively. Both facilities include a one year term-out option that allows ML & Co. to extend borrowings under the facilities for a further year beyond their respective expiration dates. The secured facilities permit borrowings by ML & Co. and select subsidiaries, secured by a broad range of collateral. At June 30, 2006 and December 30, 2005 there were no borrowings outstanding under either facility.

In addition, Merrill Lynch maintains a committed, secured credit facility with a financial institution that totaled \$6.25 billion at June 30, 2006 and December 30, 2005. The secured facility may be

collateralized by government obligations eligible for pledging. The facility expires in 2014, but may be terminated with at least nine months notice by either party. At June 30, 2006 and December 30, 2005, there were no borrowings outstanding under this facility.

*Concentrate unsecured financing at ML & Co.:* ML & Co. is the primary issuer of all unsecured, non-deposit financing instruments that are used primarily to fund assets in subsidiaries, some of which are regulated. The benefits of this strategy are greater control, reduced financing costs, wider name recognition by creditors, and greater flexibility to meet variable funding requirements of subsidiaries. Where regulations, time zone differences, or other business considerations make this impractical, some subsidiaries enter into their own financing arrangements.

*Diversify unsecured funding sources:* Merrill Lynch strives to continually expand and globally diversify its funding programs, its markets, and its investor and creditor base to minimize reliance on any one investor base or region. Merrill Lynch diversifies its borrowings by maintaining various limits, including a limit on the amount of commercial paper held by a single investor. Merrill Lynch benefits by distributing a significant portion of its debt issuances through its own sales force to a large, diversified global client base. Merrill Lynch also makes markets buying and selling its debt instruments.

Total borrowings outstanding at June 30, 2006 were issued in the following currencies:

*(USD equivalent in millions)*

USD	\$ 96,685	62%
EUR	31,204	20
JPY	10,602	7
GBP	8,990	5
AUD	3,192	2
CAD	2,752	2
Other	3,059	2
Total	\$156,484	100%

*Adhere to prudent governance processes:* In order to ensure that both daily and strategic funding activities are appropriate and subject to senior management review and control, liquidity management is reviewed in Asset/Liability Committee meetings with Treasury management and is presented to Merrill Lynch's Risk Oversight Committee ("ROC"), ML & Co. executive management and the Finance Committee of the Board of Directors. Merrill Lynch also manages the growth and composition of its assets and sets limits on the level of unsecured funding at any time.

#### **Credit Ratings**

The cost and availability of unsecured funding are also impacted by credit ratings. In addition, credit ratings are important when competing in certain markets and when seeking to engage in long-term transactions including OTC derivatives. Factors that influence Merrill Lynch's credit ratings include the credit rating agencies' assessment of the general operating environment, relative positions in the markets in which Merrill Lynch competes, reputation, level and volatility of earnings, corporate governance, risk management policies, liquidity and capital management.

The senior debt and preferred stock ratings of ML & Co. and the ratings of preferred securities issued by subsidiaries on August 2, 2006 were as follows. Rating agencies express outlooks from time to time on these ratings. Each of these agencies describes its current outlook as stable, except for

Standard & Poor's whose outlook on ML & Co. was raised to positive from stable on January 23, 2006.

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<b>Rating Agency</b>	<b>Senior Debt Ratings</b>	<b>Preferred Stock Ratings</b>
Dominion Bond Rating Service Ltd.	AA (low)	Not Rated
Fitch Ratings	AA-	A+
Moody's Investors Service, Inc.	Aa3	A2
Rating & Investment Information, Inc. (Japan)	AA	A+
Standard & Poor's Ratings Services	A+	A-

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In connection with certain OTC derivatives transactions and other trading agreements, Merrill Lynch could be required to provide additional collateral to certain counterparties in the event of a downgrade of the senior debt ratings of ML & Co. At June 30, 2006, the amount of additional collateral that would be required for such derivatives transactions and trading agreements was approximately \$456 million in the event of a one-notch downgrade and approximately \$1,024 million in the event of a two-notch downgrade of ML & Co.'s long term senior debt credit rating. Merrill Lynch considers additional collateral on derivative contracts that may be required in the event of changes in ML & Co.'s ratings as part of its liquidity management practices.

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## **Risk Management**

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Risk-taking is integral to many of the core businesses in which Merrill Lynch operates. In the course of conducting its business operations, Merrill Lynch is exposed to a variety of risks including market, credit, liquidity, operational and other risks that are material and require comprehensive controls and ongoing oversight. Senior managers of Merrill Lynch's core businesses are responsible and accountable for management of the risks associated with their business activities. In addition, there are independent control groups that manage market risk, credit risk, liquidity risk and operational risk, among other functions, which fall under the management responsibility of the Chief Financial Officer. Along with other control units these disciplines work to ensure risks are properly identified, measured, monitored, and managed throughout Merrill Lynch. For a full discussion of Merrill Lynch's risk management framework, see the 2005 Annual Report.

### *Market Risk*

Market risk is defined as the potential change in value of financial instruments caused by fluctuations in interest rates, exchange rates, equity and commodity prices, credit spread, and/or other risks. The Market Risk Framework defines and communicates Merrill Lynch's market risk tolerance and broad overall limits across the firm by defining and constraining exposure to specific asset classes, market risk factors and Value at Risk ("VaR"). VaR is a statistical measure of the potential loss in the fair value of a portfolio due to adverse movements in underlying risk factors.

The Market Risk Management Group is responsible for approving the products and markets in which Merrill Lynch's major business units and functions will transact and take risk. Moreover, it is responsible for identifying the risks to which these business units will be exposed in these approved products and markets. Market Risk Management uses a variety of quantitative methods to assess the risk of Merrill Lynch's positions and portfolios. In particular, Market Risk Management quantifies the sensitivities of Merrill Lynch's current portfolios to changes in market variables. These sensitivities are then utilized in the context of historical data to estimate earnings and loss distributions that Merrill Lynch's current portfolios would have incurred throughout the historical period. From these distributions, Market Risk Management derives a number of useful risk statistics, including VaR.



The VaR disclosed in the accompanying table is an estimate of the amount that Merrill Lynch's current trading portfolios could lose with a specified degree of confidence, over a given time interval. The VaR for Merrill Lynch's overall portfolios is less than the sum of the VaRs for individual risk categories because movements in different risk categories occur at different times and, historically, extreme movements have not occurred in all risk categories simultaneously. The difference between the sum of the VaRs for individual risk categories and the VaR calculated for all risk categories is shown in the following table and may be viewed as a measure of the diversification within Merrill Lynch's portfolios. Market Risk Management believes that the tabulated risk measures provide broad guidance as to the amount Merrill Lynch could lose in future periods, and Market Risk Management works continually to improve its measurement and the methodology of the firm's VaR. However, the calculation of VaR requires numerous assumptions and thus VaR should not be viewed as a precise measure of risk. In addition, VaR is not intended to capture worst case scenario losses.

To complement VaR and in recognition of its inherent limitations, Merrill Lynch uses a number of additional risk measurement methods and tools as part of its overall market risk management process. These include stress testing and event risk analysis, which examine portfolio behavior under significant adverse market conditions, including scenarios that would result in material losses for the firm.

To calculate VaR, Market Risk Management aggregates sensitivities to market risk factors and combines them with a database of historical market factor movements to simulate a series of profits and losses. The level of loss that is exceeded in that series 5% of the time is used as the estimate for the 95% confidence level VaR. The overall total VaR amounts are presented across major risk categories, which include exposure to volatility risk found in certain products, such as options.

The table that follows presents Merrill Lynch's average and ending VaR for trading instruments for the first and second quarters of 2006 and the full-year 2005. Additionally, high and low VaR for the second quarter of 2006 is presented independently for each risk category and overall. Because high and low VaR numbers for these risk categories may have occurred on different days, high and low numbers for diversification benefit would not be meaningful. In the second quarter of 2006, Merrill Lynch made a refinement to the modeling of leveraged loans in the trading account, which lowered the trading VaR. Prior periods have been restated to reflect this refinement.

	June 30, 2006	March 31, 2006	Dec. 30, 2005	High 2Q06	Low 2Q06	Daily Average 2Q06	Daily Average 1Q06	Daily Average 2005
<b>Trading Value-at-Risk<sup>(1)</sup></b>								
Interest rate and credit spread	\$ 56	\$ 35	\$ 37	\$ 56	\$ 33	\$ 44	\$ 42	\$ 37
Equity	19	21	16	39	11	25	11	12
Commodity	11	5	6	13	6	9	6	8
Currency	4	4	2	9	2	4	4	3
	90	65	61			82	63	60
Diversification benefit	(37)	(25)	(23)			(34)	(23)	(25)
Overall <sup>(2)</sup>	\$ 53	\$ 40	\$ 38	\$ 65	\$ 37	\$ 48	\$ 40	\$ 35

(1) Based on a 95% confidence level and a one-day holding period.

(2) Overall VaR using a 95% confidence level and a one-week holding period was \$92 million at June 30, 2006, \$76 million at March 31, 2006 and \$63 million at December 30, 2005.

At June 30, 2006, trading VaR was higher than the first quarter of 2006 due to increases in credit spread exposures, and, to a lesser extent, higher commodity exposures. If market conditions are favorable, Merrill Lynch may increase its risk taking in a number of its businesses, including certain proprietary trading activities and principal investments. These activities provide revenue opportunities while also increasing the loss potential under certain market conditions. Risk levels are monitored on a daily basis to ensure they remain within corporate risk guidelines and tolerance levels.

*Non-Trading Market Risk*

Non-trading market risk includes the risks associated with certain non-trading activities, including investment securities, securities financing transactions and equity investments. Also included are the risks related to treasury funding activities. Risks related to lending activities are covered in the Credit Risk section.

The primary market risk of non-trading investment securities, and non-trading repurchase and reverse repurchase agreements is expressed as sensitivity to changes in the general level of credit spreads which are defined as the differences in the yields on debt instruments from relevant LIBOR/ Swap rates. Non-trading investment securities include securities available-for-sale and held-to-maturity as well as investments of insurance subsidiaries. At the end of the second quarter of 2006, the total credit spread sensitivity of these instruments is a pre-tax loss of \$22 million in fair market value for an increase of one basis point, which is one one-hundredth of a percent, in credit spreads, compared to a pre-tax loss of \$20 million at the end of the first quarter of 2006 and \$19 million at year-end 2005. This change in fair market value is a measurement of economic risk which may differ significantly in magnitude and timing from the actual profit or loss that would be realized under generally accepted accounting principles.

The interest rate risk associated with the foregoing non-trading positions, together with treasury funding activities is expressed as sensitivity to changes in the general level of interest rates. Treasury funding activities include LYONS<sup>®</sup>, TOPRS<sup>sm</sup> and other long-term debt together with interest rate hedges. At the end of the second quarter of 2006, the net interest rate sensitivity of these positions is a pre-tax loss in fair market value of \$2 million for a parallel one basis point increase in interest rates across all yield curves, unchanged from the end of the first quarter of 2006, and compared to \$1 million at year-end 2005. This change in fair market value is a measurement of economic risk which may differ significantly in magnitude and timing from the actual profit or loss that would be realized under generally accepted accounting principles.

Other non-trading equity investments include direct private equity interests, private equity fund investments, hedge fund interests, and certain direct and indirect real estate investments. These investments are broadly sensitive to general price levels in the equity or commercial real estate markets as well as to specific business, financial and credit factors which influence the performance and valuation of each investment uniquely. Refer to Note 5 of the 2005 Annual Report for additional information on these investments.

*Credit Risk*

**Commercial Lending**

Commercial lending conducted by Merrill Lynch consists primarily of corporate and institutional lending, asset-based finance, commercial finance, and commercial real estate related activities. In evaluating certain potential commercial lending transactions, Merrill Lynch utilizes a risk adjusted return on capital model in addition to other methodologies.

The following table presents a distribution of commercial loans and closed commitments for June 30, 2006, gross of allowances for loan losses and reserves, without considering the impact of purchased credit protection. Closed commitments represent the unfunded portion of existing commitments available for draw down and do not include contingent commitments extended but not yet closed. As of June 30, 2006, Merrill Lynch's largest commercial lending industry concentration was to financial institutions including banks, insurance companies, finance companies, investment managers and other diversified financial institutions. Commercial borrowers were predominantly domiciled in the United States or had principal operations tied to the United States or its economy. The majority of all outstanding commercial loan balances had a remaining maturity of less than three years. Additional detail on Merrill Lynch's commercial lending related activities can be found in Note 6 to the Condensed Consolidated Financial Statements. The following table depicts Merrill Lynch's commercial lending balances by credit quality, industry and country at June 30, 2006.

*(dollars in millions)*

<b>By Credit Quality<sup>(1)</sup></b>	<b>Loans</b>		<b>Closed Commitments</b>	
	<b>Secured</b>	<b>Unsecured</b>	<b>Secured</b>	<b>Unsecured</b>
Investment grade	\$ 18,163	\$ 4,481	\$ 16,748	\$ 21,539
Non-investment grade	22,904	1,497	9,707	1,366
<b>Total</b>	<b>\$ 41,067</b>	<b>\$ 5,978</b>	<b>\$ 26,455</b>	<b>\$ 22,905</b>

*(1) Based on credit rating agency equivalent of internal credit ratings.*

<b>By Industry</b>	<b>Loans</b>		<b>Closed Commitments</b>	
	<b>Secured</b>	<b>Unsecured</b>	<b>Secured</b>	<b>Unsecured</b>
Financial Institutions	38%	12%	41%	30%
Consumer Goods and Services	27	49	27	15
Real Estate	13	8	5	4
Technology/ Media/ Telecommunications	4	11	3	18
Energy/ Utilities	2	7	5	17
Industrial/ Manufacturing Goods and Services	5	5	4	10
All Other	11	8	15	6
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

<b>By Country</b>	<b>Loans</b>		<b>Closed Commitments</b>	
	<b>Secured</b>	<b>Unsecured</b>	<b>Secured</b>	<b>Unsecured</b>
United States	61%	70%	80%	76%
United Kingdom	14	4	10	5
Germany	2	-	1	8
Japan	4	5	-	-
Canada	3	1	2	3
All Other	16	20	7	8
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

*Residential Mortgage Lending*

Merrill Lynch originates and purchases residential mortgage loans, certain of which include features that may result in additional credit risk when compared to more traditional types of mortgages. The potential additional credit risk arising from these mortgages is addressed through adherence to underwriting guidelines. Credit risk is closely monitored in order to ensure that reserves are sufficient and valuations are appropriate. For additional information on residential mortgage lending, see the 2005 Annual Report.

*Derivatives*

Merrill Lynch enters into International Swaps and Derivatives Association, Inc. master agreements or their equivalent (“master netting agreements”) with substantially all of its derivative counterparties as soon as possible. Agreements are negotiated bilaterally and can require complex terms. While every effort is taken to execute such agreements, it is possible that a counterparty may be unwilling to sign such an agreement and, as a result, would subject Merrill Lynch to additional credit risk. Master netting agreements provide protection in bankruptcy in certain circumstances and, in some cases, enable receivables and payables with the same counterparty to be offset for risk management purposes. However, the enforceability of master netting agreements under bankruptcy laws in certain countries or in certain industries is not free from doubt, and receivables and payables with counterparties in these countries or industries are accordingly recorded on a gross basis.

In addition, to reduce the risk of loss, Merrill Lynch requires collateral, principally cash and U.S. Government and agency securities, on certain derivative transactions. From an economic standpoint, Merrill Lynch evaluates risk exposures net of related collateral. The following is a summary of counterparty credit ratings for the replacement cost (net of \$14.4 billion of collateral, of which \$7.1 billion represented cash collateral) of OTC trading derivatives in a gain position by maturity at June 30, 2006.

*(dollars in millions)*

Credit Rating(1)	Years to Maturity				Cross-Maturity Netting(2)	Total
	0-3	3+- 5	5+- 7	Over 7		
AAA	\$ 1,434	\$ 423	\$ 190	\$ 1,290	\$ (185)	\$ 3,152
AA	3,420	929	960	3,346	(2,646)	6,009
A	2,991	1,139	1,146	2,953	(4,797)	3,432
BBB	1,743	452	466	1,662	(519)	3,804
Other	2,120	531	268	405	(187)	3,137
Total	\$11,708	\$ 3,474	\$ 3,030	\$ 9,656	\$ (8,334)	\$19,534

(1) Represents credit rating agency equivalent of internal credit ratings.

(2) Represents netting of payable balances with receivable balances for the same counterparty across maturity band categories.

Receivable and payable balances with the same counterparty in the same maturity category, however, are net within the maturity category.

In addition to obtaining collateral, Merrill Lynch attempts to mitigate its default risk on derivatives whenever possible by entering into transactions with provisions that enable Merrill Lynch to terminate or reset the terms of its derivative contracts.

**Non-Investment Grade Holdings and Highly Leveraged Transactions**

Non-investment grade holdings and highly leveraged transactions involve risks related to the creditworthiness of the issuers or counterparties and the liquidity of the market for such investments. Merrill Lynch recognizes these risks and, whenever possible, employs strategies to mitigate exposures. The specific components and overall level of non-investment grade and highly leveraged positions may vary significantly from period to period as a result of inventory turnover, investment sales, and asset redeployment.

In the normal course of business, Merrill Lynch underwrites, trades, and holds non-investment grade cash instruments in connection with its investment banking, market-making, and derivative structuring

activities. Non-investment grade holdings are defined as debt and preferred equity securities rated lower than BBB or equivalent ratings by recognized credit rating agencies, sovereign debt in emerging markets, amounts due under derivative contracts from non-investment grade counterparties, and other instruments that, in the opinion of management, are non-investment grade.

In addition to the amounts included in the following table, derivatives may also expose Merrill Lynch to credit risk related to the underlying security where a derivative contract can either replicate ownership of the underlying security (e.g., long total return swaps) or potentially force ownership of the underlying security (e.g., short put options). Derivatives may also subject Merrill Lynch to credit spread or issuer default risk, in that changes in credit spreads or in the credit quality of the underlying securities may adversely affect the derivatives' fair values. Merrill Lynch seeks to manage these risks by engaging in various hedging strategies to reduce its exposure associated with non-investment grade positions, such as purchasing an option to sell the related security or entering into other offsetting derivative contracts.

Merrill Lynch provides financing and advisory services to, and invests in, companies entering into leveraged transactions, which may include leveraged buyouts, recapitalizations, and mergers and acquisitions. On a selected basis, Merrill Lynch provides extensions of credit to leveraged companies, in the form of senior and subordinated debt, as well as bridge financing. In addition, Merrill Lynch syndicates loans for non-investment grade companies or in connection with highly leveraged transactions and may retain a portion of these loans.

Merrill Lynch holds direct equity investments in leveraged companies and interests in partnerships that invest in leveraged transactions. Merrill Lynch has also committed to participate in limited partnerships that invest in leveraged transactions. Future commitments to participate in limited partnerships and other direct equity investments will continue to be made on a selective basis.

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### ***Trading Exposures***

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The following table summarizes Merrill Lynch's trading exposure to non-investment grade or highly leveraged issuers or counterparties:

*(dollars in millions)*

	<b>June 30, 2006</b>	<b>Dec. 30, 2005</b>
Trading assets:		
Cash instruments	\$ 20,397	\$ 15,578
Derivatives	5,838	6,750
Trading liabilities — cash instruments	(3,304)	(3,400)
Collateral on derivative assets	(2,701)	(3,123)
Net trading asset exposure	\$ 20,230	\$ 15,805

Included in the preceding table are debt and equity securities and bank loans of companies in various stages of bankruptcy proceedings or in default. At June 30, 2006, the carrying value of such debt and equity securities totaled \$694 million, of which 48% resulted from Merrill Lynch's market-making activities in such securities. This compared with \$900 million at December 30, 2005, of which 61% related to market-making activities. Also included are distressed bank loans totaling \$297 million and \$290 million at June 30, 2006 and December 30, 2005, respectively.

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**Non-Trading Exposures**

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The following table summarizes Merrill Lynch’s non-trading exposures to non-investment grade or highly leveraged corporate issuers or counterparties:

(dollars in millions)

	June 30, 2006	Dec. 30, 2005
Investment securities	\$ 500	\$ 554
Other investments(1):		
Partnership interests	3,245	2,371
Other equity investments(2)	2,646	2,086
Other assets	-	76

(1) Includes a total of \$665 million and \$556 million in investments held by employee partnerships at June 30, 2006 and December 30, 2005, respectively, for which a portion of the market risk of the investments rests with the participating employees.

(2) Includes investments in 169 and 167 enterprises at June 30, 2006 and December 30, 2005, respectively.

In addition, Merrill Lynch had commitments to non-investment grade or highly leveraged corporate issuers or counterparties of \$1.7 billion and \$1.2 billion at June 30, 2006 and December 30, 2005, respectively, which primarily relate to commitments to invest in partnerships.

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**Recent Developments**

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*New Accounting Pronouncements*

In June 2006, the Financial Accounting Standards Board (“FASB”) issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109* (“FIN 48”). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company’s financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 will be effective for Merrill Lynch beginning in the first quarter of 2007. Merrill Lynch is currently evaluating the impact of adopting the Interpretation.

In April 2006, the FASB issued a FASB Staff Position FIN 46(R)-6, *Determining the Variability to be Considered in Applying FIN 46R* (“the FSP”). The FSP requires that the variability to be included when applying FIN 46R be based on a “by-design” approach and consider what risks the variable interest entity was designed to create. The FSP is effective beginning in the third quarter of 2006 for all new entities with which Merrill Lynch becomes involved, and to all entities previously required to be analyzed under FIN 46R when a reconsideration event occurs as defined under paragraph 7 of the Interpretation. Merrill Lynch does not expect the adoption of the FSP to have a material impact on the Condensed Consolidated Financial Statements.

In March 2006, the FASB issued Statement No. 156, *Accounting for Servicing of Financial Assets* (“SFAS No. 156”). SFAS No. 156 amends Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, to require all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable. SFAS No. 156 also permits servicers to subsequently measure each separate class of servicing assets

and liabilities at fair value rather than at the lower of cost or market. For those companies that elect to measure their servicing assets and liabilities at fair value, SFAS No. 156 requires the difference between the carrying value and fair value at the date of adoption to be recognized as a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year in which the election is made. Merrill Lynch will adopt SFAS No. 156 beginning in the first quarter of 2007. Merrill Lynch is currently assessing the impact of adopting SFAS No. 156 but does not expect the standard to have a material impact on the Condensed Consolidated Financial Statements.

In February 2006, the FASB issued Statement No. 155, *Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140* (“SFAS No. 155”). SFAS No. 155 clarifies the bifurcation requirements for certain financial instruments and permits interests in hybrid financial instruments that contain an embedded derivative that would otherwise require bifurcation to be accounted for as a single financial instrument at fair value with changes in fair value recognized in earnings. This election is permitted on an instrument-by-instrument basis for all hybrid financial instruments held, obtained, or issued as of the adoption date. Merrill Lynch will adopt SFAS No. 155 beginning in the first quarter of 2007. At adoption, any difference between the total carrying amount of the individual components of the existing bifurcated hybrid financial instruments and the fair value of the combined hybrid financial instruments will be recognized as a cumulative-effect adjustment to beginning retained earnings. Merrill Lynch is currently assessing the impact of adopting SFAS No. 155.

During the first quarter of 2006, Merrill Lynch adopted the provisions of Statement No. 123 (revised 2004), *Share-Based Payment*, a revision of SFAS No. 123, *Accounting for Stock-Based Compensation* (“SFAS No. 123R”). Under SFAS No. 123R, compensation expenses for share-based awards that do not require future service are recorded immediately, and share-based awards that require future service continue to be amortized into expense over the relevant service period. Merrill Lynch adopted SFAS No. 123R under the modified prospective method whereby the provisions of SFAS No. 123R are generally applied only to share-based awards granted or modified subsequent to adoption. Thus, for Merrill Lynch, SFAS No. 123R required the immediate expensing of share-based awards granted or modified in 2006 to retirement-eligible employees, including awards that are subject to non-compete provisions.

Prior to the adoption of SFAS No. 123R, Merrill Lynch had recognized expense for share-based compensation over the vesting period stipulated in the grant for all employees. This included those who had satisfied retirement eligibility criteria but were subject to a non-compete agreement that applied from the date of retirement through each applicable vesting period. Previously, Merrill Lynch had accelerated any unrecognized compensation cost for such awards if a retirement-eligible employee left Merrill Lynch. However, because SFAS No. 123R applies only to awards granted or modified in 2006, expenses for share-based awards granted prior to 2006 to employees who were retirement-eligible with respect to those awards must continue to be amortized over the stated vesting period.

In addition, beginning with performance year 2006, for which Merrill Lynch expects to grant stock awards in early 2007, Merrill Lynch will accrue the expense for future awards granted to retirement-eligible employees over the award performance year instead of recognizing the entire expense related to the award on the grant date. Compensation expense for all future stock awards granted to employees not eligible for retirement with respect to those awards will be recognized over the applicable vesting period.

SFAS No. 123R also requires expected forfeitures of share-based compensation awards for non-retirement-eligible employees to be included in determining compensation expense. Prior to the adoption of SFAS No. 123R, any benefits of employee forfeitures of such awards were recorded as a reduction of compensation expense when the employee left Merrill Lynch and forfeited the award. In

the first quarter of 2006, Merrill Lynch recorded a benefit based on expected forfeitures which was not material to the results of operations for the quarter.

The adoption of SFAS No. 123R resulted in a first quarter charge to compensation expense of approximately \$550 million on a pre-tax basis and \$370 million on an after-tax basis.

The adoption of SFAS No. 123R, combined with other business and competitive considerations, prompted Merrill Lynch to undertake a comprehensive review of the company's stock-based incentive compensation awards, including vesting schedules and retirement eligibility requirements, examining their impact to both Merrill Lynch and its employees. Upon the completion of this review, the Management Development and Compensation Committee of Merrill Lynch's Board of Directors determined that to fulfill the objective of retaining high quality personnel, future stock grants should contain more stringent retirement provisions. These provisions include a combination of increased age and length of service requirements. While the stock awards of employees who retire continue to vest, retired employees are subject to continued compliance with the strict non-compete provisions of those awards. To facilitate transition to the more stringent future requirements, the terms of most outstanding stock awards previously granted to employees, including certain executive officers, were modified, effective March 31, 2006, to permit employees to be immediately eligible for retirement with respect to those earlier awards. While Merrill Lynch modified the retirement-related provisions of the previous stock awards, the vesting and non-compete provisions for those awards remain in force.

Since the provisions of SFAS No. 123R apply to awards modified in 2006, these modifications required Merrill Lynch to record additional one-time compensation expense in the first quarter of 2006 for the remaining unamortized amount of all awards to employees who had not previously been retirement-eligible under the original provisions of those awards.

The one-time, non-cash charge associated with the adoption of SFAS No. 123R, and the policy modifications to previous awards resulted in a net charge to compensation expense in the first quarter of 2006 of approximately \$1.8 billion pre-tax, and \$1.2 billion after-tax, or a net impact of \$1.34 and \$1.21 on basic and diluted earnings per share, respectively. Policy modifications to previously granted awards amounted to \$1.2 billion of the pre-tax charge and impacted approximately 6,300 employees.

Prior to the adoption of SFAS No. 123R, Merrill Lynch presented the cash flows related to income tax deductions in excess of the compensation expense recognized on share-based compensation as operating cash flows in the Condensed Consolidated Statements of Cash Flows. SFAS No. 123R requires cash flows resulting from tax deductions in excess of the grant-date fair value of share-based awards to be included in cash flows from financing activities. The excess tax benefits of \$283 million related to total share-based compensation included in cash flows from financing activities in the first quarter of 2006 would have been included in cash flows from operating activities if Merrill Lynch had not adopted SFAS No. 123R.

As a result of adopting SFAS No. 123R, approximately \$600 million of liabilities associated with the Financial Advisor Capital Accumulation Award Plan ("FACAAP") were reclassified to stockholders' equity. In addition, as a result of adopting SFAS No. 123R, the unamortized portion of employee stock grants, which was previously reported as a separate component of stockholders' equity on the Condensed Consolidated Balance Sheets, has been reclassified to Paid-in Capital. Refer to Note 12 to the Condensed Consolidated Financial Statements for additional information.



In June 2005, the FASB ratified the consensus reached by the Emerging Issues Task Force on Issue 04-5, *Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights* (“EITF 04-5”). EITF 04-5 presumes that a general partner controls a limited partnership, and should therefore consolidate a limited partnership, unless the limited partners have the substantive ability to remove the general partner without cause based on a simple majority vote or can otherwise dissolve the limited partnership, or unless the limited partners have substantive participating rights over decision making. The guidance in EITF 04-5 was effective beginning in the third quarter of 2005 for all new limited partnership agreements and any limited partnership agreements that were modified. For those partnership agreements that existed at the date EITF 04-5 was issued, the guidance became effective in the first quarter of 2006. The adoption of this guidance did not have a material impact on the Condensed Consolidated Financial Statements.

## Statistical Data

	2nd Qtr. 2005	3rd Qtr. 2005	4th Qtr. 2005	1st Qtr. 2006	2nd Qtr. 2006
<b>Client Assets (dollars in billions)</b>					
<b>Private Client:</b>					
U.S.	\$ 1,234	\$ 1,271	\$ 1,341	\$ 1,381	\$ 1,370
Non-U.S.	115	113	117	121	124
Total Private Client Assets	1,349	1,384	1,458	1,502	1,494
MLIM direct sales <sup>(1)</sup>	236	272	291	316	326
Total Client Assets	\$ 1,585	\$ 1,656	\$ 1,749	\$ 1,818	\$ 1,820
<b>Assets Under Management<sup>(2)</sup></b>					
Retail	\$ 478	\$ 524	\$ 544	\$ 581	\$ 589
Institutional	218	231	245	272	275
Retail Separate Accounts	215	246	250	259	266
U.S.	45	47	49	50	48
Non-U.S.	311	322	333	347	346
Equity	167	202	211	234	243
Retail Money Market	249	285	299	330	333
Institutional Liquidity Funds	46	45	45	48	46
Fixed Income	68	74	77	78	83
	115	120	123	125	127
<b>Net New Money (dollars in billions)</b>					
All Private Client Accounts <sup>(3)</sup>	\$ 7	\$ 11	\$ 17	\$ 18	\$ 7
Annuitized-Revenue Products <sup>(3)(4)</sup>	\$ 8	\$ 10	\$ 10	\$ 13	\$ 10
Assets Under Management	\$ (2)	\$ 12	\$ 11	\$ 15	\$ 8
<b>Full-Time Employees:<sup>(5)</sup></b>					
U.S.	40,900	41,900	43,200	43,400	43,600
Non-U.S.	10,900	11,200	11,400	12,100	12,400
Total	51,800	53,100	54,600	55,500	56,000
<b>Private Client Financial Advisors:<sup>(6)</sup></b>					
	14,420	14,690	15,160	15,350	15,520
<b>Balance Sheet (dollars in millions, except per share amounts)</b>					
Total assets	\$626,140	\$670,593	\$681,015	\$732,240	\$799,188
Total stockholders' equity	\$ 33,041	\$ 33,630	\$ 35,600	\$ 37,825	\$ 36,541
Book value per common share	\$ 33.63	\$ 34.66	\$ 35.82	\$ 37.19	\$ 37.18
<b>Share Information (in thousands)</b>					
Weighted-average shares outstanding:					
Basic	897,524	881,409	876,230	883,737	885,373
Diluted	978,504	968,493	970,673	981,085	973,324
Common shares outstanding at period end	930,867	921,699	919,201	933,443	898,124

Note: Certain prior period amounts have been reclassified to conform to the current period presentation.

(1) Reflects funds managed by MLIM not sold through Private Client channels.

(2) Includes \$5 billion of accounts managed by GPC at the end of 2Q05, 3Q05, 4Q05 and 1Q06, and \$6 billion at the end of 2Q06.

(3) GPC net new money excludes flows associated with the Institutional Advisory Division which serves certain small- and middle-market companies, as well as net outflows in the Amvescap retirement business and the Advest acquisition prior to its system conversion in early March.

(4) Includes both net new client assets into annuitized-revenue products, as well as existing client assets transferred into annuitized-revenue products.

(5) Excludes 100 full-time employees on salary continuation severance at the end of 2Q05, 3Q05, and 200 at the end of 4Q05, 1Q06; and 300 at the end of 2Q06.

(6) Includes 140 Financial Advisors associated with the Mitsubishi UFJ joint venture at the end of 2Q06.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

The information under the caption Item 2. “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Risk Management” above in this Report is incorporated herein by reference.

**Item 4. Controls and Procedures**

ML & Co.’s Disclosure Committee assists with the monitoring and evaluation of our disclosure controls and procedures. ML & Co.’s Chief Executive Officer, Chief Financial Officer and Disclosure Committee have evaluated the effectiveness of ML & Co.’s disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this Report. Based on that evaluation, ML & Co.’s Chief Executive Officer and Chief Financial Officer have concluded that ML & Co.’s disclosure controls and procedures are effective.

In addition, no change in ML & Co.’s internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) occurred during the second fiscal quarter of 2006 that has materially affected, or is reasonably likely to materially affect, ML & Co.’s internal control over financial reporting.

## **PART II — OTHER INFORMATION**

### **Item 1. Legal Proceedings**

The following information supplements the discussions in Part I, Item 3 “Legal Proceedings” in ML & Co.’s Annual Report on Form 10-K for the fiscal year ended December 30, 2005 and ML & Co.’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2006:

#### **Enron Litigation**

*United States v. Brown, et al.*: On August 1, 2006, the United States Court of Appeals for the Fifth Circuit vacated the conviction of four former Merrill Lynch employees for conspiracy and wire fraud related to Enron’s alleged misrepresentations of its financial condition. The court affirmed the conviction of one of those former employees for perjury and obstruction of a Grand Jury investigation.

*Newby v. Enron Corp. et al.*: On July 5, 2006, the district court issued an order certifying the case as a class action. On July 19, 2006, Merrill Lynch and other defendants appealed that order to the United States Court of Appeals for the Fifth Circuit. Merrill Lynch’s appeal, which plaintiff opposes, challenges the district court’s rulings on 1) the standards for determining whether conduct amounts to a primary violation of the federal securities laws (which is actionable) or aiding and abetting (which is not actionable), 2) defendants’ potential liability for the conduct of others who allegedly caused losses to Enron’s investors, and 3) whether the so-called fraud-on-the-market theory, which is important to class certification, applies to the allegations against Merrill Lynch. On July 31, 2006, the district court denied plaintiff’s August 3, 2005 motion for partial summary judgment against Merrill Lynch. On August 2, 2006, plaintiff and certain defendants, including Merrill Lynch, requested that the start of the trial be postponed from October 16, 2006 to April 9, 2007.

#### **Research**

*In re Merrill Lynch & Co., Inc. Shareholders Litigation*: In July 2006, this matter was settled for an amount that did not have a material impact on ML & Co.’s financial condition or results of operations. The settlement is subject to documentation and court approval.

#### **IPO Allocation Litigation**

*In re Initial Public Offering Antitrust Litigation*: On June 19, 2006, the Supreme Court requested the government to submit its views on whether the defendants’ petition for certiorari should be granted. The petition seeks review of an appellate court decision reversing the district court’s dismissal of the action. The government has not yet submitted its views to the Supreme Court, and the Supreme Court has not yet decided whether to grant the petition for certiorari.

#### **IPO Underwriting Fee Litigation**

*In re Public Offering Fee Antitrust Litigation and In re Issuer Plaintiff Initial Public Offering Fee Antitrust Litigation*: On May 1, 2006, plaintiff filed an appeal of the district court’s decision declining to certify a class with the United States Court of Appeals for the Second Circuit. On August 1, 2006, the court of appeals agreed to hear the appeal.

### **Short Sales**

*Electronic Trading Group, LLC v. Banc of America Securities LLC, et al:* Plaintiffs have advised the defendants that they intend to file an amended complaint on or before September 5, 2006. The defendants, including Merrill Lynch, will then have until November 8, 2006, to move to dismiss the amended complaint.

*Avenius v. Banc of America Securities LLC, et al:* On June 22, 2006, 37 purchasers of securities of Nova Star Financial filed an action against eleven financial services firms, including Merrill Lynch, in the California Superior Court in San Francisco. The case alleges that the defendants improperly depressed the price of Nova Star Financial shares by facilitating short sales that did not comply with regulatory requirements. The case was removed to federal court on July 21. Merrill Lynch intends to vigorously defend itself against these charges.

### **SwissAir**

On July 24, 2006, Merrill Lynch Capital Markets Bank AG (“MLCMB AG”) filed its defense to the claims of the Liquidator of SAirGroup (“SwissAir”) in the commercial court of Zurich. The first hearing that considers the merits of the claims is likely to take place in late 2006 or early 2007.

### **Other**

Merrill Lynch has been named as a defendant in various other legal actions, including arbitrations, class actions, and other litigation arising in connection with its activities as a global diversified financial services institution. The general decline of equity securities prices between 2000 and 2003 resulted in increased legal actions against many firms, including Merrill Lynch.

Some of the legal actions include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. In some cases, the issuers that would otherwise be the primary defendants in such cases are bankrupt or otherwise in financial distress. Merrill Lynch is also involved in investigations and/or proceedings by governmental and self-regulatory agencies. The number of these investigations has also increased in recent years with regard to many firms, including Merrill Lynch.

Merrill Lynch believes it has strong defenses to, and where appropriate, will vigorously contest, many of these matters. Given the number of these matters, some are likely to result in adverse judgments, penalties, injunctions, fines, or other relief. Merrill Lynch may explore potential settlements before a case is taken through trial because of the uncertainty and risks inherent in the litigation process. In accordance with SFAS No. 5, Merrill Lynch will accrue a liability when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. In many lawsuits and arbitrations, including most of the class action lawsuits disclosed in ML & Co.’s public filings, it is not possible to determine whether a liability has been incurred or to estimate the ultimate or minimum amount of that liability until the case is close to resolution, in which case no accrual is made until that time. In view of the inherent difficulty of predicting the outcome of such matters, particularly in cases in which claimants seek substantial or indeterminate damages, Merrill Lynch cannot predict what the eventual loss or range of loss related to such matters will be. Subject to the foregoing, Merrill Lynch continues to assess these cases and believes, based on information available to it, that the resolution of these matters will not have a material adverse effect on the financial condition of Merrill Lynch as set forth in the Condensed Consolidated Financial Statements, but may be material to Merrill Lynch’s operating results or cash flows for any particular period and may impact ML & Co.’s credit ratings.

**Item 1A. Risk Factors**

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in the Annual Report on Form 10-K for the year ended December 30, 2005, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing Merrill Lynch. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

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

The table below sets forth the information with respect to purchases made by or on behalf of Merrill Lynch or any “affiliated purchaser” of Merrill Lynch’s common stock during the quarter ended June 30, 2006.

*(dollars in millions, except per share amounts)*

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program(1)	Approximate Dollar Value of Shares that May Yet be Purchased Under the Program
Month #1 (Apr. 1, 2006 – May 5, 2006)				
Capital Management Program	15,654,300	\$78.35	15,654,300	\$4,130
Employee Transactions(2)	321,560	77.31	N/A	N/A
Month #2 (May 6, 2006 – Jun. 2, 2006)				
Capital Management Program	10,442,676	\$72.56	10,442,676	\$3,372
Employee Transactions(2)	336,242	72.07	N/A	N/A
Month #3 (Jun. 3, 2006 – Jun. 30, 2006)				
Capital Management Program	15,309,000	\$68.53	15,309,000	\$2,323
Employee Transactions(2)	404,666	67.78	N/A	N/A
Second Quarter 2006 (Apr. 1, 2006 – Jun. 30, 2006)				
Capital Management Program	41,405,976	\$73.26	41,405,976	\$2,323
Employee Transactions(2)	1,062,468	72.02	N/A	N/A

- (1) Share repurchases under the program were made pursuant to open-market purchases, Rule 10b5-1 plans or privately negotiated transactions as market conditions warranted and at prices Merrill Lynch deemed appropriate.
- (2) Included in the total number of shares purchased are: (1) shares purchased during the period by participants in the Merrill Lynch 401(k) Savings and Investment Plan (“401(k)”) and the Merrill Lynch Retirement Accumulation Plan (“RAP”), (2) shares delivered or attested to in satisfaction of the exercise price by holders of ML & Co. employee stock options (granted under employee stock compensation plans) and (3) Restricted Shares withheld (under the terms of grants under employee stock compensation plans) to offset tax withholding obligations that occur upon vesting and release of Restricted Shares. ML & Co.’s employee stock compensation plans provide that the value of the shares delivered or attested, or withheld, shall be the average of the high and low price of ML & Co.’s common stock (Fair Market Value) on the date the relevant transaction occurs. See Notes 13 and 14 of the 2005 Annual Report for additional information on these plans.

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

On April 28, 2006, ML & Co. held its Annual Meeting of Shareholders. Further details concerning matters submitted for shareholders' vote can be found in ML & Co.'s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2006.

**Item 6. Exhibits**

- 3 ML & Co.'s Amended and Restated By-Laws, effective as of July 24, 2006.
- 4 Instruments defining the rights of security holders, including indentures:  
ML & Co. hereby undertakes to furnish to the Securities and Exchange Commission, upon request, copies of the instruments that have not been filed which define the rights of holders of long-term debt securities of ML & Co. that authorize an amount of securities constituting 10% or less of the total assets of ML & Co. and its subsidiaries on a consolidated basis. Such instruments have not been filed pursuant to Item 601(b)(4)(iii)(A) of Regulation S-K.
- 4.1 Supplemental Indenture dated as of May 16, 2006 between ML & Co. and JPMorgan Chase Bank, N.A. (filed as Exhibit 4(a) to ML & Co.'s Report on Form 8-K dated May 16, 2006)
- 10.1 ML & Co. 2006 Deferred Compensation Plan for a Select Group of Eligible Employees (filed as Exhibit 10.3 to ML & Co.'s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2006).
- 10.2 Stockholder Agreement, dated as of February 15, 2006, between Merrill Lynch & Co., Inc. and New Boise, Inc.
- 11 Statement re: computation of earnings per common share (the calculation of per share earnings is in Part I, Item 1, Note 9 to the Condensed Consolidated Financial Statements (Earnings Per Share) and is omitted in accordance with Section (b)(11) of Item 601 of Regulation S-K).
- 12 Statement re: computation of ratios.
- 15 Letter re: unaudited interim financial information.
- 31.1 Rule 13a-14(a) Certification of the Chief Executive Officer.
- 31.2 Rule 13a-14(a) Certification of the Chief Financial Officer.
- 32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 99.1 Reconciliation of "Non-GAAP" Measures.

**SIGNATURES**

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

MERRILL LYNCH & CO., INC.  
(Registrant)

By: /s/ Jeffrey N. Edwards

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Jeffrey N. Edwards  
Senior Vice President and  
Chief Financial Officer

By: /s/ Laurence A. Tosi

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Laurence A. Tosi  
Senior Vice President and Finance Director  
Principal Accounting Officer

Date: August 4, 2006



## INDEX TO EXHIBITS

### Exhibit

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**AMENDED BY-LAWS**

**OF**

**MERRILL LYNCH & CO., INC.**

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**Effective: July 24, 2006**

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**to**  
**BY-LAWS**  
**of**  
**MERRILL LYNCH & CO., INC.**

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**BY-LAWS**

**OF**

**MERRILL LYNCH & CO., INC.**

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ARTICLE I.

OFFICES

Merrill Lynch & Co., Inc. (hereinafter called the "Corporation") may establish or discontinue, from time to time, such offices and places of business within or without the State of Delaware as the Board of Directors may deem proper for the conduct of the Corporation's business.

ARTICLE II.

MEETINGS OF STOCKHOLDERS

Section 1. *Annual Meeting.* The annual meeting of the holders of shares of such classes or series of stock as are entitled to notice thereof and to vote thereat pursuant to the provisions of the Certificate of Incorporation (hereinafter called the "Annual Meeting of Stockholders") for the purpose of electing directors and transacting such other business as may come before it shall be held in each year at such time, on such day and at such place, within or without the State of Delaware, as shall be designated by the Board of Directors.

Section 2. *Special Meetings.* In addition to such meetings as are provided for by law or by the Certificate of Incorporation, special meetings of the holders of any class or series or of all classes or series of the Corporation's stock may be called at any time by the Board of Directors pursuant to a resolution adopted by the affirmative vote of a majority of the entire Board of Directors and may be held at such time, on such day and at such place, within or without the State of Delaware, as shall be designated by the Board of Directors.

Section 3. *Notice of, and Business at, Meetings.*

a. Notice. Except as otherwise provided by law, notice of each meeting of stockholders shall be given either by delivering a written notice personally or mailing a written notice to each stockholder of record entitled to vote thereat or by providing notice in such other form and by such other method as may be permitted by Delaware law. If mailed, the notice shall be directed to the stockholder in a postage-prepaid envelope at his address as it appears on the stock books of the Corporation unless, prior to the time of mailing, he shall have filed with the Secretary a written request that notices intended for him be mailed to some other address, in which case it shall be

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mailed to the address designated in such request. Notice of each meeting of stockholders shall be in such form as is approved by the Board of Directors and shall state the purpose or purposes for which the meeting is called, the date and time when and the place where it is to be held, and shall be delivered personally or mailed not more than sixty (60) days and not less than ten (10) days before the day of the meeting. Except as otherwise provided by law, the business which may be transacted at any special meeting of stockholders shall consist of and be limited to the purpose or purposes so stated in such notice. The Secretary or an Assistant Secretary or the Transfer Agent of the Corporation shall, after giving such notice, make an affidavit stating that notice has been given, which shall be filed with the minutes of such meeting.

b. Business. No business may be transacted at an annual meeting of stockholders, other than business that is either (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors (or any duly authorized committee thereof), (b) otherwise properly brought before the annual meeting by or at the direction of the Board of Directors (or any duly authorized committee thereof) or (c) otherwise properly brought before the annual meeting by any stockholder of the Corporation who (i) is a stockholder of record on the date of the giving of the notice provided for in this Section 3(b) and on the record date for the determination of stockholders entitled to vote at such annual meeting and (ii) complies with the notice procedures set forth in this Section 3(b).

In addition to any other applicable requirements, for business to be properly brought before an annual meeting by a stockholder, such stockholder must have given timely notice thereof in proper written form to the Secretary of the Corporation.

To be timely, a stockholder's notice to the Secretary must be delivered to or mailed and received by the Secretary of the Corporation not less than fifty (50) days prior to the date of the annual meeting of stockholders; provided, that in the event that less than 60 days' notice or prior public disclosure of the date of the meeting is given or made to stockholders, notice by the stockholder in order to be timely must be so received not later than the close of business on the tenth (10th) day following the day on which such notice of the date of the annual meeting was mailed or such public disclosure of the date of the annual meeting was made, whichever first occurs.

To be in proper written form, a stockholder's notice to the Secretary must set forth as to each matter such stockholder proposes to bring before the annual meeting (i) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (ii) the name and record address of such stockholder, (iii) the class or series and number of shares of capital stock of the Corporation which are owned beneficially or of record by such stockholder, (iv) a description of all arrangements or understandings between such stockholder and any other person or persons (including their names) in connection with the proposal of such business by such stockholder and any material interest of such stockholder in such business and (v) a representation that such stockholder

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intends to appear in person or by proxy at the annual meeting to bring such business before the meeting.

No business shall be conducted at the annual meeting of stockholders except business brought before the annual meeting in accordance with the procedures set forth in this Section 3(b), provided, however, that, once business has been properly brought before the annual meeting in accordance with such procedures, nothing in this Section 3(b) shall be deemed to preclude discussion by any stockholder of any such business. If the Chairman of an annual meeting determines that business was not properly brought before the annual meeting in accordance with the foregoing procedures, the Chairman shall declare to the meeting that the business was not properly brought before the meeting and such business shall not be transacted.

Section 4. *Waiver of Notice.* Whenever notice is required to be given under any provision of law or of the Certificate of Incorporation or the By-Laws, a waiver thereof in writing or by telegraph, cable or other form of recorded communication, signed by the person entitled to notice, whether before or after the time stated therein, shall be deemed equivalent to notice. Attendance of a person at a meeting of stockholders shall constitute a waiver of notice of such meeting, except when the person attends such meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any meeting of stockholders need be specified in any waiver of notice unless so required by the Certificate of Incorporation.

Section 5. *Organization.* The Chairman of the Board shall act as chairman at all meetings of stockholders at which he is present, and as such chairman shall call such meetings of stockholders to order and preside thereat. If the Chairman of the Board shall be absent from any meeting of stockholders, the duties otherwise provided in this Section 5 of Article II to be performed by him at such meeting shall be performed at such meeting by the officer prescribed by Section 6 of Article V. The Secretary of the Corporation shall act as secretary at all meetings of the stockholders, but in his absence the chairman of the meeting may appoint any person present to act as secretary of the meeting.

Section 6. *Inspectors of Election.* a. The Chairman of the Board shall, in advance of any meeting of stockholders, appoint one or more inspectors to act at the meeting and make a written report thereof. The Chairman of the Board may designate one or more persons as alternate inspectors to replace any inspector who fails to act. If no inspector or alternate is able to act at a meeting of stockholders, the person presiding at the meeting shall appoint one or more inspectors to act at the meeting. Each inspector, before entering upon the discharge of his duties, shall take and sign an oath faithfully to execute the duties of inspector with strict impartiality and according to the best of his ability.

b. The inspectors shall: (1) ascertain the number of shares outstanding and the voting power of each; (2) determine the shares represented at a meeting and the

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validity of proxies and ballots; (3) count all votes and ballots; (4) determine and retain for a reasonable period a record of the disposition of any challenges made to any determination by the inspectors; and (5) certify their determination of the number of shares represented at the meeting, and their count of all votes and ballots. The inspectors may appoint or retain other persons or entities to assist the inspectors in the performance of their duties.

Section 7. *Stockholders Entitled to Vote.* The Board of Directors may fix a date not more than sixty (60) days nor less than ten (10) days prior to the date of any meeting of stockholders, as a record date for the determination of the stockholders entitled to notice of and to vote at such meeting and any adjournment thereof, and in such case such stockholders and only such stockholders as shall be stockholders of record on the date so fixed shall be entitled to notice of, and to vote at, such meeting and any adjournment thereof, notwithstanding any transfer of any stock on the books of the Corporation after any such record date fixed as aforesaid. No record date shall precede the date on which the Board of Directors establishes such record date. The Secretary shall prepare and make or cause to be prepared and made, at least ten (10) days before every meeting of stockholders, a complete list of the stockholders entitled to vote at such meeting, arranged in alphabetical order and showing the address of each such stockholder and the number of shares registered in the name of each such stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting for a period of at least ten (10) days prior to the meeting, either on a reasonable accessible electronic network, provided that the information required to gain access to such list is provided with the notice of the meeting, or during ordinary business hours, at the principal place of business of the Corporation. In the event that the Corporation determines to make the list available on an electronic network, the Corporation may take reasonable steps to ensure that such information is available only to stockholders of the Corporation. If the meeting is to be held at a place, then the list shall be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present. If the meeting is to be held solely by means of remote communication, then the list shall also be open to examination of any stockholder during the whole time of the meeting on a reasonably accessible electronic network, and the information required to access such list shall be provided with the notice of the meeting.

Section 8. *Quorum and Adjournment.* Except as otherwise provided by law or by the Certificate of Incorporation, the holders of a majority of the shares of stock entitled to vote at the meeting present in person or by proxy without regard to class or series shall constitute a quorum at all meetings of the stockholders. In the absence of a quorum, the holders of a majority of such shares of stock present in person or by proxy may adjourn any meeting, from time to time, until a quorum shall be present. At any such adjourned meeting at which a quorum may be present, any business may be transacted which might have been transacted at the meeting as originally called. No notice of any adjourned meeting need be given other than by announcement at the meeting that is being adjourned, provided that if the adjournment is for more than thirty (30) days, or if after the adjournment a new record date is fixed for the

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adjourned meeting, then a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

Section 9. *Order of Business.* The order of business at all meetings of stockholders shall be as determined by the chairman of the meeting.

Section 10. *Vote of Stockholders.* Except as otherwise required by law or by the Certificate of Incorporation or by the By-Laws, all action by stockholders shall be taken at a stockholders' meeting. Every stockholder of record, as determined pursuant to Section 7 of this Article II, and who is entitled to vote, shall, except as otherwise expressly provided in the Certificate of Incorporation with respect to any class or series of the Corporation's capital stock, be entitled at every meeting of the stockholders to one vote for every share of stock standing in his name on the books of the Corporation. Every stockholder entitled to vote may authorize another person or persons to act for him by proxy duly appointed by an instrument in writing, subscribed by such stockholder and executed not more than three (3) years prior to the meeting, unless the instrument provides for a longer period. The attendance at any meeting of stockholders of a stockholder who may theretofore have given a proxy shall not have the effect of revoking such proxy. Election of directors shall be by written ballot but, unless otherwise provided by law, no vote on any question upon which a vote of the stockholders may be taken need be by ballot unless the chairman of the meeting shall determine that it shall be by ballot or the holders of a majority of the shares of stock present in person or by proxy and entitled to participate in such vote shall so demand. In a vote by ballot each ballot shall state the number of shares voted and the name of the stockholder or proxy voting. Except as otherwise provided in Sections 14 and 15 of Article III or by the Certificate of Incorporation, directors shall be elected by a plurality of the votes of the shares present in person or represented by proxy at the meeting and entitled to vote on the election of directors. Except as otherwise provided by law or by the Certificate of Incorporation, the affirmative vote of a majority of shares present in person or represented by proxy at the meeting and entitled to vote on the subject shall be the act of the stockholders.

Section 11. *Shares Entitled to More or Less than One Vote.* If any class or series of the Corporation's capital stock shall be entitled to more or less than one vote for any share, on any matter, every reference in the By-Laws to a majority or other proportion of stock shall refer to such majority or other proportion of the votes of such stock.

### ARTICLE III.

#### BOARD OF DIRECTORS

Section 1. *Election and Term.* Except as otherwise provided by law or by the Certificate of Incorporation, and subject to the provisions of Sections 13, 14 and 15 of this Article III, directors shall be elected at the Annual Meeting of Stockholders to serve until the Annual Meeting of Stockholders in the third year following their election

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and until their successors are elected and qualify or until their earlier resignation or removal.

Section 2. *Qualification.* No one shall be a director who is not the owner of shares of Common Stock of the Corporation. Acceptance of the office of director may be expressed orally or in writing.

For the purposes of this Section 2 of Article III of these By-Laws: (1) stock units or other equity-linked instruments tied to the value of the Corporation's Common Stock shall be deemed to be shares of Common Stock of the Corporation; and (2) an initial grant of Common Stock, stock units or other equity-linked instruments tied to the value of the Corporation's Common Stock under any of the Corporation's plans for its non-employee directors, even if made after the date of the election of a director, shall be sufficient to comply with this provision.

Section 3. *Number.* The number of directors may be fixed from time to time by resolution of the Board of Directors but shall not be less than three (3) nor more than thirty (30).

Section 4. *General Powers.* The business, properties and affairs of the Corporation shall be managed by, or under the direction of, the Board of Directors, which, without limiting the generality of the foregoing, shall have power to elect and appoint officers of the Corporation, to appoint and direct agents, to grant general or limited authority to officers, employees and agents of the Corporation to make, execute and deliver contracts and other instruments and documents in the name and on behalf of the Corporation and over its seal, without specific authority in each case, and, by resolution adopted by a majority of the whole Board of Directors, to appoint committees of the Board of Directors in addition to those appointed pursuant to Article IV hereof, the membership of which may consist of one or more directors, and which may advise the Board of Directors with respect to any matters relating to the conduct of the Corporation's business. The Board of Directors may designate one or more directors as alternate members of any committee, including those appointed pursuant to Article IV hereof, who may replace any absent or disqualified member at any meeting of the committee. In addition, the Board of Directors may exercise all the powers of the Corporation and do all lawful acts and things which are not reserved to the stockholders by law or by the Certificate of Incorporation.

Section 5. *Place of Meetings.* Meetings of the Board of Directors may be held at any place, within or without the State of Delaware, from time to time designated by the Board of Directors.

Section 6. *Organization Meeting.* A newly elected Board of Directors may meet and organize, and also may transact any other business which might be transacted at a regular meeting on the day of the Annual Meeting of Stockholders, at the place at which such meeting of stockholders took place, without notice of such meeting, provided a majority of the whole Board of Directors is present. Such organization meeting may otherwise be held at any other time or place which may be

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specified in a notice given in the manner provided in Section 8 of this Article III for special meetings of the Board of Directors, or in a waiver of notice thereof.

Section 7. *Regular Meetings.* Regular meetings of the Board of Directors shall be held at such times as may be determined by resolution of the Board of Directors and no notice shall be required for any regular meeting. Except as otherwise provided by law, any business may be transacted at any regular meeting of the Board of Directors.

Section 8. *Special Meetings; Notice and Waiver of Notice.* Special meetings of the Board of Directors shall be called by the Secretary on the request of the Chairman of the Board, the President or a Vice Chairman of the Board, or on the request in writing of any three other directors stating the purpose or purposes of such meeting. Notice of any special meeting shall be in form approved by the Chairman of the Board, the President or a Vice Chairman of the Board, as the case may be. Notices of special meetings shall be mailed to each director, addressed to him at his residence or usual place of business, not later than two (2) days before the day on which the meeting is to be held, or shall be sent to him at such place by telegraph, cable or other form of recorded communication or be delivered personally or by telephone, not later than the day before such day of meeting. Notice of any meeting of the Board of Directors need not be given to any director if he shall sign a written waiver thereof either before or after the time stated therein, or if he shall attend a meeting, except when he attends such meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any special meeting of the Board of Directors need be specified in any notice or written waiver of notice unless so required by the Certificate of Incorporation or by the By-Laws. Unless limited by law, by the Certificate of Incorporation or by the By-Laws, any and all business may be transacted at any special meeting.

Section 9. *Organization of Meetings.* The Chairman of the Board shall preside at all meetings of the Board of Directors at which he is present. If the Chairman of the Board shall be absent from any meeting of the Board of Directors, the duties otherwise provided in this Section 9 of Article III to be performed by him at such meeting shall be performed at such meeting by the individual elected by the Board of Directors to act as Lead Independent Director. If no Lead Independent Director has been elected or if the Lead Independent Director is not present at the meeting, the officer prescribed by Section 6 of Article V shall preside at such meeting. If no such officer is present at such meeting, one of the directors present shall be chosen by the members of the Board of Directors present to preside at such meeting. The Secretary of the Corporation shall act as the secretary at all meetings of the Board of Directors, and in his absence a temporary secretary shall be appointed by the chairman of the meeting.

Section 10. *Quorum and Manner of Acting.* Except as otherwise provided by Section 6 of this Article III, at every meeting of the Board of Directors one-third (1/3)

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of the total number of directors constituting the whole Board of Directors shall constitute a quorum but in no event shall a quorum be constituted by less than two (2) directors. Except as otherwise provided by law or by the Certificate of Incorporation, or by Section 15 of this Article III, or by Section 1 or Section 8 of Article IV, or by Section 3 of Article V, or by Article IX, the act of a majority of the directors present at any such meeting, at which a quorum is present, shall be the act of the Board of Directors. In the absence of a quorum, a majority of the directors present may adjourn any meeting, from time to time, until a quorum is present. No notice of any adjourned meeting need be given other than by announcement at the meeting that is being adjourned. Members of the Board of Directors or any committee thereof may participate in a meeting of the Board of Directors or of such committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation by a member of the Board of Directors in a meeting pursuant to this Section 10 of Article III shall constitute his presence in person at such meeting.

Section 11. *Voting.* On any question on which the Board of Directors shall vote, the names of those voting and their votes shall be entered in the minutes of the meeting if any member of the Board of Directors so requests at the time.

Section 12. *Action without a Meeting.* Except as otherwise provided by law or by the Certificate of Incorporation, any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting, if prior to such action all members of the Board of Directors or of such committee, as the case may be, consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the Board of Directors or the committee.

Section 13. *Resignations.* Any director may resign at any time upon written notice of resignation to the Corporation. Any resignation shall be effective immediately unless a date certain is specified for it to take effect, in which event it shall be effective upon such date, and acceptance of any resignation shall not be necessary to make it effective, irrespective of whether the resignation is tendered subject to such acceptance.

Section 14. *Removal of Directors.* Subject to the rights of the holders of any series of Preferred Stock or any other class of capital stock of the Corporation (other than the Common Stock) then outstanding, (i) any director, or the entire Board of Directors, may be removed from office at any time, but only for cause, by the affirmative vote of the holders of record of outstanding shares representing at least 80% of the voting power of all the shares of capital stock of the Corporation then entitled to vote generally in the election of directors, voting together as a single class, and (ii) any director may be removed from office at any time, but only for cause, by the affirmative vote of a majority of the entire Board of Directors.

Section 15. *Vacancies.* Subject to the rights of the holders of any series of Preferred Stock or any other class of capital stock of the Corporation (other than the

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Common Stock) then outstanding, any vacancies in the Board of Directors for any reason, including by reason of any increase in the number of directors, shall, if occurring prior to the expiration of the term of office of the class in which such vacancy occurs, be filled only by the Board of Directors, acting by the affirmative vote of a majority of the remaining directors then in office, although less than a quorum, and any directors so elected shall hold office until the next election of the class for which such directors have been elected and until their successors are elected and qualify.

Section 16. *Directors' Compensation.* Any and all directors may receive such reasonable compensation for their services as such, whether in the form of salary or a fixed fee for attendance at meetings, with expenses, if any, as the Board of Directors may from time to time determine. Nothing herein contained shall be construed to preclude any director from serving the Corporation in any other capacity and receiving compensation therefor.

#### ARTICLE IV.

#### COMMITTEES

Section 1. *Constitution and Powers.* The Board of Directors may, by resolution adopted by affirmative vote of a majority of the whole Board of Directors, appoint one or more committees of the Board of Directors, which committees shall have such powers and duties as the Board of Directors shall properly determine. Unless otherwise provided by the Board of Directors, no such other committee of the Board of Directors shall be composed of fewer than two (2) directors.

Section 2. *Place of Meetings.* Meetings of any committee of the Board of Directors may be held at any place, within or without the State of Delaware, from time to time designated by the Board of Directors or such committee.

Section 3. *Meetings; Notice and Waiver of Notice.* Regular meetings of any committee of the Board of Directors shall be held at such times as may be determined by resolution either of the Board of Directors or of such committee and no notice shall be required for any regular meeting. Special meetings of any committee shall be called by the secretary thereof upon request of any two members thereof. Notice of any special meeting of any committee shall be in form approved by the Chairman of the Board, the President or a Vice Chairman of the Board, as the case may be. Notices of special meetings shall be mailed to each member, addressed to him at his residence or usual place of business, not later than two (2) days before the day on which the meeting is to be held, or shall be sent to him at such place by telegraph, cable or any other form of recorded communication, or be delivered personally or by telephone, not later than the day before such day of meeting. Neither the business to be transacted at, nor the purpose of, any special meeting of any committee, need be specified in any notice or written waiver of notice unless so required by the Certificate of Incorporation or the By-Laws. Notices of any such meeting need not be given to any member of any committee, however, if waived by him as provided in Section 8 of

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Article III, and the provisions of such Section 8 with respect to waiver of notice of meetings of the Board of Directors shall apply to meetings of any committee as well.

Section 4. *Organization of Meetings.* The most senior officer of the Corporation present, if any be members of the committee, and, if not, the director present who has served the longest as a director, except as otherwise expressly provided by the Board of Directors or the committee, shall preside at all meetings of any committee. The Secretary of the Corporation, except as otherwise expressly provided by the Board of Directors, shall act as secretary at all meetings of any committee and in his absence a temporary secretary shall be appointed by the chairman of the meeting.

Section 5. *Quorum and Manner of Acting.* One-third (1/3) of the members of any committee then in office shall constitute a quorum for the transaction of business, and the act of a majority of those present at any meeting at which a quorum is present, shall be the act of such committee. In the absence of a quorum, a majority of the members of any committee present, or, if two or fewer members shall be present, any member of the committee present or the Secretary, may adjourn any meeting, from time to time, until a quorum is present. No notice of any adjourned meeting need be given other than by announcement at the meeting that is being adjourned. The provisions of Section 10 of Article III with respect to participation in a meeting of a committee of the Board of Directors and the provisions of Section 12 of Article III with respect to action taken by a committee of the Board of Directors without a meeting shall apply to participation in meetings of and action taken by any committee.

Section 6. *Voting.* On any question on which any committee shall vote, the names of those voting and their votes shall be entered in the minutes of the meeting if any member of such committee so requests.

Section 7. *Records.* All committees shall keep minutes of their acts and proceedings, which shall be submitted at the next regular meeting of the Board of Directors unless sooner submitted at an organization or special meeting of the Board of Directors, and any action taken by the Board of Directors with respect thereto shall be entered in the minutes of the Board of Directors.

Section 8. *Vacancies.* Any vacancy among the appointed members or alternate members of any committee of the Board of Directors may be filled by affirmative vote of a majority of the whole Board of Directors.

Section 9. *Members' Compensation.* Members of all committees may receive such reasonable compensation for their services as such, whether in the form of salary or a fixed fee for attendance at meetings, with expenses, if any, as the Board of Directors may from time to time determine. Nothing herein contained shall be construed to preclude any member of any committee from serving the Corporation in any other capacity and receiving compensation therefor.

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Section 10. *Emergency Management Committee.* In the event that a quorum of the Board of Directors cannot readily be convened as a result of emergency conditions following a catastrophe or disaster, then all the powers and duties vested in the Board of Directors shall vest automatically in an Emergency Management Committee which shall consist of all readily available members of the Board of Directors and which Committee shall have and may exercise all of the powers of the Board of Directors in the management of the business and affairs of the Corporation. Two members shall constitute a quorum. Other provisions of these By-Laws notwithstanding, the Emergency Management Committee shall call a meeting of the Board of Directors as soon as circumstances permit, for the purpose of filling vacancies on the Board of Directors and its committees and to take such other action as may be appropriate; and if the Emergency Management Committee determines that less than a majority of the members of the Board of Directors are available for service, the Emergency Management Committee shall, as soon as practicable, issue a call for a special meeting of stockholders for the election of directors. The powers of the Emergency Management Committee shall terminate upon the convening of the meeting of the Board of Directors above prescribed at which a majority of the members thereof shall be present, or upon the convening of the above prescribed meeting of stockholders, whichever first shall occur.

#### ARTICLE V.

#### THE OFFICERS

Section 1. *Officers — Qualifications.* The elected officers of the Corporation shall be a Chairman of the Board, a Secretary and a Treasurer and may also include one or more Vice Chairmen of the Board, a President, one or more Executive Vice Presidents, one or more Senior Vice Presidents and one or more Vice Presidents. The elected officers shall be elected by the Board of Directors. The Chairman of the Board, the President and each Vice Chairman of the Board, shall be selected from the directors. Assistant Secretaries, Assistant Treasurers and such other officers as may be deemed necessary or appropriate may be appointed by the Board of Directors or may be appointed pursuant to Section 6 and 7 of this Article V.

Section 2. *Term of Office; Vacancies.* So far as is practicable, all elected officers shall be elected at the organization meeting of the Board of Directors in each year, and except as otherwise provided in Sections 3 and 4, and subject to the provisions of Section 6, of this Article V, shall hold office until the organization meeting of the Board of Directors in the next subsequent year and until their respective successors are elected and qualify or until their earlier resignation or removal. All appointed officers shall hold office during the pleasure of the Board of Directors and the Chairman of the Board. If any vacancy shall occur in any office, the Board of Directors may elect or appoint a successor to fill such vacancy for the remainder of the term.

Section 3. *Removal of Elected Officers.* Any elected officer may be removed at any time, either for or without cause, by affirmative vote of a majority of the whole

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Board of Directors, at any regular meeting or at any special meeting called for the purpose and, in the case of any officer not more senior than a Senior Vice President, by affirmative vote of a majority of the whole committee of the Board of Directors so empowered at any regular meeting or at any special meeting called for the purpose.

Section 4. *Resignations.* Any officer may resign at any time, upon written notice of resignation to the Corporation. Any resignation shall be effective immediately unless a date certain is specified for it to take effect, in which event it shall be effective upon such date, and acceptance of any resignation shall not be necessary to make it effective, irrespective of whether the resignation is tendered subject to such acceptance.

Section 5. *Officers Holding More Than One Office.* Any officer may hold two or more offices the duties of which can be consistently performed by the same person.

Section 6. *The Chairman of the Board.* The Chairman of the Board shall be the chief executive officer of the Corporation. He shall direct, coordinate and control the Corporation's business and activities and its operating expenses and capital expenditures, and shall have general authority to exercise all the powers necessary for the chief executive officer of the Corporation, all in accordance with basic policies established by and subject to the control of the Board of Directors. He shall be responsible for the employment or appointment of employees, agents and officers (except officers to be elected by the Board of Directors pursuant to Section 1 of this Article V) as may be required for the conduct of the business and the attainment of the objectives of the Corporation, and shall have authority to fix compensation as provided in Section 15 of this Article V. He shall have authority to suspend or to remove any employee, agent or appointed officer of the Corporation and to suspend for cause any officer elected by the Board of Directors pursuant to Section 1 of this Article V and, in the case of a suspension for cause of any such elected officer, to recommend to the Board of Directors what further action should be taken. He shall have general authority to execute bonds, deeds and contracts in the name and on behalf of the Corporation. As provided in Section 5 of Article II, the Chairman of the Board shall act as chairman at all meetings of the stockholders at which he is present, and, as provided in Section 9 of Article III, he shall preside at all meetings of the Board of Directors at which he is present. In the absence of the Chairman of the Board, his duties shall be performed and his authority may be exercised by the President, and, in the absence of the Chairman of the Board and the President, such duties shall be performed and such authority may be exercised by such officer as may have been designated by the most senior officer of the Corporation who has made any such designation, with the right reserved to the Board of Directors to make the designation or supersede any designation so made.

Section 7. *The President.* The President, if any, shall be the chief operating officer of the Corporation unless the President designates another officer to so serve as the chief operating officer of the Corporation. He shall implement the general directives, plans and policies formulated by the Chairman of the Board pursuant to the

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By-Laws, in general shall have authority to exercise all the powers delegated to him by the Chairman of the Board and shall establish operating and administrative plans and policies and direct and coordinate the Corporation's organizational components, within the scope of the authority delegated to him by the Board of Directors or the Chairman of the Board. He shall have general authority to execute bonds, deeds and contracts in the name and on behalf of the Corporation and responsibility for the employment or appointment of such employees, agents and officers (except officers to be elected by the Board of Directors pursuant to Section 1 of this Article V) as may be required to carry on the operations of the business and authority to fix compensation of such employees, agents and officers as provided in Section 15 of this Article V. He shall have authority to suspend or to remove any employee or agent of the Corporation (other than officers). As provided in Section 6 of this Article V, in the absence of the Chairman of the Board, the President shall perform all the duties and exercise the authority of the Chairman of the Board. In the absence of the President, his duties shall be performed and his authority may be exercised by the Chairman of the Board. In the absence of the President and the Chairman of the Board, the duties of the President shall be performed and his authority may be exercised by such officer as may have been designated by the most senior officer of the Corporation who has made any such designation, with the right reserved to the Board of Directors to make the designation or supersede any designation so made.

Section 8. *The Vice Chairmen of the Board.* The several Vice Chairmen of the Board, if any, shall perform such duties and may exercise such authority as may from time to time be conferred upon them by the Board of Directors, the Chairman of the Board or the President.

Section 9. *The Executive Vice Presidents.* The several Executive Vice Presidents, if any, shall perform such duties and may exercise such authority as may from time to time be conferred upon them by the Board of Directors, the Chairman of the Board or the President.

Section 10. *The Senior Vice Presidents.* The several Senior Vice Presidents, if any, shall perform such duties and may exercise such authority as may from time to time be conferred upon them by the Board of Directors, the Chairman of the Board, the President, any Vice Chairman of the Board or any Executive Vice President.

Section 11. *The Vice Presidents.* The several Vice Presidents, if any, shall perform such duties and may exercise such authority as may from time to time be conferred upon them by the Board of Directors, the Chairman of the Board, the President, any Vice Chairman of the Board or any Executive Vice President.

Section 12. *The Secretary.* The Secretary shall attend to the giving of notice of all meetings of stockholders and of the Board of Directors and committees thereof, and, as provided in Section 5 of Article II and Section 9 of Article III, shall keep minutes of all proceedings at meetings of the stockholders and of the Board of Directors at which the Secretary is present, as well as of all proceedings at all meetings of committees of the Board of Directors at which the Secretary has served as

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secretary, and where some other person has served as secretary thereto, the Secretary shall maintain custody of the minutes of such proceedings. As provided in Section 2 of Article VII, the Secretary shall have charge of the corporate seal and shall have authority to attest any and all instruments or writings to which the same may be affixed. The Secretary shall keep and account for all books, documents, papers and records of the Corporation, except those for which some other officer or agent is properly accountable. The Secretary shall generally perform all the duties usually appertaining to the office of secretary of a corporation. In the absence of the Secretary, such person as shall be designated by the Chairman of the Board shall perform such duties.

Section 13. *The Treasurer.* The Treasurer shall have the care and custody of all the funds of the Corporation and shall deposit the same in such banks or other depositories as the Board of Directors or any officer or officers, or any officer and agent jointly, thereunto duly authorized by the Board of Directors, shall, from time to time, direct or approve. Except as otherwise provided by the Board of Directors or in the Corporation's plan of organization, the Treasurer shall keep a full and accurate account of all moneys received and paid on account of the Corporation, shall render a statement of accounts whenever the Board of Directors shall require, shall perform all other necessary acts and duties in connection with the administration of the financial affairs of the Corporation and shall generally perform all the duties usually appertaining to the office of the treasurer of a corporation. Whenever required by the Board of Directors, the Treasurer shall give bonds for the faithful discharge of the duties of that office in such sums and with such sureties as the Board of Directors shall approve. In the absence of the Treasurer, such person as shall be designated by the Chairman of the Board shall perform such duties.

Section 14. *Additional Duties and Authority.* In addition to the foregoing specifically enumerated duties and authority, the several officers of the Corporation shall perform such other duties and may exercise such further authority as the Board of Directors may, from time to time, determine, or as may be assigned to them by any superior officer.

Section 15. *Compensation.* Except as fixed or controlled by the Board of Directors or otherwise, compensation of all officers and employees shall be fixed by the Chairman of the Board, or by the President within the limits approved by the Chairman of the Board, or by other officers of the Corporation exercising authority granted to them under the plan of organization of the Corporation.

## ARTICLE VI.

### STOCK AND TRANSFERS OF STOCK

Section 1. *Stock Certificates.* The capital stock of the Corporation shall be represented by certificates provided that the Board of Directors may provide by resolution or resolutions that some or all or any or all classes or series of its stock shall be uncertificated shares. Any such resolution shall not apply to shares

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represented by a certificate until such certificate is surrendered to the Corporation. Within a reasonable time after the issuance or transfer of uncertificated stock, the Corporation shall send to the registered owner thereof a written notice containing the information required by law to be set forth or stated on certificates representing shares of such class or series or a statement that the Corporation will furnish without charge to each stockholder who so requests the powers, designations, preferences and rights of such class or series and the qualifications, limitations or restrictions of such preferences and/or rights. Except as otherwise provided by law, the rights and obligations of the holders of uncertificated shares and the rights and obligations of the holders of certificates representing shares of stock of the same class and series shall be identical.

Every holder of stock represented by certificate shall be entitled to have a certificate signed by, or in the name of the Corporation by, the Chairman of the Board, the President or a Vice Chairman of the Board, and by the Secretary or an Assistant Secretary or by the Treasurer or an Assistant Treasurer. Any or all signatures on the certificate may be a facsimile. In case any such officer, Transfer Agent or Registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, Transfer Agent or Registrar before such certificate is issued by the Corporation, it may nevertheless be issued by the Corporation with the same effect as if such officer, Transfer Agent or Registrar had not ceased to be such at the date of its issue.

Section 2. *Transfers of Stock.* Transfers of stock shall be made only upon the books of the Corporation kept at an office of the Corporation or by transfer agents designated to transfer shares of the stock of the Corporation.

Section 3. *Lost Certificates.* In case any certificate of stock shall be lost, stolen or destroyed, the Board of Directors, in its discretion, or any officer or officers thereunto duly authorized by the Board of Directors, may authorize the issue of a substitute certificate in place of the certificate so lost, stolen or destroyed; *provided, however,* that, in each such case, the applicant for a substitute certificate shall furnish evidence to the Corporation, which it determines in its discretion is satisfactory, of the loss, theft or destruction of such certificate and of the ownership thereof, and also such security or indemnity as may be required by it.

Section 4. *Determination of Holders of Record for Certain Purposes.* In order to determine the stockholders or other holders of securities entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of capital stock or other securities or for the purpose of any other lawful action, the Board of Directors may fix, in advance, a record date, not more than sixty (60) days prior to the date of payment of such dividend or other distribution or allotment of such rights or the date when any such rights in respect of any change, conversion or exchange of stock or securities may be exercised, and in such case only holders of record on the date so fixed shall be entitled to receive payment of such dividend or other distribution or to receive such allotment of rights, or to exercise such rights, notwithstanding any

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transfer of any stock or other securities on the books of the Corporation after any such record date fixed as aforesaid. No record date shall precede the date on which the Board of Directors establishes such record date.

#### ARTICLE VII.

##### CORPORATE SEAL

Section 1. *Seal.* The seal of the Corporation shall be in the form of a circle and shall bear the name of the Corporation and in the center of the circle the words “Corporate Seal, Delaware” and the figures “1973”.

Section 2. *Affixing and Attesting.* The seal of the Corporation shall be in the custody of the Secretary, who shall have power to affix it to the proper corporate instruments and documents, and who shall attest it. In his absence, it may be affixed and attested by an Assistant Secretary, or by the Treasurer or an Assistant Treasurer or by any other person or persons as may be designated by the Board of Directors.

#### ARTICLE VIII.

##### MISCELLANEOUS

Section 1. *Fiscal Year.* The fiscal year of the Corporation shall end on the last Friday of December in each year and the succeeding fiscal year shall begin on the day next succeeding the last day of the preceding fiscal year.

Section 2. *Signatures on Negotiable Instruments.* All bills, notes, checks or other instruments for the payment of money shall be signed or countersigned by such officers or agents and in such manner as, from time to time, may be prescribed by resolution (whether general or special) of the Board of Directors, or may be prescribed by any officer or officers, or any officer and agent jointly, thereunto duly authorized by the Board of Directors.

Section 3. *References to Article and Section Numbers and to the By-Laws and the Certificate of Incorporation.* Whenever in the By-Laws reference is made to an Article or Section number, such reference is to the number of an Article or Section of the By-Laws. Whenever in the By-Laws reference is made to the By-Laws, such reference is to these By-Laws of the Corporation, as amended, and whenever reference is made to the Certificate of Incorporation, such reference is to the Certificate of Incorporation of the Corporation, as amended, including all documents deemed by the General Corporation Law of the State of Delaware to constitute a part thereof.

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ARTICLE IX.

AMENDMENTS

The By-Laws may be altered, amended or repealed at any Annual Meeting of Stockholders, or at any special meeting of holders of shares of stock entitled to vote thereon, provided that in the case of a special meeting notice of such proposed alteration, amendment or repeal be included in the notice of meeting, by a vote of the holders of a majority of the shares of stock present in person or by proxy at the meeting and entitled to vote thereon, or (except as otherwise expressly provided in any By-Law adopted by the stockholders) by the Board of Directors at any valid meeting by affirmative vote of a majority of the whole Board of Directors.

The undersigned, duly qualified Secretary of Merrill Lynch & Co., Inc., a Delaware corporation, hereby certifies the foregoing to be a true and complete copy of the By-Laws of the said Merrill Lynch & Co., Inc. in effect on this date.

Dated: July 24, 2006

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/s/ Judith A. Witterschein

Secretary

**STOCKHOLDER AGREEMENT**

**BETWEEN**

**MERRILL LYNCH & CO., INC.**

**AND**

**NEW BOISE, INC.**

**DATED AS OF FEBRUARY 15, 2006**

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## STOCKHOLDER AGREEMENT

STOCKHOLDER AGREEMENT dated as of February 15, 2006 between New Boise, Inc., a Delaware corporation (“New BlackRock”) and Merrill Lynch & Co., Inc., a Delaware corporation (“Merrill Lynch”).

WHEREAS, New BlackRock, BlackRock, Inc., a Delaware corporation, and Merrill Lynch are parties to a Transaction Agreement, dated as of February \_\_, 2006 (the “Transaction Agreement”), pursuant to and subject to the terms and conditions of which, among other things, Merrill Lynch will contribute to New BlackRock all of its interest in certain of its Controlled Affiliates in consideration for shares of Capital Stock of New BlackRock;

WHEREAS, upon the closing under the Transaction Agreement (the “Closing”), Merrill Lynch will Beneficially Own (as defined herein), directly and/or through its Subsidiaries (as defined herein), up to 45% of the issued and outstanding New BlackRock Class A Common Stock (as defined herein) and additional non-voting shares of New BlackRock Capital Stock (as defined herein);

WHEREAS, it is a condition to the obligations of each of New BlackRock and Merrill Lynch to consummate the transactions contemplated by the Transaction Agreement that this Agreement shall have been duly executed and delivered by New BlackRock and Merrill Lynch; and

WHEREAS, the parties hereto desire to enter into this Agreement to establish certain arrangements with respect to the shares of New BlackRock Common Stock to be Beneficially Owned by Merrill Lynch following the Closing, as well as restrictions on certain activities in respect of New BlackRock Capital Stock, corporate governance and other related corporate matters;

NOW, THEREFORE, in consideration of the premises and of the mutual covenants and obligations hereinafter set forth, the parties hereto hereby agree as follows:

### ARTICLE I

#### DEFINITIONS

Section 1.1 Certain Defined Terms. As used herein, the following terms shall have the following meanings:

“Affiliate” means, with respect to any Person, any other Person that directly, or indirectly through one or more intermediaries, controls, is controlled by or is under common control with, such specified Person; provided, however, that solely for purposes of this Agreement, notwithstanding anything to the contrary set forth herein, neither New BlackRock nor any of its Controlled Affiliates shall be deemed to be a Subsidiary or Affiliate of Merrill Lynch solely by virtue of the Beneficial Ownership by Merrill Lynch of New BlackRock Capital Stock, the election of Directors nominated by Merrill Lynch to the Board, the election of any other Directors nominated by the Board or any other action taken by Merrill Lynch in

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accordance with the terms and conditions of, and subject to the limitations and restrictions set forth on such Person in, this Agreement (and irrespective of the characteristics of the aforesaid relationships and actions under applicable law or accounting principles).

“Agreement” means this Stockholder Agreement as it may be amended, supplemented, restated or modified from time to time.

“Beneficial Ownership” by a Person of any securities includes ownership by any Person who, directly or indirectly, through any contract, arrangement, understanding, relationship or otherwise, has or shares (i) voting power which includes the power to vote, or to direct the voting of, such security; and/or (ii) investment power which includes the power to dispose, or to direct the disposition, of such security; and shall otherwise be interpreted in accordance with the term “beneficial ownership” as defined in Rule 13d-3 adopted by the Commission under the Exchange Act; provided that for purposes of determining Beneficial Ownership, a Person shall be deemed to be the Beneficial Owner of any securities which may be acquired by such Person pursuant to any agreement, arrangement or understanding or upon the exercise of conversion rights, exchange rights, warrants or options, or otherwise (irrespective of whether the right to acquire such securities is exercisable immediately or only after the passage of time, including the passage of time in excess of 60 days, the satisfaction of any conditions, the occurrence of any event or any combination of the foregoing), except that in no event will Merrill Lynch be deemed to Beneficially Own any securities which it has the right to acquire pursuant to Section 2.3 unless, and then only to the extent that, it shall have actually exercised such right. For purposes of this Agreement, a Person shall be deemed to Beneficially Own any securities Beneficially Owned by its Affiliates (including as Affiliates for this purpose its officers and directors only to the extent they would be Affiliates solely by reason of their equity interest) or any Group of which such Person or any such Affiliate is or becomes a member; provided, however, that securities Beneficially Owned by Merrill Lynch shall not include, for any purpose under this Agreement, any Voting Securities or other securities held by such Person and its Affiliates in trust, managed, brokerage, custodial, nominee or other customer accounts; in trading, inventory, lending or similar accounts of such Person and Affiliates of such Person which are broker-dealers or otherwise engaged in the securities business; or in pooled investment vehicles sponsored, managed and/or advised or subadvised by such Person and its Affiliates except, if they Beneficially Own more than 25% of the ownership interests in a pooled investment vehicle, to the extent of their ownership interests therein; provided that in each case, such securities were acquired in the ordinary course of business of their securities business and not with the intent or purpose of influencing control of New BlackRock or avoiding the provisions of this Agreement. The term “Beneficially Own” shall have a correlative meaning.

“Board” means the Board of Directors of New BlackRock.

“Business Day” shall mean any day that is not a Saturday, a Sunday or other day on which banks are required or authorized by law to be closed in New York, New York.

“By-Laws” means the By-Laws of New BlackRock, as amended or supplemented from time to time.

“Capital Stock” means, with respect to any Person at any time, any and all shares, interests, participations or other equivalents (however designated, whether voting or non-voting) of capital stock, partnership interests (whether general or limited) or equivalent ownership interests in or issued by such Person.

A “Change of Control of Merrill Lynch” shall be deemed to occur when the Board of Directors of Merrill Lynch determines that a Change in Control of Merrill Lynch has occurred, as a Change in Control of Merrill Lynch may be defined from time to time by the Board of Directors of Merrill Lynch; provided, however, that at a minimum, a Change in Control of Merrill Lynch shall, without any action by the Board of Directors of Merrill Lynch, be deemed to occur if:

(i) any Person, excluding employee benefit plans of Merrill Lynch, is or becomes the Beneficial Owner, directly or indirectly, of securities of Merrill Lynch representing a majority of the combined voting power of Merrill Lynch’s then outstanding securities;

(ii) Merrill Lynch consummates a merger, consolidation, share exchange, division or other reorganization or transaction of Merrill Lynch (a “Fundamental Transaction”) with any other corporation, other than a Fundamental Transaction that results in the voting securities of Merrill Lynch outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least a majority of the combined voting power immediately after such Fundamental Transaction of (A) Merrill Lynch’s outstanding securities, (B) the surviving entity’s outstanding securities, or (C) in the case of a division, the outstanding securities of each entity resulting from the division;

(iii) the shareholders of Merrill Lynch approve a plan of complete liquidation or winding-up of Merrill Lynch or an agreement for the sale or disposition (in one transaction or a series of transactions) of all or substantially all Merrill Lynch’s assets;

(iv) as a result of a proxy contest, individuals who prior to the conclusion thereof constituted the Board of Directors of Merrill Lynch (including for this purpose any new director whose election or nomination for election by Merrill Lynch’s shareholders in connection with such proxy contest was approved by a vote of at least two thirds of the directors then still in office who were directors prior to such proxy contest) cease to constitute at least a majority of the Board of Directors of Merrill Lynch (excluding any Board seat that is vacant or otherwise unoccupied); or

(v) during any period of twenty-four (24) consecutive months, individuals who at the beginning of such period constituted the Board of Directors of Merrill Lynch (including for this purpose any new director whose election or nomination for election by Merrill Lynch’s shareholders was approved by a vote of at least two thirds of the directors then still in office who were directors at the beginning of such period) cease for any reason to constitute at least a majority of the Board of Directors of Merrill Lynch (excluding any Board seat that is vacant or otherwise unoccupied).

“Class A Common Stock” means the shares of Class A Common Stock, par value \$0.01 per share, of New BlackRock and any securities issued in respect thereof, or in substitution

therefor, in connection with any stock split, dividend or combination, or any reclassification, recapitalization, merger, consolidation, exchange or other similar reorganization.

“Commission” means the United States Securities and Exchange Commission.

“control” (including the terms “controlled by” and “under common control with”), with respect to the relationship between or among two or more Persons, means the possession, directly or indirectly, of the power to direct or cause the direction of the affairs or management of a Person, whether through the ownership of voting securities, as trustee or executor, by contract or any other means, or otherwise to control such Person within the meaning of such term as used in Rule 405 under the Securities Act. For purposes of this definition, a general partner or managing member of a Person shall always be considered to control such Person provided, however, that a Person shall not be treated as having any control over any collective investment vehicle to which it provides services unless it or an Affiliate has a proprietary economic interest exceeding 25% of the equity interest in such collective investment vehicle.

“Controlled Affiliate” of any Person means a Person that is directly or indirectly controlled by such other Person.

“Director” means any member of the Board (other than any advisory, honorary or other non-voting member of the Board).

“Equivalent Securities” means at any time shares of any class of Capital Stock or other securities or interests of a Person which are substantially equivalent to the Voting Securities of such Person other than by reason of not having voting rights, including, for the avoidance of doubt, the Series A Participating Preferred Stock.

“Exchange Act” means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated by the Commission from time to time thereunder (or under any successor statute).

“Fair Market Value” means, as to any securities or other property, the cash price at which a willing seller would sell and a willing buyer would buy such securities or property in an arm’s length negotiated transaction without time constraints. With respect to any securities that are traded on a national securities exchange or quoted on the Nasdaq National Market or the Nasdaq Small Cap Market, Fair Market Value shall mean the arithmetic average of the closing prices of such securities on their principal market for the ten consecutive trading days immediately preceding the applicable date of determination and with respect to shares of Series A Participating Preferred Stock shall be the same price per share as the Fair Market Value per share of the Class A Common Stock. The Fair Market Value of any property or assets, other than securities described in the preceding sentence, with an estimated value of less than 1% of the Fair Market Value of all of the issued and outstanding New BlackRock Capital Stock shall be determined by the Board (acting through a majority of the Independent Directors) in its good faith judgment. The Fair Market Value of all other property or assets shall be determined by an Independent Investment Banking Firm, selected by a majority of the Independent Directors, whose determination shall be final and binding on the parties hereto. The fees and expenses of such Independent Investment Banking Firm shall be paid by New BlackRock.

“Group” shall have the meaning assigned to it in Section 13(d)(3) of the Exchange Act.

“Independent Director” means any Director who (i) is or would be an “independent director” with respect to New BlackRock pursuant to Section 303A.02 of the New York Stock Exchange Listed Company Manual and Section 10A of the Exchange Act (or any successor provisions) and (ii) was not nominated or proposed for nomination by or on behalf of, Merrill Lynch, any Significant Stockholder, or any Affiliates or Designated Directors of Merrill Lynch or a Significant Stockholder.

“Independent Investment Banking Firm” means an investment banking firm of nationally recognized standing that in the reasonable judgment of the Person or Persons engaging such firm, taking into account any prior relationship with Merrill Lynch, any Significant Stockholder or New BlackRock, is independent of such Person or Persons.

“Ownership Cap” means, at any time of determination, with respect to Merrill Lynch and its Affiliates, each of (i) 49.8 percent of the Total Voting Power of the Voting Securities of New BlackRock issued and outstanding at such time (the “Voting Ownership Cap”) and (ii) 49.8 percent of the sum of the Voting Securities and the Series A Participating Preferred Stock of New BlackRock issued and outstanding at such time and issuable upon the exercise of any options or other rights outstanding at that time which, if exercised, would result in the issuance of additional Voting Securities or Series A Participating Preferred Stock (the “Total Ownership Cap”).

“Ownership Percentage” means, with respect to any Person, at any time, the quotient, expressed as a percentage, of (i) with respect to the Voting Ownership Cap (A) the Total Voting Power of all Voting Securities of another Person Beneficially Owned by such Person and its Affiliates divided by (B) the Total Voting Power of all Voting Securities of such other Person issued and outstanding at that time and (ii) with respect to the Total Ownership Cap, (A) the Total Voting Power of all Voting Securities and the total number of Equivalent Securities of another Person Beneficially Owned by such Person and its Affiliates divided by (B) the Total Voting Power of all Voting Securities and the total number of Equivalent Securities of such other Person issued and outstanding at that time and issuable upon the exercise of any options or other rights outstanding at that time which, if exercised, would result in the issuance of additional Voting Securities or Equivalent Securities.

“Ownership Threshold” means, at any time of determination, with respect to Merrill Lynch and its Affiliates, 20 percent of the Total Voting Power of the Voting Securities of New BlackRock issued and outstanding at such time.

“Person” means any individual, corporation, limited liability company, limited or general partnership, joint venture, association, joint-stock company, trust, unincorporated organization, other entity, government or any agency or political subdivision thereof or any Group comprised of two or more of the foregoing.

“Restricted Person” means each of the entities (and their successors) set forth in that certain letter to be delivered by Merrill Lynch prior to the fifth anniversary of the Closing

who Merrill Lynch considers to be the nine organizations most competitive with its overall business; provided, that not more than once in any 12 month period thereafter, Merrill Lynch may, with the consent of a majority of the Independent Directors, which consent, subject to applicable fiduciary duties, shall not be unreasonably withheld, amend such letter; provided, further, that at no time may more than nine entities (together with their Affiliates) be Restricted Persons.

“Securities Act” means the Securities Act of 1933, as amended, and the rules and regulations promulgated by the Commission from time to time thereunder (or under any successor statute).

“Series A Participating Preferred Stock” means the Series A Participating Preferred Stock, par value \$.01 per share, of New BlackRock and any securities issued in respect thereof, or in substitution therefor, or in substitution therefor in connection with any stock split, dividend or combination, or any reclassification, recapitalization, merger, consolidation, exchange or other similar reorganization.

“Significant Stockholder” means, at any time of determination, any Person other than Merrill Lynch and its Affiliates that Beneficially Owns 20 percent or more of the Total Voting Power of the Voting Securities of New BlackRock issued and outstanding at such time.

“Subsidiary” means, with respect to any Person, any corporation or other organization, whether incorporated or unincorporated, (i) of which such Person or any other Subsidiary of such Person is a general partner (excluding partnerships, the general partnership interests of which held by such Person or any Subsidiary of such Person do not have a majority of the voting or similar interests in such partnership), or (ii) at least a majority of the securities or other interests of which having by their terms ordinary voting power to elect a majority of the board of directors or others performing similar functions with respect to such corporation or other organization is directly or indirectly owned or controlled by such Person or by any one or more of its Subsidiaries, or by such Person and one or more of its Subsidiaries.

“Total Voting Power” means the total number of votes entitled to be cast by the holders of the outstanding Capital Stock and any other securities entitled, in the ordinary course, to vote on matters put before the holders of the Capital Stock generally.

“Transfer” means, directly or indirectly, to sell, transfer, assign, pledge, encumber, hypothecate or similarly dispose of (by operation of law or otherwise), either voluntarily or involuntarily, or to enter into any contract, option or other arrangement or understanding with respect to the sale, transfer, assignment, pledge, encumbrance, hypothecation or similar disposition of (by operation of law or otherwise), any Capital Stock or any interest in any Capital Stock; provided, however, that a merger, amalgamation, plan of arrangement or consolidation or similar business combination transaction in which Merrill Lynch is a constituent corporation (or otherwise a party including, for the avoidance of doubt, a transaction pursuant to which a Person acquires all or a portion of Merrill Lynch’s outstanding Capital Stock, whether by tender or exchange offer, by share exchange, or otherwise) shall not be deemed to be the Transfer of any New BlackRock Capital Stock Beneficially Owned by Merrill Lynch, provided that the primary purpose of any such transaction is not to avoid the provisions of this Agreement and that the

successor or surviving person to such a merger, amalgamation, plan of arrangement or consolidation or similar business combination transaction, if not Merrill Lynch, expressly assumes all obligations of Merrill Lynch under this Agreement. For purposes of this Agreement, the term Transfer shall include the sale of an Affiliate of Merrill Lynch or Merrill Lynch's interest in an Affiliate which Beneficially Owns New BlackRock Capital Stock unless such Transfer is in connection with a merger, amalgamation, plan of arrangement or consolidation or similar business combination transaction referred to in the first proviso of the previous sentence.

“Voting Securities” means at any time shares of any class of Capital Stock or other securities or interests of a Person which are then entitled to vote generally, and not solely upon the occurrence and during the continuation of certain specified events, in the election of Directors or Persons performing a similar function with respect to such Person, and any securities convertible into or exercisable or exchangeable at the option of the holder thereof for such shares of Capital Stock.

Section 1.2 Other Defined Terms. The following terms shall have the meanings defined for such terms in the Sections set forth below:

TERM	SECTION
Additional New BlackRock Stock Purchase	Section 2.3
Closing	Preamble
DGCL	Section 1.4
Final Transfer Notice	Section 3.2
Initial Transfer Notice	Section 3.2(b)
Last Look Price	Section 3.2(b)
Litigation	Section 6.11(a)
Management Designee	Section 4.1(a)
Merrill Lynch	Preamble
Merrill Lynch Designee	Section 4.1(a)
Merrill Lynch Restricted Activities	Section 5.1(a)
New BlackRock	Preamble
New BlackRock Party	Section 3.3(a)
New BlackRock Restricted Activities	Section 5.1(a)
Prohibited Actions	Section 2.2(h)
Related Person	Section 4.7
Significant Stockholder Designee	Section 4.1(a)
Stock Issuance	Section 2.3
Transaction Agreement	Preamble
Transferring Party	Section 3.2(b)

Section 1.3 Other Definitional Provisions. The words “hereof”, “herein” and “hereunder” and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement, and Article and Section references are to this Agreement unless otherwise specified.

The meanings given to terms defined herein shall be equally applicable to both the singular and plural forms of such terms.



Section 1.4 Methodology for Calculations. For purposes of calculating the number of outstanding shares of New BlackRock Capital Stock or Voting Securities and the number of shares of New BlackRock Capital Stock or Voting Securities Beneficially Owned by any Person as of any date, any shares of New BlackRock Capital Stock or Voting Securities held in New BlackRock's treasury or belonging to any Subsidiaries of New BlackRock which are not entitled to be voted or counted for purposes of determining the presence of a quorum pursuant to Section 160(c) of the Delaware General Corporation Law (or any successor statute (the "DGCL")) shall be disregarded.

## ARTICLE II

### SHARE OWNERSHIP

#### Section 2.1 Acquisition of Additional New BlackRock Capital Stock.

(a) Except as provided in paragraph (b) below Merrill Lynch covenants and agrees with New BlackRock that it shall not, and shall not permit any of its Affiliates to, directly or indirectly, acquire, offer or propose to acquire or agree to acquire, whether by purchase, tender or exchange offer, through the acquisition of control of another Person (whether by way of merger, consolidation or otherwise), by joining a partnership, syndicate or other Group or otherwise, the Beneficial Ownership of any additional New BlackRock Capital Stock, if after giving effect to such acquisition or action, it would Beneficially Own New BlackRock Capital Stock representing more than its Voting Ownership Cap or Total Ownership Cap.

(b) Notwithstanding the foregoing, the acquisition (whether by merger, consolidation, exchange of equity interests, purchase of all or part of the equity interests or assets or otherwise) by Merrill Lynch or an Affiliate thereof of any Person that Beneficially Owns New BlackRock Capital Stock, or the acquisition of New BlackRock Capital Stock in connection with securing or collecting a debt previously contracted in good faith in the ordinary course of Merrill Lynch's or such Affiliate's banking, brokerage or securities business, shall not constitute a violation of its Ownership Cap; provided that (i) the primary purpose of any such transaction is not to avoid the provisions of this Agreement, including its Ownership Cap, and (ii) in the case of an acquisition of another Person, it uses reasonable best efforts to negotiate terms in connection with the relevant acquisition agreement requiring such other Person to divest itself of sufficient New BlackRock Capital Stock it Beneficially Owns so that its Voting Ownership Cap and its Total Ownership Cap would not be exceeded pro forma for the acquisition, with such divestiture to be effected concurrently with, or as promptly as practicable following, the consummation of such acquisition (but in no event more than 120 days following such consummation, or such longer period not in excess of 243 days following such consummation as may be necessary due to the possession of material non-public information or so that neither it nor any of its Affiliates incurs any liability under Section 16(b) of the Exchange Act if, for purposes of Section 16(b), they have not acquired Beneficial Ownership of any other shares of New BlackRock Capital Stock or derivatives thereof after the date of the transaction that resulted in Merrill Lynch exceeding its Ownership Cap) and the successor or surviving Person to such transaction, if not Merrill Lynch or such Affiliate, expressly assumes all obligations of Merrill Lynch or such Affiliate, as the case may be, under this Agreement; and provided, further, that the provisions of paragraph (c) below are complied with.

(c) (i) If at any time Merrill Lynch and any of its Affiliates Beneficially Own in the aggregate New BlackRock Capital Stock representing more than its Voting Ownership Cap or Total Ownership Cap, then Merrill Lynch shall, as soon as is reasonably practicable (but in no event longer than 120 days after its Ownership Percentage first exceeds its Voting Ownership Cap or Total Ownership Cap or such longer period not in excess of 243 days following such consummation as may be necessary due to the possession of material non-public information or so that neither it nor any of its Affiliates incurs any liability under Section 16(b) of the Exchange Act if, for purposes of Section 16(b), they have not acquired Beneficial Ownership of any other shares of New BlackRock Capital Stock or derivatives thereof after the date of the transaction that resulted in Merrill Lynch exceeding its Ownership Cap) Transfer (in any manner that would be permitted by Section 3.2(b) after the lapse of any minimum holding period) a number of shares of New BlackRock Capital Stock sufficient to reduce the amount of New BlackRock Capital Stock Beneficially Owned by it and its Affiliates to an amount representing not greater than its Ownership Cap.

(i) Notwithstanding any other provision of this Agreement, in no event may Merrill Lynch or any of its Affiliates, directly or indirectly, including through any agreement or arrangement, exercise any voting rights, during the term of this Agreement, in respect of any New BlackRock Capital Stock Beneficially Owned by it and its Affiliates representing in excess of its Voting Ownership Cap.

(d) Any additional New BlackRock Capital Stock acquired and Beneficially Owned by Merrill Lynch or any of its Affiliates following the Closing shall be subject to the restrictions contained in this Agreement as fully as if such shares of New BlackRock Capital Stock were acquired by it at or prior to the Closing.

(e) Notwithstanding Section 2.1(a), Merrill Lynch shall not and shall cause its Affiliates not to acquire Beneficial Ownership of any shares of New BlackRock Capital Stock from any Person other than New BlackRock or a Significant Stockholder (other than pursuant to an acquisition effected in a manner contemplated by Section 2.1(b)) if after giving effect to such acquisition Merrill Lynch, together with its Affiliates, would Beneficially Own New BlackRock Capital Stock representing more than 90 percent of its Voting Ownership Cap.

Section 2.2 Prohibition of Certain Communications and Actions. From and after the Closing, Merrill Lynch shall not and shall cause its Affiliates and its and their directors officers and other agents not to (w) solicit, seek or offer to effect, or effect, (x) negotiate with or provide any information to the Board, any director or officer of New BlackRock, any stockholder of New BlackRock, any employee or union or other labor organization representing employees of New BlackRock or any other Person with respect to, (y) make any statement or proposal, whether written or oral, either alone or in concert with others, to the Board, any director or officer of New BlackRock or any stockholder of, any employee or union or other labor organization representing employees of New BlackRock or any other Person with respect to, or (z) make any public announcement (except as required by law in respect of actions permitted hereby) or proposal or offer whatsoever (including, but not limited to, any "solicitation" of "proxies" as such terms are defined or used in Regulation 14A under the Exchange Act) with respect to:

(a) any acquisition, offer to acquire, or agreement to acquire, directly or indirectly, by purchase or any other action the purpose or result of which would be to Beneficially Own (i) New BlackRock Capital Stock or Voting Stock of any successor to or person in control of New BlackRock in an amount which, when added to any other New BlackRock Capital Stock then Beneficially Owned by Merrill Lynch and any of its Affiliates would cause the total amount of New BlackRock Voting Securities Beneficially Owned by Merrill Lynch to exceed its Voting Ownership Cap or Total Ownership Cap, (ii) any equity securities of any Controlled Affiliate of New BlackRock, (in each case except to the extent such acquisition, offer or agreement would be permissible under Section 2.1),

(b) any form of business combination or similar or other extraordinary transaction involving New BlackRock or any Controlled Affiliate thereof, including, without limitation, a merger, tender or exchange offer or sale of any substantial portion of the assets of New BlackRock or any Controlled Affiliate of New BlackRock,

(c) any form of restructuring, recapitalization or similar transaction with respect to New BlackRock or any Controlled Affiliate of New BlackRock,

(d) any purchase of any assets, or any right to acquire any asset (through purchase, exchange, conversion or otherwise), of New BlackRock or any Controlled Affiliate of New BlackRock, other than investment assets of New BlackRock or any Controlled Affiliate of New BlackRock in the ordinary course of its banking, brokerage or securities business and other than an insubstantial portion of such assets in the ordinary course of business, the proviso to Section 4.6(a),

(e) being a member of a Group for the purpose of acquiring, holding or disposing of any shares of New BlackRock Capital Stock or any Controlled Affiliate of New BlackRock,

(f) selling any share of New BlackRock Capital Stock in an unsolicited tender offer that is not opposed by the Board,

(g) any proposal to seek representation on the Board except as contemplated by this Agreement or, other than as permitted by the proviso to Section 4.6(a) of this Agreement, any proposal to seek to control or influence the management, Board or policies of New BlackRock or any Controlled Affiliate of New BlackRock, or

(h) encourage, join, act in concert with or assist (including, but not limited to, providing or assisting in any way in the obtaining of financing for, or acting as a joint or co-bidder with) any third party to do any of the foregoing (the actions referred to in the foregoing provisions of this sentence being referred to as "Prohibited Actions"). If at any time Merrill Lynch or any Affiliate thereof is approached by any Person requesting Merrill Lynch or any Affiliate to instigate, encourage, join, act in concert with or assist any Person in a Prohibited Action involving the assets, businesses or securities of New BlackRock or any of its Controlled Affiliates or any other Prohibited Actions, Merrill Lynch will promptly inform New BlackRock of the nature of such contact and the parties thereto.

Nothing in this Section 2.2 shall limit the ability of any Director, including any Merrill Lynch Designee, to vote in his or her capacity as a Director in such manner as he or she sees fit.

Section 2.3 Purchases of Additional Securities. From and after the Closing, at any time that New BlackRock effects an issuance (a "Stock Issuance") of additional Voting Securities or Equivalent Securities other than in connection with any employee restricted stock, stock option, incentive or other benefit plan to any Person or Persons other than Merrill Lynch or any Affiliate thereof, Merrill Lynch shall, subject to Section 2.1, have the right to purchase from New BlackRock (in each instance, an "Additional New BlackRock Stock Purchase") (i) additional shares of Series A Participating Preferred Stock such that following such Stock Issuance and such purchase Merrill Lynch and its Affiliates will Beneficially Own shares and/or other securities representing the lesser of (A) the lesser of Merrill Lynch's Voting Ownership Cap and its Total Ownership Cap and (B) the same Ownership Percentage of Merrill Lynch's Voting Ownership Cap and Total Ownership Cap as they Beneficially Owned immediately prior to such Stock Issuance and (ii) if the total of all Stock Issuances including the Stock Issuance in question since the Closing has the effect, after taking into account any repurchases of New BlackRock Capital Stock by New BlackRock since the Closing and any Transfers of New Boise Capital Stock by Merrill Lynch and its Affiliates in accordance with Section 3.2(b)(i) or (ii), of decreasing the Total Voting Power of New BlackRock Capital Stock issued and outstanding after giving effect to such Stock Issuance Beneficially Owned by Miami and its Affiliates to 90% or less of Merrill Lynch's Voting Ownership Cap, additional Voting Securities of the same class or series issued in the Stock Issuance such that following such Stock Issuance and such purchase Merrill Lynch and its Affiliates will Beneficially Own shares and/or other securities representing the lesser of (x) Merrill Lynch's Voting Ownership Cap and (y) the same Ownership Percentage of Merrill Lynch's Voting Ownership Cap as Merrill Lynch's and its Affiliates Beneficially Owned immediately prior to such Stock Issuance. If Merrill Lynch exercises such right within 30 days after the pricing date of such Stock Issuance and if the purchaser or purchasers of Voting Securities in such Stock Issuance pays cash in consideration for such securities, Merrill Lynch shall pay an equal per security amount of cash consideration in the Additional New BlackRock Stock Purchase following such Stock Issuance. In all other cases, the price that Merrill Lynch shall pay to purchase the additional Voting Securities shall be the Fair Market Value per unit of the class or series of Voting Securities. New BlackRock shall give Merrill Lynch written notice of any Stock Issuance as far in advance as practicable and on the date of completion;

Section 2.4 New BlackRock Share Repurchases. If New BlackRock engages in any share repurchase program or self-tender that has the effect of causing Merrill Lynch's Beneficial Ownership of New BlackRock Capital Stock to exceed its Voting Ownership Cap or Total Ownership Cap, subject to any restrictions in the Exchange Act, Merrill Lynch shall, at the request of New BlackRock, promptly sell such number of shares of New BlackRock Capital Stock to New BlackRock as shall cause its Beneficial Ownership of New BlackRock Capital Stock not to exceed its Voting Ownership Cap or Total Ownership Cap.

## ARTICLE III

### TRANSFER RESTRICTIONS

Section 3.1 General Transfer Restrictions. The right of Merrill Lynch and its Affiliates to Transfer any New BlackRock Capital Stock is subject to the restrictions set forth in this Article III, and no Transfer of New BlackRock Capital Stock by Merrill Lynch or any of its Affiliates may be effected except in compliance with this Article III. Any attempted Transfer in violation of this Agreement shall be of no effect and null and void, regardless of whether the purported transferee has any actual or constructive knowledge of the Transfer restrictions set forth in this Agreement, and shall not be recorded on the stock transfer books of New BlackRock.

#### Section 3.2 Restrictions on Transfer.

(a) Without the prior written consent of New BlackRock (acting through a majority of the Independent Directors), during an initial period of three years following the Closing, Merrill Lynch shall not, and shall not permit its Affiliates to, Transfer any New BlackRock Capital Stock or agree to Transfer, directly or indirectly, any New BlackRock Capital Stock; provided that the foregoing restriction shall not prohibit Merrill Lynch or any of its Affiliates from Transferring any New BlackRock Capital Stock (i) to New BlackRock pursuant to Section 2.4 or (ii) to an Affiliate of Merrill Lynch that agrees in writing with New BlackRock to be bound by this Agreement as fully as if it were an initial signatory hereto.

(b) Following the third anniversary of the Closing, Merrill Lynch shall not, and shall not permit its Affiliates to, Transfer any Beneficially Owned New BlackRock Capital Stock or agree to Transfer, directly or indirectly, any Beneficially Owned New BlackRock Capital Stock; provided that the foregoing restriction shall not be applicable to Transfers:

(i) to an Affiliate of Merrill Lynch which agrees in writing with New BlackRock to be bound by this Agreement as fully as if it were an initial signatory hereto;

(ii) pursuant to the restrictions of Rule 144 under the Securities Act applicable to sales of securities by Affiliates of an issuer (regardless of whether Merrill Lynch is deemed at such time to be an Affiliate of New BlackRock) to any Person who after giving effect to such Transfer would not Beneficially Own New BlackRock Capital Stock representing in the aggregate more than 5% of the Total Voting Power of New BlackRock Capital Stock issued and outstanding;

(iii) pursuant to privately negotiated transactions, in each calendar quarter in an amount not in excess (together with Transfers pursuant to Section 3.2(b)(ii) and (iv) during such calendar quarter) of 4.5% of the Total Voting Power of New BlackRock Capital Stock issued and outstanding to any Person who after giving effect to such Transfer would not Beneficially Own New BlackRock Capital Stock representing in the aggregate more than 5% of the Total Voting Power of New BlackRock Capital Stock issued and outstanding; provided, that Merrill Lynch or the Affiliate proposing to Transfer pursuant to this Section 3.2(b)(iii) (the "Transferring Party") promptly provide to New BlackRock written notice (an "Initial Transfer Notice"), stating such Transferring Party's intention to effect such a Transfer, and stating that

Merrill Lynch will comply with the provisions of Section 3.3 and prior to making any Transfer or entering into any definitive agreement to do so shall provide to New BlackRock a further written notice (a "Final Transfer Notice") stating such Transferring Party's intention to effect the specific transfer described therein (including price and terms (the "Last Look Price"));

(iv) in each calendar quarter, in an amount not in excess (together with Transfers pursuant to Section 3.2(b)(ii) and (iii)) of 4.5% of the Total Voting Power of New BlackRock Capital Stock issued and outstanding, pursuant to a distribution to the public, registered under the Securities Act, in which Merrill Lynch uses its commercially reasonable efforts to (A) effect as wide a distribution of such New BlackRock Capital Stock as is reasonably practicable, and (B) not knowingly sell New BlackRock Capital Stock to any Person who after consummation of such offering would have Beneficial Ownership of New BlackRock Capital Stock representing in the aggregate more than 5% of the Total Voting Power of New BlackRock Capital Stock; or

(v) with the prior written consent of a majority of the Independent Directors.

(c) If Merrill Lynch wishes or is required to Transfer an amount of New BlackRock Capital Stock constituting more than 10% of the Total Voting Power of New BlackRock Capital Stock, Merrill Lynch shall coordinate with New BlackRock regarding optimizing the manner of distribution and sale of such shares, including whether such sale should occur through an underwritten offering and shall cooperate in the marketing of any such offering.

(d) Merrill Lynch shall reimburse New BlackRock for any fees and expenses incurred in connection with any Transfer by Merrill Lynch pursuant to this Section 3.2 (other than any Transfer pursuant to Sections 3.3(a) and 3.3(b)).

#### Section 3.3 Right of Last Refusal.

(a) Upon receipt of a Final Transfer Notice, unless the proposed Transfer described therein is being made in a tax-free Transfer to a charitable organization or foundation, New BlackRock will have an irrevocable and transferable option to purchase all of the New BlackRock Capital Stock subject to such Final Transfer Notice at the Last Look Price and otherwise on the terms and conditions described in the Final Transfer Notice. New BlackRock and/or its transferees (collectively and/or separately, the "New BlackRock Party") shall, within 10 Business Days from receipt of the Final Transfer Notice, indicate if it intends to exercise such option by sending irrevocable written notice of any such exercise to the Transferring Party, and such New BlackRock Party shall then be obligated to purchase all such New BlackRock Capital Stock on terms and conditions no less favorable (other than date of closing) to Transferring Party than those set forth in the Final Transfer Notice.

(b) If a New BlackRock Party elects to purchase all of such New BlackRock Capital Stock, the New BlackRock Party and the Transferring Party shall be legally obligated to consummate such transaction and shall use their commercially reasonable efforts to consummate such transaction as promptly as practicable but in any event within 10 Business Days following the delivery of such election notice or, if later, 5 Business Days after receipt of all required

regulatory approvals (but in no event more than 60 days after the delivery of such election notice).

(c) If a New BlackRock Party does not elect to purchase all of such New BlackRock Capital Stock pursuant to this Section 3.3 (or if, having made such election, does not complete such purchase within the applicable time period specified in Section 3.3(b)), then the Transferring Party shall be free for a period of 30 days from the date the election notice was due to be received from a New BlackRock Party to enter into definitive agreements to Transfer such New BlackRock Capital Stock in accordance with Section 3.2(b)(ii) for not less than the Last Look Price; provided that any such definitive agreement provides for the consummation of such Transfer to take place within nine months from the date of such definitive agreement and is otherwise on terms not more favorable to the transferee in any material respect than were contained in the Final Transfer Notice. In the event that the Transferring Party has not entered into such a definitive agreement with such 30-day period, or has so entered into such an agreement but has not consummated the sale of such New BlackRock Capital Stock within nine months from the date of such definitive agreement, then the provisions of this Section 3.3 shall again apply, and such Transferring Party shall not Transfer or offer to Transfer such New BlackRock Capital Stock not so Transferred without again complying with this Section 3.3, to the extent applicable.

(d) Each of the time periods set forth in Section 3.3(a)-(c) above shall be doubled if the number of shares Merrill Lynch seeks to Transfer (as set forth in the Final Transfer Notice) exceeds 4.5% of the Total Voting Power of the New BlackRock Capital Stock issued and outstanding at that time.

Section 3.4 Legend on Securities.

(a) Each certificate representing shares of New BlackRock Capital Stock Beneficially Owned by Merrill Lynch or its Affiliates and subject to the terms of this Agreement shall bear the following legend on the face thereof:

“THE SECURITIES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO RESTRICTIONS ON TRANSFER AND CERTAIN OTHER LIMITATIONS SET FORTH IN A CERTAIN STOCKHOLDER AGREEMENT DATED AS OF \_\_\_\_\_, 2006, AMONG NEW BOISE, INC. (THE “COMPANY”) AND MERRILL LYNCH & CO, INC., AS THE SAME MAY BE AMENDED FROM TIME TO TIME (THE “AGREEMENT”), COPIES OF WHICH AGREEMENT ARE ON FILE AT THE PRINCIPAL OFFICE OF THE COMPANY.”

(b) Upon any acquisition by Merrill Lynch or any of its Affiliates of additional shares of New BlackRock Capital Stock, Merrill Lynch shall, or shall cause such Affiliate to, submit the certificates representing such shares of New BlackRock Capital Stock to New BlackRock so that the legend required by this Section 3.4 may be placed thereon (if not so endorsed upon issuance).

(c) New BlackRock may make a notation on its records or give instructions to any transfer agents or registrars for New BlackRock Capital Stock in order to implement the restrictions on Transfer set forth in this Agreement.

(d) In connection with any Transfer of shares of Beneficially Owned New BlackRock Capital Stock, the transferor shall provide New BlackRock with such customary certificates, opinions and other documents as New BlackRock may reasonably request to assure that such Transfer complies fully with this Agreement and with applicable securities and other laws. In connection with any Transfer pursuant to Section 3.2(b)(ii), (iii) or (iv), New BlackRock shall remove such portion of the foregoing legend as is appropriate in the circumstances.

Section 3.5 Change of Control. Upon a Change of Control of Merrill Lynch, within the first five years after the Closing, Merrill Lynch (or any successor Person) shall, (a) within 30 days of such Change of Control, initiate and thereafter as promptly as practicable (consistent with applicable legal requirements) Transfer in accordance with the provisions of Sections 3.2 and/or 3.3 of this Agreement (or such other manner as the parties shall have agreed is optimal in the circumstances and will not result in an “assignment” of any investment advisory agreements of New BlackRock and its Controlled Affiliates under the U.S. Investment Advisers Act of 1940) such number of Voting Securities of New BlackRock as shall be necessary to reduce to 24.9 percent the Total Voting Power of New BlackRock Capital Stock Beneficially Owned by Merrill Lynch and its Affiliates immediately after giving effect to such Change of Control or, at the election of Merrill Lynch, (b) Merrill Lynch shall exchange all of its shares of Class A Common Stock for shares of Series A Participating Preferred Stock on the basis of one share of Series A Participating Preferred Stock for each share of Class A Common Stock so exchanged and shall agree to elect cash dividends on all such shares, and New BlackRock shall effect such exchange. The parties shall cooperate in completing and marketing such Transfer, and shall take into account all relevant considerations, including market conditions, in determining the timing and manner of such Transfer.

#### **ARTICLE IV**

##### **CORPORATE GOVERNANCE**

###### **Section 4.1 Composition of the Board(a) .**

(a) Following the Closing, New BlackRock and Merrill Lynch shall each use its best efforts to cause the election at each meeting of stockholders of New BlackRock of such nominees reasonably acceptable to the Board such that there are no more than 17 Directors; there are four Directors (including at least one who also is a former senior executive of Miami) who are members of New BlackRock management (each a “Management Designee”); there are two Directors, each in a different class, who are individuals designated in writing to New BlackRock by Merrill Lynch (each, a “Merrill Lynch Designee”); there are two Directors, each in a different class, who are individuals designated in writing to New BlackRock by a Person who is a Significant Stockholder and has held such status since prior to the date of the Transaction Agreement (each, a “Significant Stockholder Designee”); and the remaining Directors are Independent Directors.



(b) Following the Closing, upon the resignation, retirement or other removal from office of any Management Designee or Merrill Lynch Designee (i) New BlackRock or Merrill Lynch, as the case may be, shall be entitled promptly to designate a replacement Management Designee or Merrill Lynch Designee, as the case may be, who meets the qualifications of a Director and is reasonably acceptable to the Board and (ii) New BlackRock and Merrill Lynch shall each use its best efforts to cause the appointment or election of such replacement designee as a Director by the other Directors or by the stockholders of New BlackRock.

Section 4.2 Vote Required for Board Action; Board Quorum

(a) Except as provided in this Section 4.2 and in Section 4.7, any determination or other action of or by the Board (other than action by unanimous written consent in lieu of a meeting) shall require the affirmative vote or consent, at a meeting at which a quorum is present, of a majority of directors present at such meeting.

(b) In addition to the requirements of Section 4.2(a), New BlackRock shall not enter into or effectuate any of the following transactions without the prior approval of either all of the Independent Directors then in office, or at least two-thirds of the Directors then in office, at a meeting with respect to which such transaction was specifically described in a written notice of meeting called at least two Business Days in advance; provided, however, that if a Director is not present (for the avoidance of doubt, a Director may attend, and be counted as present, at a meeting telephonically) at either of two meetings called and noticed in the foregoing manner to consider such transaction, such Director shall be deemed, solely for purposes of this Section 4.2(b), not to be a Director then in office if such Director is not present at the third meeting called and noticed in the foregoing manner to consider such transaction:

(i) appointment of a new Chief Executive Officer of New BlackRock;

(ii) any merger, consolidation, exchange of shares, issuance of shares or similar transaction as a result of which a majority of the Total Voting Power of New BlackRock Capital Stock or the Person surviving such transaction issued and outstanding immediately after giving effect to such transaction would be Beneficially Owned by one or more Persons other than Persons holding a majority of the Total Voting Power of New BlackRock Capital Stock Issued and outstanding prior to the occurrence of such transaction, or any sale of all or substantially all of the assets of New BlackRock to any Person;

(iii) any acquisition, whether by merger, consolidation, exchange of equity interests, purchase of equity interests or assets or similar transaction of any Person or business the consolidated net income after taxes of which for its preceding fiscal year equals or exceeds 20% of New BlackRock's consolidated net income after taxes for its preceding fiscal year if such acquisition involves the current or potential issuance of New BlackRock Capital Stock constituting more than 10% of the Total Voting Power of New BlackRock Capital Stock issued and outstanding immediately after completion of such acquisition;

(iv) any acquisition, whether by merger, consolidation, exchange of equity interests, purchase of equity interests or assets or similar transaction of any Person or

business constituting a line of business that is materially different from the lines of business New BlackRock and its Controlled Affiliates are engaged in immediately prior to such acquisition if such acquisition involves consideration in excess of 10% of the total assets of New BlackRock on a consolidated basis;

(v) except for repurchases pursuant to the terms of this Agreement, any repurchase by New BlackRock or any Subsidiary of New BlackRock of shares of New BlackRock Capital Stock such that after giving effect to such repurchase New BlackRock and its Subsidiaries shall have repurchased more than 10% of the Total Voting Power of New BlackRock Capital Stock within the 12-month period ending on the date of such repurchase;

(vi) any amendment, modification or waiver of New BlackRock's Certificate of Incorporation;

(vii) any matter requiring stockholder approval pursuant to the New York Stock Exchange listed company manual;

(viii) any amendment, modification or waiver (as distinct from a consent or approval provided therein) of any restriction or prohibition on Merrill Lynch or its Affiliates provided for herein or any amendment, modification or waiver (as distinct from a consent or approval provided for therein) of any restriction or prohibition on a Significant Stockholder or its Affiliates provided for in a stockholders agreement between New BlackRock and such Significant Stockholder;

provided, however, that if a Change of Control of Merrill Lynch occurs prior to the fifth anniversary of the Closing, the provisions of this Section 4.2(b) shall immediately cease.

(c) In addition to the requirements of Section 4.2(a) and (b), New BlackRock shall not enter into any agreement providing for, or effectuate any of the following transactions without the prior written approval of Merrill Lynch:

(i) until the fifth anniversary of the Closing, (A) any merger, consolidation, exchange of shares, issuance of shares or similar transaction as a result of which a majority of the Total Voting Power of the Capital Stock of New BlackRock or the Person surviving such transaction issued and outstanding immediately after giving effect to such transactions would be Beneficially Owned by one or more Persons other than Persons holding a majority of the Total Voting Power of the New BlackRock Capital Stock issued and outstanding prior to the occurrence of such transaction or (B), in the case of a merger, consolidation, exchange of shares, issuance of shares or similar transaction that is not covered by clause (A) above, more than 20% of the Total Voting Power of the Capital Stock of New BlackRock or the other Person surviving such transaction issued and outstanding immediately after giving effect to such transaction would be Beneficially Owned by any Person who Beneficially Owned less than 20% of the Total Voting Power of the New BlackRock Capital Stock or of the Capital Stock of such other Person immediately prior to such transaction;

(ii) after the fifth anniversary of the Closing, any merger, consolidation, exchange of shares, issuance of shares or similar transaction as a result of which a majority of the Total Voting Power of New BlackRock Capital Stock would be Beneficially

Owned by a Restricted Person or any sale of all or substantially all of the assets of New BlackRock to any Restricted Person;

(iii) any sale, whether by merger, consolidation, exchange of equity interests, sale of equity interests in or assets or similar transaction of any Subsidiary if the annualized revenues of such Subsidiary or assets, together with the annualized revenues of all other Subsidiaries so disposed of within the 12-month period ending on the date of such sales exceeds more than 20% of the annualized revenues of New BlackRock for the preceding fiscal year on a consolidated basis;

(iv) any acquisition, whether by merger, consolidation, exchange of equity interests, purchase of equity interests or assets or similar transaction of any Person or business which would be reasonably likely in the opinion of counsel to Merrill Lynch require Merrill Lynch to register with the Board of Governors of the Federal Reserve System as a bank holding company or become subject to regulation, supervision or restrictions under the Bank Holding Company Act of 1956, the Change of Bank Control Act or Section 10 of the Homeowners Loan Act;

(v) any amendment, modification, repeal or waiver of Section 3.2 of New BlackRock's By-Laws or of New BlackRock's Certificate of Incorporation or By-Laws that would be viewed by a reasonable Person as being adverse to the rights of Merrill Lynch or more favorable to the rights of a Significant Stockholder than to the rights of Merrill Lynch;

(vi) any settlement or consent in a regulatory enforcement matter that would be reasonably likely, in the opinion of counsel to Merrill Lynch, to cause Merrill Lynch or any of its Affiliates to suffer (A) any regulatory disqualification, (B) suspension of registration or license or (C) other material adverse regulatory consequence (which approval may not be unreasonably withheld in the case of this clause (C));

(vii) any amendment, modification or waiver (as distinct from a consent or approval provided for therein) of any provision of a stockholders agreement between New BlackRock and a Significant Stockholder that would be viewed by a reasonable Person as being adverse to Merrill Lynch or materially more favorable to the rights of such Significant Stockholder thereunder than to the rights of Merrill Lynch hereunder; or

(viii) any voluntary bankruptcy or similar filing or declaration by New BlackRock.

provided, however, that if a Change of Control of Merrill Lynch occurs prior to the fifth anniversary of the Closing, the provisions of Section 4.2(c)(i), (ii) and (iii) shall immediately cease.

(d) A quorum for any meeting of the Board shall require the presence of a majority of the total number of Directors then in office.

Section 4.3 Committees. To the extent permitted by applicable laws, rules and regulations (including any requirements under the Exchange Act or the rules of the New York Stock Exchange or any other applicable securities exchange on which the Common Stock is then

listed) and except as otherwise determined by the Board (in accordance with Section 4.2) each committee of the Board shall consist of a majority of Independent Directors, the Audit Committee, the Compensation Committee and, to the extent required by applicable laws, rules and regulations and self-regulatory organization requirements, the Nominating Committee shall consist entirely of Independent Directors and the Executive Committee shall consist of not less than five members of which one shall be a Merrill Lynch Designee. Subject to Sections 4.2 and 4.7 all decisions of such committees shall require the affirmative vote of a majority of the Directors then serving on such committee.

Section 4.4 Certificate of Incorporation and Bylaws to be Consistent. Each of New BlackRock and Merrill Lynch shall use its best efforts to take or cause to be taken all lawful action necessary or appropriate to ensure that at all times the Certificate of Incorporation and the Bylaws of New BlackRock contain provisions consistent with the terms of this Agreement (including without limitation this Article IV) and none of the Certificate of Incorporation or the Bylaws of New BlackRock or any of the corresponding constituent documents of New BlackRock's Subsidiaries contain any provisions inconsistent therewith or which would in any way nullify or impair the terms of this Agreement or the rights of New BlackRock or Merrill Lynch hereunder. Neither New BlackRock nor Merrill Lynch shall take or cause to be taken any action inconsistent with the terms of this Agreement (including without limitation this Article IV) or the rights of New BlackRock or Merrill Lynch hereunder.

Section 4.5 Information Rights.

(a) New BlackRock acknowledges that the investments of Merrill Lynch in New BlackRock are material and strategic to it. Accordingly, New BlackRock shall provide to Merrill Lynch, on an ongoing and current basis, such access to and information with respect to New BlackRock's business, operations, plans and prospects as either of them may from time to time reasonably determine it requires in order to appropriately manage and evaluate its investment in New BlackRock.

(b) Without limiting the generality of the foregoing, for so long as Merrill Lynch is required (the "Equity Accounting Period") to account for its investment in New BlackRock under the equity method of accounting (determined in accordance with GAAP as applicable to Merrill Lynch), New BlackRock agrees that:

(i) New BlackRock shall provide Merrill Lynch with (A) consolidated financial results for the latest available period of the New BlackRock consolidated group (the "New BlackRock Group") in order to allow Merrill Lynch to prepare its US regulatory filings under the Securities Exchange Act of 1934 ("Merrill Lynch Public Filings"), including Merrill Lynch's quarterly financial statements and annual audited financial statements and (B) such financial information or documents in the possession of New BlackRock and any of its Subsidiaries as Merrill Lynch may reasonably request; and

(ii) New BlackRock shall cooperate, and use its reasonable best efforts to cause New BlackRock's independent certified public accounts ("New BlackRock's Auditors") to cooperate, with Merrill Lynch to the extent reasonably requested by Merrill Lynch in the preparation of Merrill Lynch's public earnings releases or other press releases, Current Reports

on Form 8-K, Annual Reports to Shareholders, Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and any other proxy, information and registration statements, reports, notices, prospectuses and any other filings made by Merrill Lynch with the Commission, or any other Governmental Authority or otherwise made publicly available (collectively, the "Merrill Lynch Public Filings"). New BlackRock agrees to provide to Merrill Lynch all information that Merrill Lynch reasonably requests in connection with any Merrill Lynch Public Filings or that, in the reasonable judgment of Merrill Lynch or its legal counsel, is required to be disclosed or incorporated by reference therein under any applicable law. New BlackRock shall provide such information to enable Merrill Lynch to prepare, print and release all Merrill Lynch Public Filings on a timely basis. New BlackRock shall use its reasonable best efforts to cause New BlackRock's Auditors to consent to any reference to them as experts in any Merrill Lynch Public Filings required under applicable law.

(c) New BlackRock will negotiate in good faith with Merrill Lynch to develop appropriate protocols for each to share with the other aggregate security position information for use in their respective compliance programs. For so long as New BlackRock shall be deemed a subsidiary of Merrill Lynch for purposes of the Home Owners Loan Act or Change in Bank Control Act, Merrill Lynch shall have appropriate coordination rights with respect to holdings of voting shares of savings and loan holdings companies, savings associations, banks and bank holding companies.

(d) With respect to any information provided by New BlackRock:

(i) Subject to the requirements of law, Merrill Lynch shall keep confidential, and shall cause its representatives to keep confidential, all information and documents obtained pursuant to this Section 4.5 unless such information (w) is or becomes publicly available other than as a result of a breach of this Section 4.5(d) by it or its representatives; (x) was within its possession prior to being furnished to it by or on behalf of New BlackRock, provided that the source of such information was not known by it to be bound by a confidentiality agreement with, or other contractual or legal obligation of confidentiality to, New BlackRock with respect to such information; (y) is or becomes available to such Person or any of its representatives on a non-confidential basis from a source other than New BlackRock or any of its representatives; provided that such source was not known to it to be bound by a confidentiality agreement with, or other contractual or legal obligation of confidentiality to, New BlackRock with respect to such information; or (z) is independently developed by or on its behalf without violating any of its obligations under this Section 4.5(d).

(ii) In the event Merrill Lynch believes that it is legally required to disclose any information or documents contemplated by this Section 4.5(d), it shall to the extent possible under the circumstances provide reasonable prior notice to New BlackRock so that New BlackRock may, at its own expense, seek a protective order or otherwise take reasonable steps to protect the confidentiality of such information.

(iii) Notwithstanding the foregoing, Merrill Lynch may disclose any information or documents contemplated by this Section 4.5(d) in a filing with a governmental authority to the extent required by applicable law, provided that it shall to the extent practicable under the circumstances provide prior notice to New BlackRock.

(iv) The rights of Merrill Lynch and the obligations of New BlackRock hereunder shall be subject to applicable laws relating to the exchange of information and other applicable laws. The provisions of this Section 4.5(d) shall survive any termination of this Agreement.

Section 4.6 Voting Agreements.

(a) Merrill Lynch shall, and shall cause any of its Affiliates, to vote or act by written consent all of the shares of New BlackRock Capital Stock Beneficially Owned by it (i) in favor of each matter required to effectuate any provision of this Agreement and against any matter the approval of which would be inconsistent with any provision of this Agreement and (ii) to the extent consistent with clause (i) above, in accordance with recommendation of the Board on all matters approved by the Board in accordance with the provisions of Article IV, including elections of Directors; provided, however, that if the Board shall either fail to nominate for election as a Director either or both of two individuals designated by Merrill Lynch who are reasonably acceptable to the Board, or shall unreasonably reject one or more Merrill Lynch designees who is otherwise eligible to serve, then, so long as such individuals otherwise meet the requirements for serving as a Director of New BlackRock, Merrill Lynch and its Affiliates shall have the right to nominate such individuals at the applicable meeting of stockholders and to solicit proxies for the election of such individuals and, if such individuals are nominated at such meeting, may vote all of their shares of New BlackRock Capital Stock entitled to vote on such matter in favor of the election of such individuals.

(b) Merrill Lynch shall, and shall cause each of its Affiliates who hold New BlackRock Capital Stock entitled to vote on any matter, be present in person or represented by proxy at all meetings of securityholders of New BlackRock to the extent necessary so that all Voting Securities Beneficially Owned by Merrill Lynch and its Affiliates shall be counted as present for the purpose of determining the presence of a quorum at such meeting and to vote such shares in accordance with this Section 4.6.

Section 4.7 Related Party Transactions. Neither New BlackRock nor any of its Controlled Affiliates shall enter into or effectuate any transaction or agreement with Merrill Lynch or any Affiliate of Merrill Lynch or any director, officer or employee of Merrill Lynch or any such Affiliate (each a "Related Person"), unless such transaction or agreement is in effect at the time of the Closing, relates to transactions by or on behalf of clients of New BlackRock and its Controlled Affiliates in the ordinary course of business or has been approved by or is consistent with or pursuant to the terms of a policy, transaction or agreement (or form of agreement) approved by, the affirmative vote or consent of a majority of the Directors, excluding the Merrill Lynch Designees, present at a meeting at which a quorum is present.

## ARTICLE V

### NON-COMPETITION

#### Section 5.1 Non-Competition.

(a) Subject to subsection (b) of this Section 5.1, from and after the Closing, Merrill Lynch agrees that it shall not, and that it shall cause its Controlled Affiliates (other than New BlackRock and New BlackRock's Controlled Affiliates should they at any time be Controlled Affiliates of Merrill Lynch) not to engage in Merrill Lynch Restricted Activities anywhere in the World (other than India to the extent required by the asset management joint venture to which Merrill Lynch and its Affiliates are party in that country) except on the terms and conditions set forth herein, and New BlackRock agrees that it shall not, and that it shall cause its Controlled Affiliates not to engage in New BlackRock Restricted Activities anywhere in the World except on the terms and conditions set forth herein.

(i) As used in this Section 5.1, the term "Merrill Lynch Restricted Activities" means (i) acting as an Asset Manager (as defined below) to a Fund (as defined below), or (ii) acting as an Asset Manager to a Separately Managed Account (as defined below). Notwithstanding the previous sentence, the parties agree to establish a committee composed of two New BlackRock managers and one Merrill Lynch manager to consider cases in which it would be acceptable and appropriate to allow Merrill Lynch and its Affiliates to engage on a limited, case-by-case basis, in Merrill Lynch Restricted Activities. In particular, if Merrill Lynch or its Affiliates determine that (1) there is customer demand for a product that New BlackRock does not provide, or desire to provide on commercially reasonable terms, and (2) Merrill Lynch and/or its Affiliates has made a reasonable exploration for alternative providers, then the committee will consider and decide in good faith, in the discretion of a majority of the committee members, whether to permit Merrill Lynch or an Affiliate to provide such product notwithstanding that to do so Merrill Lynch or such Affiliate would be engaged in Merrill Lynch Restricted Activities.

Furthermore, Merrill Lynch hereby agrees, notwithstanding anything herein to the contrary, that neither IQ Investment Advisors nor any other investment advisor controlled by Merrill Lynch during the term of this Agreement will (i) directly or through one or more sub-advisers create a family of open-end funds for the purpose of replicating the business of Merrill Lynch Investment Management ("MLIM") or establishing a direct competitive threat to MLIM, or (ii) create an open-end fund or family of open-end funds for the purpose of replicating the MLIM FDP platform or establishing a direct competitive threat to MLIM FDP.

For purposes of this provision, "acting as an Asset Manager" means acting as a discretionary investment adviser or sub-adviser primarily responsible for making the day-to-day investment decisions with respect to which underlying securities or other assets will be purchased and sold by a Fund or a Separately Managed Account; provided, however, that neither Merrill Lynch nor any Affiliate will be deemed to be acting as an Asset Manager in instances where it serves as an investment adviser with responsibilities for manager selection and asset allocation (or other overlay functions) that delegates primary day-to-day selection of underlying securities or other assets to a sub-adviser that is not under the control of Merrill Lynch (it being

agreed that New BlackRock is not under the control of Merrill Lynch for this purpose) and provided further, that Merrill Lynch will not be deemed to be acting as an Asset Manager to new financial technology, the primary purpose of which is not to provide active asset management services to third party investors.

For purposes of this section, "Fund" shall mean any collective investment fund, wherever domiciled.

For purposes of this provision, "Separately Managed Account" shall mean an account established in the name of and for the exclusive benefit of any person that is not a Fund pursuant to which such person receives investment advisory services; provided, however, Separately Managed Account shall not include an account of a customer or client of a retail broker, retail financial advisor, private wealth advisor or other retail sales person ("Retail Sales Person") for which (1) a Retail Salesperson acts as portfolio manager, or (2) a Merrill Lynch affiliated bank or trust company acts as trustee or investment advisor but qualifies for exclusion from acting as an Asset Manager pursuant to the first proviso to the definition thereof or supervises asset management services by the Retail Sales Person or an unaffiliated third party manager.

The term "Fund" shall not include any collective investment vehicle that, and the term "Separately Managed Account" shall not include any account that is not a Fund that:

- (1) invests primarily in collective investment vehicles such as hedge funds, private equity funds, ETFs, and/or mutual funds,
- (2) invests substantially all of its assets in Real Estate,

For purposes of this Section 5.1, "Real Estate" shall include, but not be limited to, any direct or indirect, public or private, wholly-owned, joint venture, TIC interest, partnership, total return swap, and/or participation or other interests (including, without limitation, debt, equity, hybrid security interests (e.g. preferred equity and convertible securities), and options) in and acquisitions, sales, and direct and indirect syndications of:

- (i) real estate properties, including licenses, space and ground leases, and sub-leases for such properties and any interests therein and all rights and interests appurtenant thereto (e.g., air rights, riparian rights, etc.),
- (ii) real estate operating, asset management, property management, loan servicing and special servicing, Section 1031 vehicle and/or holding companies,
- (iii) any entity or structure primarily representing interests in, or backed by, real estate-related credit instruments, real estate equity interests, real estate derivatives, CDO instruments or real estate properties,
- (iv) instruments, assets, or operating enterprises whose values are primarily driven or supported by real property or tangible assets attached to real property including, but not limited to, hotels, homebuilding, commercial and residential real estate, land development, cell towers, real estate credit instruments, lease claims, lien (including tax lien) claims, timber, timeshare units, and fractional interests,



- (v) investment vehicles whose target investments include primarily Real Estate (e.g., partnerships, limited liability companies, hedge funds, private equity funds and REITs and their foreign counterparts),
  - (vi) secured and unsecured performing and non-performing loans and obligations backed primarily by Real Estate (including Commercial Mortgage Backed Securities), or pools of such loans and obligations, and
  - (vii) non-investment grade or high yield loans, bonds, mezzanine loans, B-notes, and preferred equity secured or backed primarily by Real Estate.
- (3) invests primarily in commodities, collateralized debt obligations (broadly defined), collateralized loan obligations (broadly defined), any types of residual equity interests of structured assets or infrastructure products,
- (4) is a “Structured Fund” or an “Enhanced Index Fund,”
- (i) For purposes of this section, a “Structured Fund” is defined to mean any collective investment vehicle or other account that reshapes, repackages, and/or reproduces traditional cash flows or risk-return profiles through derivatives or other financial instruments and is operated in a passive and mechanistic manner in accordance with a predetermined set of trading and investment rules, and
  - (ii) For purposes of this section, an “Enhanced Index Fund” is defined to mean any collective investment vehicle or account that (1) seeks to replicate the performance of an index that is constructed in a customized manner to provide greater returns than those provided by traditional indexes, or replicate the performance of a proprietary index that is developed, co-developed, or exclusively licensed by Merrill Lynch or any of its Affiliates and (2) is operated in a passive and mechanistic manner in accordance with a predetermined set of trading and investment rules,
- (5) is a “Structured Finance Vehicle,”
- For purposes of this section, a “Structured Finance Vehicle” is any collective investment vehicle that relies on a trust, commodity pool, depository facility or other collective investment entity that has the primary purpose of aggregating securities, commodities or other financial instruments for the purpose of (i) repackaging illiquid instruments or derivatives, or (ii) tranching or aggregating financial instruments to change their tax, cost, accounting, yield, credit, leverage, ERISA or risk characteristics,
- (6) is otherwise ancillary or incidental to any non-Fund or non-Separately Managed Account business of Merrill Lynch or its Affiliates, or
- (7) has the primary purpose of seeding funds and/or raising additional third-party capital to facilitate, support or assist in capitalizing current or future Merrill Lynch’s proprietary trading and investing activities, including, but not limited to, equity and equity-linked products, fixed income and fixed income-linked products,

loans, and distressed credit, Real Estate, private equity, venture capital, infrastructure, timber, foreign exchange and commodities products.

Nothing herein shall prohibit Merrill Lynch or any of its Affiliates from engaging in any business activities of any kind or nature currently engaged in by Merrill Lynch or any of its Affiliates as of the date of this Agreement.

(ii) As used in this Section 5.1, the term “New BlackRock Restricted Activities” means engaging, whether directly or indirectly through ownership of any interest in or consensual arrangements relating to another Person that is directly or indirectly engaged, in the retail securities brokerage business; provided, however, that the term “New BlackRock Restricted Activities” shall in no event include acting as the distributor of publicly offered Funds primarily through third party sales forces or acting as a placement agent for privately offered Funds.

(b) Notwithstanding Section 5.1 above, Merrill Lynch and any Controlled Affiliate restricted thereby may, with respect to Merrill Lynch Restricted Activities, and New BlackRock and any Controlled Affiliate restricted thereby may, with respect to New BlackRock Restricted Activities:

(i) acquire or hold any interest (whether by way of a purchase, merger, consolidation or other transaction) in any Person engaged directly or indirectly in any Merrill Lynch Restricted Activities or New BlackRock Restricted Activities, as applicable, if (and only if) (A) the direct and indirect interest Beneficially Owned by Merrill Lynch and its Controlled Affiliates (other than New BlackRock and its Controlled Affiliates should they at any time be Controlled Affiliates of Merrill Lynch), in the case of Merrill Lynch Restricted Activities, or by New BlackRock and its Controlled Affiliates, in the case of New BlackRock Restricted Activities, represents less than 10 percent of the voting interests and less than 10 percent of the ownership, revenue and profits interests in such Person, assuming the exercise of all rights of Merrill Lynch and its Controlled Affiliates ((other than New BlackRock and its Controlled Affiliates should they at any time be Controlled Affiliates of Merrill Lynch), or New BlackRock and its Controlled Affiliates, as applicable, to acquire any such interests or (B) in connection with the bona fide third party venture capital or merchant banking line of business of Merrill Lynch or its Affiliates; or

(ii) acquire or hold any interest in any Person in excess of the amount set forth in clause (i) above if (and only if) either (A) both (x) the consolidated revenues of such Person from Merrill Lynch Restricted Activities or New BlackRock Restricted Activities, as applicable, in the previous four fiscal quarters are less than 33.3% of such Person’s consolidated revenues during such period and (y) the sum of the aggregate consolidated revenues of such Person and its Subsidiaries in the preceding four fiscal quarters from Merrill Lynch Restricted Activities or New BlackRock Restricted Activities, as applicable, multiplied times the direct or indirect percentage economic interest of Merrill Lynch and its restricted Controlled Affiliates or New BlackRock and its restricted Controlled Affiliates, as applicable, in such Person is, in the case of Merrill Lynch Restricted Activities, less than 10% of the consolidated revenues of New BlackRock for such period and, in the case of New BlackRock Restricted Activities, less than 10% of the consolidated revenues of Merrill Lynch derived from New BlackRock Restricted

Activities, Merrill Lynch or New BlackRock, as applicable, shall, or shall cause such Affiliate to, take commercially reasonable actions necessary to cease and terminate such Restricted Activities or to sell such Person or business to a third party that is not an Affiliate, as soon as reasonably practicable, and New BlackRock or Merrill Lynch, as applicable, shall have a right to participate as a bidder in respect of any such sale transaction, or (B) if such acquisition or holding satisfies Section 5.1(b)(ii)(A)(x) above but not Section 5.1(b)(ii)(A)(y) above, then Merrill Lynch or New BlackRock may continue to own such Person and operate its Merrill Lynch Restricted Activities or New BlackRock Restricted Activities, as applicable (the "Continuing Business"); provided that, (1) for so long as the restrictions of Section 5.1(a) continue to apply to Merrill Lynch or BlackRock, as applicable, the Continuing Business shall not use the "Merrill Lynch" name or the "BlackRock" name, or any derivation thereof, and (2) for so long as the Distribution Agreement in the Transaction Agreement remains in effect, Merrill Lynch and its Affiliates or BlackRock and its Affiliates (in each case, other than the acquired Person and its Affiliates as of the time of acquisition) shall not enter into any agreement similar to the Distribution Agreement with the acquired Person and its Affiliates; or

(iii) in the case of Merrill Lynch, merge, consolidate or otherwise engage in a business combination with, or sell all or substantially all of its assets or businesses to, any Person that is not an Affiliate of Merrill Lynch with an existing business engaged in Merrill Lynch Restricted Activities and continue to operate such business; provided that members of the Merrill Lynch board of directors do not constitute a majority of the board of directors of the surviving corporation of such transaction (or of the board of directors of its publicly traded parent company) and that the Merrill Lynch shareholders immediately prior to consummation of such transaction do not immediately after consummation of such transaction own 60% or more of the outstanding capital stock or other equity interests of the surviving entity of such transaction (or of its publicly traded parent company); the restrictions of Section 5.1(a) shall not apply to the activities of such surviving entity and its Affiliates (other than Merrill Lynch (if it is not the surviving parent entity) and its Subsidiaries as of the closing of the transaction)); or

(iv) engage in Merrill Lynch Restricted Activities or New BlackRock Restricted Activities, as applicable, (including through an acquisition or holding in excess of that permitted by Section 5.1(b)(i) or (ii) above) if and to the extent that, prior to engaging therein,

Merrill Lynch discloses to the Board of Directors of New BlackRock, or New BlackRock discloses to the Board of Directors of Merrill Lynch, as applicable, in reasonable detail and with reasonable particularity, including by responding to the inquiries and questions of such Board of Directors, the nature, extent and duration of the proposed Miami Restricted Activities or New BlackRock Restricted Activities; and

a majority of the Independent Directors on such Board of Directors approves the proposed Miami Restricted Activities by Merrill Lynch or such Controlled Affiliate or New BlackRock Restricted Activities by New BlackRock or such Controlled Affiliate, as applicable.

## ARTICLE VI

### MISCELLANEOUS

Section 6.1 Conflicting Agreements. Each party represents and warrants that it has not granted and is not a party to any proxy, voting trust or other agreement that is inconsistent with or conflicts with any provision of this Agreement.

Section 6.2 Termination. Except as otherwise provided in this Agreement, this Agreement shall terminate upon the fifth anniversary of the Closing or, if later, the first date on which Merrill Lynch and its Affiliates Beneficially Own New BlackRock Capital Stock representing less than its Ownership Threshold; provided, however, that in the case of a termination pursuant to this Section 6.2, the obligations of the parties pursuant to Article III hereof shall not terminate until the first date on which Merrill Lynch and its Affiliates Beneficially Own New BlackRock Capital Stock representing less than five percent of the Total Voting Power of the New BlackRock Capital Stock issued and outstanding at such time. Nothing in this Section 6.2 shall be deemed to release any party from any liability for any willful and material breach of this Agreement occurring prior to the termination hereof or to impair the right of any party to compel specific performance by any other party of its obligations under this Agreement.

#### Section 6.3 Ownership Information.

(a) For purposes of this Agreement, all determinations of the amount of outstanding New BlackRock Capital Stock shall be based on information set forth in the most recent quarterly or annual report, and any current report subsequent thereto, filed by New BlackRock with the Commission, unless New BlackRock shall have updated such information by delivery of written notice to Merrill Lynch.

(b) If at any time or from time to time New BlackRock becomes aware of any event that has caused, or which could reasonably be expected to cause, Beneficial Ownership by Merrill Lynch and its Affiliates of New BlackRock Capital Stock to increase above its Ownership Cap, New BlackRock shall promptly (but in no event more than five Business Days thereafter) notify Merrill Lynch thereof.

Section 6.4 Savings Clause. No provision of this Agreement shall be construed to require any party or its Controlled Affiliates to take any action that would violate any applicable law (whether statutory or common), rule or regulation.

Section 6.5 Amendment and Waiver. Except as otherwise provided herein, this Agreement may not be amended except by an instrument in writing signed on behalf of each of the parties hereto. Except as otherwise provided herein, no modification, amendment or waiver of any provision of this Agreement, and no giving of any consent provided for hereunder, shall be effective unless such modification, amendment, waiver or consent is approved by a majority of the Independent Directors. The failure of any party to enforce any of the provisions of this Agreement shall in no way be construed as a waiver of such provisions and shall not

affect the right of such party thereafter to enforce each and every provision of this Agreement in accordance with its terms.

Section 6.6 Severability. If any provision of this Agreement shall be declared by any court of competent jurisdiction to be illegal, void or unenforceable, all other provisions of this Agreement shall not be affected and shall remain in full force and effect.

Section 6.7 Entire Agreement. Except as otherwise expressly set forth herein, this Agreement and the Transaction Agreement, together with the several agreements and other documents and instruments referred to herein or therein or annexed hereto or thereto, embody the complete agreement and understanding among the parties hereto with respect to the subject matter hereof and supersede and preempt any prior understandings, agreements or representations by or among the parties, written or oral, that may have related to the subject matter hereof in any way. Without limiting the generality of the foregoing, to the extent that any of the terms hereof are inconsistent with the rights or obligations of Merrill Lynch under any other agreement with New BlackRock, the terms of this Agreement shall govern.

Section 6.8 Successors and Assigns. Neither this Agreement nor any of the rights or obligations of any party under this Agreement shall be assigned, in whole or in part (except by operation of law pursuant to a merger or similar business combination transaction), by any party without the prior written consent of the other parties (approved, in the case of New BlackRock, by a majority of the Independent Directors), provided, that Merrill Lynch may assign its rights and obligations hereunder (in whole or in part) to an Affiliate that agrees in writing with New BlackRock to be bound by this Agreement as fully as if it were an initial signatory hereto, and any such transferee may thereafter make corresponding assignments in accordance with this proviso; provided, further, that New BlackRock may assign all or a portion of its rights under Sections 3.3 and 5.1(b)(ii) in connection with any particular transaction subject thereto so long as New BlackRock remains, obligated in respect of any purchase obligations arising thereunder. Subject to the foregoing, this Agreement shall bind and inure to the benefit of and be enforceable by the parties hereto and their respective successors and permitted assigns.

Section 6.9 Counterparts. This Agreement may be executed in separate counterparts each of which shall be an original and all of which taken together shall constitute one and the same agreement.

Section 6.10 Remedies.

(a) Each party hereto acknowledges that monetary damages would not be an adequate remedy in the event that each and every one of the covenants or agreements in this Agreement are not performed in accordance with their terms, and it is therefore agreed that, in addition to and without limiting any other remedy or right it may have, the non-breaching party will have the right to an injunction, temporary restraining order or other equitable relief in any court of competent jurisdiction enjoining any such breach and enforcing specifically each and every one of the terms and provisions hereof. Each party hereto agrees not to oppose the granting of such relief in the event a court determines that such a breach has occurred, and to waive any requirement for the securing or posting of any bond in connection with such remedy.

(b) All rights, powers and remedies provided under this Agreement or otherwise available in respect hereof at law or in equity shall be cumulative and not alternative, and the exercise or beginning of the exercise of any thereof by any party shall not preclude the simultaneous or later exercise of any other such right, power or remedy by such party.

Section 6.11 Notices. All notices and other communications hereunder shall be in writing and shall be deemed given if delivered personally, telecopied (upon telephonic confirmation of receipt), on the first Business Day following the date of dispatch if delivered by a recognized next day courier service, or on the third Business Day following the date of mailing if delivered by registered or certified mail, return receipt requested, postage prepaid. All notices hereunder shall be delivered as set forth below, or pursuant to such other instructions as may be designated in writing by the party to receive such notice.

If to New BlackRock:  
c/o BlackRock, Inc.  
40 East 52<sup>nd</sup> Street  
New York, NY 10022  
Facsimile: 212-810-8760  
Attn: Laurence D. Fink

with a copy (which shall not constitute notice) to:  
Skadden, Arps, Slate, Meagher & Flom LLP  
Four Times Square  
New York, NY 10036  
Facsimile: 212-735-200  
Attention: Franklin M. Gittes, Esq.  
Richard T. Prins, Esq.

If to Merrill Lynch:  
Merrill Lynch & Co., Inc.  
Four World Financial Center  
250 Vesey Street  
New York, NY 10080  
Facsimile: 212-670-  
Attention: Richard E. Alsop, Esq.

with a copy (which shall not constitute notice) to:  
Sullivan & Cromwell LLP  
125 Broad Street  
New York, New York 1000  
Facsimile: 212-558-3588  
Attention: Mitchell S. Eitel, Esq.

Section 6.12 Governing Law; Consent to Jurisdiction.

(a) This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware without giving effect to the principles of conflicts of law. Each

of the parties hereto hereby irrevocably and unconditionally consents to submit to the exclusive jurisdiction in the Court of Chancery of the State of Delaware or any court of the United States located in the State of Delaware, for any action, proceeding or investigation in any court or before any governmental authority (“Litigation”) arising out of or relating to this Agreement and the transactions contemplated hereby. Each of the parties hereto hereby irrevocably and unconditionally waives, and agrees not to assert, by way of motion, as a defense, counterclaim or otherwise, in any such Litigation, the defense of sovereign immunity, any claim that it is not personally subject to the jurisdiction of the aforesaid courts for any reason other than the failure to serve process in accordance with this Section 6.12, that it or its property is exempt or immune from jurisdiction of any such court or from any legal process commenced in such courts (whether through service of notice, attachment prior to judgment, attachment in aid of execution of judgment, execution of judgment or otherwise), and to the fullest extent permitted by applicable law, that the Litigation in any such court is brought in an inconvenient forum, that the venue of such Litigation is improper, or that this Agreement, or the subject matter hereof, may not be enforced in or by such courts and further irrevocably waives, to the fullest extent permitted by applicable law, the benefit of any defense that would hinder, fetter or delay the levy, execution or collection of any amount to which the party is entitled pursuant to the final judgment of any court having jurisdiction. Each of the parties irrevocably and unconditionally waives, to the fullest extent permitted by applicable law, any and all rights to trial by jury in connection with any Litigation arising out of or relating to this Agreement or the transactions contemplated hereby.

(b) Each of the parties expressly acknowledges that the foregoing waiver is intended to be irrevocable under the laws of the State of Delaware and of the United States of America; provided that consent by Merrill Lynch and New BlackRock to jurisdiction and service contained in this Section 6.12 is solely for the purpose referred to in this Section 6.12 and shall not be deemed to be a general submission to said courts or in the State of Delaware other than for such purpose.

Section 6.13 Interpretation. The table of contents and headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. Whenever the words “include”, “includes” or “including” are used in this Agreement, they shall be deemed to be followed by the words “without limitation”.

Section 6.14 Effectiveness. This Agreement shall become effective upon the Closing and prior thereto shall be of no force or effect. If the Transaction Agreement shall be terminated in accordance with its terms prior to the Closing, this Agreement and any actions or agreements contemplated hereby shall automatically be of no force or effect.

IN WITNESS WHEREOF, the parties hereto have executed this Stockholder Agreement as of the date first written above.

NEW BOISE, INC.

By: /s/ Susan L. Wagner  
Name: Susan L. Wagner  
Title: President

MERRILL LYNCH & CO., INC.

By: /s/ E. Stanley O'Neal  
Name: E. Stanley O'Neal  
Title: Chairman and Chief Executive Officer

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**Registrable Shares:** all current shares, and all future shares not acquired in violation of the stockholder agreement, until either (1) sold under an effective registration or (2) freely tradable without restriction under Rule 144(k); registration will be flexible, including, e.g., to provide for exchangeables and other hybrids

**Shelf:** upon request

**Demand Registration:** precise number of demand rights per year to be determined

**Piggyback Registration:** customary piggyback rights

**Delay period:** ability of BlackRock to suspend registration for a reasonable period if CEO determines in good faith in consultation with counsel that use of registration statement would require premature disclosure of non-public information the disclosure of which would be materially adverse to BlackRock; with such suspension period to be appropriately time-limited, and PNC not to be treated less favorably than officers, directors or any other Significant Stockholder.

Other customary terms, including, e.g., registration procedures, provision of information for registration statement, indemnity for registration statement information, underwriters, expenses, etc.

Most favored nation provision with respect to registration rights granted to any other Significant Stockholder

**MERRILL LYNCH & CO., INC. AND SUBSIDIARIES**  
**COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES AND**  
**COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS**  
(dollars in millions)

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2006	July 1, 2005(a)	June 30, 2006	July 1, 2005(a)
Pre-tax earnings(b)	\$ 2,238	\$ 1,504	\$ 2,753	\$ 3,096
Add: Fixed charges (excluding capitalized interest and preferred security dividend requirements of subsidiaries)	8,572	5,053	16,218	9,432
Pre-tax earnings before fixed charges	<u>10,810</u>	<u>6,557</u>	<u>18,971</u>	<u>12,528</u>
Fixed charges:				
Interest	8,518	5,002	16,107	9,329
Other(c)	53	51	111	103
Total fixed charges	<u>8,571</u>	<u>5,053</u>	<u>16,218</u>	<u>9,432</u>
Preferred stock dividend requirements	66	23	123	33
Total combined fixed charges and preferred stock dividends	<u>\$ 8,637</u>	<u>\$ 5,076</u>	<u>\$ 16,341</u>	<u>\$ 9,465</u>
<b>Ratio of earnings to fixed charges</b>	<b>1.26</b>	<b>1.30</b>	<b>1.17</b>	<b>1.33</b>
<b>Ratio of earnings to combined fixed charges and preferred stock dividends</b>	<b>1.25</b>	<b>1.29</b>	<b>1.16</b>	<b>1.32</b>

(a) Certain prior period amounts have been reclassified to conform to the current period presentation.

(b) Excludes undistributed earnings from equity investments.

(c) Other fixed charges consist of the interest factor in rentals, amortization of debt issuance costs and preferred security dividend requirements of subsidiaries.

August 4, 2006

Merrill Lynch & Co., Inc.  
4 World Financial Center  
New York, NY 10080

We have made a review, in accordance with the standards of the Public Company Accounting Oversight Board (United States), of the unaudited interim condensed consolidated financial information of Merrill Lynch & Co., Inc. and subsidiaries ("Merrill Lynch") as of June 30, 2006 and for the three-month and six-month periods ended June 30, 2006 and July 1, 2005, as indicated in our report dated August 4, 2006 (which report included an explanatory paragraph regarding the change in accounting method in 2006 for share-based payments to conform to Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment*); because we did not perform an audit, we expressed no opinion on that information.

We are aware that our report referred to above, which is included in your Quarterly Report on Form 10-Q for the quarter ended June 30, 2006, is incorporated by reference in the following Registration Statements, as amended:

Filed on Form S-8

- Registration Statement No. 33-41942 (1986 Employee Stock Purchase Plan)
  - Registration Statement No. 33-17908 (Incentive Equity Purchase Plan)
  - Registration Statement No. 33-33336 (Long-Term Incentive Compensation Plan)
  - Registration Statement No. 33-51831 (Long-Term Incentive Compensation Plan)
  - Registration Statement No. 33-51829 (401(k) Savings and Investment Plan)
  - Registration Statement No. 33-54154 (Non-Employee Directors' Equity Plan)
  - Registration Statement No. 33-54572 (401(k) Savings and Investment Plan (Puerto Rico))
  - Registration Statement No. 33-56427 (Amended and Restated 1994 Deferred Compensation Plan for a Select Group of Eligible Employees)
  - Registration Statement No. 33-55155 (1995 Deferred Compensation Plan for a Select Group of Eligible Employees)
  - Registration Statement No. 33-60989 (1996 Deferred Compensation Plan for a Select Group of Eligible Employees)
  - Registration Statement No. 333-00863 (401(k) Savings & Investment Plan)
  - Registration Statement No. 333-09779 (1997 Deferred Compensation Plan for a Select Group of Eligible Employees)
  - Registration Statement No. 333-13367 (Restricted Stock Plan for Former Employees of Hotchkis and Wiley)
  - Registration Statement No. 333-15009 (1997 KECALP Deferred Compensation Plan for a Select Group of Eligible Employees)
  - Registration Statement No. 333-17099 (Deferred Unit and Stock Unit Plan for Non-Employee Directors)
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Registration Statement No. 333-18915 (Long-Term Incentive Compensation Plan for Managers and Producers)

Registration Statement No. 333-32209 (1998 Deferred Compensation Plan for a Select Group of Eligible Employees)

Registration Statement No. 333-33125 (Employee Stock Purchase Plan for Employees of Merrill Lynch Partnerships)

Registration Statement No. 333-41425 (401(k) Savings & Investment Plan)

Registration Statement No. 333-56291 (Long-Term Incentive Compensation Plan for Managers and Producers)

Registration Statement No. 333-60211 (1999 Deferred Compensation Plan for a Select Group of Eligible Employees)

Registration Statement No. 333-62311 (Replacement Options; Midland Walwyn Inc.)

Registration Statement No. 333-85421 (401(k) Savings and Investment Plan)

Registration Statement No. 333-85423 (2000 Deferred Compensation Plan for a Select Group of Eligible Employees)

Registration Statement No. 333-92663 (Long-Term Incentive Compensation Plan for Managers and Producers)

Registration Statement No. 333-44912 (2001 Deferred Compensation Plan for a Select Group of Eligible Employees)

Registration Statement No. 333-64676 (1986 Employee Stock Purchase Plan)

Registration Statement No. 333-64674 (Long-Term Incentive Compensation Plan for Managers and Producers)

Registration Statement No. 333-68330 (2002 Deferred Compensation Plan for a Select Group of Eligible Employees)

Registration Statement No. 333-99105 (2003 Deferred Compensation Plan for a Select Group of Eligible Employees)

Registration Statement No. 333-108296 (2004 Deferred Compensation Plan for a Select Group of Eligible Employees)

Registration Statement No. 333-109236 (Employee Stock Compensation Plan) Registration Statement No. 333-118615 (2005 Deferred Compensation Plan for a Select Group of Eligible Employees)

Registration Statement No. 333-125109 (2006 Deferred Compensation Plan for a Select Group of Eligible Employees)

Registration Statement No. 333-125181 (Deferred Stock Unit Plan for Non-Employees)

Registration Statement No. 333-134065 (2007 Deferred Compensation Plan for a Select Group of Eligible Employees)

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Filed on Form S-3:

Debt Securities, Warrants, Common Stock, Preferred Securities, and/or Depository Shares:

Registration Statement No. 33-54218

Registration Statement No. 2-78338

Registration Statement No. 2-89519

Registration Statement No. 2-83477

Registration Statement No. 33-03602

Registration Statement No. 33-17965

Registration Statement No. 33-27512

Registration Statement No. 33-33335

Registration Statement No. 33-35456

Registration Statement No. 33-42041

Registration Statement No. 33-45327

Registration Statement No. 33-45777

Registration Statement No. 33-49947

Registration Statement No. 33-51489

Registration Statement No. 33-52647

Registration Statement No. 33-55363

Registration Statement No. 33-60413

Registration Statement No. 33-61559

Registration Statement No. 33-65135

Registration Statement No. 333-13649

Registration Statement No. 333-16603

Registration Statement No. 333-20137

Registration Statement No. 333-25255

Registration Statement No. 333-28537

Registration Statement No. 333-42859

Registration Statement No. 333-44173

Registration Statement No. 333-59997

Registration Statement No. 333-68747

Registration Statement No. 333-38792

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Registration Statement No. 333-52822  
Registration Statement No. 333-83374  
Registration Statement No. 333-97937  
Registration Statement No. 333-105098  
Registration Statement No. 333-109802  
Registration Statement No. 333-122639  
Registration Statement No. 333-132911

Medium Term Notes:

Registration Statement No. 2-96315  
Registration Statement No. 33-03079  
Registration Statement No. 33-05125  
Registration Statement No. 33-09910  
Registration Statement No. 33-16165  
Registration Statement No. 33-19820  
Registration Statement No. 33-23605  
Registration Statement No. 33-27549  
Registration Statement No. 33-38879

Other Securities:

Registration Statement No. 333-02275 (Long-Term Incentive Compensation Plan)  
Registration Statement No. 333-24889 (Long-Term Incentive Compensation Plan, and Long-Term Incentive Compensation Plan for Managers and Producers)  
Registration Statement No. 333-36651 (Hotchkis and Wiley Resale)  
Registration Statement No. 333-59263 (Exchangeable Shares of Merrill Lynch & Co., Canada Ltd. re: Midland Walwyn Inc.)  
Registration Statement No. 333-67903 (Howard Johnson & Company Resale)  
Registration Statement No. 333-45880 (Herzog, Heine, Geduld, Inc. Resale)

We are also aware that the aforementioned report, pursuant to Rule 436(c) under the Securities Act of 1933, is not considered a part of a Registration Statement prepared or certified by an accountant or a report prepared or certified by an accountant within the meaning of Sections 7 and 11 of that Act.

/s/ Deloitte & Touche LLP

New York, New York

Certification

I, E. Stanley O'Neal, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Merrill Lynch & Co., Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ E. Stanley O'Neal

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E. Stanley O'Neal  
Chairman of the Board and  
Chief Executive Officer

Dated: August 4, 2006

Certification

I, Jeffrey N. Edwards, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Merrill Lynch & Co., Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Jeffrey N. Edwards

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Jeffrey N. Edwards  
Senior Vice President and  
Chief Financial Officer

Dated: August 4, 2006



**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Merrill Lynch & Co., Inc. (the "Company") on Form 10-Q for the period ended June 30, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, E. Stanley O'Neal, Chairman of the Board and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ E. Stanley O'Neal

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E. Stanley O'Neal  
Chairman of the Board and  
Chief Executive Officer

Dated: August 4, 2006

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Merrill Lynch & Co., Inc. (the "Company") on Form 10-Q for the period ended June 30, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jeffrey N. Edwards, Senior Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Jeffrey N. Edwards

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Jeffrey N. Edwards  
Senior Vice President and  
Chief Financial Officer

Dated: August 4, 2006

**Merrill Lynch & Co., Inc.**  
**Reconciliation of “Non-GAAP” Measures**

Merrill Lynch adopted Statement of Financial Accounting Standards No. 123 (as revised in 2004) for stock-based employee compensation during the first quarter of 2006. Additionally, as a result of a comprehensive review of the retirement provisions in its stock-based compensation plans, Merrill Lynch also modified the retirement eligibility requirements of existing stock awards in order to facilitate transition to more stringent retirement eligibility requirements for future stock awards. These modifications and the adoption of the new accounting standard required Merrill Lynch to accelerate the recognition of compensation expenses for affected stock awards, resulting in the “one-time compensation expenses.” These changes represent timing differences and are not economic in substance. Management believes that while the results excluding the one-time expenses are considered “non-GAAP” measures, they depict the operating performance of the company more clearly and enable more appropriate period-to-period comparisons.

**Unaudited Earnings Summary**

*(in millions, except per share amounts)*

	For the Three Months Ended March 31, 2006			For the Six Months Ended June 30, 2006		
	Excluding One-time Compensation Expenses	Impact of One-time Compensation Expenses	GAAP Basis	Excluding One-time Compensation Expenses(1)	Impact of One-time Compensation Expenses(1)	GAAP Basis
<b>Net Revenues</b>	\$ 7,962	\$ -	\$ 7,962	\$ 16,120	\$ -	\$ 16,120
<b>Non-Interest Expenses</b>						
Compensation and benefits	3,991	1,759	5,750	7,971	1,759	9,730
Non-compensation expenses	1,619	-	1,619	3,448	-	3,448
<b>Total Non-Interest Expenses</b>	<b>5,610</b>	<b>1,759</b>	<b>7,369</b>	<b>11,419</b>	<b>1,759</b>	<b>13,178</b>
<b>Earnings Before Income Taxes</b>	2,352	(1,759)	593	4,701	(1,759)	2,942
<b>Income Tax Expense</b>	700	(582)	118	1,416	(582)	834
<b>Net Earnings</b>	<u>\$ 1,652</u>	<u>\$ (1,177)</u>	<u>\$ 475</u>	<u>\$ 3,285</u>	<u>\$ (1,177)</u>	<u>\$ 2,108</u>
<b>Preferred Stock Dividends</b>	<u>\$ 43</u>	<u>\$ -</u>	<u>\$ 43</u>	<u>\$ 88</u>	<u>\$ -</u>	<u>\$ 88</u>
<b>Net Earnings Applicable to Common Stockholders</b>	<u>\$ 1,609</u>	<u>\$ (1,177)</u>	<u>\$ 432</u>	<u>\$ 3,197</u>	<u>\$ (1,177)</u>	<u>\$ 2,020</u>
<b>Earnings Per Common Share</b>						
Basic	\$ 1.83	\$ (1.34)	\$ 0.49	\$ 3.63	\$ (1.35)	\$ 2.28
Diluted	\$ 1.65	\$ (1.21)	\$ 0.44	\$ 3.28	\$ (1.21)	\$ 2.07
<b>Average Shares Used in Computing Earnings Per Common Share</b>						
Basic	878.0	5.7	883.7	881.7	2.9	884.6
Diluted	975.4	5.7	981.1	974.4	2.8	977.2

**Financial Ratios (unaudited)***(in millions)*

	For the Three Months Ended March 31, 2006		For the Six Months Ended June 30, 2006	
	Excluding One-time Compensation Expenses	GAAP Basis	Excluding One-time Compensation Expenses <sup>(1)</sup>	GAAP Basis
Compensation and benefits(a)	\$ 3,991	\$ 5,750	\$ 7,971	\$ 9,730
Net Revenues(b)	7,962	7,962	16,120	16,120
<b>Ratio of compensation and benefits to net revenues(a)/(b)</b>	50.1%	72.2%	49.4%	60.4%
Income Tax Expense(a)	\$ 700	\$ 118	\$ 1,416	\$ 834
Earnings Before Income Taxes(b)	2,352	593	4,701	2,942
<b>Effective Tax Rate(a)/(b)</b>	29.8%	19.9%	30.1%	28.3%
Earnings Before Income Taxes(a)	\$ 2,352	\$ 593	\$ 4,701	\$ 2,942
Net Revenues(b)	7,962	7,962	16,120	16,120
<b>Pre-tax Profit Margin(a)/(b)</b>	29.5%	7.4%	29.2%	18.3%
Average Common Equity	\$ 33,800	\$ 33,800	\$ 33,831	\$ 33,831
Average impact of one-time compensation expenses	(145)	-	(145)	-
Average Common Equity(a)	33,655	33,800	33,686	33,831
Annualized Net Earnings Applicable to Common Stockholders(b)	6,436	1,728	6,394	4,040
<b>Annualized Return on Average Common Equity(b)/(a)</b>	19.1%	5.1%	19.0%	11.9%

(1) For purposes of comparison with previously published results, data excluding the impact of the one-time compensation expenses for the first six months of 2006 assumes the impact of the one-time compensation expenses is limited to the first quarter of 2006.

## Segment Data (unaudited)

(dollars in millions)

	For the Three Months Ended			Percent Inc/ (Dec)		For the Six Months Ended		Percent Inc/ (Dec)
	June 30, 2006	March 31, 2006	July 1, 2005	2Q06 vs. 1Q06	2Q06 vs. 2Q05	June 30, 2006	July 1, 2005	
<b>Global Markets &amp; Investment Banking</b>								
<b>Global Markets</b>								
Debt Markets	\$ 1,725	\$ 2,091	\$ 1,606	(18)%	7%	\$ 3,816	\$ 3,268	17%
Equity Markets	1,877	1,573	1,022	19	84	3,450	1,993	73
<i>Total Global Markets net revenues</i>	3,602	3,664	2,628	(2)	37	7,266	5,261	38
<b>Investment Banking(1)</b>								
Origination:								
Debt	367	395	374	(7)	(2)	762	656	16
Equity	315	237	223	33	41	552	465	19
Strategic Advisory Services	296	257	214	15	38	553	374	48
<i>Total Investment Banking net revenues</i>	978	889	811	10	21	1,867	1,495	25
Total net revenues(a)	4,580	4,553	3,439	1	33	9,133	6,756	35
Pre-tax earnings	1,493	212	1,098	604	36	1,705	2,222	(23)
Impact of one-time compensation expenses	-	1,369	-	(100)	N/M	1,369	-	N/M
Pre-tax earnings excluding one-time compensation expenses(b)	1,493	1,581	1,098	(6)	36	3,074	2,222	38
Pre-tax profit margin	32.6%	4.7%	31.9%			18.7%	32.9%	
Pre-tax profit margin excluding one-time compensation expenses(b)/(a)	32.6%	34.7%	31.9%			33.7%	32.9%	
<b>Global Private Client</b>								
Fee-based revenues	\$ 1,533	\$ 1,458	\$ 1,286	5	19	\$ 2,991	\$ 2,557	17
Transactional and origination revenues	902	899	786	0	15	1,801	1,643	10
Net interest profit and related hedges(2)	554	527	420	5	32	1,081	821	32
Other revenues	56	55	76	2	(26)	111	150	(26)
Total net revenues(a)	3,045	2,939	2,568	4	19	5,984	5,171	16
Pre-tax earnings	701	365	457	92	53	1,066	967	10
Impact of one-time compensation expenses	-	281	-	(100)	N/M	281	-	N/M
Pre-tax earnings excluding one-time compensation expenses(b)	701	646	457	9	53	1,347	967	39
Pre-tax profit margin	23.0%	12.4%	17.8%			17.8%	18.7%	
Pre-tax profit margin excluding one-time compensation expenses(b)/(a)	23.0%	22.0%	17.8%			22.5%	18.7%	
<b>Merrill Lynch Investment Managers</b>								
Total net revenues(a)	\$ 630	\$ 570	\$ 405	11	56	\$ 1,200	\$ 818	47
Pre-tax earnings	240	113	121	112	98	353	248	42
Impact of one-time compensation expenses	-	109	-	(100)	N/M	109	-	N/M
Pre-tax earnings excluding one-time compensation expenses(b)	240	222	121	8	98	462	248	86
Pre-tax profit margin	38.1%	19.8%	29.9%			29.4%	30.3%	
Pre-tax profit margin excluding one-time compensation expenses(b)/(a)	38.1%	38.9%	29.9%			38.5%	30.3%	
<b>Corporate</b>								
Total net revenues	\$ (97)	\$ (100)	\$ (93)	3	(4)	\$ (197)	\$ (194)	(2)
Pre-tax earnings	(85)	(97)	(81)	12	(5)	(182)	(173)	(5)
<b>Total</b>								
Total net revenues(a)	\$ 8,158	\$ 7,962	\$ 6,319	2	29	\$ 16,120	\$ 12,551	28
Pre-tax earnings	2,349	593	1,595	296	47	2,942	3,264	(10)
Impact of one-time compensation expenses	-	1,759	-	(100)	N/M	1,759	-	N/M
Pre-tax earnings excluding one-time compensation expenses(b)	2,349	2,352	1,595	(0)	47	4,701	3,264	44
Pre-tax profit margin	28.8%	7.4%	25.2%			18.3%	26.0%	
Pre-tax profit margin excluding one-time compensation expenses(b)/(a)	28.8%	29.5%	25.2%			29.2%	26.0%	

N/M = Not Meaningful

(1) A portion of Origination revenue is recorded in the Global Private Client segment.

(2) Includes interest component of non-qualifying derivatives which are included in Other Revenues.