

SECURITIES AND EXCHANGE COMMISSION  
 WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended September 30, 1994

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.)

WORLD FINANCIAL CENTER, NORTH TOWER,  
 NEW YORK, NEW YORK 10281-1332

(Address of principal executive offices) (Zip Code)

(212) 449-1000

Registrant's telephone number, including area code

Former name, former address and former fiscal year, if changed since last report.

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

YES X NO  
 --- ---

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.

190,470,498 shares of Common Stock\*  
 (as of the close of business on November 4, 1994)

\* Does not include 6,816,714 unallocated shares held in the Employee Stock Ownership Plan that are not considered outstanding for accounting purposes.

Part I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

MERRILL LYNCH & CO., INC. AND SUBSIDIARIES  
 STATEMENTS OF CONSOLIDATED EARNINGS (UNAUDITED)

<TABLE>  
 <CAPTION>

(In Thousands, Except Per Share Amounts)	FOR THE THREE MONTHS ENDED		PERCENT INCREASE (DECREASE)
	SEPT. 30, 1994	SEPT. 24, 1993	
<S>	<C>	<C>	<C>
REVENUES			
Commissions.....	\$ 673,551	\$ 696,036	(3) %

Interest and dividends.....	2,438,760	1,765,784	38
Principal transactions.....	653,691	740,539	(12)
Investment banking.....	245,489	452,165	(46)
Asset management and portfolio service fees.....	431,374	396,458	9
Other.....	87,358	89,066	(2)
	-----	-----	-----
Total Revenues.....	4,530,223	4,140,048	9
Interest Expense.....	2,227,978	1,506,428	48
	-----	-----	-----
Net Revenues.....	2,302,245	2,633,620	(13)
	-----	-----	-----
NON-INTEREST EXPENSES			
Compensation and benefits.....	1,179,031	1,296,829	(9)
Occupancy.....	106,366	116,862	(9)
Communications and equipment rental.....	110,945	98,140	13
Depreciation and amortization.....	83,301	73,780	13
Advertising and market development.....	96,321	98,900	(3)
Professional fees.....	88,799	70,807	25
Brokerage, clearing, and exchange fees..	82,690	68,283	21
Other.....	165,270	167,720	(1)
	-----	-----	-----
Total Non-Interest Expenses.....	1,912,723	1,991,321	(4)
	-----	-----	-----
EARNINGS BEFORE INCOME TAXES.....	389,522	642,299	(39)
Income tax expense.....	157,943	282,612	(44)
	-----	-----	-----
NET EARNINGS.....	\$ 231,579	\$ 359,687	(36) %
	=====	=====	=====
NET EARNINGS APPLICABLE TO COMMON STOCKHOLDERS.....	\$ 229,861	\$ 358,416	
	=====	=====	
EARNINGS PER COMMON SHARE:			
Primary.....	\$ 1.10	\$ 1.57	
	=====	=====	
Fully diluted.....	\$ 1.10	\$ 1.56	
	=====	=====	
DIVIDEND PAID PER COMMON SHARE.....	\$ .23	\$ .175	
	=====	=====	
AVERAGE SHARES USED IN COMPUTING EARNINGS PER COMMON SHARE:			
Primary.....	209,030	228,380	
	=====	=====	
Fully diluted.....	209,030	229,619	
	=====	=====	

</TABLE>

See Notes to Consolidated Financial Statements

2

MERRILL LYNCH & CO., INC. AND SUBSIDIARIES  
STATEMENTS OF CONSOLIDATED EARNINGS (UNAUDITED)

<TABLE>  
<CAPTION>

(In Thousands, Except Per Share Amounts)	FOR THE NINE MONTHS ENDED		PERCENT INCREASE (DECREASE)
	SEPT. 30, 1994	SEPT. 24, 1993	
	-----	-----	-----
<S>	<C>	<C>	<C>
REVENUES			
Commissions.....	\$ 2,232,328	\$ 2,088,553	7%
Interest and dividends.....	6,955,987	5,056,186	38
Principal transactions.....	1,881,235	2,245,392	(16)
Investment banking.....	1,011,890	1,311,367	(23)
Asset management and portfolio service fees.....	1,307,532	1,139,007	15
Other.....	360,362	221,536	63
	-----	-----	-----
Total Revenues.....	13,749,334	12,062,041	14
Interest Expense.....	6,217,542	4,261,808	46
	-----	-----	-----
Net Revenues.....	7,531,792	7,800,233	(3)
	-----	-----	-----
NON-INTEREST EXPENSES			
Compensation and benefits.....	3,825,998	3,840,423	-
Occupancy.....	327,948	456,634	(28)
Communications and equipment rental.....	322,391	286,052	13
Depreciation and amortization.....	238,067	216,819	10
Advertising and market development.....	294,071	271,203	8
Professional fees.....	270,101	197,831	37

Brokerage, clearing, and exchange fees.....	256,645	209,668	22
Other.....	522,179	494,075	6
	-----	-----	-----
Total Non-Interest Expenses.....	6,057,400	5,972,705	1
	-----	-----	-----
EARNINGS BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE.....	1,474,392	1,827,528	(19)
Income tax expense.....	619,245	780,408	(21)
	-----	-----	-----
EARNINGS BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE.....	855,147	1,047,120	(18)
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE (NET OF APPLICABLE INCOME TAXES OF \$25,075).....	-	(35,420)	N/M
	-----	-----	-----
NET EARNINGS.....	\$ 855,147	\$ 1,011,700	(15) %
	=====	=====	=====
NET EARNINGS APPLICABLE TO COMMON STOCKHOLDERS.....	\$ 850,553	\$ 1,007,755	
	=====	=====	
PRIMARY EARNINGS PER COMMON SHARE:			
Earnings Before Cumulative Effect of Change in Accounting Principle.....	\$ 3.98	\$ 4.61	
Cumulative Effect of Change in Accounting Principle.....	-	(.16)	
	-----	-----	
NET EARNINGS.....	\$ 3.98	\$ 4.45	
	=====	=====	
FULLY DILUTED EARNINGS PER COMMON SHARE:			
Earnings Before Cumulative Effect of Change in Accounting Principle.....	\$ 3.97	\$ 4.58	
Cumulative Effect of Change in Accounting Principle.....	-	(.16)	
	-----	-----	
NET EARNINGS.....	\$ 3.97	\$ 4.42	
	=====	=====	
DIVIDENDS PAID PER COMMON SHARE.....	\$ .66	\$ .50	
	=====	=====	
AVERAGE SHARES USED IN COMPUTING EARNINGS PER COMMON SHARE:			
Primary.....	213,935	226,635	
	=====	=====	
Fully diluted.....	214,050	228,144	
	=====	=====	

</TABLE>

See Notes to Consolidated Financial Statements

3

MERRILL LYNCH & CO., INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

<TABLE>  
<CAPTION>

(Dollars in Thousands, Except Per Share Amounts)	SEPT. 30, 1994	DEC. 31, 1993
ASSETS		
-----	-----	-----
<S>	<C>	<C>
CASH AND CASH EQUIVALENTS.....	\$ 2,350,480	\$ 1,783,408
	-----	-----
CASH AND SECURITIES SEGREGATED FOR REGULATORY PURPOSES OR DEPOSITED WITH CLEARING ORGANIZATIONS.....	5,313,256	4,069,424
	-----	-----
MARKETABLE INVESTMENT SECURITIES.....	2,146,744	1,749,254
	-----	-----
TRADING INVENTORIES, AT FAIR VALUE		
Corporate debt, contractual agreements, and preferred stock.....	25,560,618	16,764,084
Non-U.S. governments and agencies.....	6,354,539	9,260,725
U.S. Government and agencies.....	6,538,910	7,287,081
Equities and convertible debentures.....	7,110,871	6,806,539
Mortgages and mortgage-backed.....	5,716,300	6,486,464
Money markets.....	1,595,807	3,337,839
Municipals.....	978,842	1,606,097
	-----	-----
Total.....	53,855,887	51,548,829
	-----	-----
RESALE AGREEMENTS.....	47,438,355	38,137,528
	-----	-----
SECURITIES BORROWED.....	20,561,976	19,001,061

RECEIVABLES		
Customers (net of allowance for doubtful accounts of \$47,110 in 1994 and \$47,953 in 1993).....	13,252,840	13,242,875
Brokers and dealers.....	9,380,993	7,292,332
Interest and other.....	2,818,136	2,758,768
Total.....	25,451,969	23,293,975
INVESTMENTS OF INSURANCE SUBSIDIARIES.....	6,029,482	7,841,444
LOANS, NOTES, AND MORTGAGES (NET OF ALLOWANCE FOR LOAN LOSSES OF \$201,001 IN 1994 AND \$142,414 IN 1993).....	1,595,448	2,083,553
OTHER INVESTMENTS.....	857,353	873,806
PROPERTY, LEASEHOLD IMPROVEMENTS, AND EQUIPMENT (NET OF ACCUMULATED DEPRECIATION AND AMORTIZATION OF \$1,829,552 IN 1994 AND \$1,677,334 IN 1993).....	1,556,655	1,506,964
OTHER ASSETS.....	1,237,301	1,021,116
TOTAL ASSETS.....	\$168,394,906	\$152,910,362

</TABLE>

See Notes to Consolidated Financial Statements

4

MERRILL LYNCH & CO., INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

<TABLE>

<CAPTION>

(Dollars in Thousands, Except Per Share Amounts)	SEPT. 30, 1994	DEC. 31, 1993
LIABILITIES AND STOCKHOLDERS' EQUITY		
<S>	<C>	<C>
LIABILITIES		
REPURCHASE AGREEMENTS.....	\$ 56,635,531	\$ 56,418,148
COMMERCIAL PAPER AND OTHER SHORT-TERM BORROWINGS.....	24,260,981	23,214,329
COMMITMENTS FOR SECURITIES SOLD BUT NOT YET PURCHASED, AT FAIR VALUE		
U.S. Government and agencies.....	16,220,950	12,183,271
Equities and convertible debentures.....	5,135,063	3,953,850
Corporate debt, contractual agreements, and preferred stock.....	12,930,569	3,577,056
Non-U.S. governments and agencies.....	1,485,145	1,762,154
Municipals.....	193,430	184,041
Total.....	35,965,157	21,660,372
CUSTOMERS.....	10,520,822	13,571,379
INSURANCE.....	5,823,306	7,405,673
BROKERS AND DEALERS.....	6,240,925	4,862,584
OTHER LIABILITIES AND ACCRUED INTEREST.....	7,395,476	6,823,064
LONG-TERM BORROWINGS.....	15,847,957	13,468,900
TOTAL LIABILITIES.....	162,690,155	147,424,449
STOCKHOLDERS' EQUITY		
PREFERRED STOCKHOLDERS' EQUITY		
Preferred stock, par value \$1.00 per share (Liquidation preference \$100,000 per share); authorized: 25,000,000 shares; issued: 1994 and 1993 - 3,000 shares; outstanding: 1994 and 1993 - 1,938 shares.....	193,800	193,800
COMMON STOCKHOLDERS' EQUITY		
Common stock, par value \$1.33 1/3 per share; authorized: 500,000,000 shares; issued: 1994 and 1993 - 236,330,162 shares.....	315,105	315,105
Paid-in capital.....	1,211,125	1,156,367
Foreign currency translation adjustment.....	4,466	(18,305)
Net unrealized (losses) gains on investment securities available-for-sale (net of applicable income tax (benefit) expense of \$(24,751) in 1994 and \$12,493 in 1993).....	(45,409)	21,355

Retained earnings.....	5,495,685	4,777,142
Subtotal.....	6,980,972	6,251,664
Less:		
Treasury stock, at cost:		
1994 - 36,701,040 shares;		
1993 - 23,408,139 shares.....	1,203,212	695,788
Unallocated ESOP shares, at cost:		
1994 - 6,816,714 shares;		
1993 - 8,932,332 shares.....	107,363	140,684
Employee stock transactions.....	159,446	123,079
TOTAL COMMON STOCKHOLDERS' EQUITY.....	5,510,951	5,292,113
TOTAL STOCKHOLDERS' EQUITY.....	5,704,751	5,485,913
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY.....	\$168,394,906	\$152,910,362
BOOK VALUE PER COMMON SHARE.....	\$ 28.80	\$ 26.17

</TABLE>

See Notes to Consolidated Financial Statements

5

MERRILL LYNCH & CO., INC. AND SUBSIDIARIES  
STATEMENTS OF CONSOLIDATED CASH FLOWS  
(UNAUDITED)

<TABLE>  
<CAPTION>

(In Thousands)	FOR THE NINE MONTHS ENDED	
	SEPT. 30, 1994	SEPT. 24, 1993
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings.....	\$ 855,147	\$ 1,011,700
Noncash items included in earnings:		
Cumulative effect of change in accounting principle.....	-	35,420
Depreciation and amortization.....	238,067	216,819
Policyholder reserves.....	275,000	408,469
Other.....	582,145	330,543
(Increase) decrease in operating assets:		
Trading inventories.....	(2,307,058)	(12,013,948)
Cash and securities segregated for regulatory purposes or deposited with clearing organizations.....	(1,243,832)	100,729
Securities borrowed.....	(1,560,915)	(3,765,484)
Customers.....	(47,985)	(2,997,529)
Maturities and sales of trading investment securities...	128,387	-
Purchases of trading investment securities.....	(125,079)	-
Other.....	(1,611,000)	(7,769,183)
Increase (decrease) in operating liabilities:		
Commitments for securities sold but not yet purchased...	14,304,785	5,303,761
Customers.....	(3,050,557)	1,698,954
Insurance.....	(1,673,863)	(1,357,822)
Other.....	1,839,959	6,982,091
CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES.....	6,603,201	(11,815,480)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from (payments for):		
Maturities of available-for-sale securities.....	2,147,478	-
Sales of available-for-sale securities.....	1,031,715	-
Purchases of available-for-sale securities.....	(1,771,271)	-
Maturities of held-to-maturity securities.....	1,211,609	-
Purchases of held-to-maturity securities.....	(1,590,946)	-
Maturities and sales of investments by insurance subsidiaries.....	-	2,438,380
Purchases of investments by insurance subsidiaries.....	-	(1,573,895)
Marketable investment securities.....	-	(581,583)
Other investments and other assets.....	(235,280)	(31,765)
Property, leasehold improvements, and equipment.....	(287,758)	(274,850)
CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES.....	505,547	(23,713)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from (payments for):		
Repurchase agreements, net of resale agreements.....	(9,083,444)	6,388,005

Commercial paper and other short-term borrowings.....	1,046,652	3,955,312
Issuance and resale of long-term borrowings.....	9,063,820	6,379,240
Settlement and repurchase of long-term borrowings.....	(6,827,946)	(4,262,303)
Other common stock transactions.....	(604,154)	(57,834)
Dividends.....	(136,604)	(109,213)
	-----	-----
CASH (USED FOR) PROVIDED BY FINANCING ACTIVITIES.....	(6,541,676)	12,293,207
	-----	-----
INCREASE IN CASH AND CASH EQUIVALENTS.....	567,072	454,014
	-----	-----
Cash and cash equivalents, beginning of year.....	1,783,408	1,251,572
	-----	-----
CASH AND CASH EQUIVALENTS, END OF PERIOD.....	\$ 2,350,480	\$ 1,705,586
	=====	=====

</TABLE>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid for:

Income taxes totaled \$1,051,784 in 1994 and \$796,974 in 1993.  
Interest totaled \$6,138,752 in 1994 and \$4,135,163 in 1993.

SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES:

The decrease in unrealized gain on investment securities available-for-sale totaled \$66,764.

See Notes to Consolidated Financial Statements

6

MERRILL LYNCH & CO., INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

SEPTEMBER 30, 1994

BASIS OF PRESENTATION

The consolidated financial statements, prepared in accordance with generally accepted accounting principles, include the accounts of Merrill Lynch & Co., Inc. and its subsidiaries (collectively referred to as the "Corporation"). All material intercompany balances and transactions have been eliminated. The December 31, 1993 consolidated balance sheet was derived from the audited financial statements. The interim consolidated financial statements for the three- and nine-month periods are unaudited; however, in the opinion of the management of the Corporation, all adjustments necessary for a fair statement of the results of operations have been included. The adjustments consist of normal recurring accruals and a non-recurring pretax lease charge of \$103.0 million (\$59.7 million after income taxes) previously reported in the 1993 first quarter.

These unaudited financial statements should be read in conjunction with the audited financial statements included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 1993. The nature of the Corporation's business is such that the results of any interim period are not necessarily indicative of results for a full year. Prior period financial statements have been restated (see Note on Accounting Changes) and reclassified, where appropriate, to conform to the 1994 presentation.

ACCOUNTING CHANGES

On January 1, 1994, the Corporation adopted Financial Accounting Standards Board Interpretation No. 39 ("Interpretation No. 39"), "Offsetting of Amounts Related to Certain Contracts". Interpretation No. 39 affects the financial statement presentation of balances related to swap, forward, and other similar exchange or conditional type contracts, and unconditional type contracts. The Corporation is generally required to report separately on the balance sheet unrealized gains as assets, and unrealized losses as liabilities. For exchange or conditional contracts, netting is permitted only when a legal right of setoff exists with the same counterparty under a master netting arrangement. For unconditional contracts, such as resale and repurchase agreements, net cash settlement of the related receivable and payable balances is also required.

Prior to the adoption of Interpretation No. 39, the Corporation followed industry practice in reporting balances related to certain types of contracts on a net basis. Unrealized gains and losses for swap, forward, and other similar contracts were reported net on the balance sheet by contract type, while certain receivables and payables related to resale and repurchase agreements were reported net by counterparty. At September 30, 1994, assets and liabilities increased approximately \$12.0 billion for the effect of Interpretation No. 39.

7

The Corporation adopted Statement of Financial Accounting Standards ("SFAS")

No. 112, "Employers' Accounting for Postemployment Benefits", effective as of the 1993 first quarter. The cumulative effect of this change in accounting principle, reported in the 1993 Statement of Consolidated Earnings, resulted in a charge (net of applicable income tax benefit) of \$35.4 million. The 1993 year-to-date Statement of Consolidated Earnings has been restated to reflect the impact of this pronouncement.

INVESTMENTS

On December 31, 1993, the Corporation adopted SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities". SFAS No. 115 requires certain subsidiaries of the Corporation, principally insurance and banking, to classify their investments in debt and qualifying equity securities into three categories: "trading", "available-for-sale", or "held-to-maturity". Investments that are classified as trading and available-for-sale are recorded at fair value. Investments in debt securities classified as held-to-maturity continue to be carried at amortized cost. Other investments, including restricted equity securities, are excluded from the provisions of SFAS No. 115 and are classified as non-qualifying investments. Restricted equity investment securities are reported at the lower of cost or net realizable value.

The Corporation has several broad categories of investments on its Consolidated Balance Sheets, including investments of insurance subsidiaries, marketable investment securities, and other investments. A reconciliation of the Corporation's investment securities to those reported in the Consolidated Balance Sheets is presented below:

<TABLE>  
<CAPTION>

(In thousands)	Sept. 30, 1994	Dec. 31, 1993
Investments of insurance subsidiaries:		
Available-for-sale	\$4,380,956	\$6,088,443
Trading	153,217	164,620
Non-qualifying	1,495,309	1,588,381
Total	\$6,029,482	\$7,841,444
Marketable investment securities:		
Available-for-sale	\$ 518,632	\$ 471,862
Held-to-maturity	1,628,112	1,277,392
Total	\$2,146,744	\$1,749,254
Other investments:		
Available-for-sale	\$ 93,795	\$ 151,801
Held-to-maturity	16,559	16,635
Non-qualifying	746,999	705,370
Total	\$ 857,353	\$ 873,806

</TABLE>  
For registrants subject to the information reporting requirements of the Securities Exchange Act of 1934, there are additional requirements under SFAS No. 115. The Corporation's insurance subsidiaries are required to adjust deferred acquisition costs and certain policyholder liabilities associated with investments classified as available-for-sale. These investments are primarily in-force, universal life-type contracts under SFAS No. 97, "Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of

Investments". Adjustments to these investments are recorded in stockholders' equity and assume that the unrealized gain or loss on available-for-sale securities was realized.

The table that follows provides the components of the net unrealized (loss) gain recorded in stockholders' equity for available-for-sale investments:

<TABLE>  
<CAPTION>

(In thousands)	Sept. 30, 1994	Dec. 31, 1993
Net unrealized (losses) gains on investment securities available-for-sale	\$ (335,431)	\$ 254,030
Adjustments for:		
Policyholder liabilities	183,504	(205,495)
Deferred policy acquisition costs	47,919	(14,687)
Deferred income taxes	37,244	(12,493)

Net activity for the period	(66,764)	21,355
Net unrealized gains on investment securities classified as available-for-sale, beginning of year	21,355	-
Net unrealized (losses) gains on investment securities classified as available-for-sale, end of period	\$ (45,409)	\$ 21,355

</TABLE>

In the 1994 third quarter, gross realized gains and losses related to available-for-sale investment securities were \$14.0 million and \$6.6 million, respectively. For the nine-month period ended September 30, 1994, gross realized gains and losses related to available-for-sale investment securities were \$20.0 million and \$14.3 million, respectively. The cost basis of each investment sold is specifically identified for purposes of computing realized gains and losses. Net unrealized gains and losses from trading investment securities included in the 1994 three- and nine-month Statements of Consolidated Earnings were gains of \$2.4 million and losses of \$9.1 million, respectively.

#### INTEREST AND DIVIDEND EXPENSE

Interest expense includes payments in lieu of dividends of \$4.8 million and \$5.9 million for the third quarters of 1994 and 1993, respectively. For the nine-month periods ended September 30, 1994 and September 24, 1993, payments in lieu of dividends were \$19.5 million and \$15.2 million, respectively.

#### COMMERCIAL PAPER AND OTHER SHORT-TERM BORROWINGS

Commercial paper and other short-term borrowings at September 30, 1994 and December 31, 1993 follow:

<TABLE>  
<CAPTION>

(In millions)	Sept. 30, 1994	Dec. 31, 1993
Commercial paper	\$13,600	\$14,896
Demand and time deposits	7,086	5,946
Securities loaned	2,128	1,047
Bank loans and other	1,447	1,325
Total	\$24,261	\$23,214

</TABLE>

9

#### COMMITMENTS

The Corporation enters into certain contractual agreements, referred to as "derivatives" or off-balance-sheet financial instruments, involving futures, forwards (including mortgage-backed securities requiring forward settlement), options, and swap transactions, including swap options, caps, collars, and floors. The Corporation uses derivatives in conjunction with on-balance-sheet financial instruments to facilitate customer transactions, manage its own interest rate, currency, and market risk, and to meet trading and financing needs. Derivative contracts often involve future commitments to swap interest payment streams, to purchase or sell other financial instruments at specified terms on a specified date, or to exchange currencies. In addition, the Corporation writes options on a wide range of financial instruments such as securities, currencies, futures, and various market indices.

The contractual or notional amounts of these instruments are set forth below:

<TABLE>  
<CAPTION>

(In billions)	Sept. 30, 1994	Dec. 31, 1993
Forward contracts	\$137	\$154
Futures contracts	404	105
Swap agreements	800	560
Options written	107	72

</TABLE>

In the normal course of business, the Corporation obtains letters of credit to satisfy various collateral requirements in lieu of the Corporation depositing securities or cash. At September 30, 1994, letters of credit



aggregating \$1,467 million were used for this purpose.

In the normal course of business, the Corporation also enters into underwriting commitments, when-issued transactions, and commitments to extend credit.

Settlement of these commitments as of September 30, 1994 would not have a material effect on the consolidated financial condition of the Corporation.

#### REGULATORY REQUIREMENTS

Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S"), a broker-dealer and a subsidiary of the Corporation, is subject to the Securities and Exchange Commission's Net Capital Rule. Under the alternative method permitted by this rule, the minimum required net capital, as defined, shall not be less than 2% of aggregate debit balances arising from customer transactions. At September 30, 1994, MLPF&S's regulatory net capital of \$1,387 million was 11% of aggregate debit balances, and its regulatory net capital in excess of the minimum required was \$1,144 million.

Merrill Lynch Government Securities Inc. ("MLGSI"), a primary dealer in U.S. Government securities and a subsidiary of the Corporation, is subject to the Capital Adequacy Rule required by the Government Securities Act of

10

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 September 30, 1994, MLGSI's liquid capital of \$918 million was 247% of its total market and credit risk, and liquid capital in excess of the minimum required was \$471 million.

Merrill Lynch International Limited ("MLIL"), a United Kingdom registered broker-dealer and a subsidiary of the Corporation, is subject to capital requirements of the Securities and Futures Authority ("SFA"). Regulatory capital, as defined, must exceed the financial resources requirement of the SFA. At September 30, 1994, MLIL's regulatory capital was \$1,518 million, and exceeded the minimum requirement by \$362 million.

#### SUBSEQUENT EVENT

The Corporation is authorized to issue 25 million shares of undesignated preferred stock, par value \$1.00 per share. The Corporation's Board of Directors (the "Board") delegated to the Executive Committee of the Board the authority to authorize the issuance, from time to time, of up to 100,000 shares of previously undesignated preferred stock (having an aggregate liquidation preference not to exceed \$600 million) in one or more offerings.

Subsequent to quarter-end, the Corporation completed the public offering of 17 million Depositary Shares, each representing a one-four hundredth interest in a share of 9% Cumulative Preferred Stock, Series A, \$10,000 liquidation preference per share ("9% Preferred Stock"). The 9% Preferred Stock is a single series consisting of 42,500 shares with an aggregate liquidation preference of \$425 million. At the time of issuance, this series was rated A by Duff & Phelps Credit Rating Co., A+ by Fitch Investors Services, Inc., A by IBCA Ltd., "a1" by Moody's Investors Service, Inc., and A- by Standard & Poor's Ratings Group.

Dividends on the 9% Preferred Stock are cumulative from the date of original issue and are payable quarterly. The 9% Preferred Stock is not redeemable prior to December 30, 2004 and, on or after that date, will be redeemable at the option of the Corporation in whole or, from time to time, in part. The Corporation intends to use the net proceeds from the sale of the Depositary Shares for general corporate purposes.

11

#### INDEPENDENT ACCOUNTANTS' REPORT

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 as of September 30, 1994, and the related condensed statements of consolidated earnings for the three- and nine-month periods ended September 30, 1994 and September 24, 1993 and consolidated cash flows for the nine-month periods ended September 30, 1994 and September 24, 1993. These financial statements are the responsibility of the management of Merrill Lynch & Co., Inc.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and of making inquiries of persons responsible for financial and accounting

matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, 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 review, we are not aware of any material modifications that should be made to such condensed consolidated financial statements for them to be in conformity with generally accepted accounting principles.

We have previously audited, in accordance with generally accepted auditing standards, the consolidated balance sheet of Merrill Lynch & Co., Inc. and subsidiaries as of December 31, 1993, and the related statements of consolidated earnings, changes in consolidated stockholders' equity and consolidated cash flows for the year then ended (not presented herein); and in our report dated February 28, 1994, 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 31, 1993 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

As discussed in the note to the condensed consolidated financial statements entitled, "Accounting Changes", in 1993 the Corporation and its subsidiaries changed their method of accounting for postemployment benefits to conform with Statement of Financial Accounting Standards No. 112.

/s/ Deloitte & Touche LLP

November 10, 1994  
New York, New York

12

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
-----  
RESULTS OF OPERATIONS  
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Merrill Lynch & Co., Inc. and its subsidiaries (collectively referred to as the "Corporation") conduct their businesses in global financial markets that are influenced by a number of factors including economic and market conditions, political events, and investor sentiment. The reaction of issuers and investors to a particular condition or event is unpredictable and can create volatility in the marketplace. While higher volatility can increase risk, it may also increase order flow, which drives many of the Corporation's businesses. Other global market and economic conditions, including the liquidity of secondary markets, the level and volatility of interest rates, currency and security valuations, competitive conditions, and the size, number, and timing of transactions may also affect earnings. As a result, revenues and net earnings can vary significantly from year to year, and from quarter to quarter.

Financial markets, strong throughout 1993 and the first six weeks of 1994, weakened during the remainder of the nine-month period ended September 30, 1994, with lower volumes affecting most revenue categories. Rising U.S. interest rates, a weak U.S. dollar, and unsettled global stock, bond, and currency markets continued to dampen investor and issuer activity in the 1994 third quarter.

Underwriting volume in the 1994 third quarter declined industry-wide to the lowest level since the 1991 first quarter. Domestic equity issuances decreased from the 1993 third quarter, including a 47% industry-wide decline in volume for initial public stock offerings, principally as a result of reduced demand. Higher interest rates continued to reduce debt issuances, particularly refinancings, leading to a 50% decrease industry-wide in underwriting of domestic debt from last year's third quarter. Strategic services revenues benefited from increased merger and acquisition activity in the telecommunication, entertainment, financial services, and transportation industries.

Trading results in equity and interest-sensitive products were generally lower industry-wide. Equity trading was primarily affected by lower revenues from convertible securities and reduced demand for over-the-counter issues. Continued uncertainty in world currency markets reduced foreign exchange trading. Revenues from municipal securities increased due to more attractive tax-exempt yields, while revenues from swaps and other derivatives remained at relatively strong levels.

Stock market activity, as measured by New York Stock Exchange ("NYSE") average daily trading volume, was 274 million shares in the 1994 third quarter. Third quarter trading volume was slightly above the 1994 second quarter average of 273 million shares and 9% higher than the 1993 third quarter average of 252 million shares. Fee-based revenues benefited from continued growth in assets under management.

The Dow Jones Industrial Average ("DJIA") daily closing index for the 1994

third quarter averaged 3,802, 4% above the 1994 second quarter average closing index and 6% above the 1993 third quarter average close. In the bond market, the price of the 30-year U.S. Treasury bond continued to decline, with the yield rising to 7.82% at the end of the 1994 third

13

quarter, compared with 7.61% at the end of the 1994 second quarter and 6.03% at the end of the 1993 third quarter.

The Corporation's 1994 third quarter net earnings were 8% below net earnings for the 1994 second quarter and 36% below the record net earnings for the 1993 third quarter. Although profitability declined during the 1994 third quarter, a diversified revenue base, strong market positions across numerous product lines, and appropriate cost and risk management reduced the effect of difficult financial markets on the Corporation's operating results.

#### THIRD QUARTER 1994 VERSUS THIRD QUARTER 1993 AND NINE MONTHS 1994 VERSUS NINE MONTHS 1993

The discussion that follows emphasizes the comparison between the third quarters of 1994 and 1993, with additional information on the nine-month periods presented where appropriate.

Net earnings for the 1994 third quarter were \$231.6 million, down \$128.1 million (36%) from the \$359.7 million reported in last year's record third quarter. Third quarter earnings per common share were \$1.10 primary and fully diluted, compared with \$1.57 primary and \$1.56 fully diluted in the 1993 third quarter. After deducting preferred stock dividends, net earnings applicable to common stockholders in the 1994 third quarter totaled \$229.9 million, down \$128.5 million (36%) from \$358.4 million in the prior year's quarter. The Corporation repurchased 4.1 million shares of its common stock in the 1994 third quarter compared with 2.6 million shares in the 1993 third quarter.

The Corporation's pretax profit margin in the 1994 third quarter was 16.9% versus 24.4% in the year-ago period. The net profit margin decreased to 10.1% in the 1994 third quarter compared with 13.7% in the 1993 third quarter. Total revenues increased 9% from the 1993 third quarter to \$4,530 million, while revenues after interest expense (net revenues), declined 13% from the year-ago period to \$2,302 million. Non-interest expenses totaled \$1,913 million in the 1994 third quarter, down 4% from the year-earlier period.

For the first nine months of 1994, net earnings were \$855.1 million, down 15% (\$156.6 million) from the record \$1,011.7 million reported in last year's comparable nine-month period. Net earnings for the 1993 period included a \$35.4 million cumulative effect charge (net of \$25.1 million of applicable income tax benefits) related to the adoption of Statement of Financial Accounting Standards ("SFAS") No. 112, "Employers' Accounting for Postemployment Benefits". Earnings before the cumulative effect of the change in accounting principle decreased 18% from the \$1,047.1 million reported in the corresponding 1993 period. Earnings per common share for the first nine months of 1994 were \$3.98 primary and \$3.97 fully diluted versus \$4.45 primary and \$4.42 fully diluted (\$4.61 primary and \$4.58 fully diluted, excluding the 1993 cumulative effect adjustment) in the prior year's period. The Corporation's weighted average common shares decreased during the first nine months of 1994 as 17.4 million shares of common stock were repurchased, compared with 7.2 million shares in the corresponding 1993 period.

14

Net earnings applicable to common stockholders were \$850.6 million, down \$157.2 million (16%) from the \$1,007.8 million (\$1,043.2 million before the 1993 cumulative effect adjustment) reported in the 1993 nine-month period.

The Corporation's 1994 year-to-date pretax profit margin was 19.6% compared with 23.4% in the corresponding 1993 period. The net profit margin decreased to 11.4% from 13.0% (13.4% before the 1993 cumulative effect adjustment) in the 1993 nine-month period. Net revenues decreased 3% in the first nine months of 1994 to \$7,532 million. Total revenues increased 14% to \$13,749 million, while non-interest expenses rose 1% from the 1993 nine-month period to \$6,057 million.

As previously reported, 1993 nine-month results included a non-recurring pretax lease charge totaling \$103.0 million (\$59.7 million after income taxes) related to the Corporation's decision not to occupy certain office space at its World Financial Center Headquarters ("Headquarters") facility. An agreement to sublet this space was entered into in the 1993 fourth quarter.

Commission revenues decreased 3% from the 1993 third quarter to \$674 million. Commissions from listed securities decreased 5% to \$316 million reflecting a change in the mix of transactions between institutional and retail clients. Mutual fund commissions rose 2% from the year-ago quarter to \$217 million, benefiting from increased distribution fees and redemption fees earned on mutual funds sold in prior periods. Other commissions revenues declined 6% from the 1993 third quarter to \$141 million due primarily to lower commissions from money market instruments.

Commission revenues increased 7% from the 1993 nine-month period to \$2,232 million, principally on the strength of higher commissions from mutual funds managed by the Corporation.

Interest and dividend revenues advanced 38% over the year-ago third quarter period to \$2,439 million due to increases in interest rates, higher levels of fixed-income inventories, and increases in collateralized lending activities. Interest expense, which includes dividend expense, rose 48% to \$2,228 million as a result of higher interest rates and increased levels of interest-bearing liabilities primarily related to the Corporation's funding and hedging activities. Net interest profit declined 19% to \$211 million as a result of a significant increase in short-term interest rates, quarter over quarter, and the continued flattening of the yield curve - the difference between short-term and long-term interest rates. The one-year U.S. Treasury bill rate, for example, increased from 3.34% at September 24, 1993 to 5.94% at September 30, 1994, while the 30-year U.S. Treasury bond yield increased from 6.03% to 7.82% during the same period. As a result, interest spreads declined, while financing and hedging costs increased from the 1993 third quarter.

15

The significant components of interest and dividend revenues and interest expense for the quarter and year-to-date periods follow:

<TABLE>

<CAPTION>

(In millions) -----	Three Months Ended		Nine Months Ended	
	Sept. 30, 1994	Sept. 24, 1993	Sept. 30, 1994	Sept. 24, 1993
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
Interest and dividend revenues:				
Trading inventories	\$ 881	\$ 583	\$2,620	\$1,708
Resale agreements	494	276	1,205	861
Securities borrowed	532	440	1,635	1,049
Margin lending	268	188	721	562
Other	264	278	775	876
	-----	-----	-----	-----
Total	2,439	1,765	6,956	5,056
	-----	-----	-----	-----
Interest expense:				
Borrowings	827	693	2,429	1,784
Repurchase agreements	658	319	1,675	957
Commitments for securities sold but not yet purchased	547	291	1,505	847
Other	196	203	609	674
	-----	-----	-----	-----
Total	2,228	1,506	6,218	4,262
	-----	-----	-----	-----
Net interest and dividend profit	\$ 211	\$ 259	\$ 738	\$ 794
	=====	=====	=====	=====

</TABLE>

Included in the "Borrowings" caption above is interest related to hedges on the Corporation's long-term borrowings. As part of the Corporation's asset and liability management strategy, substantially all fixed-rate, long-term borrowings are swapped into floating interest rates, while virtually all foreign currency denominated fixed-rate obligations are swapped into U.S. dollar floating-rate liabilities. These liability hedges are usually in the form of interest rate and currency swap agreements. Interest obligations on variable-rate debt may also be effectively modified through swap agreements that change the underlying interest rate basis or reset frequency. Contractual agreements used to modify payment obligations, principally related to long-term borrowings, reduced interest expense for the three- and nine-month periods ended September 30, 1994 by \$40 million and \$156 million, respectively, and \$82 million and \$243 million, respectively, for the comparable 1993 periods.

Principal transactions revenues declined 12% from the prior year period to \$654 million due to the negative effects of rising U.S. interest rates, volatility in world currency markets, and reduced demand for certain equity products. Fixed-income and foreign exchange trading revenues, in the aggregate, decreased 5% to \$528 million. Fixed-income trading was virtually unchanged from a year-ago, with higher revenues from municipal securities and swaps and derivatives offset by lower revenues from corporate bonds and preferred stock, and non-U.S. governments and agencies securities. Trading results in mortgage-backed products improved from the 1993 third quarter despite difficult market conditions in the mortgage-backed securities market.

Municipal securities revenues advanced 43% to \$99 million due to strong retail investor demand for tax-exempt investments. Swaps and derivatives revenues, which represented 39% of total principal transactions revenues in the 1994 third

quarter and 37% for the first nine months of 1994, benefited from increased volume, primarily in dollar swaps. Revenues from corporate bonds and preferred stock, and non-U.S. governments and agencies securities were down primarily as a result of lower volume and rising interest rates. Foreign exchange trading revenues decreased due to weakness in the U.S. dollar versus other major currencies.

16

Equity and commodities trading revenues, in the aggregate, decreased 31% to \$126 million due primarily to lower trading revenues in foreign equities, principally warrants, and a modest loss in convertible securities.

For the first nine months of 1994, fixed-income and foreign exchange trading revenues, in the aggregate, decreased 16% to \$1,432 million. Lower revenues from corporate bonds and preferred stock, non-U.S. governments and agencies securities, and money market instruments were partially offset by higher revenues from swaps and derivatives, municipal securities, mortgage-backed securities, and U.S. Government and agencies securities.

Equity and commodities trading revenues, in the aggregate, decreased 16% to \$449 million for the 1994 year-to-date period. Contributing to this decline was a loss from convertible securities, partially offset by higher revenues from foreign equities and commodities trading.

Trading, hedging, and financing activities affect the recognition of both principal transactions revenues and net interest and dividend profit. In assessing the profitability of financial instruments, the Corporation views net interest and principal transactions components in the aggregate. For financial reporting purposes, however, realized and unrealized gains and losses on trading positions, including hedges, are recorded in principal transactions revenues. The net interest carry (i.e., the spread representing interest earned versus financing costs on financial instruments) for trading positions, including hedges, is recorded either as principal transactions revenues or net interest profit, depending on the nature of the specific position. Interest income or expense on a U.S. Treasury security, for example, is reflected in net interest, while any realized or unrealized gain or loss is included in principal transactions. Financial instruments requiring forward settlement, such as mortgage-backed "to be announced" mortgage pools, have interest components built into their market value; any change in the market value, however, is recorded in principal transactions revenues. Changes in the composition of trading inventories and hedge positions can cause the recognition of revenues within these categories to fluctuate. Consequently, net interest and principal transactions revenue components should be evaluated collectively.

17

The table that follows provides information on aggregate trading profits, including net interest for the three- and nine-months ended September 30, 1994 and September 24, 1993, respectively. Principal transactions revenues are derived from external reporting categories. Interest revenue and expense components are based on external reporting categories and management's assessment of the cost to finance trading positions, which considers the underlying liquidity of these positions.

<TABLE>

<CAPTION>

(In millions) - - - - -	Principal Transactions Revenues		Net Interest Revenue (Expense)		Net Trading Revenue	
	1994 <C>	1993 <C>	1994 <C>	1993 <C>	1994 <C>	1993 <C>
<S>						
Three Months - - - - -						
Fixed-income and foreign exchange	\$ 276	\$ 331	\$ 62	\$ 92	\$ 338	\$ 423
Swaps and derivatives (1)	252	227	(39)	(9)	213	218
Sub-total	528	558	23	83	551	641
Equities and commodities	126	183	(3)	(4)	123	179
Total	\$ 654	\$ 741	\$ 20	\$ 79	\$ 674	\$ 820
Nine Months - - - - -						
Fixed-income and foreign exchange	\$ 727	\$1,131	\$ 281	\$ 303	\$1,008	\$1,434
Swaps and derivatives (1)	705	577	(77)	19	628	596
Sub-total	1,432	1,708	204	322	1,636	2,030
Equities and commodities	449	537	(3)	(8)	446	529
Total	\$1,881	\$2,245	\$ 201	\$ 314	\$2,082	\$2,559

</TABLE>

(1) Swaps and derivatives revenues represent transactions recorded by the Corporation's primary subsidiaries dealing in derivatives.

Investment banking revenues were \$245 million, down 46% from the third quarter of 1993. Underwriting activity slowed as industry-wide volume in the 1994 third quarter declined to first quarter 1991 levels. Higher interest rates continued to decrease debt issuance, particularly refinancings. Equity issuances, especially initial public stock offerings, were affected by reduced demand and investor caution. As a result, underwriting revenues decreased 54% to \$185 million. Lower revenues were reported in most categories, including equities, and corporate debt and preferred stock. Partially offsetting these declines were higher revenues from asset-backed securities and private placements.

Despite a 51% decline in domestic underwriting volume and a 43% decrease in global underwriting volume from the 1993 third quarter, the Corporation remained the top underwriter of total debt and equity securities in the 1994 third quarter with a market share of 17.2% domestically and 13.2% worldwide, according to Securities Data Co. For the year-to-date period, the Corporation's market share of total debt and equity securities was 16.7% domestically and 13.3% worldwide.

Strategic services revenues rose 32% from the 1993 third quarter to \$60 million, benefiting from increased merger and acquisition advisory assignments in various industries, including entertainment and real estate.

Asset management and portfolio service fees advanced 9% from the 1993 third quarter to \$431 million. Fees earned from asset management activities, transfer agency fees, and other fee-based services contributed to the advance. Asset management fees increased 10% to \$201 million due primarily

18

to growth in sales of stock funds. Assets under management by Merrill Lynch Asset Management ("MLAM") rose 8% to \$167 billion at quarter-end, compared with \$155 billion at the close of the 1993 third quarter. Included in MLAM managed assets are stock and bond funds which grew by 15% from the end of the 1993 third quarter to \$76 billion at the comparable 1994 quarter-end.

Assets under management by MLAM increased 4% in the 1994 third quarter from \$161 billion at the end of the 1994 second quarter. Inflows of client assets and higher portfolio values contributed to the advance during the quarter. Asset levels in money market and equity funds increased during the 1994 third quarter, while assets invested in bond funds decreased during the same period.

Revenues from Merrill Lynch Consults (Registered Trademark) ("ML Consults") declined 5% from the 1993 third quarter to \$74 million as the number of accounts decreased 4% to 82,800 at quarter-end. Asset levels for ML Consults were \$15.5 billion, down 6% from the 1993 third quarter and up 1% from the 1994 second quarter. Fees earned on the ML Consults product are based on a percentage of assets under management. Weak market conditions, including volatility in stock and bond markets, have contributed to a decline in the number of accounts. Other fee-based revenues rose 15% to \$156 million on the strength of higher transfer agency, Asset Power (Registered Trademark), and insurance fees.

Other revenues were \$87 million, down 2% from \$89 million reported in the 1993 third quarter. For the 1994 nine-month period, other revenues rose 63% to \$360 million due to \$53 million of net realized investment gains in the 1994 period, compared with \$107 million of net investment losses in the comparable 1993 period.

Non-interest expenses were \$1,913 million, down 4% from the 1993 third quarter. Compensation and benefits expense decreased 9% from the 1993 third quarter to \$1,179 million as lower incentive and production-related compensation was partially offset by increases in base salaries. Incentive compensation decreased with lower profitability, while production-related compensation was down due to volume declines in certain businesses. The advance in base salaries is primarily attributable to a 6% increase in personnel from last year's third quarter. The majority of these hirings occurred during the last quarter of 1993 and the first quarter of 1994. Compensation and benefits expense as a percentage of net revenues was 51.2% compared with 49.2% in the year-ago period.

Occupancy costs decreased 9% from the 1993 third quarter to \$106 million, benefiting from continued relocation of support staff to lower cost facilities and reduced space requirements at the Headquarters facility. Communications and equipment rental expenses increased 13% to \$111 million due primarily to increased usage of market data, news, and statistical services. Depreciation and amortization expense rose 13% over the 1993 third quarter to \$83 million due to the purchase of technology-related equipment.

Advertising and market development expenses decreased 3% to \$96 million as lower sales promotion and recognition costs were partially offset by increased

travel costs related to international business activity. Professional fees increased 25% to \$89 million. Systems and management consultants continue to be used to upgrade technology and processing

19

capabilities in trading, credit, and customer systems. Brokerage, clearing, and exchange fees advanced 21% to \$83 million. Increased clearinghouse fees related to higher levels of risk management activities and higher international equity volume contributed to this advance. Other expenses totaled \$165 million, down 1% from the 1993 third quarter.

Income tax expense totaled \$158 million in the 1994 third quarter. The effective tax rate in the 1994 third quarter was 40.5%, compared with 44.0% in the year-ago period. The 1993 third quarter effective tax rate was affected by a 2 percentage point cumulative, retroactive adjustment for Federal tax legislation enacted in August 1993.

For the first nine months of 1994, non-interest expenses rose 1% to \$6,057 million (3% excluding the non-recurring pretax lease charge of \$103.0 million). Trends in all expense categories are similar to those of the third quarter comparisons unless otherwise noted.

Compensation and benefits expense, which represented 63% of non-interest expenses, was virtually unchanged from the 1993 nine-month period. Higher base wages and benefits expense related to the increase in the number of full-time employees was offset by lower levels of variable compensation.

Occupancy costs decreased 7% (28% including the \$103.0 million non-recurring lease charge). Other facilities-related costs, which include communications and equipment rental expense and depreciation and amortization expense, increased 11%.

Advertising and market development expenses rose 8% from the 1993 nine-month period as a result of increased travel costs related to international business activity and higher recognition program costs. These expenses were partially offset by a reduction in advertising costs. Professional fees were up 37% from the year-ago period due primarily to increased systems consulting fees related to technology improvements.

Brokerage, clearing, and exchange fees were up 22% from the prior-year period. Other expenses increased 6% due, in part, to increased provisions related to various business activities.

The effective tax rate for the 1994 nine-month period was 42.0% versus 42.7% in the comparable 1993 period.

#### LIQUIDITY AND LIABILITY MANAGEMENT

The primary objective of the Corporation's funding policies is to assure liquidity at all times. To strengthen liquidity, the Corporation maintains a strong capital base, issues term debt, obtains committed backup credit facilities, concentrates debt issuance through Merrill Lynch & Co., Inc. (the "Parent"), and pursues expansion and diversification of investors, funding instruments, and creditors.

There are three key elements to the Corporation's liquidity strategy. The first is to maintain alternative funding sources such that all debt obligations maturing within one year, including commercial paper and the current portion of term debt, can be funded when due without issuing new unsecured debt or liquidating any business assets. The most significant

20

alternative funding sources are the proceeds from executing repurchase agreements ("repos") and obtaining secured bank loans, both principally employing unencumbered investment-grade marketable securities. The calculation of proceeds available from repos and secured bank loans takes into account both a conservative estimate of excess collateral required by secured lenders, and regulatory restrictions on upstreaming cash from subsidiaries to the Parent. The ability to execute this secured funding is demonstrated by the Corporation's routine use of repo markets to finance inventory and by periodic tests of secured borrowing procedures with banks. Other alternative funding sources could include liquidating cash equivalents, securitizing additional home equity and PrimeFirst(Registered Trademark) loans, and drawing upon committed, unsecured credit facilities. At September 30, 1994, committed, unsecured revolving credit facilities totaled \$5.0 billion. These facilities have not been drawn upon.

As an additional measure, the Corporation regularly reviews its assets and liabilities to ascertain its ability to conduct core businesses without reliance on issuing new unsecured debt or drawing upon committed credit facilities for terms beyond one year. The composition of the Corporation's asset mix provides a great degree of flexibility in managing liquidity. The Corporation's liquidity position is enhanced since most of the Corporation's assets turn over frequently

or are match-funded with a liability whose cash flow characteristics closely match those of the asset. At September 30, 1994, approximately 3% of the Corporation's assets, principally certain other investments, and fixed and other assets, were considered not readily marketable by management. The Corporation monitors the liquidity of assets, the quality of committed credit facilities, and the overall level of equity and term debt in assessing financial strength and capital adequacy at any point in time.

The second element of the Corporation's liquidity strategy is to concentrate all general purpose borrowing at the Parent level, except where tax regulations or time differences make this impractical. The benefits of this guideline are: a) the lower financing costs that result from the reduced risks of a diversified asset and business base; b) the simplicity, control, and wider name recognition for banks, creditors, and rating agencies; and c) the flexibility to meet variable funding requirements within subsidiaries.

The third element is to expand and diversify funding sources and to maintain strict concentration standards for short-term lenders, which include limits for any single lender. The Corporation's funding programs benefit from the ability to market commercial paper through its own sales force to a large, diversified customer base and the financial creativity of the Corporation's capital markets and private client operations. Commercial paper remains the Corporation's major source of short-term general purpose funding. Commercial paper outstanding totaled \$13.6 billion at September 30, 1994 and \$14.9 billion at December 31, 1993, which represented 8% and 10% of total assets at third quarter-end 1994 and year-end 1993, respectively.

21

At September 30, 1994, total long-term debt was \$15.8 billion compared with \$13.5 billion at year-end 1993. As of November 4, 1994, the Corporation's senior long-term debt was rated by seven recognized credit rating agencies as follows:

Rating Agency -----	Rating -----
Duff & Phelps Credit Rating Co.	AA-
Fitch Investors Service, Inc.	AA
IBCA Ltd.	AA-
Japan Bond Research Institute	AA
Moody's Investors Service, Inc.	A1
Standard & Poor's Ratings Group	A+
Thomson BankWatch, Inc.	AA

During the first nine months of 1994, the Corporation issued \$7.6 billion in long-term debt. During the same period, maturities and repurchases were \$4.9 billion. In addition, approximately \$1.4 billion of the Corporation's securities held by subsidiaries were sold and \$1.9 billion were purchased. Expected maturities of long-term debt over the next 12 months are \$6.8 billion as of September 30, 1994.

Approximately \$30.2 billion of the Corporation's indebtedness at September 30, 1994 is considered senior indebtedness as defined under various indentures.

A liquidity model has been developed for the Corporation's insurance subsidiaries as part of the overall liquidity program. The primary liquidity requirements of such companies involve the funding of contractual obligations for in-force, fixed-rate life insurance and annuity contracts and the payment of acquisition and maintenance expenses for all contracts. The liquidity and duration of these fixed-rate asset and liability portfolios are closely monitored. The insurance subsidiaries maintain predominantly high quality, liquid investment portfolios to fund their various business activities. At September 30, 1994, the insurance subsidiaries held \$5.9 billion in invested assets, 61% of which were considered liquid.

During the past few years, the insurance subsidiaries have changed the mix of products offered to policyholders. Currently, variable life insurance and variable annuity products are actively marketed. These products do not subject the insurance subsidiaries to the interest rate, asset/liability matching, and credit risks attributable to fixed-rate products. Variable products reduce the risk profile and liquidity demands on the insurance subsidiaries as they are predominantly invested in mutual funds.

In the 1994 nine-month period, the Corporation's cash and cash equivalents increased approximately \$567 million to \$2,350 million. Cash of \$6,603 million and \$506 million was provided from operating activities and investing activities, respectively, in the first nine months of 1994. During the same period, the Corporation used \$6,542 million for financing activities.

22

#### CAPITAL RESOURCES AND CAPITAL ADEQUACY

The Corporation remains one of the most highly capitalized institutions in the



U.S. securities industry with an equity base of \$5.7 billion at September 30, 1994, including \$5.5 billion in common equity, supplemented by \$0.2 billion in preferred stock. (See Subsequent Event Note to the Consolidated Financial Statements). The Corporation's average leverage ratio, computed as the ratio of average month-end assets to average month-end stockholders' equity, was 32.4x and 26.6x for the first nine months of 1994 and 1993, respectively. The Corporation's leverage ratio at the end of the 1994 third quarter was 29.5x. The leverage ratio was affected by Financial Accounting Standards Board Interpretation No. 39 ("Interpretation No. 39"), "Offsetting of Amounts Related to Certain Contracts" (see Accounting Changes Note to the Consolidated Financial Statements), which increased assets by approximately \$12.0 billion at September 30, 1994.

To compute the Corporation's average adjusted leverage ratio, resale agreements and securities borrowed transactions are subtracted from total assets. The average adjusted leverage ratio was 19.3x and 16.2x for the first nine months of 1994 and 1993, respectively. The Corporation's adjusted leverage ratio at the end of the 1994 third quarter was 17.6x.

The Corporation operates in many regulated businesses that require various minimum levels of capital to conduct business. (See Regulatory Requirements Note to the Consolidated Financial Statements). Certain activities of the Corporation's insurance subsidiaries are subject to other regulatory approvals which may restrict the free flow of funds to affiliates. Regulatory approval is required for payments of dividends in excess of certain established levels, making affiliated investments, and entering into management and service agreements with affiliated companies.

The Corporation reviews its overall capital needs to ensure that its equity base can support the estimated needs of its businesses as well as the regulatory and legal capital requirements of subsidiaries. Based upon these analyses, management believes that the Corporation's equity base is adequate.

#### ASSETS AND LIABILITIES

The Corporation manages its balance sheet and risk limits according to market conditions and business needs subject to profitability and control of risk. Asset and liability levels are primarily determined by order flow and fluctuate daily, sometimes significantly, depending upon volume and demand. The liquidity and maturity characteristics of assets and liabilities are monitored continuously. The Corporation monitors and manages the growth of its balance sheet using point-in-time and average daily balances. Average daily balances were derived from the Corporation's management information system which summarizes balances on a settlement date basis. Financial statement balances, as required under generally accepted accounting principles, are recorded on a trade date basis. The discussion that follows compares the changes in settlement date average daily balances, not quarter-end balances. The reasons underlying the changes in average balances, however, are similar to those underlying changes in quarter-end balances. The increase in average balance sheet levels during the first nine months of 1994 was attributable to many

23

factors, including the effect of Interpretation No. 39, increased trading activity, particularly in the 1994 first quarter, and expanded match-funding of repurchase and resale agreements.

For the first nine months of 1994, average assets were \$183 billion, up 13% versus \$162 billion for the 1993 fourth quarter. Average liabilities rose 14% to \$178 billion from \$157 billion for the 1993 fourth quarter. Excluding the effect of Interpretation No. 39, average assets and liabilities increased by approximately \$8 billion in the 1994 year-to-date period. Interpretation No. 39 primarily affected balances related to contractual agreements and resale and repurchase agreements. Compared with balance sheet levels at 1994 second quarter-end, average assets and liabilities both decreased 1% as a result of declines in business volumes.

The major components in the growth of average assets and liabilities for the first nine months of 1994 are summarized in the table below:

<TABLE>

<CAPTION>

(In millions)	Increase in Average Assets	Percent Increase
-----	-----	-----
<S>	<C>	<C>
Trading inventories	\$9,994	18%
Resale agreements	\$9,973	22%
Securities borrowed	\$ 757	3%

</TABLE>

<TABLE>

<CAPTION>

Increase in                      Percent

	Average Liabilities -----	Increase -----
<S>	<C>	<C>
Repurchase agreements	\$14,598	25%
Commitments for securities sold but not yet purchased	\$ 8,562	33%
Long-term borrowings	\$ 1,874	14%

</TABLE>

In managing its balance sheet, the Corporation strives to match-fund its interest-earning assets with interest-bearing liabilities having similar maturities. For example, the Corporation match-funds its repurchase agreements/resale agreements and its securities borrowed/securities loaned business, earning an interest spread on these transactions. In the first nine months of 1994, inventory levels increased due to the effect of Interpretation No. 39 and increases in trading activity, particularly during the 1994 first quarter. On-balance-sheet hedges, included in trading inventories and commitments for securities sold but not yet purchased, also advanced due, in part, to increased market volatility during 1994. The Corporation uses hedges principally to reduce risk in connection with its trading activities. Repurchase and resale agreements rose during the first nine months of 1994 as a result of an increase in match-funded transactions involving foreign and emerging market securities. Securities borrowed and loaned levels also increased during the period.

The Corporation's assets, based on liquidity and maturity characteristics, are funded through diversified sources which include repurchase agreements, commercial paper and other short-term borrowings, long-term borrowings, and equity.

24

#### NON-INVESTMENT GRADE HOLDINGS AND HIGHLY LEVERAGED TRANSACTIONS

In the normal course of business, the Corporation underwrites, trades, and holds non-investment grade securities in connection with its market-making, investment banking, and derivative structuring activities. As a result of the improved liquidity and credit ratings of issuers in this market, the Corporation has increased its non-investment grade trading inventories to satisfy customer demand for higher-yielding investments.

For purposes of this discussion, non-investment grade securities have been defined as debt and preferred equity securities rated by Standard and Poor's Ratings Group as BB+ or lower and by Moody's Investors Service, Inc. as Bal or lower (or equivalent ratings for other instruments and non-U.S. securities), certain sovereign debt issued in emerging markets, amounts due under various derivative contracts from non-investment grade counterparties, as well as non-rated securities which, in the opinion of management, are non-investment grade. At September 30, 1994, long and short non-investment grade trading inventories accounted for 4.2% of aggregate consolidated trading inventories, compared with 4.6% at year-end 1993. Non-investment grade trading inventories are carried at fair value.

The Corporation provides financing and advisory services to, and invests in, companies entering into leveraged transactions. Examples of leveraged transactions may include leveraged buyouts, recapitalizations, and mergers and acquisitions. The Corporation provides extensions of credit to leveraged companies in the form of senior term and subordinated debt, as well as bridge financing on a select and limited basis. In addition, the Corporation may syndicate loans for non-investment grade counterparties or counterparties engaged in highly leveraged transactions. Loans to highly leveraged companies are carried at unpaid principal balances less a reserve for estimated losses. The allowance for loan losses is estimated based on a review of each loan, and consideration of economic, market, and credit conditions. At September 30, 1994 and December 31, 1993, there were no bridge loans outstanding.

The Corporation holds direct equity investments in leveraged companies, interests in partnerships that invest in leveraged transactions, and non-investment grade securities. Equity investments in privately-held companies for which sale is restricted by government or contractual requirements are carried at the lower of cost or estimated net realizable value. Prior to July 1, 1994, the Corporation had a co-investment arrangement to enter into direct equity investments. The Corporation also has committed to participate in limited partnerships that invest in leveraged transactions. Future commitments to participate in limited partnerships will be determined on a select and limited basis.

The Corporation's involvement in highly leveraged transactions and non-investment grade securities is subject to risks related to the creditworthiness of the issuers and the liquidity of the market for such securities, in addition to the usual risks associated with investing in, financing, underwriting, and trading investment grade instruments. The Corporation recognizes such risks and, when possible, develops strategies to mitigate its exposures.

The specific components and overall level of highly leveraged and non-investment grade positions may vary significantly from period to period as a result of inventory turnover, investment sales, and asset redeployment. The Corporation continuously monitors credit risk by individual issuer and industry concentration. In addition, valuation policies provide for recognition of market liquidity, as well as the trading pattern of specific securities. In certain instances, the Corporation will hedge the exposure associated with owning a high-yield or non-investment grade position by selling short the related equity security, and in other instances, the Corporation uses non-investment grade inventories to reduce exposure related to structured derivative transactions.

The Corporation uses certain non-investment grade trading inventories, principally non-U.S. governments and agencies securities, to accommodate client demand and to hedge the exposure arising from structured derivative transactions. Collateral, consisting principally of U.S. Government securities, may be obtained to reduce credit risk related to these transactions.

The Corporation's insurance subsidiaries hold non-investment grade securities. At September 30, 1994, non-investment grade insurance investments declined to \$386 million from \$458 million as of December 31, 1993. As a percentage of total insurance investments, non-investment grade investments were 6.4%, compared with 5.8% at year-end 1993. Non-investment grade securities of insurance subsidiaries classified as trading or available-for-sale are carried at fair value.

A summary of the Corporation's highly leveraged transactions and non-investment grade holdings is provided below:

<TABLE>  
<CAPTION>

(In millions)	SEPTEMBER 30, 1994	DECEMBER 31, 1993
<S>	<C>	<C>
Non-investment grade trading inventories	\$3,271	\$3,129
Non-investment grade commitments for securities sold but not yet purchased	496	214
Non-investment grade investments of insurance subsidiaries	386	458
Loans (net of allowance for loan losses) (A), (C)	283	435
Equity investments (B)	284	276
Partnership interests	98	92
Additional commitments to invest in partnerships	\$ 74	\$ 19
Additional co-investment commitments	7	49
Unutilized revolving lines of credit and other lending commitments (C), (D)	131	49

</TABLE>

- (A) Represented outstanding loans to 37 and 42 medium-sized companies at September 30, 1994 and at December 31, 1993, respectively.
- (B) Invested in 81 and 82 enterprises at September 30, 1994 and at December 31, 1993, respectively.
- (C) Subsequent to quarter-end, the Corporation assigned \$111 million of a \$126 million commitment to third parties. As part of this transaction, a \$38 million loan receivable was repaid. The Corporation has funded \$7.7 million of its remaining \$15 million commitment.
- (D) Subsequent to quarter-end, the Corporation committed to provide up to \$70.3 million of financing to a non-investment grade counterparty.

26

At September 30, 1994, the largest non-investment grade concentration consisted of various issues of a Latin American sovereign totaling \$271 million, of which \$74 million represented on-balance-sheet hedges for off-balance-sheet instruments. No one industry sector accounted for more than 15% of total non-investment grade positions. Included in the table above are debt and equity securities of issuers in various stages of bankruptcy proceedings or in default. At September 30, 1994, the carrying value of these securities totaled \$254 million, of which 59% resulted from the Corporation's market-making activities.

#### RECENT ACCOUNTING DEVELOPMENTS

In May 1993, the Financial Accounting Standards Board ("FASB") issued SFAS No. 114, "Accounting by Creditors for Impairment of a Loan". SFAS No. 114, effective for fiscal years beginning after December 15, 1994, establishes accounting standards for creditors to measure the impairment of certain loans. A loan is impaired when it is probable that a creditor will be unable to collect all amounts due under the terms of the loan agreement. Impairment is measured based on the present value of expected future cash flows discounted at

the loan's effective interest rate, or the observable market price, or the fair value of the underlying collateral if the loan is collateral dependent.

In October 1994, the FASB issued SFAS No. 118, "Accounting by Creditors for Impairment of a Loan - Income Recognition and Disclosures". SFAS No. 118 amends SFAS No. 114 to allow creditors to use existing methods for recognizing interest income on an impaired loan, rather than the method originally required by SFAS No. 114. The Corporation has evaluated the impact of these pronouncements on its financial condition as of September 30, 1994 and has determined that the effect is not material.

27

PART II - OTHER INFORMATION

ITEM 5. OTHER INFORMATION

The 1995 Annual Meeting of Stockholders will be held at 10:30 a.m. on Tuesday, April 18, 1995 at the Merrill Lynch & Co., Inc. Conference and Training Center, 800 Scudders Mill Road, Plainsboro, New Jersey. Any stockholder of record entitled to vote generally for the election of directors may nominate one or more persons for election as a director at such meeting only if proper written notice of such stockholder's intent to make such nomination or nominations, in accordance with the provisions of Merrill Lynch & Co., Inc.'s Certificate of Incorporation, has been given to the Secretary of the Corporation, 100 Church Street, 12th Floor, New York, New York 10080-6512, no earlier than February 2, 1995 and no later than February 27, 1995.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

- (4) Instruments defining the rights of security holders, including indentures:
- (i) Form of certificate representing the 9% Cumulative Preferred Stock, Series A, par value \$1.00 per share, of the Corporation (the "9% Preferred Stock") (incorporated herein by reference to Exhibit 99(a) of the Corporation's Registration Statement on Form 8-A dated November 4, 1994 (the "November 1994 Form 8-A")).
  - (ii) Form of Depositary Receipt evidencing the Depositary Shares for the 9% Preferred Stock (incorporated herein by reference to Exhibit 99(b) of the November 1994 Form 8-A).
  - (iii) Certificate of Designation of the Corporation establishing the rights, preferences, privileges, qualifications, restrictions and limitations relating to the 9% Preferred Stock (incorporated herein by reference to Exhibit 99(c) of the November 1994 Form 8-A).
  - (iv) Deposit Agreement, dated as of November 3, 1994 among the Corporation, Citibank, N.A. as

28

Depositary, and the holders from time to time of the Depositary Receipts (incorporated herein by reference to Exhibit 99(d) of the November 1994 Form 8-A).

Pursuant to Item 601(b)(4)(iii)(A) of Regulation S-K, the Corporation hereby undertakes to furnish to the Securities and Exchange Commission (the "Commission"), upon request, copies of the instruments defining the rights of holders of long-term debt securities of the Corporation that authorize an amount of securities constituting 10% or less of the total assets of the Corporation and its subsidiaries on a consolidated basis.

(10) Material Contracts

- (i) Form of Merrill Lynch & Co., Inc. 1995 Deferred Compensation Agreement for a Select Group of Eligible Employees.
  - (ii) Merrill Lynch & Co., Inc. Long Term Incentive Compensation Plan, as amended on October 14, 1994.
- (11) Statement re computation of per share earnings.
- (12) Statement re computation of ratios.

(15) Letter re unaudited interim financial information.

(27) Financial Data Schedule.

(b) Reports on Form 8-K

The following Current Reports on Form 8-K were filed by the Corporation with the Commission during the quarterly period covered by this Report:

- (i) Current Report dated July 19, 1994 for the purpose of filing the Preliminary Unaudited Earnings Summary of the Corporation for the three months ended July 1, 1994.
- (ii) Current Report dated August 2, 1994 for the purpose of filing the Preliminary Unaudited Consolidated Balance Sheet of the Corporation as of July 1, 1994.

29

SIGNATURE

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

MERRILL LYNCH & CO., INC.

-----  
(Registrant)

Date: November 11, 1994

By: /s/ Joseph T. Willett

-----  
Joseph T. Willett  
Senior Vice President and  
Chief Financial Officer

30

INDEX TO EXHIBITS

Exhibits

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MERRILL LYNCH & CO., INC.

1995 DEFERRED COMPENSATION PLAN

FOR A SELECT GROUP OF ELIGIBLE EMPLOYEES

MERRILL LYNCH & CO., INC.

1995 DEFERRED COMPENSATION PLAN

FOR A SELECT GROUP OF ELIGIBLE EMPLOYEES

TABLE OF CONTENTS

<TABLE>  
<CAPTION>

	PAGE
	----
<C> <S>	<C>
I. GENERAL.....	1
1.1 Purpose and Intent.....	1
1.2 Definitions.....	1
II. ELIGIBILITY.....	3
2.1 Eligible Employees.....	3
(a) General Rule.....	3
(b) Individuals First Employed During Election Year or Plan Year.....	4
(c) Wages Subject to Legal Process.....	4
III. DEFERRAL ELECTIONS; ACCOUNTS.....	4
3.1 Deferral Elections.....	4
(a) Timing and Manner of Making of Elections.....	4
(b) Irrevocability of Deferral Election.....	4
(c) Application of Election.....	4
3.2 Crediting to Accounts.....	5
3.3 Minimum Requirements for Deferral.....	5
(a) Minimum Requirements.....	5
(b) Failure to Meet Requirements.....	5
3.4 Benchmark Return Options; Adjustment of Accounts.....	5
(a) Selection of Benchmark Return Options.....	5
(b) Adjustment of Accounts.....	6
(c) Annual Charge.....	6
3.5 Rescission of Deferral Election.....	7
(a) Prior to December 1, 1994.....	7
(b) Adverse Tax Determination.....	7
(c) Rescission For Amounts Not Yet Earned.....	7
IV. STATUS OF DEFERRED AMOUNTS AND ACCOUNT.....	7
4.1 No Trust or Fund Created; General Creditor Status.....	7
4.2 Non-Assignability.....	8
4.3 Effect of Deferral on Benefits Under Pension and Welfare Benefit Plans.....	8
V. PAYMENT OF ACCOUNT.....	8
5.1 Payment Date.....	8
5.2 Termination of Employment.....	8
(a) Death or Retirement.....	8
(b) Other Termination of Employment.....	8
(c) Leave of Absence, Transfer or Disability.....	8
(d) Discretion to Alter Payment Date.....	9
5.3 Withholding of Taxes.....	9

</TABLE>

<TABLE>  
<CAPTION>

	PAGE
	----
<C> <S>	<C>
5.4 Beneficiary .....	9
(a) Designation of Beneficiary.....	9
(b) Change in Beneficiary.....	9
(c) Default Beneficiary.....	9
(d) If the Beneficiary Dies During Payment.....	9
5.5 Hardship Distributions.....	10
VI. ADMINISTRATION OF THE PLAN.....	10
6.1 Powers of the Administrator.....	10
6.2 Payments on Behalf of an Incompetent.....	10
6.3 Corporate Books and Records Controlling.....	10
VII. MISCELLANEOUS PROVISIONS.....	11
7.1 Litigation.....	11
7.2 Headings Are Not Controlling.....	11
7.3 Governing Law.....	11
7.4 Amendment and Termination.....	11

MERRILL LYNCH & CO., INC.  
1995 DEFERRED COMPENSATION PLAN  
FOR A SELECT GROUP OF ELIGIBLE EMPLOYEES

ARTICLE I

GENERAL

1.1 PURPOSE AND INTENT.

The purpose of the Plan is to encourage the employees who are integral to the success of the business of the Company to continue their employment by providing them with flexibility in meeting their future income needs. It is intended that this Plan be unfunded and maintained primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees within the meaning of Title I of ERISA, and all decisions concerning who is to be considered a member of that select group and how this Plan shall be administered and interpreted shall be consistent with this intention.

1.2 DEFINITIONS.

For the purpose of the Plan, the following terms shall have the meanings indicated.

"Account Balance" means, as of any date, the Deferred Amounts credited to a Participant's Account, adjusted in accordance with Section 3.4 to reflect the performance of the Participant's Selected Benchmark Return Options, the Annual Charge and any payments made from the Account to the Participant prior to that date.

"Account" means the reserve account established on the books and records of ML & Co. for each Participant to record the Participant's interest under the Plan.

"Adjusted Compensation" means the financial consultant incentive compensation, account executive incentive compensation, or estate planning and business insurance specialist incentive compensation, in each case exclusive of base salary, earned by a Participant during the Fiscal Year ending in 1995, and payable after January 1, 1995, as a result of the Participant's production credit level.

"Administrator" means the Director of Human Resources of ML & Co., or his functional successor, or any other person or committee designated as Administrator of the Plan by the MDCC.

"Affiliate" means any corporation, partnership, or other organization of which ML & Co. owns or controls, directly or indirectly, not less than 50% of the total combined voting power of all classes of stock or other equity interests.

"Annual Charge" means the charge to the Participant's Account provided for in Section 3.4(c).

"Benchmark Return Options" means such Merrill Lynch mutual funds or other investment vehicles as the Administrator may from time to time designate for the purpose of indexing Accounts hereunder. In the event a Benchmark Return Option ceases to exist or is no longer to be a Benchmark Return Option, the Administrator may designate a substitute Benchmark Return Option for such discontinued option.

"Board of Directors" means the Board of Directors of ML & Co.

"Code" means the U.S. Internal Revenue Code of 1986, as amended from time to time.

"Company" means ML & Co. and all of its Affiliates.

"Compensation" means, as relevant, a Participant's Adjusted Compensation, Variable Incentive Compensation and/or Sign-On Bonus. In no event shall a Participant's base pay be considered Compensation (i.e., an amount subject to deferral under this Plan).

"Deferral Percentage" means the percentage (which shall be in whole percentage increments and not more than 90%), specified by the Participant to be the percentage of each payment of Compensation he or she wishes to defer under the Plan.

"Deferred Amounts" means the amounts of Compensation actually deferred by the Participant under this Plan.



"Election Year" means the 1994 calendar year.

"Eligible Compensation" means a Participant's "eligible compensation" as determined, from time to time, for purposes of ML & Co.'s Basic Group Life Insurance Plan.

"Eligible Employee" means an employee eligible to defer amounts under this Plan, as determined under Section 2.1 hereof.

"ERISA" means the U.S. Employee Retirement Income Security Act of 1974, as amended from time to time.

"Fiscal Month" means the monthly period used by ML & Co. for financial accounting purposes.

"Fiscal Year" means the annual period used by ML & Co. for financial accounting purposes.

"Full-Time Domestic Employee" means a full-time employee of the Company paid from the Company's domestic based payroll (other than any U.S. citizen or "green card" holder who is employed outside the United States).

"Full-Time Expatriate Employee" means a U.S. citizen or "green card" holder employed by the Company outside the United States and selected by the Administrator as eligible to participate in the Plan (subject to the other eligibility criteria).

"Maximum Deferral" means the whole dollar amount specified by the Participant to be the amount of Compensation he or she elects to be deferred under the Plan.

"MDCC" means the Management Development and Compensation Committee of the Board of Directors.

"ML & Co." means Merrill Lynch & Co., Inc.

2

"Net Asset Value" means, with respect to each Benchmark Return Option that is a mutual fund or other commingled investment vehicle for which such values are determined in the normal course of business, the net asset value, on the date in question, of the Selected Benchmark Return Option for which the value is to be determined.

"Participant" means an Eligible Employee who has elected to defer Compensation under the Plan.

"Plan" means this Merrill Lynch & Co., Inc. 1995 Deferred Compensation Plan for a Select Group of Eligible Employees.

"Plan Year" means the Fiscal Year ending in 1995.

"Remaining Deferred Amounts" means a Participant's Deferred Amounts times a fraction equal to the number of remaining installment payments divided by the total number of installment payments.

"Retirement" means a Participant's (i) termination of employment with the Company for reasons other than for cause on or after the Participant's 65th birthday, or (ii) resignation on or after the Participant's 55th birthday if the Participant has at least 10 years of service, or (iii) resignation at any age with the express approval of the Administrator, which will be granted only if the termination is found by the Administrator to be in, or not contrary to, the best interests of the Company.

"Selected Benchmark Return Option" means a Benchmark Return Option selected by the Participant in accordance with Section 3.4.

"Sign-On Bonus" means a single-sum amount paid or payable during the Plan Year upon commencement of employment to a new Eligible Employee, in addition to base pay and other Compensation, to induce him or her to become an employee of the Company.

"Variable Incentive Compensation" means the variable incentive compensation or office manager incentive compensation that is paid in cash to certain employees of the Company generally in January or February of the Plan Year with respect to the prior Fiscal Year, which for purposes of this Plan is considered earned during the Plan Year regardless of when it is actually paid to the Participant.

## ARTICLE II

### ELIGIBILITY

#### 2.1 ELIGIBLE EMPLOYEES.

(a) GENERAL RULE. An individual is an Eligible Employee if he or she (i) is a Full-Time Domestic Employee or a Full-Time Expatriate Employee, (ii) has at least \$200,000 of Eligible Compensation for the Election Year, (iii) has attained at least the title of Vice President, Director or Managing Director, or holds a National Sales Management position with the Company (a "National Sales Manager"), and (iv) (A) is a financial consultant or an estate planning and business insurance specialist, who was a member in 1994 of the Chairman's Club, the Charles E. Merrill Circle, the Society of Eagles, the Falcons Club or the Win Smith Fellows, (B) is a National Sales Manager (C) is a member of the International Private Banking Group, (D) is a non-producing employee in the Senior

3

Manager or Senior Consultant Band (Q Band) or above, or (E) is a producing employee in grade 95 or above; provided, that non-producing employees in the

-----  
Director Band (R Band) or above and producing employees in grade 97 or above (or their executive equivalents) shall not be required to meet condition (ii) hereof, and provided, further, that employees who were 1994 Win Smith Fellows

----- shall not be required to meet condition (iii) hereof.

(b) INDIVIDUALS FIRST EMPLOYED DURING ELECTION YEAR OR PLAN YEAR. Subject to the approval of the Administrator in his sole discretion, an individual who is first employed by the Company during the Election Year or the Plan Year is an Eligible Employee if his or her Eligible Compensation is greater than \$200,000 and he or she is either employed as a National Sales Manager or is to be nominated for at least the title of Vice President, Director or Managing Director at the first opportunity following his or her commencement of employment with the Company.

(c) WAGES SUBJECT TO LEGAL PROCESS. An individual shall not, however, be an Eligible Employee if as of the deadline for submission of elections specified in Section 3.1(a) the individual's wages have been attached or are being garnished or are otherwise restrained pursuant to legal process.

### ARTICLE III

#### DEFERRAL ELECTIONS; ACCOUNTS

##### 3.1 DEFERRAL ELECTIONS.

(a) TIMING AND MANNER OF MAKING OF ELECTIONS. An election to defer Compensation for payment in accordance with Section 5.1 shall be made by submitting to the Administrator such forms as the Administrator may prescribe. Each election submitted must specify a Maximum Deferral and a Deferral Percentage with respect to each category of Compensation to be deferred. All elections by a Participant to defer Compensation under the Plan must be received by the Administrator or such person as he may designate for the purpose by no later than September 30, 1994; provided, however, that the

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Eligible Employee's election to defer a Sign-On Bonus must be part of such Eligible Employee's terms and conditions of employment agreed to prior to the Eligible Employee's first day of employment with the Company.

(b) IRREVOCABILITY OF DEFERRAL ELECTION. Except as provided in Sections 3.5 and 5.5, an election to defer the receipt of any Compensation made under Section 3.1(a) is irrevocable once submitted to the Administrator or his designee. The Administrator's acceptance of an election to defer Compensation shall not, however, affect the contingent nature of such Compensation under the plan or program under which such Compensation is payable.

(c) APPLICATION OF ELECTION. The Participant's Deferral Percentage will be applied to each payment of Compensation to which the Participant's deferral election applies, provided, that the aggregate of the Participant's Deferred

-----  
Amounts shall not exceed the Participant's Maximum Deferral. If a Participant has made deferral elections with respect to more than one category of Compensation, this Section 3.1(c) shall be applied separately with respect to each such category.

4

##### 3.2 CREDITING TO ACCOUNTS.

A Participant's Deferred Amounts will be credited to the Participant's Account, as soon as practicable (but in no event later than 90 days) after the last day of the Fiscal Month during which such Deferred Amounts would, but for deferral, have been paid and will be accounted for in accordance with Section 3.4.

##### 3.3 MINIMUM REQUIREMENTS FOR DEFERRAL.

(a) MINIMUM REQUIREMENTS. Notwithstanding any other provision of this Plan, no deferral will be effected under this Plan with respect to a Participant if:

- (i) the Participant is not an Eligible Employee as of December 31, 1994,
- (ii) the Participant's election as applied to the Participant's Variable Incentive Compensation (determined by substituting the Election Year for the Plan Year) or Adjusted Compensation (determined by substituting the Fiscal Year ending in 1993 for the Fiscal Year ending in 1995) would have resulted in an annual deferral of less than \$15,000, or
- (iii) the greater of (A) the sum of (1) the compensation amount listed on the Participant's W-2 form for 1995 and (2) any Compensation that is accelerated which the Participant may receive in December 1994 which would have been payable in calendar year 1995 in the absence of the action of the Company to accelerate the payment, and (B) the Participant's Eligible Compensation for calendar year 1996, is less than \$200,000;

provided, that any Participant who first becomes an employee of the Company  
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during the Plan Year shall not be required to satisfy conditions (i) and (ii).

(b) FAILURE TO MEET REQUIREMENTS. If any of the requirements of Section 3.3(a) are not met by a Participant, the Deferred Amounts will be paid to the Participant, without adjustment to reflect the performance of any Selected Benchmark Return Option, as soon as practicable after it has been determined that the requirement has not been met provided, however, that if the  
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Participant fails to meet the requirements of Section 3.3(a) (iii), the Participant will receive the greater of the Deferred Amounts or the Account Balance.

#### 3.4 BENCHMARK RETURN OPTIONS; ADJUSTMENT OF ACCOUNTS.

(a) SELECTION OF BENCHMARK RETURN OPTIONS. Coincident with the Participant's election to defer Compensation, the Participant must select one or more Benchmark Return Options and the percentage of the Participant's Account to be adjusted to reflect the performance of each Selected Benchmark Return Option. All elections of Selected Benchmark Return Options shall be in multiples of 10% unless the Administrator determines that lower increments are administratively feasible, in which case such lower increment shall apply. A Participant may, by complying with such procedure as the Administrator may prescribe on a uniform and nondiscriminatory basis, including procedures specifying the frequency with respect to which such changes may be effected (but not more than twelve times in any calendar year), change the Selected Benchmark Return Options to be applicable with respect to his or her Account.

5

(b) ADJUSTMENT OF ACCOUNTS. While each Participant's Account does not represent the Participant's ownership of, or any ownership interest in, any particular assets, the Account shall be adjusted to reflect the investment experience of the Participant's Selected Benchmark Return Options in the same manner as if investments in accordance with the Participant's elections had actually been made through the ML Benefit Services Platform and ML II Core Recordkeeping System, or any successor system used for keeping records of Participants' Accounts (the "ML II System"). In adjusting Accounts, the timing of receipt of Participant instructions by the ML II System shall control the timing and pricing of the notional investments in the Participant's Selected Benchmark Return Options in accordance with the rules of operation of the ML II System and its requirements for placing corresponding investment orders, as if orders to make corresponding investments were actually to be made, except that in connection with the crediting of Deferred Amounts to the Participant's Account and distributions from the Account, appropriate deferral allocation instructions shall be treated as received from the Participant prior to the close of transactions through the ML II System on the relevant day. Each Selected Benchmark Return Option shall be valued using the Net Asset Value of the Selected Benchmark Return Option as of the relevant day, provided, that, in  
-----

valuing a Selected Benchmark Return Option for which a Net Asset Value is not computed, the value of the security involved for determining Participants' rights under the Plan shall be the price reported for actual transactions in that security through the ML II System on the relevant day, without giving effect to any transaction charges or costs associated with such transactions, provided, further, that, if there are no such transactions effected through the  
-----

ML II System on the relevant day, the value of the security shall be:

- (i) if the security is listed for trading on one or more national securities exchanges, the average of the high and low sale prices for that day on the principal exchange for such security, or if

such security is not traded on such principal exchange on that day, the average of the high and low sales prices on such exchange on the first day prior thereto on which such security was so traded;

(ii) if the security is not listed for trading on a national securities exchange but is traded in the over-the-counter market, the average of the highest and lowest bid prices for such security on the relevant day; or

(iii) if neither clause (i) nor (ii) applies, the value determined by the Administrator by whatever means he considers appropriate in his sole discretion.

(c) ANNUAL CHARGE. As of the last day of each Fiscal Year or such earlier day in December as the Administrator shall determine, an Annual Charge of 2.0% of the Participant's Deferred Amounts (exclusive of any appreciation or depreciation determined under Section 3.4 (b)) shall be applied to reduce the Account Balance (but not below zero). In the event that the Participant elects to have the Account Balance paid in installments, this Annual Charge will be charged on the Remaining Deferred Amounts after giving effect to the installment payments. In the event that the Account Balance is paid out completely during a Fiscal Year prior to the date that the Annual Charge is assessed, a pro rata Annual Charge will be deducted from amounts to be paid to

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the Participant to cover that fraction of the Fiscal Year that Deferred Amounts (or Remaining Deferred Amounts in the case of installment payments) were maintained hereunder. The Annual Charge shall be applied as a pro rata

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reduction of the Account Balance indexed to each of the Participant's Selected Benchmark Return Options. In applying the Annual Charge, the pricing principles set forth in Section 3.4(b) will be followed.

6

### 3.5 RESCISSION OF DEFERRAL ELECTION.

(a) PRIOR TO DECEMBER 1, 1994. A deferral election hereunder may be rescinded at the request of a Participant only (i) on or before December 1, 1994, and (ii) if the Administrator, in his sole discretion and upon evidence of such basis that he finds persuasive (including a material applicable change in the Participant's U.S. Federal and/or foreign income tax rate during the period between October 1, 1994 and November 30, 1994), agrees to the rescission of the election. The Deferred Amounts will be paid to the Participant as soon as practicable subject to a reduction for any applicable withholding taxes.

(b) ADVERSE TAX DETERMINATION. Notwithstanding the provisions of Section 3.5(a), a deferral election may be rescinded at any time if (i) a final determination is made by a court or other governmental body of competent jurisdiction that the election was ineffective to defer income for purposes of U.S. Federal, state, local or foreign income taxation and the time for appeal from this determination has expired, and (ii) the Administrator, in his sole discretion, decides, upon the Participant's request and upon evidence of the occurrence of the events described in (i) hereof that he finds persuasive, to rescind the election. Upon such rescission, the Account Balance, including any adjustment for performance of the Selected Benchmark Return Options will be paid to the Participant as soon as practicable, and no additional amounts will be deferred pursuant to this Plan.

(c) RESCISSION FOR AMOUNTS NOT YET EARNED. Upon the Participant's written request, the Administrator may in his sole discretion terminate any deferral elections made hereunder with respect to compensation not yet earned and no further amounts will be deferred. Amounts previously deferred will continue to be governed by the terms of this Plan.

## ARTICLE IV

### STATUS OF DEFERRED AMOUNTS AND ACCOUNT

#### 4.1 NO TRUST OR FUND CREATED; GENERAL CREDITOR STATUS.

Nothing contained herein and no action taken pursuant hereto will be construed to create a trust or separate fund of any kind or a fiduciary relationship between ML & Co. and any Participant, the Participant's beneficiary or estate, or any other person. Title to and beneficial ownership of any funds represented by the Account Balance will at all times remain in ML & Co.; such funds will continue for all purposes to be a part of the general funds of ML & Co. and may be used for any corporate purpose. No person will, by virtue of the provisions of this Plan, have any interest whatsoever in any specific assets of the Company. TO THE EXTENT THAT ANY PERSON ACQUIRES A RIGHT TO RECEIVE PAYMENTS FROM ML & CO. UNDER THIS PLAN, SUCH RIGHT WILL BE NO GREATER THAN THE RIGHT OF ANY UNSECURED GENERAL CREDITOR OF ML & CO.

7

4.2 NON-ASSIGNABILITY.

The Participant's right or the right of any other person to the Account Balance or any other benefits hereunder cannot be assigned, alienated, sold, garnished, transferred, pledged, or encumbered except by a written designation of beneficiary under this Plan, by written will, or by the laws of descent and distribution.

4.3 EFFECT OF DEFERRAL ON BENEFITS UNDER PENSION AND WELFARE BENEFIT PLANS.

The effect of deferral on pension and welfare benefit plans in which the Participant may be a participant will depend upon the provisions of each such plan, as amended from time to time.

ARTICLE V

PAYMENT OF ACCOUNT

5.1 PAYMENT DATE.

A Participant's Account Balance will be paid by ML & Co., as elected by the Participant at the time of his or her deferral election, either in a single sum, or in the number of annual installments (not to exceed 15) chosen by the Participant to commence, as specified, (i) in the month following the month of the Participant's Retirement or death, (ii) in any month or year selected by the Participant after the end of 1995, (iii) in any month in the calendar year following the Participant's Retirement, but in no event may the date elected under clause (i), (ii) or (iii) result in commencement of payments later than the month following the Participant's 70th birthday. The amount of each annual installment, if any, shall be a fraction of the Account Balance as of the last day of the month immediately preceding the month in which the payment is to be made, the numerator of such fraction shall be one and the denominator of such fraction shall be the number of remaining installments (including the installment to be made).

5.2 TERMINATION OF EMPLOYMENT.

(a) DEATH OR RETIREMENT. If the Participant dies or retires prior to payment, then the Account Balance will be paid to the Participant in accordance with the Participant's election (in the event of Retirement) or to the Participant's beneficiary (in the event of death) in accordance with the Participant's election of either installment payments or a lump sum, provided,

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however, that in the event that a beneficiary of the Participant's Account

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Balance is the Participant's estate or is otherwise not a natural person, the applicable portion of the Account Balance will be paid in lump sum to such beneficiary.

(b) OTHER TERMINATION OF EMPLOYMENT. If the Participant's employment terminates at any time for any reason other than death or Retirement, the Account Balance will be paid to the Participant, in a lump sum, as soon thereafter as is practicable.

(c) LEAVE OF ABSENCE, TRANSFER OR DISABILITY. The Participant's employment will not be considered as terminated if the Participant is on an approved leave of absence or if the Participant transfers or is transferred but remains in the employ of the Company or if the Participant is eligible to receive disability payments under the ML & Co. Basic Long-Term Disability Plan.

8

(d) DISCRETION TO ALTER PAYMENT DATE. Notwithstanding the provisions of Sections 5.2(a) and (b), if the Participant's employment terminates for any reason, the Administrator may, in his sole discretion, direct that the Account Balance be paid at some other time or that it be paid in installments; provided, that no such direction that adversely affects the rights of the

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Participant or his or her beneficiary under this Plan shall be implemented without the consent of the affected Participant or beneficiary. This direction may be revoked by the Administrator at any time in his sole discretion.

5.3 WITHHOLDING OF TAXES.

ML & Co. will deduct or withhold from any payment to be made or deferred hereunder any U.S. Federal, state or local or foreign income or employment taxes required by law to be withheld or require the Participant or the Participant's beneficiary to pay any amount, or the balance of any amount, required to be withheld.

5.4 BENEFICIARY.

(a) DESIGNATION OF BENEFICIARY. The Participant may designate, in a

writing delivered to the Administrator or his designee before the Participant's death, a beneficiary to receive payments in the event of the Participant's death. The Participant may also designate a contingent beneficiary to receive payments in accordance with this Plan if the primary beneficiary does not survive the Participant. The Participant may designate more than one person as the Participant's beneficiary or contingent beneficiary, in which case (i) no contingent beneficiary would receive any payment unless all of the primary beneficiaries predeceased the Participant, and (ii) the surviving beneficiaries in any class shall share in any payments in proportion to the percentages of interest assigned to them by the Participant.

(b) CHANGE IN BENEFICIARY. The Participant may change his or her beneficiary or contingent beneficiary (without the consent of any prior beneficiary) in a writing delivered to the Administrator or his designee before the Participant's death. Unless the Participant states otherwise in writing, any change in beneficiary or contingent beneficiary will automatically revoke prior such designations of the Participant's beneficiary or of the Participant's contingent beneficiary, as the case may be, under this Plan only; and any designations under other deferral agreements or plans of the Company will remain unaffected.

(c) DEFAULT BENEFICIARY. In the event a Participant does not designate a beneficiary, or no designated beneficiary survives the Participant, the Participant's beneficiary shall be the Participant's surviving spouse, if the Participant is married at the time of his or her death and not subject to a court-approved agreement or court decree of separation, or otherwise the person or persons designated to receive benefits on account of the Participant's death under the ML & Co. Basic Group Life Insurance Plan (the "Life Insurance Plan"). However, if an unmarried Participant does not have coverage in effect under the Life Insurance Plan, or the Participant has assigned his or her death benefit under the Life Insurance Plan, any amounts payable to the Participant's beneficiary under the Plan will be paid to the Participant's estate.

(d) IF THE BENEFICIARY DIES DURING PAYMENT. If a beneficiary who is receiving or is entitled to receive payments hereunder dies after the Participant but before all the payments have been made, the portion of the Account Balance to which that beneficiary was entitled will be paid as soon as practicable in one lump sum to such beneficiary's estate and not to any contingent beneficiary the Participant may have designated.

9

## 5.5 HARDSHIP DISTRIBUTIONS.

ML & Co. may pay to the Participant, on such terms and conditions as the Administrator may establish, such part or all of the Account Balance as he may, in his sole discretion based upon substantial evidence submitted by the Participant, determine necessary to alleviate hardship caused by an unanticipated emergency or necessity outside of the Participant's control affecting the Participant's personal or family affairs. Such payment will be made only at the Participant's written request and with the express approval of the Administrator and will be made on the date selected by the Administrator in his sole discretion. The balance of the Account, if any, will continue to be governed by the terms of this Plan. Hardship shall be deemed to exist only on account of expenses for medical care (described in Code Section 213(d)) of the Participant, the Participant's spouse or the Participant's dependents (described in Code Section 152); payment of unreimbursed tuition and related educational fees for the Participant, the Participant's spouse or the Participant's dependents; the need to prevent the Participant's eviction from or, foreclosure on, the Participant's principal residence; unreimbursed damages resulting from a natural disaster; or such other financial need deemed by the Administrator in his sole discretion to be immediate and substantial.

## ARTICLE VI

### ADMINISTRATION OF THE PLAN

#### 6.1 POWERS OF THE ADMINISTRATOR.

The Administrator has full power and authority to interpret, construe, and administer this Plan so as to ensure that it provides deferred compensation for the Participant as a member of a select group of management or highly compensated employees within the meaning of Title I of ERISA. The Administrator's interpretations and construction hereof, and actions hereunder, including any determinations regarding the amount or recipient of any payments, will be binding and conclusive on all persons for all purposes. The Administrator will not be liable to any person for any action taken or omitted in connection with the interpretation and administration of this Plan unless attributable to his willful misconduct or lack of good faith. The Administrator may designate persons to carry out the specified responsibilities of the Administrator and shall not be liable for any act or omission of a person as designated.

#### 6.2 PAYMENTS ON BEHALF OF AN INCOMPETENT.

If the Administrator finds that any person who is entitled to any payment hereunder is a minor or is unable to care for his or her affairs because of disability or incompetency, payment of the Account Balance may be made to anyone found by the Administrator to be the committee or other authorized representative of such person, or to be otherwise entitled to such payment, in the manner and under the conditions that the Administrator determines. Such payment will be a complete discharge of the liabilities of ML & Co. hereunder with respect to the amounts so paid.

#### 6.3 CORPORATE BOOKS AND RECORDS CONTROLLING.

The books and records of the Company will be controlling in the event a question arises hereunder concerning the amount of Adjusted Compensation, Incentive Compensation, Eligible Compensation, the Deferred Amounts, the Account Balance, the designation of a beneficiary, or any other matters.

10

### ARTICLE VII

#### MISCELLANEOUS PROVISIONS

#### 7.1 LITIGATION.

The Company shall have the right to contest, at its expense, any ruling or decision, administrative or judicial, on an issue that is related to the Plan and that the Administrator believes to be important to Participants, and to conduct any such contest or any litigation arising therefrom to a final decision.

#### 7.2 HEADINGS ARE NOT CONTROLLING.

The headings contained in this Plan are for convenience only and will not control or affect the meaning or construction of any of the terms or provisions of this Plan.

#### 7.3 GOVERNING LAW.

To the extent not preempted by applicable U.S. Federal law, this Plan will be construed in accordance with and governed by the laws of the State of New York as to all matters, including, but not limited to, matters of validity, construction, and performance.

#### 7.4 AMENDMENT AND TERMINATION.

ML & Co., through the Administrator, reserves the right to amend or terminate this Plan at any time, except that no such amendment or termination shall adversely affect the right of a Participant to his or her Account Balance as of the date of such amendment or termination.

11

As amended  
as of  
October 14, 1994

MERRILL LYNCH & CO., INC.

LONG-TERM INCENTIVE COMPENSATION PLAN

TABLE OF CONTENTS

<TABLE>  
<CAPTION>

	PAGE
<S>	<C>
ARTICLE I - GENERAL.....	1
Section 1.1 Purpose.....	1
Section 1.2 Definitions.....	1
(a) "Board of Directors" or "Board".....	1
(b) "Code".....	1
(c) "Company".....	1
(d) "Committee".....	1
(e) "Common Stock".....	2
(f) "Disability".....	2
(g) "Fair Market Value".....	2
(h) "Junior Preferred Stock".....	2
(i) "Other ML & Co. Security".....	2
(j) "Participant".....	2
(k) "Performance Period".....	2
(l) "Performance Share".....	3
(m) "Performance Unit".....	3
(n) "Restricted Period".....	3
(o) "Restricted Share".....	3
(p) "Restricted Unit".....	3
(q) "Retirement".....	3
(r) "Rights".....	3
(s) "Rights Agreement".....	3
(t) "Stock Appreciation Right".....	3
(u) "Stock Option".....	4
(v) "Vesting Period".....	4
Section 1.3 Administration.....	4
Section 1.4 Shares and Units Subject to the Plan.....	4
Section 1.5 Eligibility and Participation.....	5
ARTICLE II - PROVISIONS APPLICABLE TO PERFORMANCE SHARES AND PERFORMANCE UNITS.....	5
Section 2.1 Performance Periods and Restricted Periods.....	5

</TABLE>

(i)

<TABLE>  
<CAPTION>

	PAGE
<S>	<C>
Section 2.2 Performance Objectives.....	6
Section 2.3 Grants of Performance Shares and Performance Units.....	6
Section 2.4 Rights and Benefits During Performance Period.....	7
Section 2.5 Adjustment with respect to Performance Shares and Performance Units.....	7
Section 2.6 Payment of Performance Shares and Performance Units.....	7
(a) Performance Shares.....	7



(i) If a Restricted Period has been established.....	7
(ii) If a Restricted Period has not been established.....	8
(b) Performance Units.....	8
Section 2.7 Termination of Employment.....	8
(a) Prior to the end of a Performance Period.....	8
(i) Death.....	8
(ii) Disability or Retirement.....	9
(iii) Other Terminations.....	9
(b) After the end of a Performance Period but prior to the end of a Restricted Period.....	9
(i) Death, Disability, or Retirement.....	9
(ii) Other Terminations.....	9
Section 2.8 Deferral of Payment.....	10
ARTICLE III - PROVISIONS APPLICABLE TO RESTRICTED SHARES AND RESTRICTED UNITS.....	10
Section 3.1 Vesting Periods and Restricted Periods.....	10

</TABLE>

(ii)

<TABLE>  
<CAPTION>

<S>	PAGE
<C>	<C>
Section 3.2 Grants of Restricted Shares and Restricted Units.....	11
Section 3.3 Rights and Restrictions Governing Restricted Shares.....	11
Section 3.4 Rights Governing Restricted Units.....	12
Section 3.5 Adjustment with respect to Restricted Shares and Restricted Units.....	12
Section 3.6 Payment of Restricted Shares and Restricted Units.....	12
(a) Restricted Shares.....	12
(b) Restricted Units.....	12
Section 3.7 Termination of Employment.....	12
(a) Prior to the end of a Vesting Period .....	12
(i) Death.....	12
(ii) Disability or Retirement.....	13
(iii) Other Terminations.....	13
(b) After the end of a Vesting Period but prior to the end of a Restricted Period.....	13
(i) Death, Disability, or Retirement.....	13
(ii) Other Terminations.....	13
Section 3.8 Deferral of Payment.....	14
ARTICLE IV - PROVISIONS APPLICABLE TO STOCK OPTIONS.....	14
Section 4.1 Grants of Stock Options.....	14
Section 4.2 Option Documentation.....	14
Section 4.3 Exercise Price.....	15

</TABLE>

(iii)

<TABLE>  
<CAPTION>

<S> PAGE  
<C> <C>

Section 4.4 Exercise of Stock Options.....	15
(a) Exercisability.....	15
(b) Option Period.....	15
(c) Exercise in the Event of Termination of Employment.....	15
(i) Death.....	15
(ii) Disability or Retirement.....	15
(iii) Other Terminations.....	16
Section 4.5 Payment of Purchase Price Upon Exercise and Delivery of Shares.....	16
Section 4.6 Limitation on Fair Market Value of Shares of Common Stock Received upon Exercise of Incentive Stock Options.....	17
ARTICLE V - PROVISIONS APPLICABLE TO STOCK APPRECIATION RIGHTS.....	17
Section 5.1 Grants of Stock Appreciation Rights.....	17
Section 5.2 Stock Appreciation Rights Granted in Connection with Incentive Stock Options.....	18
Section 5.3 Payment Upon Exercise of Stock Appreciation Rights.....	18
Section 5.4 Termination of Employment.....	18
(a) Death.....	18
(b) Disability.....	18
(c) Retirement.....	19
(d) Other Terminations.....	19
ARTICLE VI - PROVISIONS APPLICABLE TO OTHER ML & CO. SECURITIES.....	19
Section 6.1 Grants of Other ML & Co. Securities.....	19
(iv)	
<TABLE>	
<CAPTION>	
PAGE	
<C>	
<S>	
Section 6.2 Terms and Conditions of Conversion or Exchange.....	20
ARTICLE VII - CHANGES IN CAPITALIZATION.....	20
ARTICLE VIII - PAYMENTS UPON TERMINATION OF EMPLOYMENT AFTER A CHANGE IN CONTROL.....	21
Section 8.1 Value of Payments Upon Termination After a Change in Control.....	21
(a) Performance Shares and Performance Units.....	21
(b) Restricted Shares and Restricted Units.....	22
(c) Stock Options and Stock Appreciation Rights.....	22
(d) Other ML & Co. Securities.....	23
Section 8.2 A Change in Control.....	23
Section 8.3 Effect of Agreement Resulting in Change in Control.....	24
Section 8.4 Termination for Cause.....	24
Section 8.5 Good Reason.....	25
(a) Inconsistent Duties.....	25
(b) Reduced Salary or Bonus Opportunity.....	25
(c) Relocation.....	25
(d) Compensation Plans.....	25
(e) Benefits and Perquisites.....	26
(f) No Assumption by Successor.....	26
Section 8.6 Effect on Plan Provisions.....	26

ARTICLE IX - MISCELLANEOUS.....	27
Section 9.1 Designation of Beneficiary.....	27
Section 9.2 Employment Rights.....	27

</TABLE>

(v)

<TABLE>  
<CAPTION>

	PAGE
<S>	<C>
Section 9.3 Nontransferability.....	27
Section 9.4 Withholding.....	27
Section 9.5 Relationship to Other Benefits.....	28
Section 9.6 No Trust or Fund Created.....	28
Section 9.7 Expenses.....	28
Section 9.8 Indemnification.....	28
Section 9.9 Tax Litigation.....	28
ARTICLE X - AMENDMENT AND TERMINATION.....	29
ARTICLE XI - INTERPRETATION.....	29
Section 11.1 Governmental and Other Regulations.....	29
Section 11.2 Governing Law.....	29
ARTICLE XII - EFFECTIVE DATE AND STOCKHOLDER APPROVAL.....	29

</TABLE>

(vi)

MERRILL LYNCH & CO., INC.

LONG-TERM INCENTIVE COMPENSATION PLAN

ARTICLE I - GENERAL

SECTION 1.1 PURPOSE.

The purposes of the Long-Term Incentive Compensation Plan (the "PLAN") are:  
(a) to enhance the growth and profitability of Merrill Lynch & Co., Inc., a Delaware corporation ("ML & CO."), and its subsidiaries by providing the incentive of long-term rewards to key employees who are capable of having a significant impact on the performance of ML & Co. and its subsidiaries; (b) to attract and retain employees of outstanding competence and ability; (c) to encourage long-term stock ownership by employees; and (d) to further the identity of interests of such employees with those of stockholders of ML & Co.

SECTION 1.2 DEFINITIONS.

For the purpose of the Plan, the following terms shall have the meanings indicated:

(a) "BOARD OF DIRECTORS" or "BOARD" shall mean the Board of Directors of ML & Co.

(b) "CODE" shall mean the Internal Revenue Code of 1986, as amended, including any successor law thereto.

(c) "COMPANY" shall mean ML & Co. and any corporation, partnership, or other organization of which ML & Co. owns or controls, directly or indirectly, not less than 50% of the total combined voting power of all classes of stock or other equity interests. For purposes of this Plan, the terms "ML & Co." and "Company" shall include any successor thereto.

(d) "COMMITTEE" shall mean the Management Development and Compensation

Committee of the Board of Directors, or its functional successor, unless some other Board committee has been designated by the Board of Directors to administer the Plan. The Committee shall be constituted so that at all relevant times it meets the then applicable requirements of Rule 16b-3 (or its successor) promulgated under the Securities Exchange Act of 1934, as amended.

-1-

(e) "COMMON STOCK" shall mean the Common Stock, par value \$1.33 1/3 per share, of ML & Co. and a "SHARE OF COMMON STOCK" shall mean one share of Common Stock together with, for so long as Rights are outstanding, one Right (whether trading with the Common Stock or separately).

(f) "DISABILITY," unless otherwise provided herein, shall mean any physical or mental condition that, in the opinion of the Director of Human Resources of Merrill Lynch & Co., Inc. (or his functional successor), renders an employee incapable of engaging in any employment or occupation for which he is suited by reason of education or training, provided that, in the case of any officer of ML & Co., as defined in Rule 16a-1 under the Securities Exchange Act of 1934, such determination shall be made by the Committee following recommendation by the Director of Human Resources.

(g) "FAIR MARKET VALUE" of shares of Common Stock on any given date(s) shall be: (a) the mean of the high and low sales prices on the New York Stock Exchange--Composite Tape of such shares on the date(s) in question, or, if the shares of Common Stock shall not have been traded on any such date(s), the mean of the high and low sales prices on the New York Stock Exchange--Composite Tape on the first day prior thereto on which the shares of Common Stock were so traded; or (b) if the shares of Common Stock are not traded on the New York Stock Exchange, such other amount as may be determined by the Committee by any fair and reasonable means.

"FAIR MARKET VALUE" of any Other ML & Co. Security on any given date(s) shall be: (a) the mean of the high and low sales prices of such Other ML & Co. Security on the principal securities exchange on which such Security is traded on the date(s) in question or, if such Other ML & Co. Security shall not have been traded on any such exchange on such date(s), the mean of the high and low sales prices on such exchange on the first day prior thereto on which such Other ML & Co. Security was so traded; or (b) if the Other ML & Co. Security is not publicly traded on a securities exchange, such other amount as may be determined by the Committee by any fair and reasonable means.

(h) "JUNIOR PREFERRED STOCK" shall mean ML & Co.'s Series A Junior Preferred Stock, par value \$1.00 per share.

(i) "OTHER ML & CO. SECURITY" shall mean a financial instrument issued pursuant to Article VI.

(j) "PARTICIPANT" shall mean any employee who has met the eligibility requirements set forth in Section 1.5 hereof and to whom a grant has been made and is outstanding under the Plan.

(k) "PERFORMANCE PERIOD" shall mean, in relation to Performance Shares or Performance Units, any period, for which performance objectives have been

-2-

established, of not less than one nor more than ten consecutive ML & Co. fiscal years, commencing with the first day of the fiscal year in which such Performance Shares or Performance Units were granted.

(l) "PERFORMANCE SHARE" shall mean a right, granted to a Participant pursuant to Article II, that will be paid out as a share of Common Stock.

(m) "PERFORMANCE UNIT" shall mean a right, granted to a Participant pursuant to Article II, to receive an amount equal to the Fair Market Value of one share of Common Stock in cash.

(n) "RESTRICTED PERIOD" shall mean, (i) in relation to shares of Common Stock receivable in payment for Performance Shares, the period beginning at the end of the applicable Performance Period during which restrictions on the transferability of such shares of Common Stock are in effect; and (ii) in relation to Restricted Shares, the period, beginning with the first day of the month in which Restricted Shares are granted, during which restrictions on the transferability of such Restricted Shares are in effect and which shall not be of shorter duration than the Vesting Period applicable to the same Restricted Shares.

(o) "RESTRICTED SHARE" shall mean a share of Common Stock, granted to a Participant pursuant to Article III, subject to the restrictions set forth in Section 3.3 hereof.

(p) "RESTRICTED UNIT" shall mean the right, granted to a Participant pursuant to Article III, to receive an amount equal to the Fair Market Value of one share of Common Stock in cash.

(g) "RETIREMENT" shall mean the cessation of employment by the Company after reaching age 55 and having completed at least 5 years of service, including approved leaves of absence of one year or less.

(r) "RIGHTS" means the Rights to Purchase Units of Junior Preferred Stock issued pursuant to the Rights Agreement.

(s) "RIGHTS AGREEMENT" means the Rights Agreement dated as of December 16, 1987 between ML & Co. and Manufacturers Hanover Trust Company, Rights Agent, as amended from time to time.

(t) "STOCK APPRECIATION RIGHT" shall mean a right, granted to a Participant pursuant to Article V, to receive, in cash or shares of Common Stock, an amount equal to the increase in Fair Market Value, over a specified period of time, of a specified number of shares of Common Stock.

-3-

(u) "STOCK OPTION" shall mean a right, granted to a Participant pursuant to Article IV, to purchase, before a specified date and at a specified price, a specified number of shares of Common Stock. Stock Options may be "INCENTIVE STOCK OPTIONS," which meet the definition of such in Section 422A of the Code, or "NONQUALIFIED STOCK OPTIONS," which do not meet such definition.

(v) "VESTING PERIOD" shall mean, in relation to Restricted Shares or Restricted Units, any period of not less than 12 months beginning with the first day of the month in which the grant of the applicable Restricted Shares or Restricted Units is effective, during which such Restricted Shares or Restricted Units may be forfeited if the Participant terminates employment.

#### SECTION 1.3 ADMINISTRATION.

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(a) The Plan shall be administered by the Committee. Subject to the provisions of the Plan, the Committee shall have sole and complete authority to: (i) subject to Section 1.5 hereof, select Participants after receiving the recommendations of the management of the Company; (ii) determine the number of Performance Shares, Performance Units, Restricted Shares, Restricted Units, Stock Appreciation Rights, or Other ML & Co. Securities subject to each grant; (iii) determine the number of shares of Common Stock subject to each Stock Option grant; (iv) determine the time or times when grants are to be made or are to be effective; (v) determine the terms and conditions subject to which grants may be made; (vi) extend the term of any Stock Option; (vii) provide at the time of grant that all or any portion of any Stock Option shall be canceled upon the Participant's exercise of any Stock Appreciation Rights; (viii) prescribe the form or forms of the instruments evidencing any grants made hereunder, provided that such forms are consistent with the Plan; (ix) adopt, amend, and rescind such rules and regulations as, in its opinion, may be advisable for the administration of the Plan; (x) construe and interpret the Plan and all rules, regulations, and instruments utilized thereunder; and (xi) make all determinations deemed advisable or necessary for the administration of the Plan. All determinations by the Committee shall be final and binding.

(b) The Committee shall act in accordance with the procedures established for a Committee under ML & Co.'s Certificate of Incorporation and By-Laws or under any resolution of the Board.

#### SECTION 1.4 SHARES AND UNITS SUBJECT TO THE PLAN.

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The total number of shares of Common Stock that may be distributed under the Plan shall be 80,000,000\* (whether granted as Restricted Shares or reserved for distribution upon grant of Performance Shares, Stock Options, Stock Appreciation

\*The net number of shares that remain available for distribution and reserved for issuance under the Plan as of October 22, 1993 was 59,001,220, adjusted (as of such date) for ML & Co.'s 2 for 1 stock split, effected in the form of a stock dividend.

-4-

Rights (to the extent they may be paid out in Common Stock), or Other ML & Co. Securities), subject to adjustment as provided in Article VII hereof. Shares of Common Stock distributed under the Plan may be treasury shares or authorized but unissued shares. The total number of units payable in cash under the Plan, including Performance Units, Restricted Units, and Stock Appreciation Rights (to the extent they are paid out in cash) shall be 80,000,000.\* To the extent that awards of Other ML & Co. Securities are convertible into Common Stock or are otherwise equity securities (or convertible into equity securities) of ML & Co., they shall be subject to the limitation expressed above on the number of shares of Common Stock that can be awarded under the Plan; otherwise, they shall be treated as if they were awards of units payable in cash under the Plan and subject to the foregoing limitation thereon. Any shares of Common Stock that

have been granted as Restricted Shares or that have been reserved for distribution in payment for Performance Shares but are later forfeited or for any other reason are not payable under the Plan may again be made the subject of grants under the Plan. If any Stock Option, Stock Appreciation Right, or Other ML & Co. Security granted under the Plan expires or terminates, or any Stock Appreciation Right is paid out in cash, the underlying shares of Common Stock may again be made the subject of grants under the Plan. Units payable in cash that are later forfeited or for any reason are not payable under the Plan may again be the subject of grants under the Plan.

SECTION 1.5 ELIGIBILITY AND PARTICIPATION.  
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Participation in the Plan shall be limited to officers (who may also be members of the Board of Directors) and other salaried, key employees of the Company.

ARTICLE II - PROVISIONS APPLICABLE TO PERFORMANCE SHARES AND PERFORMANCE UNITS.

SECTION 2.1 PERFORMANCE PERIODS AND RESTRICTED PERIODS.  
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The Committee shall establish Performance Periods applicable to Performance Shares and Performance Units and may establish Restricted Periods applicable to Performance Shares, at its discretion. Each such Performance Period shall commence with the beginning of a fiscal year in which the Performance Shares and Performance Units are granted and have a duration of not less than one nor more than ten consecutive fiscal years. Each such Restricted Period shall commence with the end of the Performance Period established for such Performance Shares and shall end on such date as may be determined by the Committee at the time of grant. There shall be no limitation on the number of Performance Periods or Restricted Periods established

\*The net number of units that remain available for distribution under the Plan, as of October 22, 1993, was 70,157,928, adjusted (as of such date) for ML&Co.'s 2 for 1 stock split, effected in form of a stock dividend.

-5-

by the Committee, and more than one Performance Period may encompass the same fiscal year.

SECTION 2.2 PERFORMANCE OBJECTIVES.  
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At any time before or during a Performance Period, the Committee shall establish one or more performance objectives for such Performance Period, provided that such performance objectives shall be established prior to the grant of any Performance Shares or Performance Units with respect to such Period. Performance objectives shall be based on one or more measures such as return on stockholders' equity, earnings, or any other standard deemed relevant by the Committee, measured internally or relative to other organizations and before or after extraordinary items, as may be determined by the Committee; provided, however, that any such measure shall include all accruals for grants

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made under the Plan and for all other employee benefit plans of the Company. The Committee may, in its discretion, establish performance objectives for the Company as a whole or for only that part of the Company in which a given Participant is involved, or a combination thereof. In establishing the performance objective or objectives for a Performance Period, the Committee shall determine both a minimum performance level, below which no Performance Shares or Performance Units shall be payable, and a full performance level, at or above which 100% of the Performance Shares or Performance Units shall be payable. In addition, the Committee may, in its discretion, establish intermediate levels at which given proportions of the Performance Shares or Performance Units shall be payable. Such performance objectives shall not thereafter be changed except as set forth in Sections 2.5 and 2.6 and Article VII hereof.

SECTION 2.3 GRANTS OF PERFORMANCE SHARES AND PERFORMANCE UNITS.  
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The Committee may select employees to become Participants subject to the provisions of Section 1.5 hereof and grant Performance Shares or Performance Units to such Participants at any time prior to or during the first fiscal year of a Performance Period. Grants shall be deemed to have been made as of the beginning of the first fiscal year of the Performance Period. Before making grants, the Committee must receive the recommendations of the management of the Company, which will take into account such factors as level of responsibility, current and past performance, and performance potential. Subject to the provisions of Section 2.7 hereof, a grant of Performance Shares or Performance Units shall be effective for the entire applicable Performance Period and may not be revoked. Each grant to a Participant shall be evidenced by a written

instrument stating the number of Performance Shares or Performance Units granted, the Performance Period, the performance objective or objectives, the proportion of payments for performance between the minimum and full performance levels, if any, the Restricted Periods and restrictions applicable to shares of Common Stock receivable in payment for Performance Shares, and any other terms, conditions, and rights with respect to such grant. At the time of any grant of

-6-

Performance Shares, there shall be reserved out of the number of shares of Common Stock authorized for distribution under the Plan a number of shares equal to the number of Performance Shares so granted.

SECTION 2.4 RIGHTS AND BENEFITS DURING PERFORMANCE PERIOD.  
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The Committee may provide that, during a Performance Period, a Participant shall be paid cash amounts, with respect to each Performance Share or Performance Unit held by such Participant, in the same manner, at the same time, and in the same amount paid, as a dividend on a share of Common Stock.

SECTION 2.5 ADJUSTMENT WITH RESPECT TO PERFORMANCE SHARES AND PERFORMANCE UNITS.  
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Any other provision of the Plan to the contrary notwithstanding, the Committee may at any time adjust performance objectives (up or down) and minimum or full performance levels (and any intermediate levels and proportion of payments related thereto), adjust the way performance objectives are measured, or shorten any Performance Period or Restricted Period, if it determines that conditions, including but not limited to, changes in the economy, changes in competitive conditions, changes in laws or governmental regulations, changes in generally accepted accounting principles, changes in the Company's accounting policies, acquisitions or dispositions, or the occurrence of other unusual, unforeseen, or extraordinary events, so warrant.

SECTION 2.6 PAYMENT OF PERFORMANCE SHARES AND PERFORMANCE UNITS.  
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Within 90 days after the end of any Performance Period, the Company shall determine the extent to which performance objectives established by the Committee pursuant to Section 2.2 hereof for such Performance Period have been met during such Performance Period and the resultant extent to which Performance Shares or Performance Units granted for such Performance Period are payable. Payment for Performance Shares and Performance Units shall be as follows:

(a) Performance Shares:  
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(i) If a Restricted Period has been established in relation to the  
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Performance Shares:

(A) At the end of the applicable Performance Period, one or more  
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certificates representing the number of shares of Common Stock equal to the number of Performance Shares payable shall be registered in the name of the Participant but shall be held by the Company for the account of the employee. Such shares will be nonforfeitable but restricted as to transferability during the applicable Restricted Period. During the Restricted Period, the Participant shall have all rights of a holder as to such

-7-

shares of Common Stock, including the right to receive dividends, to exercise Rights, and to vote such Common Stock and any securities issued upon exercise of Rights, subject to the following restrictions: (1) the Participant shall not be entitled to delivery of certificates representing such shares of Common Stock and any other such securities until the expiration of the Restricted Period; and (2) none of such shares of Common Stock or Rights may be sold, transferred, assigned, pledged, or otherwise encumbered or disposed of during the Restricted Period. Any shares of Common Stock or other securities or property received with respect to such shares shall be subject to the same restrictions as such shares; provided, however, that the Company shall not be required to register any  
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fractional shares of Common Stock payable to any Participant, but will pay the value of such fractional shares, measured as set forth in Section 2.6(b) below, to the Participant.

(B) At the end of the applicable Restricted Period, all restrictions  
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applicable to the shares of Common Stock, and other securities or property

received with respect to such shares, held by the Company for the accounts of recipients of Performance Shares granted in relation to such Restricted Period shall lapse, and one or more stock certificates for such shares of Common Stock and securities, free of the restrictions, shall be delivered to the Participant, or such shares and securities shall be credited to a brokerage account if the Participant so directs.

(ii) If a Restricted Period has not been established in relation to

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the Performance Shares, at the end of the applicable Performance Period, one or more stock certificates representing the number of shares of Common Stock equal to the number of Performance Shares payable, free of restrictions, shall be registered in the name of the Participant and delivered to the Participant, or such shares shall be credited to a brokerage account if the Participant so directs.

(b) Performance Units: At the end of the applicable Performance Period, a

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Participant shall be paid a cash amount equal to the number of Performance Units payable, times the mean of the Fair Market Value of Common Stock during the second calendar month following the end of the Performance Period, unless some other date or period is established by the Committee at the time of grant.

#### SECTION 2.7 TERMINATION OF EMPLOYMENT.

(a) Prior to the end of a Performance Period:

(i) Death: If a Participant ceases to be an employee of the Company

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prior to the end of a Performance Period by reason of death, any outstanding Performance Shares or Performance Units with respect to such Participant shall become payable and be paid to such Participant's beneficiary or estate, as the case may be, as soon as practicable in the manner set forth in Sections 2.6(a)(ii) and 2.6(b) hereof, respectively. In determining the extent to

-8-

which performance objectives established for such Performance Period have been met and the resultant extent to which Performance Shares or Performance Units are payable, the Performance Period shall be deemed to end as of the end of the fiscal year in which the Participant's death occurred.

(ii) Disability or Retirement: The Disability or Retirement of a

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Participant shall not constitute a termination of employment for purposes of this Article II, and such Participant shall not forfeit any Performance Shares or Performance Units held by him, provided that following Disability or Retirement such Participant does not engage in or assist any business that the Committee, in its sole discretion, determines to be in competition with business engaged in by the Company during the remainder of the applicable Performance Period. A Participant who does engage in or assist any business that the Committee, in its sole discretion, determines to be in competition with business engaged in by the Company shall be deemed to have terminated employment.

(iii) Other Terminations: If a Participant ceases to be an employee

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prior to the end of a Performance Period for any reason other than death, the Participant shall immediately forfeit all Performance Shares and Performance Units previously granted under the Plan and all right to receive any payment for such Performance Shares and Performance Units. The Committee may, however, direct payment in accordance with the provisions of Section 2.6 hereof for a number of Performance Shares or Performance Units, as it may determine, granted under the Plan to a Participant whose employment has so terminated (but not exceeding the number of Performance Shares or Performance Units that could have been payable had the Participant remained an employee) if it finds that the circumstances in the particular case so warrant. For purposes of the preceding sentence, the Performance Period over which performance objectives shall be measured shall be deemed to end as of the end of the fiscal year in which termination occurred.

(b) After the end of a Performance Period but prior to the end of a Restricted Period:

(i) Death, Disability, or Retirement: If a Participant ceases to be an

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employee of the Company by reason of death or in the case of the Disability or Retirement of a Participant, the Restricted Period shall be deemed to have ended and shares held by the Company shall be paid as soon as practicable in the manner set forth in Section 2.6(a)(i)(B).

(ii) Other Terminations: Terminations of employment for any reason

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other than death after the end of a Performance Period but prior to the end of a Restricted Period shall not have any effect on the Restricted Period, unless the



Committee, in its sole discretion, finds that the circumstances so warrant and determines that the Restricted Period shall end on an earlier date as determined by the Committee and that shares held by the Company shall be paid as soon as practicable following such earlier date in the manner set forth in Section 2.6(a) (i) (B).

-9-

(c) Except as otherwise provided in this Section 2.7, termination of employment after the end of a Performance Period but before the payment of Performance Shares or Performance Units relating to such Performance Period shall not affect the amount, if any, to be paid pursuant to Section 2.6 hereof. Approved leaves of absence of one year or less shall not be deemed to be terminations of employment under this Section 2.7. Leaves of absence of more than one year will be deemed to be terminations of employment under this Section 2.7, unless the Committee determines otherwise.

#### SECTION 2.8 DEFERRAL OF PAYMENT.

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The Committee may, in its sole discretion, offer a Participant the right, by execution of a written agreement, to defer the receipt of all or any portion of the payment, if any, for Performance Shares or Performance Units. If such an election to defer is made, the Common Stock receivable in payment for Performance Shares shall be deferred as stock units equal in number to and exchangeable, at the end of the deferral period, for the number of shares of Common Stock that would have been paid to the Participant. Such stock units shall represent only a contractual right and shall not give the Participant any interest, right, or title to any Common Stock during the deferral period. The cash receivable in payment for Performance Units or fractional shares receivable for Performance Shares shall be deferred as cash units. Deferred stock units and cash units may be credited annually with the appreciation factor contained in the deferred compensation agreement, which may include dividend equivalents. All other terms and conditions of deferred payments shall be as contained in the written agreement.

#### ARTICLE III - PROVISIONS APPLICABLE TO RESTRICTED SHARES AND RESTRICTED UNITS.

##### SECTION 3.1 VESTING PERIODS AND RESTRICTED PERIODS.

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The Committee shall establish one or more Vesting Periods applicable to Restricted Shares and Restricted Units and one or more Restricted Periods applicable to Restricted Shares, at its discretion. Each such Vesting Period shall have a duration of not less than 12 months, measured from the first day of the month in which the grant of the applicable Restricted Shares or Restricted Units is effective. Each such Restricted Period shall have a duration of 12 or more consecutive months, measured from the first day of the month in which the grant of the applicable Restricted Shares is effective, but in no event shall any Restricted Period applicable to a Restricted Share be of shorter duration than the Vesting Period applicable to such Restricted Share.

-10-

##### SECTION 3.2 GRANTS OF RESTRICTED SHARES AND RESTRICTED UNITS.

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The Committee may select employees to become Participants (subject to the provisions of Section 1.5 hereof) and grant Restricted Shares or Restricted Units to such Participants at any time. Before making grants, the Committee must receive the recommendations of the management of the Company, which will take into account such factors as level of responsibility, current and past performance, and performance potential.

Subject to the provisions of Section 3.7 hereof, a grant of Restricted Shares or Restricted Units shall be effective for the entire applicable Vesting and Restricted Periods and may not be revoked. Each grant to a Participant shall be evidenced by a written instrument stating the number of Restricted Shares granted, the Vesting Period, the Restricted Period, the restrictions applicable to such Restricted Shares, the nature and terms of payment of consideration, if any, and the consequences of forfeiture that will apply to such Restricted Shares, and any other terms, conditions, and rights with respect to such grant. Each grant to a Participant of Restricted Units shall be evidenced by a written instrument stating the number of Restricted Units granted, the Vesting Period, and all other terms, conditions and rights with respect to such grant.

##### SECTION 3.3 RIGHTS AND RESTRICTIONS GOVERNING RESTRICTED SHARES.

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At the time of grant of Restricted Shares, subject to the receipt by the Company of any applicable consideration for such Restricted Shares, one or more certificates representing the appropriate number of shares of Common Stock

granted to a Participant shall be registered either in his name or for his benefit either individually or collectively with others, but shall be held by the Company for the account of the Participant. The Participant shall have all rights of a holder as to such shares of Common Stock, including the right to receive dividends, to exercise Rights, and to vote such Common Stock and any securities issued upon exercise of Rights, subject to the following restrictions: (a) the Participant shall not be entitled to delivery of certificates representing such shares of Common Stock and any other such securities until the expiration of the Restricted Period; (b) none of the Restricted Shares may be sold, transferred, assigned, pledged, or otherwise encumbered or disposed of during the Restricted Period; and (c) all of the Restricted Shares shall be forfeited and all rights of the Participant to such Restricted Shares shall terminate without further obligation on the part of the Company unless the Participant remains in the continuous employment of the Company for the entire Vesting Period in relation to which such Restricted Shares were granted, except as otherwise allowed by Section 3.7 hereof. Any shares of Common Stock or other securities or property received with respect to such shares shall be subject to the same restrictions as such Restricted Shares.

-11-

SECTION 3.4 RIGHTS GOVERNING RESTRICTED UNITS.  
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During the Vesting Period for Restricted Units, a Participant shall be paid, with respect to each Restricted Unit to which such Vesting Period is applicable, cash amounts in the same manner, at the same time, and in the same amount paid, as a dividend on a share of Common Stock.

SECTION 3.5 ADJUSTMENT WITH RESPECT TO RESTRICTED SHARES AND RESTRICTED  
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UNITS.  
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Any other provision of the Plan to the contrary notwithstanding, the Committee may at any time shorten any Vesting Period or Restricted Period, if it determines that conditions, including but not limited to, changes in the economy, changes in competitive conditions, changes in laws or governmental regulations, changes in generally accepted accounting principles, changes in the Company's accounting policies, acquisitions or dispositions, or the occurrence of other unusual, unforeseen, or extraordinary events, so warrant.

SECTION 3.6 PAYMENT OF RESTRICTED SHARES AND RESTRICTED UNITS.  
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(a) Restricted Shares: At the end of the Restricted Period, all  
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restrictions contained in the Restricted Share Agreement and in the Plan shall lapse as to Restricted Shares granted in relation to such Restricted Period, and one or more stock certificates for the appropriate number of shares of Common Stock, free of restrictions, shall be delivered to the Participant or such shares shall be credited to a brokerage account if the Participant so directs.

(b) Restricted Units: At the end of the Vesting Period applicable to  
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Restricted Units granted to a Participant, a cash amount equivalent in value to the Fair Market Value of one share of Common Stock on the last day of the Vesting Period, or during such period as is established by the Committee at the time of grant, shall be paid, with respect to each such Restricted Unit, to the Participant, or his beneficiary or estate, as the case may be.

SECTION 3.7 TERMINATION OF EMPLOYMENT.  
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(a) Prior to the end of a Vesting Period:  
  
(i) Death: If a Participant ceases to be an employee of the Company  
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prior to the end of a Vesting Period by reason of death, all Restricted Shares and Restricted Units granted to such Participant are immediately payable as set forth in Section 3.6.

-12-

(ii) Disability or Retirement: The Disability or Retirement of a  
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Participant shall not constitute a termination of employment for purposes of this Article III and such Participant shall not forfeit any Restricted Shares or Restricted Units held by him, provided that, during the remainder of the applicable Vesting Period, such Participant does not engage in or assist any business that the Committee, in its sole discretion, determines to be in competition with business engaged in by the Company. A Participant who does engage in or assist any business that the Committee, in its sole discretion, determines to be in competition with business engaged in by the Company shall be

deemed to have terminated employment.

(iii) Other Terminations: If a Participant ceases to be an employee  
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prior to the end of a Vesting Period for any reason other than death, the Participant shall immediately forfeit all Restricted Shares and Restricted Units previously granted with respect to such Vesting Period in accordance with the provisions of Section 3.2 hereof, unless the Committee, in its sole discretion, finds that the circumstances in the particular case so warrant and allows a Participant whose employment has so terminated to retain any or all of the Restricted Shares or Restricted Units granted to such Participant.

(b) After the end of a Vesting Period but prior to the end of a Restricted Period:

(i) Death, Disability, or Retirement: If a Participant ceases to be  
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an employee of the Company by reason of death, or in the case of the Disability or Retirement of a Participant, prior to the end of a Restricted Period, all Restricted Shares granted to such Participant are immediately payable in the manner set forth in Section 3.6.

(ii) Other Terminations: Terminations of employment for any reason  
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other than death after the end of a Vesting Period but prior to the end of a Restricted Period shall not have any effect on the Restricted Period, unless the Committee, in its sole discretion, finds that the circumstances so warrant and determines that the Restricted Period shall end on an earlier date as determined by the Committee and that shares held by the Company shall be paid as soon as practicable following such earlier date in the manner set forth in Section 3.6.

(c) Approved leaves of absence of one year or less shall not be deemed to be terminations of employment under this Section 3.7. Leaves of absence of more than one year will be deemed to be terminations of employment under this Section 3.7, unless the Committee determines otherwise.

-13-

#### SECTION 3.8 EXTENSION OF VESTING; DEFERRAL OF PAYMENT. -----

The Committee may, in its sole discretion, offer any Participant the right, by execution of a written agreement with ML & Co. containing such terms and conditions as the Committee shall in its sole discretion provide for, to extend the Vesting Period applicable to all or any portion of such Participant's Restricted Shares or Restricted Units, to convert all or any portion of such Participant's Restricted Shares into Restricted Units or to defer the receipt of all or any portion of the payment, if any, for such Participant's Restricted Units (including any Restricted Shares converted into Restricted Units). In the event that any Vesting Period with respect to Restricted Shares is extended pursuant to this Section 3.8, the Restricted Period with respect to such Restricted Shares shall be extended to the same date. The provisions of any written agreement with a Participant pursuant to this Section 3.8 may provide for the payment or crediting of interest, an appreciation factor or index or dividend equivalents, as appropriate.

#### ARTICLE IV - PROVISIONS APPLICABLE TO STOCK OPTIONS.

##### SECTION 4.1 GRANTS OF STOCK OPTIONS. -----

The Committee may select employees to become Participants (subject to Section 1.5 hereof) and grant Stock Options to such Participants at any time; provided, however, that Incentive Stock Options shall be granted within 10 years of the earlier of the date the Plan is adopted by the Board or approved by the stockholders. Before making grants, the Committee must receive the recommendations of the management of the Company, which will take into account such factors as level of responsibility, current and past performance, and performance potential. Subject to the provisions of the Plan, the Committee shall also determine the number of shares of Common Stock to be covered by each Stock Option. The Committee shall have the authority, in its discretion, to grant "Incentive Stock Options" or "Nonqualified Stock Options," or to grant both types of Stock Options. Furthermore, the Committee may grant a Stock Appreciation Right in connection with a Stock Option, as provided in Article V.

##### SECTION 4.2 OPTION DOCUMENTATION. -----

Each Stock Option granted under the Plan shall be evidenced by written documentation containing such terms and conditions as the Committee may deem appropriate and are not inconsistent with the provisions of the Plan.

-14-

SECTION 4.3 EXERCISE PRICE.

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The Committee shall establish the exercise price at the time any Stock Option is granted at such amount as the Committee shall determine, except that such exercise price shall not be less than 50% of the Fair Market Value of the underlying shares of Common Stock on the day a Stock Option is granted and that, with respect to an Incentive Stock Option, such exercise price shall not be less than 100% of the Fair Market Value of the underlying shares of Common Stock on the day such Incentive Stock Option is granted. The exercise price will be subject to adjustment in accordance with the provisions of Article VII of the Plan.

SECTION 4.4 EXERCISE OF STOCK OPTIONS.

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(a) EXERCISABILITY. Stock Options shall become exercisable at such times and in such installments as the Committee may provide at the time of grant. The Committee may, however, in its sole discretion accelerate the time at which a Stock Option or installment may be exercised. A Stock Option may be exercised at any time from the time first set by the Committee until the close of business on the expiration date of the Stock Option. Stock Options are not transferable by a Participant except by will or the laws of descent and distribution and are exercisable during his lifetime only by him. Notwithstanding the foregoing, in no event may a Participant exercise a Stock Option during the 12-month period following a hardship withdrawal by the Participant of Elective 401(k) Deferrals as defined under the Merrill Lynch & Co., Inc. Savings & Investment Plan.

(b) OPTION PERIOD. For each Stock Option granted, the Committee shall specify the period during which the Stock Option may be exercised, provided that no Stock Option shall be exercisable after the expiration of 10 years from the date of grant of such Stock Option.

(c) EXERCISE IN THE EVENT OF TERMINATION OF EMPLOYMENT.

(i) Death: If a Participant ceases to be an employee of the Company

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by reason of death prior to the exercise or expiration of a Stock Option outstanding in his name on the date of death, such Stock Option may be exercised to the full extent not yet exercised, regardless of whether or not then fully exercisable under the terms of the grant or under the terms of Section 4.4(a) hereof, by his estate or beneficiaries, as the case may be, at any time and from time to time, but in no event after the expiration date of such Stock Option.

(ii) Disability or Retirement: The Disability or Retirement of a

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Participant shall not constitute a termination of employment for purposes of this Article IV, provided that following Disability or Retirement such

-15-

Participant does not engage in or assist any business that the Committee, in its sole discretion, determines to be in competition with business engaged in by the Company, and such Participant may exercise any Stock Option outstanding in his name at any time and from time to time, but in no event after the expiration date of such Stock Option. A Participant who does engage in or assist any business that the Committee, in its sole discretion, determines to be competition with business engaged in by the Company shall be deemed to have terminated employment. In the case of Incentive Stock Options, Disability shall be as defined in Code Section 22(e) (3).

(iii) Other Terminations: If a Participant ceases to be an employee

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prior to the exercise or expiration of a Stock Option for any reason other than death, all outstanding Stock Options granted to such Participant shall expire on the date of such termination of employment, unless the Committee, in its sole discretion, finds that the circumstances in the particular case so warrant and determines that the Participant may exercise any such outstanding Stock Option (to the extent that he was entitled to do so at the date of such termination of employment) at any time and from time to time within up to 5 years after such termination of employment but in no event after the expiration date of such Stock Option (the "Extended Period"). If a Participant dies during the Extended Period and prior to the exercise or expiration of a Stock Option, his estate or beneficiaries, as the case may be, may exercise such Stock Option (to the extent that the Participant was entitled to do so at the date of termination of employment) at any time and from time to time, but in no event after the end of the Extended Period.

SECTION 4.5 PAYMENT OF PURCHASE PRICE UPON EXERCISE AND

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DELIVERY OF SHARES.

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The purchase price of the shares as to which a Stock Option is exercised shall be paid to the Company at the time of exercise (i) in cash, (ii) by delivering freely transferable shares of Common Stock already owned by the employee having a total Fair Market Value on the day prior to the date of exercise equal to the purchase price, (iii) a combination of cash and shares of Common Stock equal in value to the exercise price, or (iv) by such other means as the Committee, in its sole discretion, may determine. Upon receipt by the Company of the purchase price, stock certificate(s) for the shares of Common Stock as to which a Stock Option is exercised shall be delivered to the Participant, or such shares shall be credited to a brokerage account or otherwise delivered, in such manner as the Participant may direct.

-16-

SECTION 4.6 LIMITATION ON FAIR MARKET VALUE OF SHARES OF COMMON STOCK

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RECEIVED UPON EXERCISE OF INCENTIVE STOCK OPTIONS.  
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The aggregate Fair Market Value (determined at the time an Incentive Stock Option is granted) of the shares of Common Stock with respect to which an Incentive Stock Option is exercisable for the first time by a Participant during any calendar year (under all plans of the Company) shall not exceed \$100,000 or such other limit as may be established from time to time under the Code.

ARTICLE V - PROVISIONS APPLICABLE TO STOCK APPRECIATION RIGHTS.

SECTION 5.1 GRANTS OF STOCK APPRECIATION RIGHTS.

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The Committee may select employees to become Participants (subject to the provisions of Sections 1.5 hereof) and grant Stock Appreciation Rights to such Participants at any time. Before making grants, the Committee must receive the recommendations of the management of the Company, which will take into account such factors as level of responsibility, current and past performance, and performance potential. The Committee shall have the authority to grant Stock Appreciation Rights in connection with a Stock Option or independently. The Committee may grant Stock Appreciation Rights in connection with a Stock Option, either at the time of grant or by amendment, in which case each such right shall be subject to the same terms and conditions as the related Stock Option and shall be exercisable only at such times and to such extent as the related Stock Option is exercisable. A Stock Appreciation Right granted in connection with a Stock Option shall entitle the holder to surrender to the Company the related Stock Option unexercised, or any portion thereof, and receive from the Company in exchange therefor an amount equal to the excess of the Fair Market Value of one share of the Common Stock on the day preceding the surrender of such Stock Option over the Stock Option exercise price times the number of shares underlying the Stock Option, or portion thereof, that is surrendered. A Stock Appreciation Right granted independently of a Stock Option shall entitle the holder to receive upon exercise an amount equal to the excess of the Fair Market Value of one share of Common Stock on the day preceding the exercise of the Stock Appreciation Right over the Fair Market Value of one share of Common Stock on the date such Stock Appreciation Right was granted, or such other price determined by the Committee at the time of grant, which shall in no event be less than 50% of the Fair Market Value of one share of Common Stock on the date such Stock Appreciation Right was granted. Stock Appreciation Rights are not transferable by a Participant except by will or the laws of descent and distribution and are exercisable during his lifetime only by him.

-17-

SECTION 5.2 STOCK APPRECIATION RIGHTS GRANTED IN CONNECTION WITH

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INCENTIVE STOCK OPTIONS.  
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(a) Stock Appreciation Rights granted in connection with Incentive Stock Options must expire no later than the last date the underlying Incentive Stock Option can be exercised.

(b) Such Stock Appreciation Rights may be granted for no more than 100% of the difference between the exercise price of the underlying Incentive Stock Option and the Fair Market Value of the Common Stock subject to the underlying Incentive Stock Option at the time the Stock Appreciation Right is exercised.

(c) Such Stock Appreciation Rights are transferable only to the extent and at the same time and under the same conditions as the underlying Incentive Stock Options.

(d) Such Stock Appreciation Rights may be exercised only when the underlying Incentive Stock Options may be exercised.

(e) Such Stock Appreciation Rights may be exercised only when the Fair Market Value of the shares of Common Stock subject to the Incentive Stock Options exceeds the exercise price of the Incentive Stock Options.

SECTION 5.3 PAYMENT UPON EXERCISE OF STOCK APPRECIATION RIGHTS.  
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The Company's obligation to any Participant exercising a Stock Appreciation Right may be paid in cash or shares of Common Stock, or partly in cash and partly in shares, at the sole discretion of the Committee.

SECTION 5.4 TERMINATION OF EMPLOYMENT.  
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(a) Death: If a Participant ceases to be an employee of the Company prior  
-----  
to the exercise or expiration of a Stock Appreciation Right outstanding in his name on the date of death, such Stock Appreciation Right may be exercised to the full extent not yet exercised, regardless of whether or not then fully exercisable under the terms of the grant, by his estate or beneficiaries, as the case may be, at any time and from time to time within 12 months after the date of death but in no event after the expiration date of such Stock Appreciation Right.

(b) Disability: The Disability of a Participant shall not constitute a  
-----  
termination of employment for purposes of this Article IV, provided that following the Disability such Participant does not engage in or assist any business that the Committee, in its sole discretion, determines to be in competition with business engaged in by the Company. A Participant who does engage in or assist any business that the Committee, in its sole

-18-

discretion, determines to be in competition with business engaged in by the Company shall be deemed to have terminated employment.

(c) Retirement: The Retirement of a Participant shall not constitute a  
-----  
termination of employment for purposes of this Article IV, provided that following Retirement such Participant does not engage in or assist any business that the Committee, in its sole discretion, determines to be in competition with business engaged in by the Company, and such Participant may exercise any Stock Appreciation Right outstanding in his name at any time and from time to time within 5 years after the date his Retirement commenced but in no event after the expiration date of such Stock Appreciation Right. A Participant who does engage in or assist any business that the Committee, in its sole discretion, determines to be in competition with business engaged in by the Company shall be deemed to have terminated employment.

(d) Other Terminations: If a Participant ceases to be an employee prior to  
-----  
the exercise or expiration of a Stock Appreciation Right for any reason other than death, all outstanding Stock Appreciation Rights granted to such Participant shall expire on the date of such termination of employment, unless the Committee, in its sole discretion, determines that he may exercise any such outstanding Stock Appreciation Right (to the extent that he was entitled to do so at the date of such termination of such employment) at any time and from time to time within up to 5 years after such termination of employment but in no event after the expiration date of such Stock Appreciation Right.

ARTICLE VI - PROVISIONS APPLICABLE TO OTHER ML & CO. SECURITIES.

SECTION 6.1 GRANTS OF OTHER ML & CO. SECURITIES.  
-----

Subject to the provisions of the Plan and any necessary action by the Board of Directors, the Committee may select employees to become Participants (subject to the provisions of Section 1.5 hereof) and grant to Participants Other ML & Co. Securities or the right or option to purchase Other ML & Co. Securities on such terms and conditions as the Committee shall determine, including, without limitation, the period such rights or options may be exercised, the nature and terms of payment of consideration for such Other ML & Co. Securities, whether such Other ML & Co. Securities shall be subject to any or all of the provisions of Article III of the Plan applicable to Restricted Shares and/or Restricted Units, the consequences of termination of employment, and the terms and conditions, if any, upon which such Other ML & Co. Securities may or must be repurchased by the Company. Before making grants, the Committee must receive the recommendations of the management of the Company, which will take into account such factors as level of responsibility, current and past performance, and performance potential. Each such Other ML & Co. Security shall be issued at a price that will not

exceed the Fair Market Value thereof on the date the corresponding right or option is granted. Other ML & Co. Securities may bear interest or pay dividends from such date and at a rate or rates or pursuant to a formula or formulas fixed by the Committee or any necessary action of the Board. Any applicable conversion or exchange rate with respect to Other ML & Co. Securities shall be fixed by, or pursuant to a formula determined by, the Committee or any necessary action of the Board at each date of grant and may be predicated upon the attainment of financial or other performance goals.

SECTION 6.2 TERMS AND CONDITIONS OF CONVERSION OR EXCHANGE.  
-----

Each Other ML & Co. Security may be convertible or exchangeable on such date and within such period of time as the Committee, or the Board if necessary, determines at the time of grant. Other ML & Co. Securities may be convertible into or exchangeable for (i) shares of Preferred Stock of ML & Co. or (ii) other securities of ML & Co. or any present or future subsidiary of ML & Co., whether or not convertible into shares of Common Stock, as the Committee, or the Board if necessary, determines at the time of grant (or at any time prior to the conversion or exchange date).

ARTICLE VII - CHANGES IN CAPITALIZATION.

Any other provision of the Plan to the contrary notwithstanding, if any change shall occur in or affect shares of Common Stock or Performance Units, Restricted Units, Stock Options, Stock Appreciation Rights, or Other ML & Co. Securities on account of a merger, consolidation, reorganization, stock dividend, stock split or combination, reclassification, recapitalization, or distribution to holders of shares of Common Stock (other than cash dividends) including, without limitation, a merger or other reorganization event in which the shares of Common Stock cease to exist, or, if in the opinion of the Committee, after consultation with the Company's independent public accountants, changes in the Company's accounting policies, acquisitions, divestitures, distributions, or other unusual or extraordinary items have disproportionately and materially affected the value of shares of Common Stock or Performance Units, Restricted Units, Stock Options, Stock Appreciation Rights, or Other ML & Co. Securities, the Committee shall make such adjustments, if any, that it may deem necessary or equitable in (a) the maximum number of shares of Common Stock available for distribution under the Plan; (b) the number of shares subject to or reserved for issuance under outstanding Performance Share, Restricted Share, and Stock Option grants; (c) the performance objectives for the Performance Periods not yet completed, including the minimum, intermediate, and full performance levels and portion of payments related thereto; and (d) any other terms or provisions of any outstanding grants of Performance Shares, Performance Units, Restricted Shares, Restricted Units, Stock Options, Stock Appreciation Rights, or Other ML & Co. Securities, in order to preserve the full benefits of such grants for the Participants, taking into account inflation, interest rates, and any other factors that the Committee, in its sole discretion, considers relevant. In the event of a change in the presently

authorized shares of Common Stock that is limited to a change in the designation thereof or a change of authorized shares with par value into the same number of shares with a different par value or into the same number of shares without par value, the shares resulting from any such change shall be deemed to be shares of Common Stock within the meaning of the Plan. In the event of any other change affecting the shares of Common Stock, Performance Units, Restricted Units, Stock Options, Stock Appreciation Rights, or Other ML & Co. Securities, such adjustment shall be made as may be deemed equitable by the Committee to give proper effect to such event.

ARTICLE VIII - PAYMENTS UPON TERMINATION OF EMPLOYMENT AFTER A CHANGE IN CONTROL.

SECTION 8.1 VALUE OF PAYMENTS UPON TERMINATION AFTER A CHANGE  
-----  
IN CONTROL.  
-----

Any other provision of the Plan to the contrary notwithstanding and notwithstanding any election to the contrary previously made by the Participant, in the event a Change in Control shall occur and thereafter the Company shall terminate the Participant's employment without Cause or the Participant shall terminate his employment with the Company for Good Reason, the Participant shall be paid the value of his Performance Shares, Performance Units, Restricted Shares, Restricted Units, Stock Options, Stock Appreciation Rights, and Other ML & Co. Securities in a lump sum in cash, promptly after termination of his employment but, without limiting the foregoing, in no event later than 30 days thereafter. Payments shall be calculated as set forth below:

- (a) Performance Shares and Performance Units.  
-----

Any payment for Performance Shares and Performance Units pursuant to this Section 8.1(a) shall be calculated by applying performance objectives for any outstanding Performance Shares and Performance Units as if the applicable Performance Period and any applicable Restricted Period had ended on the first day of the month in which the Participant's employment is terminated. The amount of any payment to a Participant pursuant to this Section 8.1(a) shall be reduced by the amount of any payment previously made to the Participant with respect to the Performance Shares and Performance Units, exclusive of ordinary dividend payments, resulting by operation of law from the Change in Control, including, without limitation, payments resulting from a merger pursuant to state law. The value of the Performance Shares and Performance Units payable pursuant to this Section 8.1(a) shall be the amount equal to the number of Performance Shares and Performance Units payable in accordance with the preceding sentence multiplied by the Fair Market Value of a share of Common Stock on the day the Participant's employment is terminated or, if higher, the highest Fair Market Value of a share of the Common Stock on any day during the 90-day period ending on the date of the Change in Control (the "Pre-CIC Value").

-21-

(b) Restricted Shares and Restricted Units.  
-----

Any payment under this Section 8.1(b) shall be calculated as if all the relevant Vesting and Restricted Periods had been fully completed immediately prior to the date on which the Participant's employment is terminated. The amount of any payment to a Participant pursuant to this Section 8.1(b) shall be reduced by the amount of any payment previously made to the Participant with respect to the Restricted Shares and Restricted Units, exclusive of ordinary dividend payments, resulting by operation of law from the Change in Control, including, without limitation, payments resulting from a merger pursuant to state law. The value of the Participant's Restricted Shares and Restricted Units payable pursuant to this Section 8.1(b) shall be the amount equal to the number of the Restricted Shares and Restricted Units outstanding in a Participant's name multiplied by the Fair Market Value of a share of Common Stock on the day the Participant's employment is terminated or, if higher, the Pre-CIC Value.

(c) Stock Options and Stock Appreciation Rights.  
-----

Any payment for Stock Options and Stock Appreciation Rights pursuant to this Section 8.1(c) shall be calculated as if all such Stock Options and Stock Appreciation Rights, regardless of whether or not then fully exercisable under the terms of the grant, became exercisable immediately prior to the date on which the Participant's employment is terminated. The amount of any payment to a Participant pursuant to this Section 8.1(c) shall be reduced by the amount of any payment previously made to a Participant with respect to the Stock Options and Stock Appreciation Rights, exclusive of any ordinary dividend payments, resulting by operation of law from the Change in Control, including, without limitation, payments resulting from a merger pursuant to state law. The value of the Participant's Stock Options and Stock Appreciation Rights payable pursuant to this Section 8.1(c) shall be

(i) in the case of a Stock Option, for each underlying share of Common Stock, the excess of the Fair Market Value of a share of Common Stock on the day the Participant's employment is terminated, or, if higher, the Pre-CIC Value, over the per share exercise price for such Stock Option;

(ii) in the case of a Stock Appreciation Right granted in tandem with a Stock Option, the Fair Market Value of a share of Common Stock on the day the Participant's employment is terminated, or, if higher, the Pre-CIC Value, over the Stock Option exercise price; and

(iii) in the case of a Stock Appreciation Right granted independently of a Stock Option, the Fair Market Value of a share of Common Stock on the day the Participant's employment is terminated, or, if higher, the Pre-CIC Value, over the Fair Market Value of one share of Common Stock on the

-22-

date such Stock Appreciation Right was granted, or such other price determined by the Committee at the time of grant.

(d) Other ML & Co. Securities.  
-----

Any payment for Other ML & Co. Securities under this Section 8.1(d) shall be calculated as if any relevant Vesting or Restricted Periods or other applicable conditions dependent on the passage of time and relating to the exercisability of any right or option to purchase Other ML & Co. Securities, or relating to the full and unconditional ownership of such Other ML & Co.



Securities themselves, had been met on the first day of the month in which the Participant's employment is terminated. The amount of any payment to a Participant pursuant to this Section 8.1(d) shall be reduced by the amount of any payment previously made to the Participant with respect to the Other ML & Co. Securities, exclusive of ordinary dividend payments, resulting by operation of law from the Change in Control, including, without limitation, payments resulting from a merger pursuant to state law. The value of the Participant's Other ML & Co. Securities payable pursuant to this Section 8.1(d) shall be

(i) in the case of an option or right to purchase such Other ML & Co. Security, for each underlying Other ML & Co. Security, the excess of the Fair Market Value of such Other ML & Co. Security on the day the Participant's employment is terminated, or, if higher, the Pre-CIC value, over the exercise price of such option or right; and

(ii) in the case of the Other ML & Co. Security itself (where there is no outstanding option or right relating to such Other ML & Co. Security), the Fair Market Value of the Other ML & Co. Security on the day the Participant's employment is terminated, or, if higher, the Pre-CIC value.

#### SECTION 8.2 A CHANGE IN CONTROL.

A "CHANGE IN CONTROL" shall mean a change in control of ML & Co. of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A promulgated under the Securities Exchange Act of 1934, as amended (the "EXCHANGE ACT"), whether or not the Company is then subject to such reporting requirement; provided, however, that, without

limitation, a Change in Control shall be deemed to have occurred if:

(a) any individual, partnership, firm, corporation, association, trust, unincorporated organization or other entity, or any syndicate or group deemed to be a person under Section 14(d) (2) of the Exchange Act, other than the Company's employee stock ownership plan, is or becomes the "beneficial owner" (as defined in Rule 13d-3 of the General Rules and Regulations under the Exchange Act), directly or indirectly, of securities of ML & Co. representing 30% or more of the combined voting

-23-

power of ML & Co.'s then outstanding securities entitled to vote in the election of directors of ML & Co.;

(b) during any period of two consecutive years (not including any period prior to the Effective Date of this Plan) individuals who at the beginning of such period constituted the Board of Directors and any new directors, whose election by the Board of Directors or nomination for election by the stockholders of ML & Co. was approved by a vote of at least three quarters of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute at least a majority thereof; or

(c) all or substantially all of the assets of ML & Co. are liquidated or distributed.

#### SECTION 8.3 EFFECT OF AGREEMENT RESULTING IN CHANGE IN CONTROL.

If ML & Co. executes an agreement, the consummation of which would result in the occurrence of a Change in Control as described in Section 8.2, then, with respect to a termination of employment without Cause or for Good Reason occurring after the execution of such agreement (and, if such agreement expires or is terminated prior to consummation, prior to such expiration or termination of such agreement), a Change in Control shall be deemed to have occurred as of the date of the execution of such agreement.

#### SECTION 8.4 TERMINATION FOR CAUSE.

Termination of the Participant's employment by the Company for "CAUSE" shall mean termination upon:

(a) the willful and continued failure by the Participant substantially to perform his duties with the Company (other than any such failure resulting from the Participant's incapacity due to physical or mental illness or from the Participant's Retirement or any such actual or anticipated failure resulting from termination by the Participant for Good Reason) after a written demand for substantial performance is delivered to him by the Board of Directors, which demand specifically identifies the manner in which the Board of Directors believes that he has not substantially performed his duties; or

(b) the willful engaging by the Participant in conduct that is demonstrably and materially injurious to the Company, monetarily or otherwise.

No act or failure to act by the Participant shall be deemed "willful" unless done, or omitted to be done, by the Participant not in good faith and without reasonable belief that his action or omission was in the best interest of the Company.

-24-

Notwithstanding the foregoing, the Participant shall not be deemed to have been terminated for Cause unless and until there shall have been delivered to him a copy of a resolution duly adopted by the affirmative vote of not less than three quarters of the entire membership of the Board of Directors at a meeting of the Board called and held for such purpose (after reasonable notice to the Participant and an opportunity for him, together with counsel, to be heard before the Board of Directors), finding that, in the good faith opinion of the Board of Directors, the Participant was guilty of conduct set forth above in clause (a) or (b) of the first sentence of this Section 8.4 and specifying the particulars thereof in detail.

SECTION 8.5 GOOD REASON.  
-----

"GOOD REASON" shall mean the Participant's termination of his employment with the Company if, without the Participant's written consent, any of the following circumstances shall occur:

(a) Inconsistent Duties. A meaningful and detrimental alteration in the  
-----

Participant's position or in the nature or status of his responsibilities (including those as a director of ML & Co., if any) from those in effect immediately prior to the Change in Control;

(b) Reduced Salary or Bonus Opportunity. A reduction by the Company in the  
-----

Participant's annual base salary as in effect immediately prior to the Change in Control; a failure by the Company to increase the Participant's salary at a rate commensurate with that of other key executives of the Company; or a reduction in the Participant's annual cash bonus below the greater of (i) the annual cash bonus that he received, or to which he was entitled, immediately prior to the Change in Control, or (ii) the average annual cash bonus paid to the Participant by the Company for the three years preceding the year in which the Change in Control occurs;

(c) Relocation. The relocation of the office of the Company where the  
-----

Participant is employed at the time of the Change in Control (the "CIC Location") to a location that in his good faith assessment is an area not generally considered conducive to maintaining the executive offices of a company such as ML & Co. because of hazardous or undesirable conditions including without limitation a high crime rate or inadequate facilities, or to a location that is more than twenty-five (25) miles away from the CIC Location or the Company's requiring the Participant to be based more than twenty-five (25) miles away from the CIC Location (except for required travel on the Company's business to an extent substantially consistent with his customary business travel obligations in the ordinary course of business prior to the Change in Control);

(d) Compensation Plans. The failure by the Company to continue in effect  
-----

any compensation plan in which the Participant participates, including but not limited to this Plan, the Company's retirement program, Employee Stock Purchase Plan, 1978

-25-

Incentive Equity Purchase Plan, Equity Capital Accumulation Plan, Canadian Capital Accumulation Plan, Management Capital Accumulation Plan, limited partnership offerings, cash incentive compensation or any other plans adopted prior to the Change in Control, unless an equitable arrangement (embodied in an ongoing substitute or alternative plan) has been made with respect to such plan in connection with the Change in Control, or the failure by the Company to continue the Participant's participation therein on at least as favorable a basis, both in terms of the amount of benefits provided and the level of his participation relative to other Participants, as existed immediately prior to the Change in Control;

(e) Benefits and Perquisites. The failure of the Company to continue to  
-----

provide the Participant with benefits at least as favorable as those enjoyed by the Participant under any of the Company's retirement, life insurance, medical, health and accident, disability, deferred compensation or savings plans in which the Participant was participating immediately prior to the Change in Control; the taking of any action by the Company that would directly or indirectly materially reduce any of such benefits or deprive the Participant of any material fringe benefit enjoyed by him immediately prior to the Change in Control, including, without limitation, the use of a car, secretary, office

space, telephones, expense reimbursement, and club dues; or the failure by the Company to provide the Participant with the number of paid vacation days to which the Participant is entitled on the basis of years of service with the Company in accordance with the Company's normal vacation policy in effect immediately prior to the Change in Control;

(f) No Assumption by Successor. The failure of ML & Co. to obtain a

-----  
satisfactory agreement from any successor to assume and agree to perform a Participant's employment agreement as contemplated thereunder or, if the business of the Company for which his services are principally performed is sold at any time after a Change in Control, the purchaser of such business shall fail to agree to provide the Participant with the same or a comparable position, duties, compensation, and benefits as provided to him by the Company immediately prior to the Change in Control.

#### SECTION 8.6 EFFECT ON PLAN PROVISIONS.

-----  
In the event of a Change in Control, no changes in the Plan, or in any documents evidencing grants of Performance Shares, Performance Units, Restricted Shares, Restricted Units, Stock Options, Stock Appreciation Rights, or Other ML & Co. Securities and no adjustments, determinations or other exercises of discretion by the Committee or the Board of Directors, that were made subsequent to the Change in Control and that would have the effect of diminishing a Participant's rights or his payments under the Plan or this Article shall be effective, including, but not limited to, any changes, determinations or other exercises of discretion made to or pursuant to the Plan. Once a Participant has received a payment pursuant to this Article VIII, shares of Common Stock that were reserved for issuance in connection with any Performance Shares, Restricted Shares, Stock Options, or Other ML & Co. Securities for which

-26-

payment is made shall no longer be reserved and shares of Common Stock that are Restricted Shares or that are restricted and held by the Company pursuant to Section 2.6(a)(i), for which payment has been made, shall no longer be registered in the name of the Participant and shall again be available for grants under the Plan. If the Participant's employment is terminated without Cause or for Good Reason after a Change in Control, any election to defer payment for Performance Shares or Performance Units pursuant to Section 2.8 hereof or Restricted Shares or Restricted Units pursuant to Section 3.8 hereof shall be null and void.

#### ARTICLE IX - MISCELLANEOUS.

##### SECTION 9.1 DESIGNATION OF BENEFICIARY.

-----  
A Participant may designate, in a writing delivered to ML & Co. before his death, a person or persons to receive, in the event of his death, any rights to which he would be entitled under the Plan. A Participant may also designate an alternate beneficiary to receive payments if the primary beneficiary does not survive the Participant. A Participant may designate more than one person as his beneficiary or alternate beneficiary, in which case such persons would receive payments as joint tenants with a right of survivorship. A beneficiary designation may be changed or revoked by a Participant at any time by filing a written statement of such change or revocation with the Company. If a Participant fails to designate a beneficiary, then his estate shall be deemed to be his beneficiary.

##### SECTION 9.2 EMPLOYMENT RIGHTS.

-----  
Neither the Plan nor any action taken hereunder shall be construed as giving any employee of the Company the right to become a Participant, and a grant under the Plan shall not be construed as giving any Participant any right to be retained in the employ of the Company.

##### SECTION 9.3 NONTRANSFERABILITY.

-----  
A Participant's rights under the Plan, including the right to any amounts or shares payable, may not be assigned, pledged, or otherwise transferred except, in the event of a Participant's death, to his designated beneficiary or, in the absence of such a designation, by will or the laws of descent and distribution.

##### SECTION 9.4 WITHHOLDING.

-----  
The Company shall have the right, before any payment is made or a certificate for any shares is delivered or any shares are credited to any brokerage account, to deduct or withhold from any payment under the Plan any Federal, state, local or other taxes, including transfer taxes, required by law

to be withheld or to require the

-27-

Participant or his beneficiary or estate, as the case may be, to pay any amount, or the balance of any amount, required to be withheld.

SECTION 9.5 RELATIONSHIP TO OTHER BENEFITS.  
-----

No payment under the Plan shall be taken into account in determining any benefits under any retirement, group insurance, or other employee benefit plan of the Company. The Plan shall not preclude the stockholders of ML & Co., the Board of Directors or any committee thereof, or the Company from authorizing or approving other employee benefit plans or forms of incentive compensation, nor shall it limit or prevent the continued operation of other incentive compensation plans or other employee benefit plans of the Company or the participation in any such plans by Participants in the Plan.

SECTION 9.6 NO TRUST OR FUND CREATED.  
-----

Neither the Plan nor any grant made hereunder shall create or be construed to create a trust or separate fund of any kind or a fiduciary relationship between the Company and a Participant or any other person. To the extent that any person acquires a right to receive payments from the Company pursuant to a grant under the Plan, such right shall be no greater than the right of any unsecured general creditor of the Company.

SECTION 9.7 EXPENSES.  
-----

The expenses of administering the Plan shall be borne by the Company.

SECTION 9.8 INDEMNIFICATION.  
-----

Service on the Committee shall constitute service as a member of the Board of Directors so that members of the Committee shall be entitled to indemnification and reimbursement as directors of ML & Co. pursuant to its Certificate of Incorporation, By-Laws, or resolutions of its Board of Directors or stockholders.

SECTION 9.9 TAX LITIGATION.  
-----

The Company shall have the right to contest, at its expense, any tax ruling or decision, administrative or judicial, on any issue that is related to the Plan and that the Company believes to be important to Participants in the Plan and to conduct any such contest or any litigation arising therefrom to a final decision.

-28-

ARTICLE X - AMENDMENT AND TERMINATION.

The Board of Directors may modify, amend, or terminate the Plan at any time except that, to the extent then required by applicable law, rule, or regulation, approval of the holders of a majority of shares of Common Stock represented in person or by proxy at a meeting of the stockholders will be required to increase the maximum number of shares of Common Stock available for distribution under the Plan (other than increases due to adjustments in accordance with the Plan). No modification, amendment, or termination of the Plan shall adversely affect the rights of a Participant under a grant previously made to him without the consent of such Participant.

ARTICLE XI - INTERPRETATION.

SECTION 11.1 GOVERNMENTAL AND OTHER REGULATIONS.  
-----

The Plan and any grant hereunder shall be subject to all applicable Federal and state laws, rules, and regulations and to such approvals by any regulatory or governmental agency that may, in the opinion of the counsel for the Company, be required.

SECTION 11.2 GOVERNING LAW.  
-----

THE PLAN SHALL BE CONSTRUED AND ITS PROVISIONS ENFORCED AND ADMINISTERED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK APPLICABLE TO CONTRACTS ENTERED INTO AND PERFORMED ENTIRELY IN SUCH STATE.

ARTICLE XII - EFFECTIVE DATE AND STOCKHOLDER APPROVAL.

The Plan shall not be effective unless or until approved by a majority of the votes cast at a duly held stockholders' meeting at which a quorum representing a majority of all outstanding voting stock is, either in person or by proxy present and voting on the Plan.

MERRILL LYNCH & CO., INC. AND SUBSIDIARIES  
 -----  
 COMPUTATION OF PER COMMON SHARE EARNINGS  
 -----  
 (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

&lt;TABLE&gt;

&lt;CAPTION&gt;

	For the Three Months Ended		For the Nine Months Ended	
	Sept. 30, 1994	Sept. 24, 1993	Sept. 30, 1994	Sept. 24, 1993
	(A)	(A)	(A)	(A) (B)
<S>	<C>	<C>	<C>	<C>
Primary:				
Earnings before cumulative effect of change in accounting principle.....	\$231,579	\$359,687	\$855,147	\$1,047,120
Cumulative effect of change in accounting principle.....	-	-	-	(35,420)
Net earnings.....	231,579	359,687	855,147	1,011,700
Remarketed Preferred stock dividends.....	(1,718)	(1,271)	(4,594)	(3,945)
Net earnings applicable to common stockholders.....	\$229,861	\$358,416	\$850,553	\$1,007,755
Weighted average shares outstanding:				
Common stock.....	194,062	211,438	198,353	209,962
Assuming issuance of shares relating to employee incentive plans.....	14,968	16,942	15,582	16,673
Total shares.....	209,030	228,380	213,935	226,635
Per common share amounts:				
Earnings before cumulative effect of change in accounting principle.....	\$ 1.10	\$ 1.57	\$ 3.98	\$ 4.61
Cumulative effect of change in accounting principle.....	-	-	-	(.16)
Net earnings.....	\$ 1.10	\$ 1.57	\$ 3.98	\$ 4.45
Fully diluted:				
Earnings before cumulative effect of change in accounting principle.....	\$231,579	\$359,687	\$855,147	\$1,047,120
Cumulative effect of change in accounting principle.....	-	-	-	(35,420)
Net earnings.....	231,579	359,687	855,147	1,011,700
Remarketed Preferred stock dividends.....	(1,718)	(1,271)	(4,594)	(3,945)
Net earnings applicable to common stockholders.....	\$229,861	\$358,416	\$850,553	\$1,007,755
Weighted average shares outstanding:				
Common stock.....	194,062	211,438	198,353	209,962
Assuming issuance of shares relating to employee incentive plans.....	14,968	18,181	15,697	18,182
Total shares.....	209,030	229,619	214,050	228,144
Per common share amounts:				
Earnings before cumulative effect of change in accounting principle.....	\$ 1.10	\$ 1.56	\$ 3.97	\$ 4.58
Cumulative effect of change in accounting principle.....	-	-	-	(.16)
Net earnings.....	\$ 1.10	\$ 1.56	\$ 3.97	\$ 4.42

&lt;/TABLE&gt;

- (A) In accordance with Accounting Principles Board Opinion No. 15, the modified treasury stock method was used to calculate per common share earnings.
- (B) 1993 results have been restated for the adoption of Statement of Financial Accounting Standards No. 112.

MERRILL LYNCH & CO., INC. AND SUBSIDIARIES  
 -----  
 COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES  
 -----

(DOLLARS IN THOUSANDS)

	For the Three Months Ended		For the Nine Months Ended	
	Sept. 30, 1994	Sept. 24, 1993	Sept. 30, 1994	Sept. 24, 1993
<S>	<C>	<C>	<C>	<C>
Pretax earnings from continuing operations.....	\$ 389,522	\$ 642,299	\$1,474,392	\$1,827,528
Deduct equity in undistributed net earnings of unconsolidated subsidiaries.....	(3,218)	(3,598)	(15,666)	(12,136)
Total pretax earnings from continuing operations.....	386,304	638,701	1,458,726	1,815,392
Add: Fixed Charges (A)				
Interest.....	2,223,203	1,500,574	6,198,030	4,246,643
Amortization of debt expense.....	512	930	2,080	3,066
Total interest.....	2,223,715	1,501,504	6,200,110	4,249,709
Interest factor in rents..	31,017	34,259	96,822	104,975
Total fixed charges.....	2,254,732	1,535,763	6,296,932	4,354,684
Pretax earnings before fixed charges.....	\$2,641,036	\$2,174,464	\$7,755,658	\$6,170,076
Ratio of earnings to fixed charges.....	1.17	1.42	1.23	1.42

&lt;/TABLE&gt;

(A) There was no capitalized interest for the 1994 and 1993 periods.



November 10, 1994

Merrill Lynch & Co., Inc.  
World Financial Center  
North Tower  
New York, New York 10281-1332

We have made a review, in accordance with standards established by the American Institute of Certified Public Accountants, of the unaudited interim consolidated financial information of Merrill Lynch & Co., Inc. and subsidiaries as of September 30, 1994 and for the three- and nine-month periods ended September 30, 1994 and September 24, 1993 as indicated in our report dated November 10, 1994; 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 September 30, 1994, is incorporated by reference in the following documents, 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. 33-48846 (401(k) Savings and Investment 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. 33-55155 (1995 Deferred Compensation Plan  
for a Select Group of Eligible Employees)

Filed on Form S-3:

Debt Securities  
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. 33-35456  
Registration Statement No. 33-42041  
Registration Statement No. 33-45327  
Registration Statement No. 33-49947  
Registration Statement No. 33-51489  
Registration Statement No. 33-52647  
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. 33-19975 (Remarketed Preferred Stock, Series C)

Registration Statement No. 33-33335 (Common Stock)

Registration Statement No. 33-45777 (Common Stock)

Registration Statement No. 33-55363 (Preferred Stock)

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 the 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

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM MERRILL LYNCH & CO., INC.'S QUARTERLY REPORT ON FORM 10-Q FOR THE PERIOD ENDED SEPTEMBER 30, 1994 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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Note: Financial instruments owned excludes items not defined as financial instruments in SFAS No. 105, as amended by SFAS No. 107, totaling \$245,222 and includes financial instrument investments. </FN>

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