**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

**For the Quarterly Period Ended** **July 1, 2005**

**OR**

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

**For the Transition Period from** **to**

**Commission File Number** **1-7182**

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

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Delaware** | **13-2740599** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| **4 World Financial Center**<br>**New York, New York** | **10080** |
| (Address of principal executive offices) | (Zip Code) |

**(212) 449-1000**

Registrant's telephone number, including area code:

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

YES X NO __

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2).

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.

923,575,578 shares of Common Stock and 2,772,648 Exchangeable Shares as of the close of business on July 29, 2005. The Exchangeable Shares, which were issued by Merrill Lynch & Co., Canada Ltd. in connection with the merger with Midland Walwyn Inc., are exchangeable at any time into Common Stock on a one-for-one basis and entitle holders to dividend, voting, and other rights equivalent to Common Stock.

**MERRILL LYNCH & CO., INC. QUARTERLY REPORT ON FORM 10-Q**
**FOR THE QUARTERLY PERIOD ENDED JULY 1, 2005**
**TABLE OF CONTENTS**

**MERRILL LYNCH & CO., INC. QUARTERLY REPORT ON FORM 10-Q**
**FOR THE QUARTERLY PERIOD ENDED JULY 1, 2005**
**TABLE OF CONTENTS**
(cont.)



**Available Information**

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

ML & Co.’s internet address is www.ml.com. ML & Co. makes available, free of charge, its proxy statements, Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. In addition, our website includes information concerning beneficial ownership of our equity securities by our executive officers and directors. Investors can find this information under “SEC Reports” through the investor relations section of the Merrill Lynch website which can be accessed directly at www.ir.ml.com. These reports are available online as soon as reasonably practicable after such reports are electronically filed with, or furnished to, the SEC. Additionally, Merrill Lynch’s Guidelines for Business Conduct, Code of Ethics for Financial Professionals and charters for the committees of our Board of Directors have been filed as exhibits to SEC reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. These documents, along with Merrill Lynch’s Corporate Governance Guidelines, are also available at the same website address as referenced above. The information on Merrill Lynch’s websites is not incorporated by reference into this Report. Shareholders may obtain copies of these reports and documents, free of charge, upon written request to Judith A. Witterschein, Corporate Secretary, by mail at Merrill Lynch & Co., Inc., 222 Broadway, 17th Floor, New York, NY 10038 or by email at corporate_secretary@ml.com.

# PART I. FINANCIAL INFORMATION

## ITEM 1. Financial Statements

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

| *(in millions, except per share amounts)* | For the Three Months Ended July 1, 2005 | For the Three Months Ended June 25, 2004 | Percent Inc. (Dec.) |
|---|---|---|---|
| **Net Revenues** | | | |
| Asset management and portfolio service fees | $ 1,431 | $ 1,344 | 6.5% |
| Commissions | 1,243 | 1,160 | 7.2 |
| Principal transactions | 921 | 634 | 45.3 |
| Investment banking | 894 | 764 | 17.0 |
| Revenues from consolidated investments | 84 | 46 | 82.6 |
| Other | 641 | 274 | 133.9 |
| Subtotal | 5,214 | 4,222 | 23.5 |
| Interest and dividend revenues | 5,978 | 3,112 | 92.1 |
| Less interest expense | 4,875 | 2,084 | 133.9 |
| Net interest profit | 1,103 | 1,028 | 7.3 |
| **Total Net Revenues** | 6,317 | 5,250 | 20.3 |
| **Non-Interest Expenses** | | | |
| Compensation and benefits | 3,130 | 2,587 | 21.0 |
| Communications and technology | 395 | 358 | 10.3 |
| Occupancy and related depreciation | 227 | 202 | 12.4 |
| Brokerage, clearing, and exchange fees | 216 | 187 | 15.5 |
| Professional fees | 183 | 163 | 12.3 |
| Advertising and market development | 160 | 132 | 21.2 |
| Office supplies and postage | 51 | 49 | 4.1 |
| Expenses of consolidated investments | 35 | 39 | (10.3) |
| Other | 325 | 147 | 121.1 |
| **Total Non-Interest Expenses** | 4,722 | 3,864 | 22.2 |
| **Earnings Before Income Taxes** | 1,595 | 1,386 | 15.1 |
| Income tax expense | 460 | 316 | 45.6 |
| **Net Earnings** | $ 1,135 | $ 1,070 | 6.1 |
| **Preferred Stock Dividends** | 17 | 9 | 88.9 |
| **Net Earnings Applicable to Common Stockholders** | $ 1,118 | $ 1,061 | 5.4 |
| **Earnings Per Common Share** | | | |
| Basic | $ 1.25 | $ 1.15 | |
| Diluted | $ 1.14 | $ 1.05 | |
| **Dividend Paid Per Common Share** | $ 0.20 | $ 0.16 | |
| **Average Shares Used in Computing Earnings Per Common Share** | | | |
| Basic | 897.5 | 923.0 | |
| Diluted | 978.5 | 1,015.9 | |

See Notes to Condensed Consolidated Financial Statements.

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

**Condensed Consolidated Statements of Earnings (Unaudited)**

| *(in millions, except per share amounts)* | For the Six Months Ended July 1, 2005 | For the Six Months Ended June 25, 2004 | Percent Inc. |
|---|---|---|---|
| **Net Revenues** | | | |
| Asset management and portfolio service fees | $ 2,866 | $ 2,657 | 7.9% |
| Commissions | 2,588 | 2,499 | 3.6 |
| Principal transactions | 1,800 | 1,663 | 8.2 |
| Investment banking | 1,705 | 1,601 | 6.5 |
| Revenues from consolidated investments | 211 | 103 | 104.9 |
| Other | 986 | 606 | 62.7 |
| Subtotal | 10,156 | 9,129 | 11.2 |
| Interest and dividend revenues | 11,519 | 6,168 | 86.8 |
| Less interest expense | 9,137 | 3,986 | 129.2 |
| Net interest profit | 2,382 | 2,182 | 9.2 |
| **Total Net Revenues** | 12,538 | 11,311 | 10.8 |
| **Non-Interest Expenses** | | | |
| Compensation and benefits | 6,214 | 5,634 | 10.3 |
| Communications and technology | 791 | 698 | 13.3 |
| Occupancy and related depreciation | 460 | 419 | 9.8 |
| Brokerage, clearing, and exchange fees | 435 | 372 | 16.9 |
| Professional fees | 361 | 340 | 6.2 |
| Advertising and market development | 286 | 254 | 12.6 |
| Expenses of consolidated investments | 120 | 81 | 48.1 |
| Office supplies and postage | 103 | 100 | 3.0 |
| Other | 504 | 337 | 49.6 |
| **Total Non-Interest Expenses** | 9,274 | 8,235 | 12.6 |
| **Earnings Before Income Taxes** | 3,264 | 3,076 | 6.1 |
| Income tax expense | 917 | 755 | 21.5 |
| **Net Earnings** | $ 2,347 | $ 2,321 | 1.1 |
| Preferred Stock Dividends | 24 | 19 | 26.3 |
| **Net Earnings Applicable to Common Stockholders** | $ 2,323 | $ 2,302 | 0.9 |
| **Earnings Per Common Share** | | | |
| Basic | $ 2.57 | $ 2.48 | |
| Diluted | $ 2.36 | $ 2.26 | |
| **Dividend Paid Per Common Share** | $ 0.36 | $ 0.32 | |
| **Average Shares Used in Computing Earnings Per Common Share** | | | |
| Basic | 902.7 | 926.6 | |
| Diluted | 985.9 | 1,019.4 | |

See Notes to Condensed Consolidated Financial Statements.

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

| *(dollars in millions)* | July 1, 2005 | Dec. 31, 2004 |
|---|---|---|
| **ASSETS** | | |
| **Cash and cash equivalents** | $ 17,751 | $ 20,790 |
| **Cash and securities segregated for regulatory purposes or deposited with clearing organizations** | 16,091 | 17,915 |
| **Securities financing transactions** | | |
| Receivables under resale agreements | 93,619 | 78,853 |
| Receivables under securities borrowed transactions | 79,972 | 94,498 |
| | 173,591 | 173,351 |
| **Trading assets, at fair value** (includes securities pledged as collateral that can be sold or repledged of $43,114 in 2005 and $44,487 in 2004) | | |
| Mortgages, mortgage-backed, and asset-backed | 32,609 | 28,010 |
| Equities and convertible debentures | 30,218 | 27,644 |
| Corporate debt and preferred stock | 30,017 | 32,793 |
| Contractual agreements | 26,380 | 35,879 |
| Non-U.S. governments and agencies | 24,391 | 29,887 |
| U.S. Government and agencies | 15,216 | 13,861 |
| Municipals and money markets | 7,529 | 6,538 |
| Commodities and related contracts | 2,485 | 1,238 |
| | 168,845 | 175,850 |
| **Investment securities** (includes securities pledged as collateral that can be sold or repledged of $2,434 in 2005 and $3,806 in 2004) | 74,826 | 78,280 |
| **Securities received as collateral** | 18,492 | 11,903 |
| **Other receivables** | | |
| Customers (net of allowance for doubtful accounts of $44 in 2005 and $51 in 2004) | 39,896 | 38,436 |
| Brokers and dealers | 11,919 | 12,109 |
| Interest and other | 14,389 | 13,954 |
| | 66,204 | 64,499 |
| **Loans, notes, and mortgages** (net of allowances of $328 in 2005 and $283 in 2004) | 59,720 | 53,262 |
| **Separate accounts assets** | 18,206 | 18,641 |
| **Equipment and facilities** (net of accumulated depreciation and amortization of $5,344 in 2005 and $5,259 in 2004) | 2,360 | 2,508 |
| **Goodwill and other intangible assets** | 5,746 | 6,162 |
| **Other assets** | 5,484 | 6,405 |
| **Total Assets** | $627,316 | $629,566 |

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

| *(dollars in millions, except per share amount)* | July 1, 2005 | Dec. 31, 2004 |
|---|---|---|
| **LIABILITIES** | | |
| **Securities financing transactions** | | |
| Payables under repurchase agreements | $143,940 | $154,796 |
| Payables under securities loaned transactions | 20,758 | 22,236 |
| | 164,698 | 177,032 |
| **Commercial paper and other short-term borrowings** | 6,838 | 3,979 |
| **Deposits** | 79,469 | 79,746 |
| **Trading liabilities, at fair value** | | |
| Contractual agreements | 37,971 | 38,765 |
| Non-U.S. governments and agencies | 22,955 | 22,271 |
| U.S. Government and agencies | 16,979 | 16,496 |
| Equities and convertible debentures | 16,950 | 15,131 |
| Corporate debt and preferred stock | 6,104 | 8,058 |
| Commodities and related contracts | 1,685 | 979 |
| Municipals, money markets and other | 793 | 1,136 |
| | 103,437 | 102,836 |
| **Obligation to return securities received as collateral** | 18,492 | 11,903 |
| **Other payables** | | |
| Customers | 39,618 | 34,517 |
| Brokers and dealers | 19,418 | 20,133 |
| Interest and other | 24,486 | 26,675 |
| | 83,522 | 81,325 |
| **Liabilities of insurance subsidiaries** | 3,044 | 3,158 |
| **Separate accounts liabilities** | 18,206 | 18,641 |
| **Long-term borrowings** | 113,477 | 116,484 |
| **Long-term debt issued to TOPrS$^{SM}$ partnerships** | 3,092 | 3,092 |
| **Total Liabilities** | 594,275 | 598,196 |
| **COMMITMENTS AND CONTINGENCIES** | | |
| **STOCKHOLDERS' EQUITY** | | |
| **Preferred Stockholders' Equity** (2005 - 58,000 shares issued and outstanding with liquidation preference of $30,000 per share; 2004 - 21,000 shares issued and outstanding with liquidation preference of $30,000 per share) | 1,740 | 630 |
| **Common Stockholders' Equity** | | |
| Shares exchangeable into common stock | 41 | 41 |
| Common stock (par value $1.33 1/3 per share; authorized: 3,000,000,000 shares; issued: 2005 - 1,133,997,983 shares; 2004 - 1,098,991,806 shares) | 1,511 | 1,465 |
| Paid-in capital | 13,998 | 12,332 |
| Accumulated other comprehensive loss, net of tax | (688) | (481) |
| Retained earnings | 24,468 | 22,485 |
| | 39,330 | 35,842 |
| Less: Treasury stock, at cost (2005 - 206,818,429 shares; 2004 - 170,955,057 shares) | 6,333 | 4,230 |
| Unamortized employee stock grants | 1,696 | 872 |
| **Total Common Stockholders' Equity** | 31,301 | 30,740 |
| **Total Stockholders' Equity** | 33,041 | 31,370 |
| **Total Liabilities and Stockholders' Equity** | $627,316 | $629,566 |

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

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

| (dollars in millions) | For the Six Months Ended July 1, 2005 | For the Six Months Ended June 25, 2004 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Net earnings | $ 2,347 | $ 2,321 |
| Noncash items included in earnings: | | |
| Depreciation and amortization | 242 | 251 |
| Stock compensation plan expense | 516 | 456 |
| Deferred taxes | 256 | 31 |
| Policyholder reserves | 65 | 73 |
| Undistributed earnings from equity investments | (168) | (192) |
| Other | 456 | (22) |
| Changes in operating assets and liabilities: | | |
| Trading assets | 7,059 | (13,666) |
| Cash and securities segregated for regulatory purposes or deposited with clearing organizations | 3,239 | (2,782) |
| Receivables under resale agreements | (14,769) | (8,685) |
| Receivables under securities borrowed transactions | 14,526 | (18,384) |
| Customer receivables | (1,449) | 288 |
| Brokers and dealers receivables | 190 | (2,865) |
| Trading liabilities | (2,367) | 9,763 |
| Payables under repurchase agreements | (10,855) | 18,753 |
| Payables under securities loaned transactions | (1,478) | 9,108 |
| Customer payables | 5,101 | 4,218 |
| Brokers and dealers payables | (715) | 459 |
| Other, net | (4,540) | (1,473) |
| Cash used for operating activities | (2,344) | (2,348) |
| **Cash flows from investing activities:** | | |
| Proceeds from (payments for): | | |
| Maturities of available-for-sale securities | 13,816 | 11,916 |
| Sales of available-for-sale securities | 19,567 | 13,076 |
| Purchases of available-for-sale securities | (32,841) | (27,326) |
| Maturities of held-to-maturity securities | 498 | 122 |
| Purchases of held-to-maturity securities | (352) | (161) |
| Loans, notes, and mortgages | (6,541) | (2,177) |
| Other investments and other assets | 105 | (96) |
| Equipment and facilities | (94) | (207) |
| Cash used for investing activities | (5,842) | (4,853) |
| **Cash flows from financing activities:** | | |
| Proceeds from (payments for): | | |
| Commercial paper and other short-term borrowings | 2,859 | (1,757) |
| Deposits | (277) | (3,326) |
| Issuance and resale of long-term borrowings | 15,040 | 25,076 |
| Settlement and repurchases of long-term borrowings | (14,575) | (13,236) |
| Derivative financing transactions | 2,968 | 2,738 |
| Issuance of common stock | 426 | 424 |
| Issuance of preferred stock | 1,110 | — |
| Common stock repurchases | (2,131) | (1,727) |
| Other common stock transactions | 91 | 78 |
| Dividends | (364) | (324) |
| Cash provided by financing activities | 5,147 | 7,946 |
| Increase (decrease) in cash and cash equivalents | (3,039) | 745 |
| Cash and cash equivalents, beginning of period | 20,790 | 10,150 |
| Cash and cash equivalents, end of period | $ 17,751 | $ 10,895 |
| **Supplemental Disclosure of Cash Flow Information:** | | |
| Cash paid for: | | |
| Income taxes | $ 655 | $ 183 |
| Interest | 8,803 | 3,823 |

See Notes to Condensed Consolidated Financial Statements.

**Merrill Lynch & Co., Inc. and Subsidiaries**
**Notes to Condensed Consolidated Financial Statements (Unaudited)**
**July 1, 2005**

## Note 1. Summary of Significant Accounting Policies

For a complete discussion of Merrill Lynch's accounting policies, refer to the excerpt from the Annual Report included as an exhibit to our Form 10-K for the year ended December 31, 2004 ("2004 Annual Report").

*Basis of Presentation*

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

These unaudited Condensed Consolidated Financial Statements should be read in conjunction with the audited consolidated financial statements included in the 2004 Annual Report. The December 31, 2004 unaudited Condensed Consolidated Balance Sheet was derived from the audited 2004 Consolidated Financial Statements. The nature of Merrill Lynch's business is such that the results of any interim period are not necessarily indicative of results for a full year. In presenting the Condensed Consolidated Financial Statements, management makes estimates that affect the reported amounts and disclosures in the financial statements. Estimates, by their nature, are based on judgment and available information. Therefore, actual results could differ from those estimates and could have a material impact on the Condensed Consolidated Financial Statements, and it is possible that such changes could occur in the near term.

Certain reclassifications have been made to prior period financial statements, where appropriate, to conform to the current period presentation. In the second quarter of 2005, Merrill Lynch has elected, under FASB Interpretation No. 39 ("FIN 39"), *Offsetting of Amounts Related to Certain Contracts,* to net cash collateral paid or received under credit support annexes associated with legally enforceable master netting agreements against derivatives inventory. Merrill Lynch believes this accounting presentation is preferable as compared to a gross presentation as it is a better representation of Merrill Lynch's exposure relating to these derivative contracts. Amounts as of December 31, 2004 have been restated to conform to the current presentation. The amounts netted at July 1, 2005 and December 31, 2004 reduced total assets and total liabilities by $14.5 billion and $18.5 billion, respectively. Additionally, the December 31, 2004 Condensed Consolidated Balance Sheet reflects a reclassification related to certain securities, amounting to $430 million, from cash and cash equivalents to investment securities — available-for-sale.

*Balance Sheet Captions*

*Investment Securities*

Non-qualifying investments, which are included in Investment Securities, include private equity investments made by non-broker-dealer subsidiaries, which have defined exit strategies and are held for capital appreciation and/or current income, are initially carried at original cost, and are adjusted when changes in the underlying fair values are readily ascertainable, generally based on observable evidence which indicates the value of the investment. This treatment is in accordance with the *AICPA Audit and Accounting Guide, Audits of Investment Companies* ("Guide"). Merrill Lynch began applying the Guide in the second quarter of 2005, acknowledging the growth in its private equity business. Changes in value associated with private equity investments were not material in prior periods. Private equity investments held by non-broker-dealer subsidiaries that are made as part of Merrill Lynch's core operations, or that are strategic in nature, are carried under the equity method or the cost method depending on Merrill Lynch's ability to exercise significant influence over the investee. Private equity investments made by broker-dealer subsidiaries are also carried at fair value.

Refer to Note 1 to the 2004 Annual Report for a complete listing of Significant Accounting Policies.

*New Accounting Pronouncements*

In June 2005, the FASB ratified the consensus reached by the Emerging Issues Task Force on Issue 04-5, *Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights* ("EITF 04-5"). EITF 04-5 presumes that a general partner controls a limited partnership, and should therefore consolidate a limited partnership, unless the limited partners have the substantive ability to remove the general partner without cause based on a simple majority vote or can otherwise dissolve the limited partnership, or unless the limited partners have substantive participating rights over decision making. The guidance in EITF 04-5 is effective immediately for all new limited partnership agreements and any limited partnership agreements that are modified. The guidance is effective for existing partnership agreements for financial reporting periods beginning after December 15, 2005 and may be reported as either a cumulative effect of a change in accounting principle or via retroactive restatement. Merrill Lynch is currently assessing the impact of the adoption of EITF 04-5.

On December 21, 2004, the FASB issued a FASB Staff Position ("FSP"), 109-2, *Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004*. The FSP provides guidance on the impact of the new tax law's one-time deduction for qualifying repatriations of foreign earnings made in 2005. The deduction can result in a lower tax rate on repatriation of certain foreign earnings. To the extent that the cumulative undistributed earnings of non-U.S. subsidiaries were permanently reinvested, no deferred U.S. Federal income taxes have been provided. In the second quarter of 2005, Merrill Lynch determined that it would apply this provision to planned foreign repatriations of approximately $53 million. Accordingly, a net tax benefit of $16 million was recorded on the planned repatriation because deferred taxes had previously been accrued on these earnings. Merrill Lynch is continuing its assessment of the impact of the repatriation provision for further repatriations, but does not expect to complete the assessment until the fourth quarter of 2005. The additional amount of unremitted foreign earnings that is being considered for possible repatriation is no more than $4.2 billion. The related income tax provision is no more than $221 million.

On December 16, 2004, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004), *Share-Based Payment,* a revision of SFAS No. 123, *Accounting for Stock-Based Compensation*. In April 2005, the Securities and Exchange Commission ("SEC") delayed the effective date for the revised SFAS No. 123 until the first fiscal year beginning after June 15, 2005. As a result of the SEC ruling, Merrill Lynch expects to adopt the provisions of the revised SFAS No. 123 in the first quarter of 2006. The approach to accounting for share-based payments under the revised SFAS No. 123 is unchanged in many respects from that allowed under SFAS No. 123. Under the provisions of SFAS No. 123, stock-based compensation cost is measured at the grant date based on the value of the award and is recognized as expense over the vesting period. Merrill Lynch recognizes expense over the vesting period, as stipulated in the grant for all employees, including those that have satisfied retirement eligibility criteria. Employees meeting the retirement eligibility criteria are subject to a non-compete agreement that applies from the date of retirement through each applicable vesting period. Should a retirement eligible employee actually leave Merrill Lynch, all previously unvested awards are immediately charged to expense. Merrill Lynch adopted the provisions of SFAS No. 123 in the first quarter of 2004 and is currently evaluating the impact of adopting the revised SFAS No. 123, including its effect on the amortization period of the awards. See Note 13 to the 2004 Annual Report for further information on share-based compensation arrangements.

In December of 2003, the American Institute of Certified Public Accountants ("AICPA") issued Statement of Position ("SOP") 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer* . SOP 03-3 addresses revenue recognition and impairment assessments for certain loans and debt securities that were purchased at a discount that was at least in part due to credit quality. SOP 03-3 states that where expected cash flows from the loan or debt security can be reasonably estimated, the difference between the purchase price and the expected cash flows (i.e., the "accretable yield") should be accreted into income. In addition, the SOP prohibits the recognition of an allowance for loan losses on the purchase date. Further, the SOP requires that the allowance for loan losses be supported through a cash flow analysis, on either an individual or on a pooled basis, for all loans that fall within the scope of the guidance. Merrill Lynch adopted SOP 03-3 as of the beginning of fiscal year 2005. The adoption of the guidance did not have a material impact on the Condensed Consolidated Financial Statements.

## Note 2. Segment Information

In reporting to management, Merrill Lynch's results are categorized into three business segments: Global Markets and Investment Banking ("GMI"), Global Private Client ("GPC"), and Merrill Lynch Investment Managers ("MLIM"). For information on each segment's business activities, refer to Note 2 to the 2004 Annual Report.

Results by business segment are as follows:

*(dollars in millions)*

| | GMI | GPC | MLIM | Corporate Items | Total |
|---|---|---|---|---|---|
| **Three Months Ended July 1, 2005** | | | | | |
| Non-interest revenues | $ 2,681 | $ 2,140 | $ 393 | $ -(1) | $ 5,214 |
| Net interest profit(2) | 758 | 427 | 11 | (93)(3) | 1,103 |
| Net revenues | 3,439 | 2,567 | 404 | (93) | 6,317 |
| Non-interest expenses | 2,341 | 2,110 | 283 | (12)(1) | 4,722 |
| Pre-tax earnings (loss) | $ 1,098 | $ 457 | $ 121 | $ (81) | $ 1,595 |
| Quarter-end total assets | $541,593 | $ 70,068 | $ 9,361 | $ 6,294 | $627,316 |
| **Three Months Ended June 25, 2004** | | | | | |
| Non-interest revenues | $ 1,756 | $ 2,091 | $ 376 | $ (1)(1) | $ 4,222 |
| Net interest profit(2) | 886 | 299 | 4 | (161)(3) | 1,028 |
| Net revenues | 2,642 | 2,390 | 380 | (162) | 5,250 |
| Non-interest expenses | 1,653 | 1,955 | 269 | (13)(1) | 3,864 |
| Pre-tax earnings (loss) | $ 989 | $ 435 | $ 111 | $ (149) | $ 1,386 |
| Quarter-end total assets | $456,226 | $ 64,413 | $ 7,967 | $ 5,567 | $534,173 |
| **Six Months Ended July 1, 2005** | | | | | |
| Non-interest revenues | $ 5,016 | $ 4,335 | $ 806 | $ (1)(1) | $ 10,156 |
| Net interest profit(2) | 1,738 | 825 | 12 | (193)(3) | 2,382 |
| Net revenues | 6,754 | 5,160 | 818 | (194) | 12,538 |
| Non-interest expenses | 4,532 | 4,193 | 570 | (21)(1) | 9,274 |
| Pre-tax earnings (loss) | $ 2,222 | $ 967 | $ 248 | $ (173) | $ 3,264 |
| **Six Months Ended June 25, 2004** | | | | | |
| Non-interest revenues | $ 4,102 | $ 4,259 | $ 772 | $ (4)(1) | $ 9,129 |
| Net interest profit(2) | 1,749 | 639 | 9 | (215)(3) | 2,182 |
| Net revenues | 5,851 | 4,898 | 781 | (219) | 11,311 |
| Non-interest expenses | 3,743 | 3,956 | 562 | (26)(1) | 8,235 |
| Pre-tax earnings (loss) | $ 2,108 | $ 942 | $ 219 | $ (193) | $ 3,076 |

*Prior period amounts have been restated to conform to the current period presentation.*

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

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

(3) *Represents acquisition financing costs and other corporate interest, including the impact of TOPrS[SM].*

## Note 3. Securities Financing Transactions

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

Under these transactions, Merrill Lynch either receives or provides collateral, including U.S. Government and agencies, asset-backed, corporate debt, equity, and non-U.S. governments and agencies securities. Merrill Lynch receives collateral in connection with resale agreements, securities borrowed transactions, customer margin loans, and other loans. Under many agreements, Merrill Lynch is permitted to sell or repledge securities that it receives as collateral (e.g., use the securities to secure repurchase agreements, enter into securities lending transactions, or deliver to counterparties to cover short positions). At July 1, 2005 and December 31, 2004, the fair value of securities received as collateral where Merrill Lynch is permitted to sell or repledge the securities was $424 billion and $375 billion, respectively, and the fair value of the portion that has been sold or repledged was $344 billion and $300 billion, respectively. Merrill Lynch may use securities received as collateral for resale agreements to satisfy regulatory requirements such as Rule 15c3-3 of the SEC. At July 1, 2005 and December 31, 2004, the fair value of collateral used for this purpose was $3.5 billion and $5.9 billion, respectively.

Merrill Lynch also pledges firm-owned assets to collateralize repurchase agreements and other secured financings. Pledged securities that can be sold or repledged by the secured party are parenthetically disclosed in trading assets and investment securities on the Condensed Consolidated Balance Sheets. The carrying value and classification of securities owned by Merrill Lynch that have been pledged to counterparties where those counterparties do not have the right to sell or repledge at July 1, 2005 and December 31, 2004 are as follows:

| *(dollars in millions)* | **July 1, 2005** | **Dec. 31, 2004** |
|---|---|---|
| **Trading asset category** | | |
| Mortgages, mortgage-backed, and asset-backed securities | $ 11,845 | $ 10,302 |
| Corporate debt and preferred stock | 11,108 | 11,248 |
| U.S. Government and agencies | 10,261 | 9,199 |
| Equities and convertible debentures | 8,775 | 6,754 |
| Non-U.S. governments and agencies | 4,211 | 2,031 |
| Municipals and money markets | 1,428 | 1,544 |
| Total | $ 47,628 | $ 41,078 |

## Note 4. Investment Securities

Investment securities at July 1, 2005 and December 31, 2004 are presented below:

| *(dollars in millions)* | **July 1, 2005** | **Dec. 31, 2004** |
|---|---|---|
| **Investment securities** | | |
| Available-for-sale(1) | $ 65,678 | $ 66,654 |
| Trading | 4,964 | 6,603 |
| Held-to-maturity | 1,059 | 1,231 |
| Non-qualifying(2) | | |
| Equity investments | 8,779 | 7,958 |
| Investments of insurance subsidiaries(3) | 1,209 | 1,354 |
| Deferred compensation hedges(4) | 879 | 807 |
| Investments in TOPrS$^{SM}$ partnerships | 548 | 548 |
| Total | $ 83,116 | $ 85,155 |

*(1) At July 1, 2005 and December 31, 2004, includes $8.3 billion and $6.9 billion, respectively, of investment securities reported in cash and securities segregated for regulatory purposes or deposited with clearing organizations.*

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

*(3) Primarily represents insurance policy loans.*

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

## Note 5. Securitization Transactions and Transactions with Special Purpose Entities (SPEs)

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

Merrill Lynch securitized assets of $45.9 billion and $27.5 billion for the six months ended July 1, 2005 and June 25, 2004, respectively. For the six months ended July 1, 2005 and June 25, 2004, Merrill Lynch received $46.3 billion and $27.8 billion, respectively, of proceeds, and other cash inflows, from new securitization transactions, and recognized net securitization gains, excluding gains on related derivative transactions, of $263.7 million and $190.8 million, respectively, in Merrill Lynch's Condensed Consolidated Statements of Earnings. Merrill Lynch generally records assets prior to securitization at fair value.

For the first six months of 2005 and 2004, cash inflows from securitizations related to the following asset types:

*(dollars in millions)*

| | Six Months Ended | |
|---|---|---|
| | July 1, 2005 | June 25, 2004 |
| **Asset category** | | |
| Residential mortgage loans | $ 30,810 | $ 19,528 |
| Municipal bonds | 8,637 | 4,407 |
| Corporate and government bonds | 1,374 | 818 |
| Commercial loans and other | 5,517 | 3,062 |
| | $ 46,338 | $ 27,815 |

Retained interests in securitized assets were approximately $3.5 billion and $2.0 billion at July 1, 2005 and December 31, 2004, respectively, which related primarily to residential mortgage loan and municipal bond securitization transactions. The majority of the retained interest balance consists of mortgage-backed securities that have observable market prices. These retained interests include mortgage-backed securities that Merrill Lynch has committed to purchase and expects to sell to investors in the normal course of its underwriting activity.

The following table presents information on retained interests, excluding the offsetting benefit of financial instruments used to hedge risks, held by Merrill Lynch as of July 1, 2005. These retained interests arise from Merrill Lynch's residential mortgage loan, municipal bond and other securitization transactions. The sensitivities of the current fair value of the retained interests to immediate 10% and 20% adverse changes in assumptions and parameters are also shown.

*(dollars in millions)*

| | Residential Mortgage Loans | Municipal Bonds | Other |
|---|---|---|---|
| Retained interest amount | $ 2,404 | $ 954 | $ 144 |
| Weighted average credit losses (rate per annum) | 0.5% | 0.0% | 0.2% |
| Range | 0.0 – 6.9% | 0.0% | 0.0 – 8.0% |
| Impact on fair value of 10% adverse change | $ (15) | $ - | $ - |
| Impact on fair value of 20% adverse change | $ (30) | $ - | $ (1) |
| Weighted average discount rate | 5.9% | 3.5% | 6.7% |
| Range | 0.0 – 50.0% | 0.1 – 8.0% | 4.8 – 25.0% |
| Impact on fair value of 10% adverse change | $ (55) | $ (151) | $ (5) |
| Impact on fair value of 20% adverse change | $ (108) | $ (267) | $ (10) |
| Weighted average life (in years) | 5.3 | 2.4 | 2.0 |
| Range | 0.0 – 17.6 | 0.1 – 5.6 | 0.8 – 9.4 |
| Weighted average prepayment speed (CPR) | 19.1% | 15.5%(1) | 3.9% |
| Range | 0.0 – 54.0% | 2.0 – 23.9%(1) | 0.0 – 15.0% |
| Impact on fair value of 10% adverse change | $ (16) | $ - | $ - |
| Impact on fair value of 20% adverse change | $ (31) | $ (1) | $ (1) |

*CPR = Constant Prepayment Rate*

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

The preceding table does not include the offsetting benefit of financial instruments that Merrill Lynch utilizes to hedge credit, interest rate, and prepayment risks that are inherent in the retained interests. Merrill Lynch employs hedging strategies that are structured to account for the hypothetical stress scenarios described above and essentially offset Merrill Lynch's exposure to loss in the event these scenarios occur. However, the sensitivity analysis is hypothetical and should be used with caution. In particular, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated independent of changes in any other assumption; in practice, changes in one factor may result in changes in another, which might magnify or counteract the sensitivities. Further, changes in fair value based on a 10% or 20% variation in an assumption or parameter generally cannot be extrapolated to changes resulting from greater variations because the relationship of the change in the assumption to the change in fair value may not be linear. Also, the sensitivity analysis does not consider any hedging activity that Merrill Lynch may take to mitigate the impact of any adverse changes in the key assumptions.

The weighted average assumptions and parameters used initially to value retained interests relating to securitizations effected in 2005 that were still held by Merrill Lynch as of July 1, 2005 are as follows:

| | **Residential Mortgage Loans** | **Municipal Bonds** | **Other** |
|---|---|---|---|
| Credit losses (rate per annum) | 0.5% | 0.0% | 0.0% |
| Weighted average discount rate | 5.7% | 3.8% | 3.8% |
| Weighted average life (in years) | 5.8 | - | - |
| Prepayment speed assumption (CPR) | 16.8% | - | - |

*CPR = Constant Prepayment Rate*

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

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

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

The maximum commitment under these liquidity and default guarantees totaled $26.4 billion and $21.3 billion at July 1, 2005 and December 31, 2004, respectively. The fair value of the commitments approximated $6 million and $74 million at July 1, 2005 and December 31, 2004, respectively, which is reflected in the Condensed Consolidated Financial Statements. Of these arrangements, $5.9 billion and $4.7 billion at July 1, 2005 and December 31, 2004, respectively, represent agreements where the guarantee is provided to the SPE by a third-party financial intermediary and Merrill Lynch enters into a reimbursement agreement with the financial intermediary. In these arrangements, if the financial intermediary incurs losses, Merrill Lynch has up to one year to fund those losses. Additional information regarding these commitments is provided in Note 10 to the Condensed Consolidated Financial Statements and in Note 11 in the 2004 Annual Report.

The following table summarizes principal amounts outstanding and delinquencies of securitized financial assets as of July 1, 2005 and December 31, 2004, and net credit losses for the year-to-date periods then ended:

*(dollars in millions)*

| | Residential Mortgage Loans | Municipal Bonds | Other |
|---|---|---|---|
| **July 1, 2005** | | | |
| Principal Amount Outstanding | $ 57,405 | $ 17,941 | $4,632 |
| Delinquencies | 47 | - | - |
| Net Credit Losses | - | - | 1 |
| **December 31, 2004** | | | |
| Principal Amount Outstanding | $ 31,541 | $ 14,510 | $3,866 |
| Delinquencies | 40 | - | - |
| Net Credit Losses | 2 | - | 9 |

*Variable Interest Entities*

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

As permitted under the transition guidance, Merrill Lynch adopted the provisions of FIN 46R on an entity-by-entity basis. At December 26, 2003, Merrill Lynch applied FIN 46R for purposes of determining those VIEs that must be consolidated or disclosed as giving rise to a significant variable interest, with the exception of those VIEs that issue TOPrS$^{SM}$, as to which Merrill Lynch applied FIN 46R beginning in the first quarter of 2004.

For the purpose of determining whether Merrill Lynch has a variable interest in a VIE, Merrill Lynch generally employs a cash flow approach. Under a cash flow approach, the determination as to whether an interest is a variable interest is based on whether the interest absorbs variability in the cash flows of the VIE.

The following tables summarize Merrill Lynch's involvement with VIEs as of July 1, 2005 and December 31, 2004, respectively. Where an entity is a significant variable interest holder, FIN 46R requires that entity to disclose its maximum exposure to loss as a result of its interest in the VIE. It should be noted that this measure does not reflect Merrill Lynch's estimate of the actual losses that could result from adverse changes because it does not reflect the economic hedges into which Merrill Lynch enters to reduce its exposure.

*(dollars in millions)*

| Description | Primary Beneficiary | | | Significant Variable Interest Holder | | Other Involvement with VIEs | |
|---|---|---|---|---|---|---|---|
| | Total Asset Size(5) | Net Asset Size(6) | Recourse to Merrill Lynch(7) | Total Asset Size(5) | Maximum Exposure | Total Asset Size(5) | Maximum Exposure |
| **July 1, 2005** | | | | | | | |
| Guaranteed and Other Funds | $ 1,453 | $ 1,202 | $ 282 | $ - | $ - | $ - | $ - |
| Loan and Real Estate VIEs | 2,889 | 2,888 | - | 462 | 366 | - | - |
| Municipal Bond Securitizations(1) | - | - | - | 31,963 | 26,362 | - | - |
| Tax Planning VIEs(2)(3) | 13,760 | 10,028 | 4,873 | 5,898 | 2,307 | - | - |
| Mortgage Securitizations | - | - | - | 254 | 243 | - | - |
| Credit Linked Note VIEs(4) | 42 | 42 | - | - | - | 7,839 | 665 |
| Convertible Bond Stripping VIEs(4) | - | - | - | - | - | 663 | 23 |
| **December 31, 2004** | | | | | | | |
| Guaranteed and Other Funds | $ 1,254 | $ 1,054 | $ 245 | $ - | $ - | $ - | $ - |
| Loan and Real Estate VIEs | 2,814 | 2,814 | - | 1,054 | 930 | - | - |
| Municipal Bond Securitizations(1) | - | - | - | 26,159 | 21,251 | - | - |
| Tax Planning VIEs(2)(3) | 13,963 | 7,837 | 5,089 | 7,061 | 2,328 | - | - |
| Mortgage Securitizations | - | - | - | 284 | 276 | - | - |
| Credit Linked Note VIEs(4) | 16 | 16 | - | - | - | 8,415 | 506 |
| Convertible Bond Stripping VIEs(4) | - | - | - | - | - | 646 | 30 |

*(1) The maximum exposure for Municipal Bond Securitizations reflects Merrill Lynch's potential liability as a result of the liquidity and default facilities entered into with the VIEs. It significantly overstates Merrill Lynch's probability weighted exposure to these VIEs because it does not reflect either the likelihood of the event occurring or the economic hedges that are designed to be effective in principally offsetting Merrill Lynch's exposure to loss.*

*(2) Recourse to Merrill Lynch associated with Consolidated Tax Planning VIEs primarily relates to transactions where the investors in the debt issued by the VIEs have recourse to both the assets of the VIEs and to Merrill Lynch, as well as certain indemnifications made to the investors in the VIEs.*

*(3) The maximum exposure for Tax Planning VIEs reflects the fair value of investments in the VIEs and derivatives entered into with the VIEs, as well as the maximum exposure to loss associated with indemnifications made to investors in the VIEs.*

*(4) The maximum exposure for Credit Linked Note VIEs and Convertible Bond Stripping VIEs is the asset fair value of the derivatives entered into with the VIEs as of July 1, 2005 and December 31, 2004, respectively.*

*(5) This column reflects the total size of the assets held in the VIE.*

*(6) This column reflects the size of the assets held in the VIE after accounting for intercompany eliminations and any balance sheet netting of assets and liabilities as permitted by FIN 39.*

*(7) This column reflects the extent, if any, to which investors have recourse to Merrill Lynch beyond the assets held in the VIE.*

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

Loans, Notes, Mortgages and related commitments to extend credit at July 1, 2005 and December 31, 2004, are presented below. This disclosure includes commitments to extend credit that will result in loans held for investment and loans held for sale.

*(dollars in millions)*

| | Loans | | Commitments | |
|---|---|---|---|---|
| | July 1, 2005 | Dec. 31, 2004 | July 1, 2005(1) | Dec. 31, 2004 |
| Consumer and small- and middle-market business: | | | | |
| Mortgages | $ 19,052 | $ 17,439 | $ 4,589 | $ 4,735 |
| Small- and middle-market business | 5,471 | 6,450 | 3,119 | 3,780 |
| Other | 2,028 | 3,545 | 189 | 396 |
| Commercial: | | | | |
| Secured | 27,581 | 23,675 | 28,301 | 26,046 |
| Unsecured investment grade | 4,147 | 1,444 | 19,060 | 15,333 |
| Unsecured non-investment grade | 1,769 | 992 | 1,828 | 1,549 |
| | 60,048 | 53,545 | 57,086 | 51,839 |
| Allowance for loan losses | (328) | (283) | - | - |
| Reserve for lending-related commitments | - | - | (147) | (188) |
| Total, net | $ 59,720 | $ 53,262 | $ 56,939 | $ 51,651 |

*(1) See Note 10 to the Condensed Consolidated Financial Statements for a maturity profile of these commitments.*

Activity in the allowance for loan losses is presented below:

*(dollars in millions)*

| | Six Months Ended | |
|---|---|---|
| | July 1, 2005 | June 25, 2004 |
| Allowance for loan losses at beginning of period | $ 283 | $ 318 |
| Provision for loan losses | 84 | 43 |
| Charge-offs | (45) | (92) |
| Recoveries | 6 | 2 |
| Net charge-offs | (39) | (90) |
| Allowance for loan losses at end of period | $ 328 | $ 271 |

Consumer and small- and middle-market business loans, which are substantially secured, consisted of approximately 270,670 individual loans at July 1, 2005, and included residential mortgages, home equity loans, small- and middle-market business loans, and other loans to individuals for household, family, or other personal expenditures. Commercial loans, which at July 1, 2005 consisted of approximately 12,500 separate loans, included syndicated loans and other loans to corporations and other businesses. Secured loans and commitments include lending activities made in the normal course of Merrill Lynch's securities and financing businesses. The principal balance of nonaccrual loans was $356 million at July 1, 2005 and $282 million at December 31, 2004. The investment grade and non-investment grade categorization is determined using the credit rating agency equivalent of internal credit ratings. Non-investment grade counterparties are those rated lower than BBB. Merrill Lynch enters into credit default swaps to mitigate credit exposure related to funded and unfunded unsecured commercial loans. The notional value of these swaps totaled $6.7 billion and $6.0 billion at July 1, 2005 and December 31, 2004, respectively.

The above amounts include $9.5 billion and $9.0 billion of loans held for sale at July 1, 2005 and December 31, 2004, respectively. Loans held for sale are loans that management expects to sell prior to maturity. At July 1, 2005, such loans consisted of $3.2 billion of consumer loans, primarily automobile loans and residential mortgages, and $6.3 billion of commercial loans, approximately 15% of which are to investment grade counterparties. At December 31, 2004, such loans consisted of $4.7 billion of consumer loans, primarily residential mortgages, and $4.3 billion of commercial loans, approximately 56% of which were to investment grade counterparties. For information on the accounting policy related to loans, notes and mortgages, see Note 1 of the 2004 Annual Report.

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

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

Total borrowings at July 1, 2005 and December 31, 2004, which is comprised of commercial paper and other short-term borrowings, long-term borrowings and long-term debt issued to TOPrS[SM] partnerships, consisted of the following:

*(dollars in millions)*

| | July 1, 2005 | Dec. 31, 2004 |
|---|---|---|
| Senior debt issued by ML & Co. | $ 103,792 | $ 102,892 |
| Senior debt issued by subsidiaries — guaranteed by ML & Co. | 5,574 | 6,965 |
| Subordinated debt issued to TOPrS[SM] partnerships | 3,092 | 3,092 |
| Other subsidiary financing — not guaranteed by ML & Co. | 1,823 | 1,309 |
| Other subsidiary financing — non-recourse | 9,126 | 9,297 |
| Total | $ 123,407 | $ 123,555 |

These borrowing activities may create exposure to market risk, most notably interest rate, equity, and currency risk. Refer to Note 1 of the 2004 Annual Report, Derivatives section, for additional information on the use of derivatives to hedge these risks and the accounting for derivatives embedded in these instruments. Other subsidiary financing — non-recourse is primarily attributable to consolidated entities that are VIEs. Additional information regarding VIEs is provided in Note 5 to the Condensed Consolidated Financial Statements.

Borrowings and Deposits at July 1, 2005 and December 31, 2004, are presented below:

*(dollars in millions)*

| | July 1, 2005 | Dec. 31, 2004 |
|---|---|---|
| **Commercial paper and other short-term borrowings** | | |
| Commercial paper | $ 6,473 | $ 3,736 |
| Other | 365 | 243 |
| Total | $ 6,838 | $ 3,979 |
| **Long-term borrowings** | | |
| Fixed-rate obligations(1)(2)(4) | $ 51,855 | $ 52,379 |
| Variable-rate obligations(3)(4) | 62,361 | 64,680 |
| Zero-coupon contingent convertible debt (LYONs®) | 2,353 | 2,517 |
| Total | $ 116,569 | $ 119,576 |
| **Deposits** | | |
| U.S. | $ 61,226 | $ 65,707 |
| Non U.S. | 18,243 | 14,039 |
| Total | $ 79,469 | $ 79,746 |

*(1) Includes long-term debt issued to TOPrS<sup>SM</sup> partnerships.*
*(2) Fixed-rate obligations are generally swapped to variable rates.*
*(3) Variable interest rates are generally based on rates such as LIBOR, the U.S. Treasury Bill Rate, or the Federal Funds Rate.*
*(4) Included are various equity-linked or other indexed instruments.*

Long-term borrowings, including adjustments related to fair value hedges and various equity-linked or other indexed instruments, and long-term debt issued to TOPrS℠ partnerships at July 1, 2005, by remaining maturity, are as follows:

*(dollars in millions)*

| | | |
|---|---|---|
| Less than 1 year | $ 19,659 | 17% |
| 1 – 2 years | 18,471 | 16 |
| 2+ – 3 years | 8,877 | 8 |
| 3+ – 4 years | 15,286 | 13 |
| 4+– 5 years | 18,365 | 16 |
| Greater than 5 years | 35,911 | 30 |
| Total | $116,569 | 100% |

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

Merrill Lynch issues debt and accepts deposits whose coupons or repayment terms are linked to the performance of individual equity securities, or baskets of securities, or equity or other indices (e.g., S&P 500). A limited number of notes whose coupon or repayment terms are linked to the performance of equity, other indices, or baskets of securities may be accelerated based on the value of a referenced index or security, in which case Merrill Lynch may be required to immediately settle the obligation for cash or other securities. Merrill Lynch typically economically hedges these notes with positions in derivatives and/or in the underlying securities. These instruments are assessed to determine if there is an embedded derivative that requires separate reporting and accounting.

Except for the $2.4 billion of zero-coupon contingent convertible debt (LYONs®) that were outstanding at July 1, 2005, senior debt obligations issued by ML & Co. and senior debt issued by subsidiaries and guaranteed by ML & Co. do not contain provisions that could, upon an adverse change in ML & Co.'s credit rating, financial ratios, earnings, cash flows, or stock price, trigger a requirement for an early payment, additional collateral support, changes in terms, acceleration of maturity, or the creation of an additional financial obligation.

The effective weighted-average interest rates for borrowings at July 1, 2005 and December 31, 2004 were:

| | July 1, 2005 | Dec. 31, 2004 |
|---|---|---|
| Commercial paper and other short-term borrowings | 3.68% | 2.38% |
| Long-term borrowings, contractual rate | 3.37 | 3.14 |
| Long-term debt issued to TOPrS[SM] partnerships | 7.31 | 7.31 |

See Note 8 of the 2004 Annual Report for additional information on Borrowings.

## Note 8. Comprehensive Income

The components of comprehensive income are as follows:

*(dollars in millions)*

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | July 1, 2005 | June 25, 2004 | July 1, 2005 | June 25, 2004 |
| Net earnings | $1,135 | $1,070 | $2,347 | $2,321 |
| Other comprehensive income (loss), net of tax: | | | | |
| Foreign currency translation adjustment | (146) | (26) | (205) | (34) |
| Net unrealized gain (loss) on investment securities available-for-sale | 61 | (196) | 19 | (133) |
| Deferred gain (loss) on cash flow hedges | 2 | (39) | (20) | (31) |
| Minimum pension liability | (1) | - | (1) | - |
| Total other comprehensive loss, net of tax | (84) | (261) | (207) | (198) |
| Comprehensive income | $1,051 | $ 809 | $2,140 | $2,123 |

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

The computation of earnings per common share is as follows:

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

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | July 1, 2005 | June 25, 2004 | July 1, 2005 | June 25, 2004 |
| Net earnings | $ 1,135 | $ 1,070 | $ 2,347 | $ 2,321 |
| Less: Preferred stock dividends | 17 | 9 | 24 | 19 |
| Net earnings applicable to common shareholders — for basic EPS | $ 1,118 | $ 1,061 | $ 2,323 | $ 2,302 |
| Add: Interest expense on LYONs®, net of tax(1) | - | - | 1 | 1 |
| Net earnings applicable to common shareholders — for diluted EPS | $ 1,118 | $ 1,061 | $ 2,324 | $ 2,303 |
| *(shares in thousands)* | | | | |
| Weighted-average basic shares outstanding(2) | 897,524 | 923,014 | 902,669 | 926,585 |
| Effect of dilutive instruments(3) | | | | |
| Employee stock options | 38,363 | 45,111 | 41,306 | 45,662 |
| FACAAP shares | 21,438 | 23,221 | 21,363 | 23,287 |
| Restricted shares and units | 18,617 | 21,427 | 17,691 | 20,678 |
| Convertible LYONs®(1) | 2,551 | 3,157 | 2,854 | 3,157 |
| ESPP | 11 | - | 6 | - |
| Potential effect of dilutive instruments | 80,980 | 92,916 | 83,220 | 92,784 |
| Weighted average diluted shares outstanding(4) | 978,504 | 1,015,930 | 985,889 | 1,019,369 |
| Basic EPS | $ 1.25 | $ 1.15 | $ 2.57 | $ 2.48 |
| Diluted EPS | $ 1.14 | $ 1.05 | $ 2.36 | $ 2.26 |

*(1) See Note 8 of the 2004 Annual Report for further information on LYONs®.*
*(2) Includes shares exchangeable into common stock.*
*(3) See Note 13 of the 2004 Annual Report for a description of these instruments.*
*(4) During the 2005 and 2004 second quarter there were 43 million instruments that were considered antidilutive and thus were not included in the above calculations. In addition, the value of the conversion option in the Exchange Liquid Yield Option Notes due 2032 was not in the money and, as a result, no shares have been included in the computation of weighted average diluted shares outstanding in any period.*

On March 14, 2005, Merrill Lynch issued $1,020 million of floating rate, non-cumulative, perpetual preferred stock. On April 4, 2005, Merrill Lynch issued an additional $90 million of floating rate, non-cumulative, perpetual preferred stock.

On April 19, 2005, Merrill Lynch's Board of Directors declared a 25% increase in the regular quarterly dividend to 20 cents per common share, from 16 cents per common share.

The Board of Directors authorized the repurchase of an additional $4 billion of Merrill Lynch's outstanding common shares under a program announced on April 19, 2005. During the second quarter of 2005, Merrill Lynch repurchased 20.2 million common shares at an average repurchase price of $54.48 per share.

## Note 10. Commitments, Contingencies and Guarantees

*Litigation*

Merrill Lynch has been named as a defendant in various legal actions, including arbitrations, class actions, and other litigation arising from its activities as a global diversified financial services institution. The general decline of equity securities prices between 2000 and 2003 has resulted in increased legal actions against many firms, including Merrill Lynch, and has resulted in higher professional fees and litigation expenses than those incurred in the past.

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

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

*Tax Matters*

Merrill Lynch is under examination by the Internal Revenue Service ("IRS") and other tax authorities in major countries such as Japan and the United Kingdom, and states in which Merrill Lynch has significant business operations, such as New York. The tax years under examination vary by jurisdiction; for example, the current IRS examination covers 2001-2003. In the second quarter of 2005, Merrill Lynch paid a tax assessment from the Tokyo Regional Tax Bureau in 2005 for the years 1998-2002. The assessment reflected the Japanese tax authority's view that certain income on which Merrill Lynch previously paid income tax to other international jurisdictions, primarily the United States, should have been allocated to Japan. Merrill Lynch is taking steps to file a request for reinvestigation of this assessment, including seeking clarification from international authorities on the appropriate allocation of income among multiple jurisdictions to prevent double taxation. Merrill Lynch regularly assesses the likelihood of additional assessments in each of the tax jurisdictions resulting from these examinations. Tax reserves have been established, which Merrill Lynch believes to be adequate in relation to the potential for additional assessments. However, there is a reasonable possibility that additional amounts may be incurred. The estimated additional possible amounts are no more than $150 million. Merrill Lynch will adjust this range and the level of reserves when there is more information available, or when an event occurs requiring a change to the reserves.

The reassessment of tax reserves could have a material impact on Merrill Lynch's effective tax rate in the period in which it occurs.

*Commitments*

At July 1, 2005, Merrill Lynch's commitments had the following expirations:

*(dollars in millions)*

| | | Commitment expiration | | | |
|---|---|---|---|---|---|
| | **Total** | **Less than 1 Year** | **1 –3 Years** | **3+ – 5 Years** | **Over 5 Years** |
| Commitments to extend credit(1) | $57,086 | $ 21,207 | $ 9,165 | $19,656 | $ 7,058 |
| Purchasing and other commitments | 9,656 | 8,138 | 772 | 233 | 513 |
| Operating leases | 3,443 | 545 | 1,001 | 811 | 1,086 |
| Commitments to enter into resale agreements | 6,760 | 6,722 | 38 | - | - |
| Total | $76,945 | $ 36,612 | $10,976 | $20,700 | $ 8,657 |

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

*Purchasing and Other Commitments*

Merrill Lynch had commitments to purchase partnership interests, primarily related to private equity investing activities, of $702 million and $973 million at July 1, 2005 and December 31, 2004, respectively. Merrill Lynch has also entered into agreements with providers of market data, communications, and systems consulting services. At July 1, 2005 and December 31, 2004, minimum fee commitments over the remaining life of these agreements aggregated $474 million and $457 million, respectively. Merrill Lynch has entered into commitments to purchase loans of $7.4 billion and $1.5 billion at July 1, 2005 and December 31, 2004, respectively. Other purchasing commitments amounted to $1.1 billion and $890 million at July 1, 2005 and December 31, 2004, respectively.

*Leases*

As disclosed in Note 11 of the 2004 Annual Report, Merrill Lynch has entered into various noncancellable long-term lease agreements for premises that expire through 2024. Merrill Lynch has also entered into various noncancellable short-term lease agreements, which are primarily commitments of less than one year under equipment leases.

*Other*

Merrill Lynch also obtains commercial letters of credit from issuing banks to satisfy various counterparty collateral requirements in lieu of depositing cash or securities collateral. Commercial letters of credit aggregated $559 million and $580 million at July 1, 2005 and December 31, 2004, respectively.

*Guarantees*

The derivatives in the following table meet the FIN 45 definition of guarantees and include certain written options and credit default swaps that contingently require Merrill Lynch to make payments based on changes in an underlying. Because the maximum exposure to loss could be unlimited for certain derivatives (e.g., interest rate caps) and the maximum exposure to loss is not considered when assessing the risk of contracts, the notional value of these contracts has been included to provide information about the magnitude of Merrill Lynch's involvement with these types of transactions. Merrill Lynch records all derivative instruments at fair value on its Condensed Consolidated Balance Sheets.

The liquidity facilities and default facilities in the following table relate primarily to municipal bond securitization SPEs. Merrill Lynch acts as liquidity provider to municipal bond securitization SPEs. As of July 1, 2005, the value of the assets held by the SPE plus any additional collateral pledged to Merrill Lynch exceeds the amount of beneficial interests issued, which provides additional support to Merrill Lynch in the event that the standby facility is drawn. As of July 1, 2005, the maximum payout if the standby facilities are drawn was $22.7 billion and the value of the municipal bond assets to which Merrill Lynch has recourse in the event of a draw was $26.9 billion. In certain instances, Merrill Lynch also provides default protection in addition to liquidity facilities. If the default protection is drawn, Merrill Lynch may claim the underlying assets held by the SPEs. As of July 1, 2005, the maximum payout if an issuer defaults was $3.6 billion, and the value of the assets to which Merrill Lynch has recourse, in the event that an issuer of a municipal bond held by the SPE defaults on any payment of principal and/or interest when due, was $5.0 billion. For additional information on these facilities, see Note 11 of the 2004 Annual Report.

In addition, Merrill Lynch makes guarantees to counterparties in the form of standby letters of credit. Merrill Lynch holds marketable securities of $367 million as collateral to secure these guarantees. Standby letters of credit also include $454 million of financial guarantees for which Merrill Lynch has recourse to the guaranteed party upon draw down.

Further, in conjunction with certain principal-protected mutual funds, Merrill Lynch guarantees the return of the initial principal investment at the termination date of the fund. At July 1, 2005, Merrill Lynch's maximum potential exposure to loss with respect to these guarantees was $634 million assuming that the funds are invested exclusively in other general investments (i.e., the funds hold no risk-free assets), and that those other general investments suffer a total loss. As such, this measure significantly overstates Merrill Lynch's exposure or expected loss at July 1, 2005. These instruments meet the SFAS No. 149 definition of derivatives and, as such, were carried as a liability with a fair value of $9 million at July 1, 2005.

Merrill Lynch also provides indemnifications related to the U.S. tax treatment of certain foreign tax planning transactions. The maximum exposure to loss associated with these transactions is $156 million; however, Merrill Lynch believes that the likelihood of loss with respect to these arrangements is remote.

Table of Contents

These guarantees and their expiration are summarized at July 1, 2005 as follows:

*(dollars in millions)*

| | Maximum Payout/ Notional | Less than 1 Year | 1 – 3 Years | 3+ – 5 Years | Over 5 Years | Carrying Value |
|---|---|---|---|---|---|---|
| Derivative contracts(1) | $1,348,992 | $ 482,064 | $313,292 | $240,130 | $313,506 | $ 32,539 |
| Liquidity facilities with SPEs(2) | 22,725 | 22,268 | 457 | - | - | - |
| Liquidity and default facilities with SPEs(2) | 3,662 | 2,835 | 579 | - | 248 | 6 |
| Residual value guarantees(3) | 1,082 | 51 | 2 | 492 | 537 | 28 |
| Standby letters of credit and other guarantees(4)(5)(6) | 2,707 | 973 | 273 | 291 | 1,170 | 12 |

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

*(2) Amounts relate primarily to facilities provided to municipal bond securitization SPEs. Includes $5.9 billion of guarantees provided to SPEs by third-party financial institutions where Merrill Lynch has agreed to reimburse the financial institution if losses occur, and has up to one year to fund losses.*

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

*(4) Includes $462 million of reimbursement agreements with the Mortgage 100SM program.*

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

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

See Note 11 of the 2004 Annual Report for additional information on guarantees.

## Note 11. Employee Benefit Plans

Merrill Lynch provides pension and other postretirement benefits to its employees worldwide through defined contribution pension, defined benefit pension, and other postretirement plans. These plans vary based on the country and local practices. Merrill Lynch reserves the right to amend or terminate these plans at any time. Refer to Note 12 of the 2004 Annual Report for a complete discussion of employee benefit plans.

*Defined Benefit Pension Plans*

Pension cost for the three and six month periods ended July 1, 2005 and June 25, 2004, for Merrill Lynch's defined benefit pension plans, included the following components:

*(dollars in millions)*

| | Three Months Ended | | | | | |
|---|---|---|---|---|---|---|
| | July 1, 2005 | | | June 25, 2004 | | |
| | U.S. Plans | Non-U.S. Plans | Total | U.S. Plans | Non-U.S. Plans | Total |
| Service cost(1) | $ - | $ 5 | $ 5 | $ - | $ 5 | $ 5 |
| Interest cost | 24 | 14 | 38 | 24 | 13 | 37 |
| Expected return on plan assets | (24) | (12) | (36) | (24) | (12) | (36) |
| Amortization of unrecognized items and other | - | 4 | 4 | - | 6 | 6 |
| Total defined benefit pension cost | $ - | $ 11 | $ 11 | $ - | $ 12 | $ 12 |

*(dollars in millions)*

| | Six Months Ended | | | | | |
|---|---|---|---|---|---|---|
| | July 1, 2005 | | | June 25, 2004 | | |
| | U.S. Plans | Non-U.S. Plans | Total | U.S. Plans | Non-U.S. Plans | Total |
| Service cost(1) | $ - | $ 11 | $ 11 | $ - | $ 17 | $ 17 |
| Interest cost | 48 | 29 | 77 | 48 | 27 | 75 |
| Expected return on plan assets | (48) | (25) | (73) | (48) | (23) | (71) |
| Amortization of unrecognized items and other | - | 8 | 8 | - | 9 | 9 |
| Total defined benefit pension cost | $ - | $ 23 | $ 23 | $ - | $ 30 | $ 30 |

*(1) The U.K. defined benefit plan was frozen during the second quarter of 2004, which accounts for the reduction in service costs.*

Merrill Lynch disclosed in its 2004 Annual Report that it expected to pay $1 million of benefit payments to participants in the U.S. non-qualified pension plan and Merrill Lynch expected to contribute $26 million to its non-U.S. defined benefit pension plans in 2005. Merrill Lynch does not expect contributions to differ significantly from amounts previously disclosed.

*Postretirement Benefits Other Than Pensions*

Other postretirement benefit cost for the three and six month periods ended July 1, 2005 and June 25, 2004, included the following components:

*(dollars in millions)*

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | July 1, 2005 | June 25, 2004 | July 1, 2005 | June 25, 2004 |
| Service cost | $ 4 | $ 4 | $ 9 | $ 8 |
| Interest cost | 8 | 8 | 16 | 16 |
| Other | 3 | 3 | 5 | 5 |
| Total other postretirement benefits cost | $ 15 | $ 15 | $ 30 | $ 29 |

Approximately 97% of the postretirement benefit cost components for the period relate to the U.S. postretirement plan.

## Note 12. Regulatory Requirements

Effective January 1, 2005, Merrill Lynch is a consolidated supervised entity (“CSE”) as defined by the SEC. As a CSE, Merrill Lynch is subject to group-wide supervision, which requires Merrill Lynch to compute allowable capital on a consolidated basis.

Certain U.S. and non-U.S. subsidiaries are subject to various securities, banking, and insurance regulations and capital adequacy requirements promulgated by the regulatory and exchange authorities of the countries in which they operate. Merrill Lynch’s principal regulated subsidiaries are discussed below.

*Securities Regulation*

Merrill Lynch, Pierce, Fenner & Smith Incorporated (“MLPF&S”), a U.S. registered broker-dealer and futures commission merchant, is subject to the net capital requirements of Rule 15c3-1 under the Securities Exchange Act of 1934 and the capital requirements of the Commodity Futures Trading

Commission ("CFTC"). Under the alternative method permitted by Rule 15c3-1, the minimum required net capital, as defined, shall be the greater of 2% of aggregate debit items ("ADI") arising from customer transactions or $500 million. The CFTC also requires that minimum net capital should not be less than 4% of segregated and secured requirements. At July 1, 2005, MLPF&S's regulatory net capital of $5,493 million was approximately 34% of ADI, and its regulatory net capital in excess of the minimum required was $4,983 million.

On December 23, 2004, the SEC granted MLPF&S an exemption from the application of the standard net capital requirements of Rule 15c3-1, pursuant to SEC rule amendments adopted on June 8, 2004. As a condition of this exemption, Merrill Lynch consented to group-wide supervision by the SEC. The rule amendments are intended to reduce regulatory capital costs for broker-dealers by allowing very highly capitalized firms, that have comprehensive internal controls and risk management practices in place, to use their mathematical risk models to calculate certain regulatory capital deductions. Effective January 1, 2005, MLPF&S began operating under the amended rules. On March 31, 2005, MLPF&S, with the approval of the SEC and the New York Stock Exchange, made a payment of $2.0 billion to its parent company, ML & Co., consisting of a $1.2 billion dividend and a subordinated debt repayment of $800 million.

Merrill Lynch International ("MLI"), a U.K. regulated investment firm, is subject to capital requirements of the Financial Services Authority ("FSA"). Financial resources, as defined, must exceed the total financial resources requirement of the FSA. At July 1, 2005, MLI's financial resources were $8,946 million, exceeding the minimum requirement by $1,421 million.

Merrill Lynch Government Securities Inc. ("MLGSI"), a primary dealer in U.S. Government securities, is subject to the capital adequacy requirements of the Government Securities Act of 1986. This rule requires dealers to maintain liquid capital in excess of market and credit risk, as defined, by 20% (a 1.2-to-1 capital-to-risk standard). At July 1, 2005, MLGSI's liquid capital of $1,874 million was 202% of its total market and credit risk, and liquid capital in excess of the minimum required was $762 million.

Merrill Lynch Japan Securities Co. Ltd. ("MLJS"), a Japan-based regulated broker-dealer, is subject to capital requirements of the Japanese Financial Services Agency ("JFSA"). Net capital, as defined, must exceed 120% of the total risk equivalents requirement of the JFSA. At July 1, 2005, MLJS's net capital was $1,002 million, exceeding the minimum requirement by $558 million.

*Banking Regulation*

Merrill Lynch Bank USA ("MLBUSA") is a Utah-chartered industrial bank, regulated by the Federal Deposit Insurance Corporation and the Utah Department of Financial Institutions. Merrill Lynch Bank & Trust Co. ("MLB&T") is a New Jersey-chartered state bank regulated by the Federal Deposit Insurance Corporation and the New Jersey Department of Banking and Insurance. Both MLBUSA and MLB&T are required to maintain capital levels that at least equal minimum capital levels specified in federal banking laws and regulations. Failure to meet the minimum levels will result in certain mandatory, and possibly additional discretionary, actions by the regulators that, if undertaken, could have a direct material effect on the banks. The capital levels are measured based on the following ratios: (i) the Tier 1 leverage ratio; (ii) the Tier 1 risk-based capital ratio; and (iii) the Total risk-based capital ratio. These ratios are calculated as follows: (i) Tier 1 Capital divided by average assets during the period; (ii) Tier 1 Capital divided by risk weighted assets at period end; and (iii) Total Capital divided by risk weighted assets at period end, respectively. MLBUSA and MLB&T each exceed the following minimum bank regulatory requirements for classification as a well-capitalized bank: (i) 5% for the Tier 1 leverage ratio; (ii) 6% for the Tier 1 risk-based capital ratio; and (iii) 10% for the Total risk-based capital ratio. The following table illustrates the actual capital ratios and capital amounts for MLBUSA and MLB&T as of July 1, 2005 and December 31, 2004.

*(dollars in millions)*

| | July 1, 2005 | | Dec. 31, 2004 | |
|---|---|---|---|---|
| | **Actual Ratio** | **Amount** | **Actual Ratio** | **Amount** |
| **Tier I leverage (to average assets)** | | | | |
| MLBUSA | 8.96% | $ 5,631 | 7.58% | $ 5,171 |
| MLB&T | 6.39 | 812 | 6.17 | 815 |
| **Tier I capital (to risk-weighted assets)** | | | | |
| MLBUSA | 10.67 | 5,631 | 10.28 | 5,171 |
| MLB&T | 16.69 | 812 | 17.35 | 815 |
| **Total capital (to risk-weighted assets)** | | | | |
| MLBUSA | 11.26 | 5,943 | 10.81 | 5,438 |
| MLB&T | 16.78 | 817 | 17.39 | 817 |

Merrill Lynch Capital Markets Bank Limited (“MLCMB”), an Ireland-based regulated bank, is subject to the capital requirements of the Irish Financial Services Regulatory Authority (“IFSRA”), as well as to those of the State of New York Banking Department (“NYSBD”), as the consolidated supervisor of its indirect parent, Merrill Lynch International Finance Corporation (“MLIFC”). MLCMB is required to meet minimum regulatory capital requirements under EU banking law as implemented in Ireland by IFSRA. At July 1, 2005, MLCMB’s capital ratio was above the minimum requirement at 12.86% and its financial resources, as defined, were $2,858 million, exceeding the minimum requirement by $1,426 million.

Merrill Lynch International Bank Limited (“MLIB”), a U.K.-based regulated bank, is subject to the capital requirements of the FSA as well as those of the NYSBD as part of the MLIFC group. MLIB is required to meet minimum regulatory capital requirements under EU banking law as implemented in the U.K. MLIB’s consolidated capital ratio (including its subsidiary Merrill Lynch Bank (Suisse) S.A.), is above the minimum capital requirements established by the FSA. At July 1, 2005, MLIB’s consolidated capital ratio was 12.88% and its consolidated financial resources were $2,840 million, exceeding the minimum requirement by $587 million.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have reviewed the accompanying condensed consolidated balance sheet of Merrill Lynch & Co., Inc. and subsidiaries ("Merrill Lynch") as of July 1, 2005, and the related condensed consolidated statements of earnings for the three-month and six-month periods ended July 1, 2005 and June 25, 2004, and the condensed consolidated statements of cash flows for the six-month periods ended July 1, 2005 and June 25, 2004. These interim financial statements are the responsibility of Merrill Lynch's management.

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Merrill Lynch as of December 31, 2004, and the related consolidated statements of earnings, changes in stockholders' equity, comprehensive income and cash flows for the year then ended (not presented herein); and in our report dated March 2, 2005, 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, 2004 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Deloitte & Touche LLP
New York, New York
August 5, 2005

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

### Forward-Looking Statements

Certain statements in this report may be considered forward-looking, including those about management expectations, strategic objectives, growth opportunities, business prospects, anticipated financial results, the impact of off balance sheet arrangements, significant contractual obligations, anticipated results of litigation and regulatory investigations and proceedings, and other similar matters. These forward-looking statements represent only Merrill Lynch & Co., Inc.’s (“ML & Co.” and, together with its subsidiaries, “Merrill Lynch”) beliefs regarding future performance, which is inherently uncertain. There are a variety of factors, many of which are beyond Merrill Lynch’s control, which affect its operations, performance, business strategy and results and could cause its actual results and experience to differ materially from the expectations and objectives expressed in any forward-looking statements. These factors include, but are not limited to, actions and initiatives taken by both current and potential competitors, general economic conditions, the effects of current, pending and future legislation, regulation and regulatory actions, and the other risks and uncertainties detailed in Merrill Lynch’s Annual Report on Form 10-K for the year ended December 31, 2004 and in the following sections. Accordingly, readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the dates on which they are made. Merrill Lynch does not undertake to update forward-looking statements to reflect the impact of circumstances or events that arise after the dates they are made. The reader should, however, consult further disclosures Merrill Lynch may make in future filings of its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K.

## Overview

### Introduction

Merrill Lynch is a holding company that, through its subsidiaries, provides broker-dealer, investment banking, financing, wealth management, advisory, asset management, insurance, lending, and related products and services on a global basis. In addition, Merrill Lynch engages in market-making activities on behalf of its clients and for its own account, as well as in private equity and other principal investment activities.

Merrill Lynch is a leading participant in the financial services industry, which is extremely competitive and highly regulated. As a participant in this industry and the global financial markets, Merrill Lynch may be influenced by numerous unpredictable factors, including economic conditions, monetary and fiscal policies, the liquidity of the global markets, international and regional political events, acts of war or terrorism, changes in the competitive landscape and investor sentiment. In addition to these factors, Merrill Lynch may be affected by regulatory and/or legislative initiatives that may affect the conduct of its businesses, including increased regulation, the outcome of legal and regulatory investigations and proceedings, and changes in applicable laws and regulations. These factors may significantly affect Merrill Lynch’s net revenues and net earnings from period to period.

### Regulatory Environment

As noted above, the financial services industry is impacted by the regulatory and legislative environment. In June 2005, the Securities and Exchange Commission (“SEC”) adopted rules that would modify the offering process for securities. Various federal and state securities regulators, self-regulatory organizations (including the New York Stock Exchange and the National Association of Securities Dealers) and industry participants also continued to review and, in many cases, adopt changes to their established rules and policies in areas such as corporate governance, research analyst conflicts of interest and qualifications, practices related to the initial public offering of equity securities, mutual fund trading, disclosure practices and auditor independence.

Merrill Lynch is a Consolidated Supervised Entity (“CSE”), and is subject to group-wide supervision by the SEC. As such, Merrill Lynch is computing allowable capital and allowances thereto; permitting the SEC to examine the books and records of the holding company and any affiliate that does not have a principal regulator; and has adopted various additional SEC reporting, record-keeping, and notification requirements. In respect of the European Union (“EU”) Financial Conglomerates (or “Financial Groups”) Directive, the U.K. Financial Services Authority (“FSA”) has determined that the SEC undertakes equivalent consolidated supervision for Merrill Lynch. Being a CSE has imposed additional costs, although not material to date, and has introduced new requirements to monitor capital adequacy.

Regarding new developments in international capital standards, Merrill Lynch continues to work closely with regulators to assess the impact of compliance with the new Basel II capital standards, which the Basel Committee on Banking Supervision adopted in June 2004. Merrill Lynch, like all other large financial services firms, is actively analyzing the Basel II framework and related implementation costs. As rules governing implementation of Basel II are released, Merrill Lynch expects to begin the process of complying with the new framework.

## Business Environment

Global financial market conditions remained challenging for most of the second quarter of 2005 amid concerns over oil prices, slowing economic growth and the uncertainty surrounding rising interest rates. Global equity markets fell during April but rallied in May, recovering lost ground. In June, global equity markets generally continued to rally, although U.S. equity markets pulled back slightly towards the end of the month. Equity trading volumes in the U.S. moved within a narrow range during the second quarter, increasing somewhat in April, declining in May, and increasing modestly in June. Equity market volatility remained at historically low levels. Interest rates continued to trend towards a flatter yield curve throughout the quarter. Long-term interest rates, as measured by the yield on the 10-year U.S. Treasury bond, declined to 3.92%, down from 4.49% at the end of the first quarter. The U.S. Federal Reserve System’s Federal Open Market Committee raised the federal funds rate twice during the quarter to 3.25%, up from 2.75%.

Major U.S. equity indices ended the second quarter moderately higher than the first quarter, but lower than where they started the year. The Standard and Poor’s 500 Index was up 0.9% sequentially, but down 1.7% year-to-date, while the Nasdaq Composite Index was up 2.9% sequentially, but down 5.4% year-to-date. The notable exception to this was the Dow Jones Industrial Average, which declined 2.2% sequentially and 4.7% year-to-date.

Global equity indices experienced mixed results in the second quarter of 2005, similar to those of the first quarter. European stock markets were among the best performers both sequentially and year-to-date, as the Dow Jones Euro Stoxx 50 Index rose 5.9% sequentially and 9.4% year-to-date, and the FTSE 100 Index rose 4.5% sequentially and 6.2% year-to-date. Major equity markets in Asia produced mixed results amid concerns over China’s currency policy and the effects of higher oil prices. The Nikkei Stock Average declined 0.7% during the quarter, but was up 0.8% year-to-date, while the Hang Sang Index was up 5.1% sequentially, but down 0.2% year-to-date. The major Latin American indices produced similarly mixed performance as Brazil’s Bovespa Index declined 5.9% sequentially and 4.4% year-to-date, while the Mexican Bolsa Index rose 6.4% sequentially and 4.4% year-to-date.

Second quarter global debt and equity underwriting volumes of $1.6 trillion were down 4.8% compared to the first quarter but up 17.0% from the year-ago quarter, according to Thomson Financial Securities Data. Global debt underwriting volumes of $1.5 trillion were down 4.1% compared to the first quarter, but up 20.1% compared to the year-ago quarter, while global equity underwriting volumes of $99.7 billion were down 13.5% compared to the first quarter and 14.8% compared to the year-ago quarter. Global debt and equity underwriting fees were $2.8 billion, down 7.2% sequentially and 17.8% from the second quarter of 2004.

Merger and acquisition ("M&A") activity maintained momentum as the value of global announced deals rose to $678 billion, up 14.1% from the first quarter and up 75.8% from the year-ago quarter, according to Thomson Financial Securities Data, with significant activity in June. In the United States, the value of announced deals increased to $326 billion, up 22.5% from the first quarter and 80.5% from the year-ago quarter. Globally, completed M&A activity totaled $372 billion in the second quarter, down 0.8% from the first quarter and 11.8% from the year-ago quarter.

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

## Critical Accounting Policies and Estimates

The following is a summary of Merrill Lynch's critical accounting policies and estimates. For a full description of these and other accounting policies and estimates see Note 1 of the 2004 Annual Report and Note 1 to the Condensed Consolidated Financial Statements.

*Use of Estimates*

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

- valuations of certain trading inventory and investment securities;
- valuations of private equity investments;
- the outcome of litigation;
- assumptions and cash flow projections used in determining whether variable interest entities ("VIEs") should be consolidated and the determination of the qualifying status of special purpose entities ("QSPEs");
- tax reserves;
- the realization of deferred tax assets;
- the allowance for loan losses;
- the carrying amount of goodwill and other intangible assets;
- valuation of employee stock options;
- insurance reserves and recovery of insurance deferred acquisition costs;
- interim compensation accruals, particularly cash incentive awards and Financial Advisor compensation; and
- other matters that affect the reported amounts and disclosure of contingencies in the financial statements.

Estimates, by their nature, are based on judgment and available information. Therefore, actual results could differ from those estimates and could have a material impact on the Condensed Consolidated

Financial Statements, and it is possible that such changes could occur in the near term. For more information regarding the specific methodologies used in determining estimates, refer to Use of Estimates in Note 1 of the 2004 Annual Report.

*Valuation of Financial Instruments*

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

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

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

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

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

Assets and liabilities recorded on the balance sheet can be broadly categorized as follows:

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

2. liquid instruments, primarily carried at fair value, including:

a) cash instruments for which quoted prices are available but which trade less frequently such that there may not be complete pricing transparency for these instruments across all market cycles (for example, corporate and municipal bonds and certain physical commodities);

b) derivative instruments that are valued using a model, where inputs to the model are directly observable in the market (for example, U.S. dollar interest rate swaps); and

c) instruments that are priced with reference to financial instruments whose parameters can be directly observed (for example, certain trading loans).

3. less liquid instruments that are valued using management's best estimate of fair value, and instruments that are valued using a model, where either the inputs to the model and/or the models themselves require significant judgment by management (for example, private equity investments; certain loans; long-dated or complex derivatives such as certain foreign exchange options and credit default swaps; distressed debt and aged inventory positions; and commodity derivatives such as long-dated options on gas, power and weather derivatives).

At July 1, 2005 and December 31, 2004, certain assets and liabilities on the Condensed Consolidated Balance Sheets can be categorized using the above classification scheme as follows:

*(dollars in millions)*

| **July 1, 2005** | **Category 1** | **Category 2** | **Category 3** | **Total** |
|---|---|---|---|---|
| **Assets** | | | | |
| Trading assets, excluding contractual agreements | $ 70,185 | $ 69,755 | $ 2,525 | $142,465 |
| Contractual agreements | 3,368 | 20,877 | 2,135 | 26,380 |
| Investment securities | 11,378 | 57,290 | 6,158 | 74,826 |
| **Liabilities** | | | | |
| Trading liabilities, excluding contractual agreements | $ 55,928 | $ 9,178 | $ 360 | $ 65,466 |
| Contractual agreements | 9,300 | 22,621 | 6,050 | 37,971 |
| **December 31, 2004** | | | | |
| **Assets** | | | | |
| Trading assets, excluding contractual agreements | $ 74,767 | $ 62,488 | $ 2,716 | $139,971 |
| Contractual agreements | 5,240 | 27,141 | 3,498 | 35,879 |
| Investment securities | 9,250 | 63,010 | 6,020 | 78,280 |
| **Liabilities** | | | | |
| Trading liabilities, excluding contractual agreements | $ 51,763 | $ 11,039 | $ 1,269 | $ 64,071 |
| Contractual agreements | 9,081 | 25,427 | 4,257 | 38,765 |

In addition, other trading-related assets recorded in the Condensed Consolidated Balance Sheets at July 1, 2005 and December 31, 2004, include $173.6 billion and $173.4 billion of securities financing transactions (receivables under resale agreements and receivables under securities borrowed transactions), which are recorded at their contractual amounts, approximating fair value, and for which little or no estimation is required by management.

*Litigation*

Merrill Lynch is involved in a significant number of lawsuits, arbitrations, investigations and/or proceedings by governmental and self-regulatory agencies. Given the number of these matters, some are likely to result in adverse judgments, settlements, penalties, injunctions, fines, or other relief. Merrill Lynch believes it has strong defenses to, and will vigorously contest, many of these matters. In accordance with Statement of Financial Accounting Standards ("SFAS") No. 5, *Accounting for Contingencies,* when resolution of cases is both probable and estimable, Merrill Lynch will accrue a liability. In many lawsuits and arbitrations, including class action lawsuits, it is not possible to determine whether a liability has been incurred or to estimate the ultimate or minimum amount of that liability until the case is close to resolution, in which case no accrual is made until that time. In view of the inherent difficulty of predicting the outcome of such matters, particularly in cases in which claimants seek substantial or indeterminate damages, Merrill Lynch cannot predict what the eventual loss or range of loss related to such matters will be. Merrill Lynch continues to assess these matters and believes, based on information available to it, that the resolution of these matters will not have a material adverse effect on the financial condition of Merrill Lynch as set forth in the Condensed Consolidated Financial Statements, but may be material to Merrill Lynch's operating results or cash flows for any particular period and may impact ML & Co.'s credit ratings. See Note 10 to the Condensed Consolidated Financial Statements and Part II, Item 1 for additional information on litigation.

## Results of Operations

| (dollars in millions, except per share amounts) | For the Three Months Ended July 1, 2005 | For the Three Months Ended June 25, 2004 | For the Six Months Ended July 1, 2005 | For the Six Months Ended June 25, 2004 |
|---|---|---|---|---|
| Net revenues | | | | |
| Asset management and portfolio service fees | $ 1,431 | $ 1,344 | $ 2,866 | $ 2,657 |
| Commissions | 1,243 | 1,160 | 2,588 | 2,499 |
| Principal transactions | 921 | 634 | 1,800 | 1,663 |
| Investment banking | 894 | 764 | 1,705 | 1,601 |
| Revenues from consolidated investments | 84 | 46 | 211 | 103 |
| Other | 641 | 274 | 986 | 606 |
| Subtotal | 5,214 | 4,222 | 10,156 | 9,129 |
| Interest and dividend revenues | 5,978 | 3,112 | 11,519 | 6,168 |
| Less interest expense | 4,875 | 2,084 | 9,137 | 3,986 |
| Net interest profit | 1,103 | 1,028 | 2,382 | 2,182 |
| Total net revenues | 6,317 | 5,250 | 12,538 | 11,311 |
| Non-interest expenses: | | | | |
| Compensation and benefits | 3,130 | 2,587 | 6,214 | 5,634 |
| Communications and technology | 395 | 358 | 791 | 698 |
| Occupancy and related depreciation | 227 | 202 | 460 | 419 |
| Brokerage, clearing, and exchange fees | 216 | 187 | 435 | 372 |
| Professional fees | 183 | 163 | 361 | 340 |
| Advertising and market development | 160 | 132 | 286 | 254 |
| Expenses of consolidated investments | 35 | 39 | 120 | 81 |
| Office supplies and postage | 51 | 49 | 103 | 100 |
| Other | 325 | 147 | 504 | 337 |
| Total non-interest expenses | 4,722 | 3,864 | 9,274 | 8,235 |
| Earnings before income taxes | $ 1,595 | $ 1,386 | $ 3,264 | $ 3,076 |
| Net earnings | $ 1,135 | $ 1,070 | $ 2,347 | $ 2,321 |
| Earnings per common share: | | | | |
| Basic | $ 1.25 | $ 1.15 | $ 2.57 | $ 2.48 |
| Diluted | 1.14 | 1.05 | 2.36 | 2.26 |
| Annualized return on average common stockholders' equity | 14.3% | 14.4% | 14.9% | 15.7% |
| Pre-tax profit margin | 25.2 | 26.4 | 26.0 | 27.2 |
| Compensation and benefits as a percentage of net revenues | 49.5% | 49.3% | 49.6% | 49.8% |
| Non-compensation expenses as a percentage of net revenues | 25.3 | 24.3 | 24.4 | 23.0 |

*Quarterly Results of Operations*

Merrill Lynch's net earnings were $1.13 billion for the 2005 second quarter, up 6% from $1.07 billion in the second quarter of 2004. Earnings per common share were $1.25 basic and $1.14 diluted, both up 9% from the year-ago quarter. Net revenues were $6.3 billion in the second quarter of 2005, 20% higher than the 2004 second quarter. The 2005 second quarter pre-tax margin was 25.2%, down from 26.4% in the prior-year quarter.

Asset management and portfolio services fees primarily consist of (i) fees earned from the management and administration of retail mutual funds and separately managed accounts for retail investors, as well as institutional funds such as pension assets, (ii) performance fees earned on certain separately managed accounts, and institutional money management arrangements (iii) servicing fees related to these accounts and (iv) annual account fees and certain other account-related fees. Asset management and portfolio service fees were $1.4 billion, up 6% from the second quarter of 2004. The year-on-year increase in portfolio service fees reflects net inflows into asset-priced accounts and the increase in asset management fees reflects the impact of net inflows of higher yielding assets and higher equity market values at the beginning of the quarter.

Commissions revenues primarily arise from agency transactions in listed and OTC equity securities and commodities, money market instruments, insurance products and options. Commissions revenues also include distribution fees for promoting and distributing mutual funds (“12b-1 fees”), as well as contingent deferred sales charges earned when a shareholder redeems shares prior to the required holding period. Commissions revenues were $1.2 billion, up 7% from the 2004 second quarter, due primarily to a global increase in client transaction volumes, particularly in listed equities and mutual funds.

Principal transactions revenues include realized gains and losses from the purchase and sale of securities, such as OTC equity securities, government bonds and municipal securities, in which Merrill Lynch acts as principal, as well as unrealized gains and losses on trading assets and liabilities. Principal transactions revenues were $921 million, 45% higher than the year-ago quarter, due primarily to increased revenues from trading credit products, as well as the addition of the commodities business, which was acquired in late 2004, partially offset by lower revenues from the trading of interest rate products.

Net interest profit is a function of (i) the level and mix of total assets and liabilities, including trading assets owned, deposits, financing and lending transactions and trading strategies associated with the institutional securities business, and (ii) the prevailing level, term structure and volatility of interest rates. Net interest profit is an integral component of trading activity. Net interest profit was $1.1 billion, up 7% from the 2004 second quarter, primarily reflecting the impact of rising short-term interest rates on deposit spreads.

Investment banking revenues include (i) origination revenues representing fees earned from the underwriting of debt, equity and equity-linked securities, as well as loan syndication and commitment fees and (ii) strategic advisory services revenues including merger and acquisition and other investment banking advisory fees. Investment banking revenues were $894 million, up 17% from the 2004 second quarter, driven primarily by higher strategic advisory revenues as the strong announced deal activity from late 2004 and early 2005 reached completion. Underwriting revenues also increased from a year ago primarily driven by strong debt underwriting revenues due to increased origination volumes.

Revenues from consolidated investments were $84 million, up from $46 million in the 2004 second quarter, reflecting the full impact of entities consolidated in the latter part of 2004.

Other revenues include realized investment gains and losses, write-downs of certain available-for-sale securities, gains related to the sale of mortgages, equity income from unconsolidated subsidiaries, distributions on cost method investments, as well as fair value adjustments on private equity investments made by non-broker-dealer subsidiaries that are held for capital appreciation and/or current income. Other revenues were $641 million in the second quarter of 2005, up from $274 million in the 2004 second quarter, driven primarily by a $235 million private equity gain. This gain was evidenced by the recapitalization of a private equity investment, which resulted in a cash distribution of $311 million.

Compensation and benefits expenses were $3.1 billion in the second quarter of 2005, up 21% from the year-ago quarter, reflecting higher incentive compensation accruals associated with increased net revenues, as well as higher staffing levels. Compensation and benefits expenses were 49.5% of net revenues for the second quarter of 2005, as compared to 49.3% in the year-ago quarter.

Non-compensation expenses were $1.6 billion in the second quarter of 2005, up 25% from the year-ago quarter. Communications and technology costs were $395 million, up 10% from the year-ago quarter due primarily to higher system consulting costs related to investments for growth and higher market information and communications costs. Occupancy and related depreciation of $227 million increased 12% from the year-ago quarter, principally due to higher office rental expenses and occupancy-related taxes. Brokerage, clearing and exchange fees were $216 million, up 16% from the 2004 second quarter due in part to higher transaction volumes. Professional fees were $183 million, up 12% from the year-ago quarter due principally to an increase in recruitment costs and other professional fees. Advertising and market development was $160 million, up 21% from the year-ago quarter due primarily to an increase in sales promotion and advertising costs, as well as higher travel expenses associated with increased activity levels. Other expenses were $325 million, up from $147 million in the 2004 second quarter, due primarily to higher litigation provisions.

*Year-to-date Results of Operations*

For the first six months of 2005, net earnings of $2.3 billion increased slightly from the first six months of 2004, on net revenues of $12.5 billion, that grew 11%. Compensation and benefits expenses for the first six months of 2005 were $6.2 billion, up 10% from the year-ago period, reflecting higher incentive compensation accruals associated with increased net revenues, as well as higher staffing levels. Compensation and benefits expenses were 49.6% of net revenues for the first half of 2005, down from 49.8% in the year-ago period. Non-compensation expenses totaled $3.1 billion for the first six months of 2005, up 18% from the year-ago period, largely due to technology spending associated with growth initiatives and litigation-related costs. Year-to-date earnings per common share were $2.57 basic and $2.36 diluted, compared with $2.48 basic and $2.26 diluted for the first six months of 2004. The pre-tax profit margin for the first six months of 2005 was 26.0%, compared to 27.2% in the year-ago period. Annualized return on average common stockholders' equity was 14.9% for the first six months of 2005, compared to 15.7% for the comparable period in 2004.

Merrill Lynch's effective tax rate was 28.8% for the 2005 second quarter. The year-to-date effective tax rate was 28.1%, up from 24.5% in the year-ago period, reflecting the change in business mix, tax settlements and the utilization of Japanese net operating loss carryforwards, which reduced the effective tax rate in 2004.

## Business Segments

Merrill Lynch reports its results in three business segments: Global Markets and Investment Banking ("GMI"), Global Private Client ("GPC"), and Merrill Lynch Investment Managers ("MLIM"). GMI provides full service global markets and origination capabilities, products and services to corporate, institutional, and government clients around the world. GPC provides wealth management products and services globally to individuals, small- to mid-size businesses, and employee benefit plans. MLIM is a global asset manager serving individual, institutional and corporate clients.

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

**Global Markets and Investment Banking**

**GMI's Results of Operations**

| (dollars in millions) | For the Three Months Ended July 1, 2005 | June 25, 2004 | % Inc. | For the Six Months Ended July 1, 2005 | June 25, 2004 | % Inc. (Dec.) |
|---|---|---|---|---|---|---|
| Global Markets | | | | | | |
| Debt | $1,632 | $ 1,256 | 30% | $3,302 | $ 2,862 | 15% |
| Equity | 1,021 | 734 | 39 | 1,982 | 1,634 | 21 |
| Total Global Markets net revenues | 2,653 | 1,990 | 33 | 5,284 | 4,496 | 18 |
| Investment Banking | | | | | | |
| Origination | | | | | | |
| Debt | 350 | 301 | 16 | 632 | 552 | 14 |
| Equity | 223 | 210 | 6 | 465 | 499 | (7) |
| Strategic Advisory Services | 213 | 141 | 51 | 373 | 304 | 23 |
| Total Investment Banking net revenues | 786 | 652 | 21 | 1,470 | 1,355 | 8 |
| Total net revenues | 3,439 | 2,642 | 30 | 6,754 | 5,851 | 15 |
| Non-interest expenses | 2,341 | 1,653 | 42 | 4,532 | 3,743 | 21 |
| Pre-tax earnings | $1,098 | $ 989 | 11 | $2,222 | $ 2,108 | 5 |
| Pre-tax profit margin | 31.9% | 37.4% | | 32.9% | 36.0% | |

Despite challenging market conditions for much of the second quarter, each of GMI's major business lines — Debt Markets, Equity Markets and Investment Banking — recorded increased quarterly revenues from a year ago. GMI's net revenues of $3.4 billion increased 30% from the 2004 second quarter. Pre-tax earnings of $1.1 billion were up 11% from the year-ago quarter. GMI's pre-tax profit margin was 31.9%, down from 37.4% in the year-ago quarter, reflecting higher non-interest expenses due primarily to increased compensation costs associated with higher revenues and new acquisitions, technology spending associated with growth initiatives, and litigation-related costs.

For the first six months of 2005, GMI pre-tax earnings were $2.2 billion, up 5% from the year-ago period, on net revenues that rose 15%, to $6.8 billion. The year-to-date pre-tax profit margin was 32.9%, compared with 36.0% in the same period last year.

Global Markets net revenues of $2.7 billion increased 33% from the 2004 second quarter. Investment Banking net revenues of $786 million were up 21% from the year-ago quarter. For the first six months of 2005, Global Markets net revenues were $5.3 billion, up 18% from the year-ago period. Investment Banking net revenues were $1.5 billion, 8% higher than the 2004 period.

A detailed discussion of GMI's revenues follows:

Global Markets

*Debt Markets*

Debt Markets net revenues include principal transactions and net interest profit (which should be viewed in aggregate to derive an accurate view of trading results), commissions, revenues from equity method investments, and other revenues. In the second quarter 2005, Debt Market net revenues of $1.6 billion increased 30% from the year ago quarter, driven by trading credit products and the contribution of the recently acquired commodities business, partially offset by lower net revenues in interest rate products. In the second quarter of 2005, Debt Markets net revenues included $27 million of revenues related to equity method investments, primarily related to its principal investing activities. Such revenues totaled $51 million for the second quarter of 2004. This year-over-year reduction was due to the change in accounting treatment for an investment from the equity method to the cost method following the adoption of EITF 02-14. Net revenues related to equity method investments are included in Other revenues on the Condensed Consolidated Statements of Earnings.

Year-to-date Debt Markets net revenues were $3.3 billion, up 15% from the year-ago period, driven principally by the trading of credit products, Global Principal Investments and Secured Finance (which includes Merrill Lynch's mortgage and asset-backed securitization and trading businesses, as well as its principal investing activities), and the contribution of the recently acquired commodities business. These results were partially offset by lower net revenues in interest rate products and the change in accounting treatment for an investment from the equity method to the cost method. The Debt Markets business has made substantial investments in the past two years to expand its capabilities across debt markets including credit, principal investing, secured finance, real estate, mortgages, municipals, foreign exchange and commodities. In the first six months of 2005, Debt Markets net revenues included $42 million of revenues related to equity method investments, primarily related to its principal investing activities. Such revenues totaled $125 million for the six-month period of 2004.

*Equity Markets*

Equity Markets net revenues include commissions, principal transactions and net interest profit, revenues from equity method investments, fair value adjustments on private equity investments made by non-broker dealer subsidiaries that are held for capital appreciation and/or current income, and other revenues. Equity Markets second quarter net revenues increased 39% from the year-ago quarter, to $1.0 billion, driven primarily by a private equity gain and higher equity financing revenues resulting from the acquisition of Pax Clearing Corporation ("Pax"), partially offset by lower equity-linked trading revenues. During the second quarter of 2005, Merrill Lynch recognized a gain of approximately $235 million, which was recorded in Other revenues. This gain was associated with the change in the fair value of a private equity investment which was evidenced by the recapitalization of the underlying company, resulting in a cash distribution of $311 million. The changes in value associated with private equity investments were not material in prior periods. See Note 1 to the Condensed Consolidated Financial Statements for more information on the accounting policies for private equity investments. In the second quarter of 2005, Equity Markets net revenues included $73 million of revenues related to equity method investments, primarily related to its principal investing activities. Such revenue totaled $41 million for the second quarter of 2004.

Year-to-date Equity Markets net revenues were $2.0 billion, up 21% from the year-ago period, driven primarily by the private equity-related gain and increased equity financing net revenues, partially offset by lower equity-linked trading revenues. In the first six months of 2005, Equity Markets net revenues included $135 million of revenues related to equity method investments, primarily related to its principal investing activities. Such revenues totaled $67 million for the six-month period of 2004.

During the second quarter of 2005, Merrill Lynch completed its acquisition of Pax, a clearing and financing platform. This acquisition will complement the acquisition of ABN Amro's clearing and financing business, which closed in 2004. The addition of Pax will strengthen Merrill Lynch's prime brokerage market presence and its equity financing capabilities.

The Equity Markets business has made substantial investments in the past two years to enhance the electronic and portfolio trading, prime brokerage, and equity derivatives businesses.

*Investment Banking*

*Underwriting*

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

Underwriting revenues in the second quarter of 2005 were $573 million, up 12% from the year-ago quarter, reflecting higher debt underwriting revenues which increased 16% from a year ago. This increase reflects Merrill Lynch's focus on balancing the profitability of this business with competitive market share and league table ranking. Equity underwriting revenues of $223 million were 6% higher than the year-ago quarter due primarily to an increase in IPO volume.

Year-to-date underwriting revenues increased 4% to $1.1 billion from the year-ago period, as debt underwriting revenues, which increased 14% from a year ago, were partially offset by a 7% decrease in equity underwriting revenues reflecting the challenging environment for equity and equity-linked offerings in the first half of 2005.

Merrill Lynch's underwriting market share information based on transaction value for the indicated calendar period follows:

| | Second Quarter 2005 | | Second Quarter 2004 | |
|---|---|---|---|---|
| | **Market Share** | **Rank** | **Market Share** | **Rank** |
| **Global proceeds** | | | | |
| Debt and Equity | 4.8% | 8 | 6.2% | 7 |
| Debt | 4.7 | 8 | 6.2 | 7 |
| Equity and equity-linked | 6.5 | 6 | 6.1 | 6 |
| **U.S. proceeds** | | | | |
| Debt and Equity | 6.9% | 5 | 8.1% | 5 |
| Debt | 6.7 | 6 | 8.2 | 4 |
| Equity and equity-linked | 9.6 | 4 | 6.5 | 7 |

*Source: Thomson Financial Securities Data statistics based on full credit to book manager.*

| | Six Months 2005 | | Six Months 2004 | |
|---|---|---|---|---|
| | **Market Share** | **Rank** | **Market Share** | **Rank** |
| **Global proceeds** | | | | |
| Debt and Equity | 4.7% | 9 | 7.2% | 3 |
| Debt | 4.5 | 9 | 7.1 | 2 |
| Equity and equity-linked | 8.7 | 3 | 7.4 | 5 |
| **U.S. proceeds** | | | | |
| Debt and Equity | 6.3% | 7 | 9.6% | 2 |
| Debt | 6.0 | 8 | 9.7 | 2 |
| Equity and equity-linked | 11.4 | 2 | 7.2 | 6 |

*Source: Thomson Financial Securities Data statistics based on full credit to book manager.*

*Strategic Advisory Services*
Strategic advisory services revenues, which include merger and acquisition and other advisory fees, were $213 million in the second quarter of 2005, up 51% from the year-ago quarter as the strong announced deal activity from late 2004 and early 2005 reached completion. Year-to-date strategic advisory services revenues increased 23% from the year-ago period, to $373 million on higher activity.

Merrill Lynch's merger and acquisition market share information based on transaction value for the indicated calendar period follows:

| | Second Quarter 2005 | | Second Quarter 2004 | |
|---|---|---|---|---|
| | **Market Share** | **Rank** | **Market Share** | **Rank** |
| **Completed transactions** | | | | |
| Global | 12.1% | 8 | 12.0% | 7 |
| U.S. | 13.1 | 8 | 11.1 | 8 |
| **Announced transactions** | | | | |
| Global | 19.0% | 5 | 22.1% | 2 |
| U.S. | 14.0 | 7 | 29.1 | 1 |

*Source: Thomson Financial Securities Data statistics based on full credit to both target and acquiring companies' advisors.*

| | Six Months 2005 | | Six Months 2004 | |
|---|---|---|---|---|
| | **Market Share** | **Rank** | **Market Share** | **Rank** |
| **Completed transactions** | | | | |
| Global | 13.3% | 6 | 13.8% | 5 |
| U.S. | 9.0 | 10 | 17.3 | 4 |
| **Announced transactions** | | | | |
| Global | 21.1% | 4 | 24.5% | 2 |
| U.S. | 20.3 | 4 | 26.1 | 2 |

*Source: Thomson Financial Securities Data statistics based on full credit to both target and acquiring companies' advisors.*

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

***Global Private Client***

**GPC's Results of Operations**

| (dollars in millions) | For the Three Months Ended July 1, 2005 | June 25, 2004 | % Inc. (Dec.) | For the Six Months Ended July 1, 2005 | June. 25, 2004 | % Inc. (Dec.) |
|---|---|---|---|---|---|---|
| Fee-based revenues | $1,287 | $ 1,195 | 8% | $2,558 | $ 2,353 | 9% |
| Transactional and origination revenues | 779 | 765 | 2 | 1,631 | 1,679 | (3) |
| Net interest profit | 427 | 299 | 43 | 825 | 639 | 29 |
| Other revenues | 74 | 131 | (44) | 146 | 227 | (36) |
| Total net revenues | 2,567 | 2,390 | 7 | 5,160 | 4,898 | 5 |
| Non-interest expenses | 2,110 | 1,955 | 8 | 4,193 | 3,956 | 6 |
| Pre-tax earnings | $ 457 | $ 435 | 5 | $ 967 | $ 942 | 3 |
| Pre-tax profit margin | 17.8% | 18.2% | | 18.7% | 19.2% | |

GPC's second quarter 2005 pre-tax earnings were $457 million, up 5% from the 2004 second quarter, despite a challenging market environment. Net revenues increased 7% from a year ago to $2.6 billion. Compared with the 2004 second quarter, higher asset values and annuitized net asset inflows led to record fee-based revenues, which were supplemented by strong net interest profit, partially offset by lower mortgage-related revenues. The pre-tax margin was 17.8% compared to 18.2% in the year-ago quarter. Compared with the 2004 second quarter, non-interest expenses were higher principally reflecting increased compensation costs associated with higher revenues and growth in Financial Advisor ("FA") headcount. GPC continues to execute its business strategy of revenue diversification, annuitization, and client segmentation.

GPC's year-to-date net revenues were $5.2 billion, up 5% from the corresponding period of 2004. Pre-tax earnings were $967 million, up 3% from the first six months of 2004. The pre-tax margin was 18.7% compared to 19.2% in the year-ago period.

Total assets in GPC accounts increased 6% from the year-ago quarter, to $1.4 trillion. Net inflows into annuitized products reached $8.1 billion in the second quarter of 2005, bringing the year-to-date total to $21.6 billion. Total net new money for the second quarter and first six months of 2005 was $7.8 billion and $18.6 billion, respectively.

GPC employed approximately 14,420 FAs at the end of the 2005 second quarter, a net increase of approximately 420 from the end of the year-ago quarter.

A detailed discussion of GPC's revenues follows:

*Fee-based revenues*
Fee-based revenues are comprised of portfolio service fees which are primarily derived from accounts that charge an annual fee based on net asset value, such as Unlimited Advantage℠ and separate account products marketed under Merrill Lynch Consults® as well as fees from taxable and tax-exempt money market funds. Also included in fee-based revenues are fixed annual account fees and other account-related fees, and commissions related to distribution fees on mutual fund sales.

GPC generated $1.3 billion of fee-based revenues in the 2005 second quarter, up 8% from the year-ago quarter. On a year-to-date basis, fee-based revenues similarly increased 9% from the year-ago period to $2.6 billion. These increases reflect growth in client assets due to higher market valuations and annuitized net asset inflows. This asset growth resulted in higher portfolio service fees, a large portion of which are calculated on beginning-of-period asset values, and increased distribution fees related to mutual funds. The value of assets in GPC accounts and assets in asset-priced accounts at July 1, 2005 and June 25, 2004 is included in the table below. Assets in asset-priced accounts primarily reflect those assets in (i) managed accounts, for which fees are determined based on the value of assets in the account and (ii) mutual funds, for which fees are determined based on the average daily net asset value.

*(dollars in billions)*

| | July 1, 2005 | June 25, 2004 |
|---|---|---|
| Assets in GPC accounts | | |
| U.S. | $ 1,238 | $ 1,176 |
| Non-U.S. | 115 | 105 |
| Total | $ 1,353 | $ 1,281 |
| Assets in asset-priced accounts | $ 262 | $ 237 |
| As a percentage of total assets in GPC accounts | 19% | 19% |

*Transactional and origination revenues*

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

Transactional and origination revenues were $779 million in the second quarter of 2005, 2% higher than the year-ago quarter, as higher origination revenues were partially offset by lower transaction-related revenues caused by decreased investor trading activity. Year-to-date transactional and origination revenues were $1.6 billion, 3% lower than the year-ago period, as lower transaction-related revenues more than offset higher origination revenues.

*Net interest profit*

Net interest profit (interest revenues minus interest expense) includes GPC's allocation of the interest spread earned in Merrill Lynch's banks for deposits, as well as interest earned on margin, small and middle market business, and other loans. GPC's net interest profit was $427 million in the second quarter of 2005, up 43% from the 2004 second quarter. On a year-to-date basis, GPC's net interest profit was $825 million, 29% higher than the year-ago period. These increases reflect higher margins on deposits resulting from rising short-term interest rates and lower provisions related to credit losses associated with the small- and middle-market business loan portfolio.

*Other revenues*

GPC's other revenues were $74 million in the second quarter of 2005, compared to $131 million in the year-ago quarter. For the first six months of 2005, other revenues decreased to $146 million from $227 million in the same period of 2004. These decreases were due primarily to lower mortgage-related revenues, driven in part by lower variable rate mortgage originations.

In July 2005, Merrill Lynch completed its acquisition of the U.S. 401(k) business of AMVESCAP Plc. This transaction is expected to accelerate the growth of GPC's existing retirement business. The newly acquired business will become part of the Princeton Retirement Group, a subsidiary, and will provide Merrill Lynch with the ability to serve third-party plan providers in the defined contribution business.

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

***Merrill Lynch Investment Managers***

**MLIM's Results of Operations**

| | For the Three Months Ended | | | For the Six Months Ended | | |
|---|---|---|---|---|---|---|
| *(dollars in millions)* | July 1, 2005 | June 25, 2004 | % Inc. (Dec.) | July 1, 2005 | June 25, 2004 | % Inc. (Dec.) |
| Asset management fees | $ 367 | $ 343 | 7% | $ 737 | $ 690 | 7% |
| Commissions | 24 | 34 | (29) | 52 | 64 | (19) |
| Other revenues | 13 | 3 | 333 | 29 | 27 | 7 |
| Total net revenues | 404 | 380 | 6 | 818 | 781 | 5 |
| Non-interest expenses | 283 | 269 | 5 | 570 | 562 | 1 |
| Pre-tax earnings | $ 121 | $ 111 | 9 | $ 248 | $ 219 | 13 |
| Pre-tax profit margin | 30.0% | 29.2% | | 30.3% | 28.0% | |

MLIM continued to focus on broadening the distribution of its products and maintaining operating discipline during the second quarter of 2005, leading to consistency in profitability despite challenging market conditions. More than 70% of global assets under management were ahead of their respective benchmarks or category medians for the three- and five-year periods ended June 2005. The total for the one-year period was 70%. While the 70% one-year statistic meets MLIM management's stringent performance targets, much more emphasis is placed on the three- and five-year performance results in the industry, as one-year results are less indicative of consistent investment performance.

MLIM's pre-tax earnings in the 2005 second quarter were $121 million, up 9% from the 2004 second quarter. Net revenues increased 6% from the year-ago quarter to $404 million driven primarily by higher average long-term asset values. Non-interest expenses of $283 million increased 5% from the year-ago quarter primarily due to increased compensation costs. The pre-tax margin was 30.0% in the second quarter of 2005, up from 29.2% in the year-ago quarter.

Year-to-date, MLIM's pre-tax earnings were $248 million, up 13% from the first six months of 2004 on net revenues that increased 5%, to $818 million. MLIM's year-to-date pre-tax margin was 30.3%, compared with 28.0% for the same period last year.

A detailed discussion of MLIM's revenues follows:

*Asset management fees*
Asset management fees primarily consist of fees earned from the management and administration of retail mutual funds and separately managed accounts for retail investors, as well as institutional funds such as pension assets. In some cases, separately managed accounts and institutional money management arrangements also will generate performance fees.

Asset management fees were $367 million, up 7% from the second quarter of 2004 due to increased average equity market values, increased higher margin long-term assets under management, and higher performance fees. At the end of the second quarter of 2005, firmwide assets under management totaled $478 billion, with $474 billion managed by MLIM and $4 billion managed by GPC. Compared with the 2004 second quarter, firmwide assets under management declined 2%, due principally to net outflows and negative currency translation adjustments, partially offset by positive market movement. During the second quarter of 2005, MLIM experienced net outflows of $2 billion, directly attributable to net outflows of short-term liquidity products. Outflows in these products narrowed considerably during the second quarter of 2005, while MLIM's European Retail business continued to be strong. MLIM also experienced positive flows in its European Institutional business during the second quarter of 2005, its first positive flows since the third quarter of 2001.

An analysis of changes in firmwide assets under management from June 25, 2004 to July 1, 2005 is as follows:

| | | Net Changes Due To | | | |
|---|---|---|---|---|---|
| *(dollars in billions)* | **June 25, 2004** | **New Money** | **Asset Appreciation** | **Other(2)** | **July 1, 2005(1)** |
| Assets under management | $ 488 | $ (32) | $ 31 | $ (9) | $ 478 |

*(1) Includes $4 billion of assets managed by GPC.*

*(2) Includes reinvested dividends, the impact of foreign exchange movements and other changes.*

*Commissions*

Commissions for MLIM principally consist of distribution fees and contingent deferred sales charges ("CDSC") related to mutual funds. The distribution fees represent revenues earned for promoting and distributing mutual funds and the CDSC represents fees earned when a shareholder redeems shares prior to the required holding period. Commissions revenues were $24 million in the second quarter of 2005, down from $34 million in the year-ago quarter. Year-to-date commissions of $52 million declined 19% from a year ago. These reductions reflect a decline over time in sales of rear-load shares.

*Other revenues*

Other revenues, which primarily include net interest profit and revenues from consolidated investments, totaled $13 million and $3 million for the second quarter of 2005 and 2004, respectively. Other revenues for the first six months of 2005 were $29 million compared to $27 million for the first six months of 2004.

In April 2005, MLIM announced it has agreed to acquire the internal investment management unit of Royal Philips Electronics. The transaction, which is expected to close in the third quarter of 2005, will include a seven-year contract to manage $16 billion in Philips' pension fund assets in the Netherlands. Upon completion, the acquired unit will operate under the MLIM name.

## Consolidated Balance Sheets

Management continually monitors and evaluates the size and composition of the Consolidated Balance Sheet. The following table summarizes the July 1, 2005 and December 31, 2004 period-end, and first six months of 2005 and full-year 2004 average balance sheets:

| *(dollars in billions)* | **July 1, 2005** | **2005 Six Month Average(1)** | **Dec. 31, 2004** | **2004 Full Year Average(1)** |
|---|---|---|---|---|
| **Assets** | | | | |
| **Trading-Related** | | | | |
| Securities financing assets | $ 192.1 | $ 246.4 | $ 185.3 | $ 181.1 |
| Trading assets | 168.8 | 182.5 | 175.9 | 157.1 |
| Other trading-related receivables | 53.3 | 59.9 | 52.1 | 46.6 |
| | 414.2 | 488.8 | 413.3 | 384.8 |
| **Non-Trading-Related** | | | | |
| Cash | 33.8 | 33.7 | 38.7 | 24.6 |
| Investment securities | 74.8 | 83.7 | 78.3 | 82.5 |
| Loans, notes, and mortgages | 59.7 | 58.5 | 53.3 | 54.8 |
| Other non-trading assets | 44.8 | 51.3 | 46.0 | 43.3 |
| | 213.1 | 227.2 | 216.3 | 205.2 |
| **Total assets** | $ 627.3 | $ 716.0 | $ 629.6 | $ 590.0 |
| **Liabilities** | | | | |
| **Trading-Related** | | | | |
| Securities financing liabilities | $ 183.2 | $ 259.1 | $ 188.9 | $ 186.5 |
| Trading liabilities | 103.4 | 110.1 | 102.8 | 93.2 |
| Other trading-related payables | 60.9 | 63.5 | 56.2 | 51.4 |
| | 347.5 | 432.7 | 347.9 | 331.1 |
| **Non-Trading-Related** | | | | |
| Commercial paper and other short-term borrowings | 6.8 | 5.6 | 4.0 | 5.8 |
| Deposits | 79.5 | 79.4 | 79.7 | 77.8 |
| Long-term borrowings | 113.5 | 117.0 | 116.5 | 100.4 |
| Long-term debt issued to TOPrS$^{SM}$ partnerships | 3.1 | 3.1 | 3.1 | 3.1 |
| Other non-trading liabilities | 43.9 | 45.8 | 47.0 | 41.8 |
| | 246.8 | 250.9 | 250.3 | 228.9 |
| **Total liabilities** | 594.3 | 683.6 | 598.2 | 560.0 |
| **Total stockholders' equity** | 33.0 | 32.4 | 31.4 | 30.0 |
| **Total liabilities and stockholders' equity** | $ 627.3 | $ 716.0 | $ 629.6 | $ 590.0 |

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

## Off Balance Sheet Arrangements

As a part of its normal operations, Merrill Lynch enters into various off balance sheet arrangements that may require future payments. The table below outlines the significant off balance sheet arrangements, as well as the future expirations as of July 1, 2005:

*(dollars in millions)*

| | | Expiration | | | |
|---|---|---|---|---|---|
| | Total | Less Than 1 Year | 1 – 3 Years | 3+– 5 Years | Over 5 Years |
| Liquidity facilities with SPEs(1) | $22,725 | $22,268 | $457 | $ - | $ - |
| Liquidity and default facilities with SPEs(1) | 3,662 | 2,835 | 579 | - | 248 |
| Residual value guarantees(2) | 1,082 | 51 | 2 | 492 | 537 |
| Standby letters of credit and other guarantees(3)(4)(5) | 2,707 | 973 | 273 | 291 | 1,170 |

*(1) Amounts relate primarily to facilities provided to municipal bond securitization SPEs.*
*(2) Includes residual value guarantees associated with the Hopewell campus and aircraft leases of $322 million.*
*(3) Includes $462 million of reimbursement agreements with the Mortgage 100SM program.*
*(4) Includes guarantees related to principal-protected mutual funds.*
*(5) Includes certain indemnifications related to foreign tax planning strategies.*

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

## Contractual Obligations and Commitments

*Contractual Obligations*

In the normal course of business, Merrill Lynch enters into various contractual obligations that may require future cash payments. The accompanying table summarizes Merrill Lynch's contractual obligations by remaining maturity at July 1, 2005. Excluded from this table are obligations recorded on the Condensed Consolidated Balance Sheets that are (i) generally short-term in nature, including securities financing transactions, trading liabilities, commercial paper and other short-term borrowings and other payables; (ii) deposits; (iii) obligations that are related to Merrill Lynch's insurance subsidiaries, including liabilities of insurance subsidiaries, which are subject to significant variability, and (iv) separate accounts liabilities, which fund separate accounts assets.

| | | Expiration | | | |
|---|---|---|---|---|---|
| *(dollars in millions)* | Total | Less Than 1 Year | 1 – 3 Years | 3+– 5 Years | Over 5 Years |
| Long-term borrowings(1) | $116,569 | $19,659 | $27,348 | $33,651 | $35,911 |
| Purchasing and other commitments | 9,656 | 8,138 | 772 | 233 | 513 |
| Operating lease commitments | 3,443 | 545 | 1,001 | 811 | 1,086 |

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

*Commitments*

At July 1, 2005, Merrill Lynch commitments had the following expirations:

| | | Expiration | | | |
|---|---|---|---|---|---|
| *(dollars in millions)* | Total | Less Than 1 Year | 1 – 3 Years | 3+– 5 Years | Over 5 Years |
| Commitments to extend credit | $57,086 | $21,207 | $9,165 | $19,656 | $ 7,058 |
| Commitments to enter into resale agreements | 6,760 | 6,722 | 38 | - | - |

## Capital and Funding

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

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

These objectives and Merrill Lynch's capital and funding policies are discussed more fully in the 2004 Annual Report.

*Capital*

At July 1, 2005, equity capital, as defined by Merrill Lynch, totaled $35.6 billion and was comprised of $31.3 billion of common equity, $1.7 billion of preferred stock, and $2.5 billion of long-term debt issued to TOPrS$^{SM}$ partnerships (net of related investments). Equity capital is Merrill Lynch's view of capital available to support its businesses and differs from stockholders' equity as defined by U.S. generally accepted accounting principles, which does not include long-term debt issued to TOPrS$^{SM}$ partnerships, net of related investments (see Note 8 in the 2004 Annual Report). Equity capital may also differ from capital as defined by various regulators who monitor capital requirements for ML & Co. and certain subsidiaries.

Merrill Lynch regularly reviews overall equity capital needs to ensure that its equity capital base can support the estimated risks and needs of its businesses, the regulatory and legal capital requirements of its subsidiaries, and requirements pursuant to the new CSE rules. Merrill Lynch determines the appropriateness of its equity capital composition, taking into account that its preferred stock and TOPrS$^{SM}$ are perpetual. In the event that capital is generated beyond estimated needs, Merrill Lynch returns capital to shareholders through share repurchases and dividends.

Merrill Lynch continued to grow its equity capital base in 2005 primarily through net earnings, additional preferred stock issuances, and the net effect of employee stock transactions, partially offset by common stock repurchases and dividends. Equity capital of $35.6 billion at July 1, 2005 was 5% higher than at December 31, 2004.

On March 14, 2005, Merrill Lynch issued $1,020 million of floating rate, non-cumulative, perpetual preferred stock. On April 4, 2005, Merrill Lynch issued an additional $90 million of floating rate, non-cumulative, perpetual preferred stock.

The Board of Directors authorized the repurchase of an additional $4 billion of Merrill Lynch's outstanding common shares under a program announced on April 19, 2005. As part of its active management of equity capital, Merrill Lynch repurchased 20.2 million shares of its common stock during the second quarter of 2005 at an average price of $54.48 per share.

On April 19, 2005, Merrill Lynch's Board of Directors declared a 25% increase in the regular quarterly dividend to 20 cents per common share, from 16 cents per common share.

Major components of the changes in equity capital for the first six months of 2005 are as follows:

| *(dollars in millions)* | |
|---|---|
| Balance at December 31, 2004 | $33,914 |
| Net earnings | 2,347 |
| Issuance of preferred stock | 1,110 |
| Common and preferred stock dividends | (364) |
| Common stock repurchases | (2,131) |
| Net effect of employee stock transactions and other[1] | 709 |
| Balance at July 1, 2005 | $35,585 |

*(1) Includes effect of Accumulated other comprehensive loss and other items.*

*Balance Sheet Leverage*

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

Merrill Lynch believes that a leverage ratio adjusted to exclude securities financing related assets considered to have a low risk profile provides a more meaningful measure of balance sheet leverage in the securities industry than an unadjusted ratio.

The following table provides calculations of Merrill Lynch's leverage ratios at July 1, 2005 and December 31, 2004:

| *(dollars in millions)* | **July 1, 2005** | **Dec. 31, 2004** |
|---|---|---|
| Total assets | $ 627,316 | $ 629,566 |
| Less: | | |
| Receivables under resale agreements | 93,619 | 78,853 |
| Receivables under securities borrowed transactions | 79,972 | 94,498 |
| Securities received as collateral | 18,492 | 11,903 |
| Adjusted assets | 435,233 | 444,312 |
| Less: | | |
| Goodwill and other intangible assets | 5,746 | 6,162 |
| Adjusted tangible assets | $ 429,487 | $ 438,150 |
| Stockholders' equity | $ 33,041 | $ 31,370 |
| Long-term debt issued to TOPrS$^{SM}$ partnerships, net of related investments(1) | 2,544 | 2,544 |
| Equity capital | 35,585 | 33,914 |
| Less: | | |
| Goodwill and other intangible assets | 5,746 | 6,162 |
| Tangible equity capital | $ 29,839 | $ 27,752 |
| Leverage ratio(2) | 17.6x | 18.6x |
| Adjusted leverage ratio(3) | 12.2x | 13.1x |
| Adjusted tangible leverage ratio(4) | 14.4x | 15.8x |

*(1) Due to the perpetual nature of TOPrS$^{SM}$ and other considerations, Merrill Lynch views the Long-term debt issued to TOPrS$^{SM}$ partnerships (net of related investments) as a component of equity capital. However, the Long-term debt issued to TOPrS$^{SM}$ partnerships is reported as a liability for accounting purposes. TOPrS$^{SM}$ related investments were $548 million at July 1, 2005 and December 31, 2004.*

*(2) Total assets divided by equity capital.*

*(3) Adjusted assets divided by equity capital.*

*(4) Adjusted tangible assets divided by tangible equity capital.*

*Funding*

*Liquidity Risk Management*

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

*Maintain sufficient long-term capital:* Merrill Lynch regularly reviews its mix of assets, liabilities and commitments to ensure the maintenance of adequate long-term capital sources to meet long-term capital requirements. Merrill Lynch's long-term capital sources include equity capital, long-term debt obligations and certain deposit liabilities in banking subsidiaries which are considered by management to be long-term or stable in nature.

At July 1, 2005 and December 31, 2004, total long-term capital is as follows:

*(dollars in billions)*

| | July 1, 2005 | Dec. 31, 2004 |
|---|---|---|
| Equity capital | $ 35.6 | $ 33.9 |
| Long-term debt obligations(1) | 84.7 | 87.0 |
| Deposit liabilities(2) | 74.2 | 78.1 |
| Total long-term capital | $194.5 | $ 199.0 |

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

*(2) Includes $60.7 billion and $13.5 billion in U.S. and non-U.S. banking subsidiaries, respectively, at July 1, 2005, and $65.4 billion and $12.7 billion, respectively, at December 31, 2004.*

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

- The portion of assets that cannot be self-funded in the secured financing markets, considering stressed market conditions, including long-term, illiquid assets such as certain loans, goodwill and fixed assets;

- Subsidiaries' regulatory capital;

- Collateral on derivative contracts that may be required in the event of changes in Merrill Lynch's ratings or movements in underlying instruments;

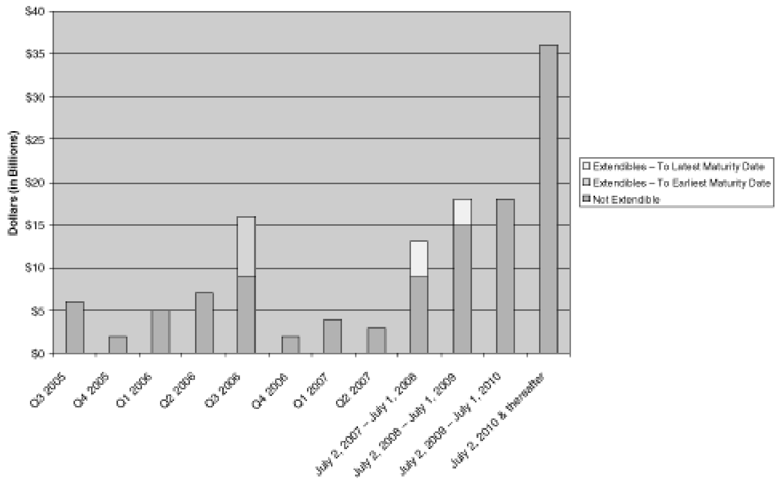
- Portions of commitments to extend credit based on the probability of drawdown.

At July 1, 2005, Merrill Lynch's long-term capital sources of $194.5 billion exceeded Merrill Lynch's estimated long-term capital requirements.

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

The following chart presents Merrill Lynch's long-term borrowings maturity profile as of July 1, 2005 (quarterly for two years and annually thereafter):

**Long-Term Debt Maturity Profile**




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

Major components of the change in Long-term borrowings during the first six months of 2005 are as follows:

| *(dollars in billions)* | |
|---|---|
| Balance at December 31, 2004 | $119.6 |
| Issuance and resale | 15.0 |
| Settlement and repurchase | (14.6) |
| Other[1] | (3.4) |
| Balance at July 1, 2005[2] | $116.6 |

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

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

Merrill Lynch maintains a liquidity portfolio of U.S. Government and agency obligations and other instruments of high credit quality that is funded with debt with a maturity greater than one year. The carrying value of this portfolio, net of related hedges, was $15.1 billion and $14.9 billion at July 1, 2005 and December 31, 2004, respectively. ML & Co. also maintained cash and cash equivalents, investments in short-term money market mutual funds, and certain highly liquid unencumbered securities of $9.4 billion and $6.9 billion at July 1, 2005 and December 31, 2004, respectively.

In addition to its liquidity portfolio and cash balances, Merrill Lynch monitors the extent to which other unencumbered assets are available to ML & Co. as a source of funds, considering that some subsidiaries are restricted in their ability to upstream unencumbered assets to ML & Co. At July 1, 2005, unencumbered assets, including amounts that may be restricted, were in excess of $138 billion, including the carrying value of the liquidity portfolio and cash balances.

For liquidity planning purposes, Merrill Lynch considers as short-term debt obligations: (i) commercial paper and other short-term borrowings and (ii) the current portion of long-term borrowings. At July 1, 2005 and December 31, 2004, short-term debt obligations are as follows:

| *(dollars in millions)* | **July 1, 2005** | **Dec. 31, 2004** |
|---|---|---|
| Commercial paper and other short-term borrowings | $ 6.8 | $ 4.0 |
| Current portion of long-term borrowings | 19.7 | 20.2 |
| Total short-term debt obligations | $ 26.5 | $ 24.2 |

At July 1, 2005, Merrill Lynch's separate liquidity portfolio, cash balances, maturing short-term assets and other unencumbered assets, some of which may be held in regulated entities but which management believes may be reasonably upstreamed to ML & Co., were more than the amount that would be required to repay Merrill Lynch's short-term obligations and other contingent cash outflows.

In addition to the aforementioned sources of funding available to meet short-term obligations, Merrill Lynch maintains credit facilities that are available to cover immediate funding needs. Merrill Lynch replaced the unsecured bank facility that totaled $3.0 billion at December 31, 2004 with a new committed, multi-currency, unsecured bank credit facility that totaled $4.0 billion at July 1, 2005. This 364-day facility permits borrowings by ML & Co. and select subsidiaries and expires in June 2006. The facility includes a one year term-out feature that allows ML & Co., at its option, to extend borrowings under the facility for up to one year beyond the expiration date in June 2006. The facility does not require the maintenance of a minimum net worth threshold during the initial 364-day revolving period. At July 1, 2005 there were no borrowings outstanding under this credit facility, although Merrill Lynch borrows regularly from this facility.

Merrill Lynch added a committed, secured credit facility which totaled $2.5 billion at July 1, 2005 and expires in May 2006. The secured facility permits borrowings by ML & Co. and select subsidiaries, secured by a broad range of collateral. At July 1, 2005 there were no borrowings outstanding under this facility.

In addition, Merrill Lynch maintains a committed, secured credit facility with a financial institution that totaled $6.25 billion at July 1, 2005 and December 31, 2004. The secured facility may be collateralized by government obligations eligible for pledging. The facility expires in 2014, but may be terminated with at least nine months notice by either party. At July 1, 2005 and December 31, 2004, there were no borrowings outstanding under this facility.

*Concentrate unsecured financing at ML & Co.* : ML & Co. is the primary issuer of unsecured, non-deposit financing instruments that are used primarily to fund assets in subsidiaries, some of which are regulated. The benefits of this strategy are greater control, reduced financing costs, wider name recognition by creditors, and greater flexibility to meet variable funding requirements of subsidiaries.

Where regulations, time zone differences, or other business considerations make this impractical, some subsidiaries enter into their own financing arrangements.

*Diversify unsecured funding sources*: Merrill Lynch strives to continually expand and globally diversify its funding programs, its markets, and its investor and creditor base to minimize reliance on any one investor base or region. Merrill Lynch diversifies its borrowings by maintaining various limits, including a limit on the amount of commercial paper held by a single investor. Merrill Lynch benefits by distributing a significant portion of its debt issuances through its own sales force to a large, diversified global client base. Merrill Lynch also makes markets buying and selling its debt instruments. Total borrowings outstanding at July 1, 2005 were issued in the following currencies:

| *(USD equivalent in millions)* | | |
|---|---|---|
| USD | $ 77,042 | 62% |
| EUR | 23,108 | 19 |
| JPY | 10,231 | 8 |
| GBP | 7,264 | 6 |
| AUD | 2,119 | 2 |
| CAD | 1,853 | 2 |
| Other | 1,790 | 1 |
| Total | $ 123,407 | 100% |

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

*Credit Ratings*

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

The senior debt and preferred stock ratings of ML & Co. and the ratings of preferred securities issued by subsidiaries on August 5, 2005 were as follows. Rating agencies express outlooks from time to time on these ratings. Each of these agencies describes its current outlook as stable.

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

In connection with certain OTC derivatives transactions and other trading agreements, Merrill Lynch could be required to provide additional collateral to certain counterparties in the event of a downgrade of the senior debt ratings of ML & Co. At July 1, 2005, the amount of additional collateral that would be required for such derivatives transactions and trading agreements was approximately $280 million in the event of a one-notch downgrade and approximately $835 million in the event of a two-notch downgrade of ML & Co.'s long term senior debt credit rating. Merrill Lynch considers additional collateral on derivative contracts that may be required in the event of changes in ML & Co.'s ratings as part of its liquidity management practices.

## Risk Management

Risk-taking is an integral part of Merrill Lynch's core business activities. In the course of conducting its business operations, Merrill Lynch is exposed to a variety of risks including market, credit, liquidity, operational and other risks that are material and require comprehensive controls and ongoing oversight. Senior managers of Merrill Lynch's core businesses are responsible and accountable for management of the risks associated with their business activities. The Global Liquidity and Risk Management Group ("GLRM") falls under the management responsibility of the Deputy Chief Financial Officer and ultimately the Chief Financial Officer. This group includes the independent control groups that manage credit risk and market risk, liquidity risk and operational risk, among other functions. Along with other control units these disciplines work to ensure risks are properly identified, monitored, and managed throughout Merrill Lynch. For a full discussion of Merrill Lynch's risk management framework, see the 2004 Annual Report on Form 10-K.

*Market Risk*

Value-at-risk ("VaR") is an estimate within a specified degree of confidence of the amount that Merrill Lynch's present portfolios could lose over a given time interval. Merrill Lynch's overall VaR is less than the sum of the VaRs for individual risk categories because movements in different risk categories occur at different times and extreme movements have not occurred historically in all risk categories simultaneously. The difference between the sum of the VaRs for individual risk categories and the VaR calculated for all risk categories is shown in the following tables and may be viewed as a measure of the diversification within Merrill Lynch's portfolios. Merrill Lynch believes that the tabulated risk measures provide some guidance as to the amount Merrill Lynch could lose in future periods and it works continuously to improve the methodology and measurement of its VaR. However, like all statistical measures, especially those that rely heavily on historical data, VaR should be interpreted with a clear understanding of its assumptions and limitations.

The Merrill Lynch VaR system uses a historical simulation approach to estimate VaR across several confidence levels and holding periods. Sensitivities to market risk factors are aggregated and combined with a database of historical weekly changes in market factors to simulate a series of profits and losses. The level of loss that is exceeded in that series 5% of the time is used as the estimate for the 95% confidence level VaR. The tables below show VaR using a 95% confidence level and a one-day holding period for trading and non-trading portfolios. In addition to the overall VaR, which reflects diversification in the portfolio, VaR amounts are presented for major risk categories, including exposure to volatility risk found in certain products, such as options.

The VaR numbers which follow reflect a reclassification of certain syndicated loans from the Trading VaR to Non-Trading VaR in order to continue our alignment of the risk disclosure with accounting treatment. Accordingly, virtually all Loans, notes and mortgages on the Condensed Consolidated Balance Sheet are included in the Non-Trading VaR. Refer to Note 6 to the Condensed Consolidated Financial Statements for further information on Loans, notes and mortgages. Prior periods have been restated to reflect the reclassification.

Table of Contents

The table that follows presents Merrill Lynch's VaR for its trading portfolios at July 1, 2005, April 1, 2005 and December 31, 2004 as well as daily average VaR for the three months ended July 1, 2005, April 1, 2005 and full year 2004.

| *(dollars in millions)* | July 1, 2005 | Apr. 1, 2005 | Dec. 31, 2004 | High 2Q05 | Low 2Q05 | Daily Average 2Q05 | Daily Average 1Q05 | Daily Average 2004 |
|---|---|---|---|---|---|---|---|---|
| Trading value-at-risk(1) | | | | | | | | |
| Interest rate and credit spread | $ 22 | $ 24 | $ 25 | $ 33 | $ 18 | $ 25 | $ 22 | $ 23 |
| Equity | 21 | 25 | 22 | 27 | 17 | 22 | 24 | 17 |
| Commodity | 9 | 8 | 8 | 14 | 4 | 7 | 8 | 2 |
| Currency | 1 | - | 1 | 3 | - | - | 1 | 1 |
| Volatility | 11 | 10 | 9 | 14 | 7 | 11 | 9 | 13 |
| | 64 | 67 | 65 | | | 65 | 64 | 56 |
| Diversification benefit | (31) | (36) | (31) | | | (33) | (32) | (28) |
| Overall(2) | $ 33 | $ 31 | $ 34 | $ 42 | $ 24 | $ 32 | $ 32 | $ 28 |

*(1) Based on a 95% confidence level and a one-day holding period.*
*(2) Overall VaR using a 95% confidence level and a one-week holding period was $60 million at July 1, 2005, $51 million at April 1, 2005 and $62 million at December 31, 2004.*

If market conditions are favorable, Merrill Lynch may increase its risk taking in a number of growth areas, including certain lending businesses, proprietary trading activities and principal investments. These activities provide growth opportunities while also increasing the loss potential under certain market conditions. Corporate Risk Management monitors these risk levels on a daily basis to ensure they remain within corporate risk guidelines and tolerance levels.

The following table presents Merrill Lynch's VaR for its non-trading portfolios, including Merrill Lynch's U.S. banks, certain middle-market lending activities, Merrill Lynch's LYONs® and TOPrS℠ liabilities. The increase in the non-trading VaR in the second quarter of 2005 is primarily due to increased commercial lending activities.

| *(dollars in millions)* | July 1, 2005 | Apr. 1, 2005 | Dec. 31, 2004 |
|---|---|---|---|
| Non-trading value-at-risk(1) | | | |
| Interest rate and credit spread | $ 89 | $ 60 | $ 51 |
| Equity | 41 | 40 | 39 |
| Currency | 5 | 17 | 4 |
| Volatility | 13 | 15 | 18 |
| | 148 | 132 | 112 |
| Diversification benefit | (31) | (38) | (22) |
| Overall(2) | $ 117 | $ 94 | $ 90 |

*(1) Based on a 95% confidence level and a one-day holding period.*
*(2) Overall non-trading VaR using a 95% confidence level and a one-week holding period was $262 million at July 1, 2005, $212 million at April 1, 2005 and $204 million at December 31, 2004.*

*Credit Risk*

Merrill Lynch enters into International Swaps and Derivatives Association, Inc. master agreements or their equivalent ("master netting agreements") with substantially all of its derivative counterparties as soon as possible. The agreements are negotiated with each counterparty and can be complex in nature. While every effort is taken to execute such agreements, it is possible that a counterparty may be unwilling to sign such an agreement, and as a result, would subject Merrill Lynch to additional credit risk. Master netting agreements provide protection in bankruptcy in certain circumstances and, in some cases, enable receivables and payables with the same counterparty to be offset on the Condensed Consolidated Balance Sheets, providing for a more meaningful balance sheet presentation of credit exposure. However, the enforceability of master netting agreements under bankruptcy laws in certain countries or in certain industries is not free from doubt and receivables and payables with counterparties in these countries or industries are accordingly recorded on a gross basis.

In addition, to reduce the risk of loss, Merrill Lynch requires collateral, principally cash and U.S. Government and agency securities, on certain derivative transactions. From an economic standpoint, Merrill Lynch evaluates risk exposures net of related collateral. In the second quarter of 2005, Merrill Lynch began netting cash collateral received against the derivatives inventory on the Condensed Consolidated Balance Sheets. See Note 1 to the Condensed Consolidated Financial Statements for additional information. The following is a summary of counterparty credit ratings for the replacement cost (net of $11.9 billion of collateral, of which $4.3 billion represented securities collateral) of OTC trading derivatives in a gain position by maturity at July 1, 2005. (This table is inclusive of credit exposure from derivative transactions only and does not include other material credit exposures).

*(dollars in millions)*

| | Years to Maturity | | | | Cross-Maturity | |
|---|---|---|---|---|---|---|
| **Credit Rating(1)** | **0-3** | **3+- 5** | **5+- 7** | **Over 7** | **Netting(2)** | **Total** |
| AAA | $ 1,976 | $ 367 | $ 570 | $ 3,190 | $ (2,262) | $ 3,841 |
| AA | 2,957 | 885 | 780 | 2,773 | (1,607) | 5,788 |
| A | 2,240 | 848 | 1,319 | 1,469 | (2,084) | 3,792 |
| BBB | 2,063 | 544 | 475 | 1,110 | (704) | 3,488 |
| Other | 2,274 | 402 | 427 | 508 | (233) | 3,378 |
| Total | $11,510 | $ 3,046 | $ 3,571 | $ 9,050 | $ (6,890) | $ 20,287 |

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

*(2) Represents netting of payable balances with receivable balances for the same counterparty across maturity band categories. Receivable and payable balances with the same counterparty in the same maturity category, however, are net within the maturity category.*

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

## Non-Investment Grade Holdings and Highly Leveraged Transactions

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

In the normal course of business, Merrill Lynch underwrites, trades, and holds non-investment grade cash instruments in connection with its investment banking, market-making, and derivative structuring activities. Non-investment grade holdings have been defined as debt and preferred equity securities rated lower than BBB, or equivalent ratings by recognized credit rating agencies, sovereign debt in emerging markets, amounts due under derivative contracts from non-investment grade counterparties, and other instruments that, in the opinion of management, are non-investment grade.

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

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

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

***Trading Exposures***

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

*(dollars in millions)*

| | July 1, 2005 | Dec. 31, 2004 |
|---|---|---|
| Trading assets: | | |
| Cash instruments | $ 13,324 | $ 11,929 |
| Derivatives | 6,382 | 4,884 |
| Trading liabilities — cash instruments | (3,400) | (2,721) |
| Collateral on derivative assets | (3,004) | (2,641) |
| Net trading asset exposure | $ 13,302 | $ 11,451 |

Included in the preceding table are debt and equity securities and bank loans of companies in various stages of bankruptcy proceedings or in default. At July 1, 2005, the carrying value of such debt and equity securities totaled $719 million, of which 53% resulted from Merrill Lynch's market-making activities in such securities. This compared with $539 million at December 31, 2004, of which 45% related to market-making activities. Also included are distressed bank loans totaling $185 million and $176 million at July 1, 2005 and December 31, 2004, respectively.

***Non-Trading Exposures***

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

*(dollars in millions)*

| | July 1, 2005 | Dec. 31, 2004 |
|---|---|---|
| Investment securities | $ 384 | $ 455 |
| Loans, notes and mortgages — commercial(1)(2) | 16,719 | 11,080 |
| Other investments(3): | | |
| Partnership interests | 1,941 | 1,534 |
| Other equity investments(4) | 876 | 691 |
| Other assets | 77 | - |

*(1) Includes accrued interest.*

*(2) Includes $14.9 billion and $10.1 billion of secured loans at July 1, 2005 and December 31, 2004, respectively.*

*(3) Includes a total of $401 million and $491 million in investments held by employee partnerships at July 1, 2005 and December 31, 2004, respectively, for which a portion of the market risk of the investments rests with the participating employees.*

*(4) Includes investments in 189 and 192 enterprises at July 1, 2005 and December 31, 2004, respectively.*

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

*(dollars in millions)*

| | July 1, 2005 | Dec. 31, 2004 |
|---|---|---|
| Unutilized revolving lines of credit and other lending commitments | $17,966 | $14,883 |
| Additional commitments to invest in partnerships(1) | 702 | 973 |

*(1) Includes $79 million and $102 million at July 1, 2005 and December 31, 2004, respectively, related to deferred compensation plans.*

## Recent Developments

*New Accounting Pronouncements*

In June 2005, the Financial Accounting Standards Board ("FASB") ratified the consensus reached by the Emerging Issues Task Force on Issue 04-5, *Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights* ("EITF 04-5"). EITF 04-5 presumes that a general partner controls a limited partnership, and should therefore consolidate a limited partnership, unless the limited partners have the substantive ability to remove the general partner without cause based on a simple majority vote or can otherwise dissolve the limited partnership, or unless the limited partners have substantive participating rights over decision making. The guidance in EITF 04-5 is effective immediately for all new limited partnership agreements and any limited partnership agreements that are modified. The guidance is effective for existing partnership agreements for financial reporting periods beginning after December 15, 2005 and may be reported as either a cumulative effect of a change in accounting principle or via retroactive restatement. Merrill Lynch is currently assessing the impact of the adoption of EITF 04-5.

On December 21, 2004, the FASB issued a FASB Staff Position ("FSP"), 109-2, *Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004.* The FSP provides guidance on the impact of the new tax law's one-time deduction for qualifying repatriations of foreign earnings made in 2005. The deduction can result in a lower tax rate on repatriation of certain foreign earnings. To the extent that the cumulative undistributed earnings of non-U.S. subsidiaries were permanently reinvested, no deferred U.S. Federal income taxes have been provided. In the second quarter of 2005, Merrill Lynch determined that it would apply this provision to planned foreign repatriations of approximately $53 million. Accordingly, a net tax benefit of $16 million was recorded on the planned repatriation because deferred taxes had previously been accrued on these earnings. Merrill Lynch is continuing its assessment of the impact of the repatriation provision for further repatriations, but does not expect to complete the assessment until the fourth quarter of 2005. The additional amount of unremitted foreign earnings that is being considered for possible repatriation is no more than $4.2 billion. The related income tax provision is no more than $221 million.

On December 16, 2004, the FASB issued SFAS No. 123 (revised 2004), *Share-Based Payment*, a revision of SFAS No. 123, *Accounting for Stock-Based Compensation.* In April 2005, the SEC delayed the effective date for the revised SFAS No. 123 until the first fiscal year beginning after June 15, 2005. As a result of the SEC ruling, Merrill Lynch expects to adopt the provisions of the revised SFAS No. 123 in the first quarter of 2006. The approach to accounting for share-based payments under the revised SFAS No. 123 is unchanged in many respects from that allowed under SFAS No. 123. Under the provisions of SFAS No. 123, stock-based compensation cost is measured at the grant date based on the value of the award and is recognized as expense over the vesting period. Merrill Lynch recognizes expense over the vesting period, as stipulated in the grant for all employees, including those that have satisfied retirement eligibility criteria. Employees meeting the retirement eligibility criteria are subject to a non-compete agreement that applies from the date of retirement through each applicable vesting period. Should a retirement eligible employee actually leave Merrill Lynch, all previously unvested awards are immediately charged to expense. Merrill Lynch adopted the provisions of SFAS No. 123 in the first quarter of 2004 and is currently evaluating the impact of adopting the revised SFAS No. 123, including its effect on the amortization period of the awards. See Note 13 to the 2004 Annual Report for further information on share-based compensation arrangements.

In December of 2003, the American Institute of Certified Public Accountants ("AICPA") issued Statement of Position ("SOP") 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer.* SOP 03-3 addresses revenue recognition and impairment assessments for certain loans and debt securities that were purchased at a discount that was at least in part due to credit quality. SOP 03-3 states that where expected cash flows from the loan or debt security can be reasonably estimated, the difference between the purchase price and the expected cash flows (i.e., the "accretable yield") should be accreted into income. In addition, the SOP prohibits the recognition of an allowance for loan losses on the purchase date. Further, the SOP requires that the allowance for loan losses be supported through a cash flow analysis, on either an individual or on a pooled basis, for all loans that fall within the scope of the guidance. Merrill Lynch adopted SOP 03-3 as of the beginning of fiscal year 2005. The adoption of the guidance did not have a material impact on the Condensed Consolidated Financial Statements.

## STATISTICAL DATA

| | 2nd Qtr. 2004 | 3rd Qtr. 2004 | 4th Qtr. 2004 | 1st Qtr. 2005 | 2nd Qtr. 2005 |
|---|---|---|---|---|---|
| **Client Assets (dollars in billions)** | | | | | |
| Private Client: | | | | | |
| U.S. | $ 1,176 | $ 1,179 | $ 1,244 | $ 1,226 | $ 1,238 |
| Non-U.S. | 105 | 109 | 115 | 116 | 115 |
| Total Private Client Assets | 1,281 | 1,288 | 1,359 | 1,342 | 1,353 |
| MLIM direct sales(1) | 235 | 225 | 237 | 233 | 236 |
| Total Client Assets | $ 1,516 | $ 1,513 | $ 1,596 | $ 1,575 | $ 1,589 |
| **Assets in Asset-Priced Accounts** | $ 237 | $ 243 | $ 257 | $ 256 | $ 262 |
| **Assets Under Management** | $ 488 | $ 478 | $ 501 | $ 479 | $ 478 |
| Retail | 212 | 208 | 218 | 218 | 218 |
| Institutional | 235 | 228 | 240 | 217 | 215 |
| Retail Separate Accounts | 41 | 42 | 43 | 44 | 45 |
| U.S. | 330 | 322 | 332 | 312 | 311 |
| Non-U.S. | 158 | 156 | 169 | 167 | 167 |
| Equity | 229 | 225 | 247 | 245 | 249 |
| Retail Money Market | 56 | 53 | 50 | 49 | 46 |
| Institutional Liquidity Funds | 97 | 91 | 90 | 70 | 68 |
| Fixed Income | 106 | 109 | 114 | 115 | 115 |
| **Underwriting (dollars in billions):** | | | | | |
| Global Equity and Equity-Linked:(2) | | | | | |
| Volume | $ 7 | $ 11 | $ 12 | $ 12 | $ 7 |
| Market share | 6.1% | 10.9% | 8.6% | 10.5% | 6.5% |
| Global Debt:(2) | | | | | |
| Volume | $ 78 | $ 66 | $ 75 | $ 66 | $ 71 |
| Market share | 6.2% | 5.4% | 6.2% | 4.2% | 4.7% |
| **Full-Time Employees:(3)** | | | | | |
| U.S. | 39,400 | 39,800 | 40,200 | 40,300 | 40,900 |
| Non-U.S. | 9,900 | 10,100 | 10,400 | 10,600 | 10,900 |
| Total | 49,300 | 49,900 | 50,600 | 50,900 | 51,800 |
| **Private Client Financial Advisors** | 14,000 | 14,120 | 14,140 | 14,180 | 14,420 |
| **Balance Sheet (dollars in millions, except per share amounts)** | | | | | |
| Total assets | $ 534,173 | $590,863 | $629,566 | $638,283 | $627,316 |
| Total stockholders' equity | $ 29,809 | $ 30,048 | $ 31,370 | $ 32,876 | $ 33,041 |
| Book value per common share | $ 30.97 | $ 31.75 | $ 32.99 | $ 32.91 | $ 33.63 |
| **Share Information (in thousands)** | | | | | |
| Weighted-average shares outstanding: | | | | | |
| Basic | 923,014 | 903,216 | 896,589 | 907,814 | 897,524 |
| Diluted | 1,015,930 | 984,951 | 992,659 | 993,273 | 978,504 |
| Common shares outstanding | 948,937 | 932,887 | 931,826 | 948,698 | 930,867 |

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

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

*(2) Full credit to book manager. Market shares derived from Thomson Financial Securities Data statistics.*

*(3) Excludes 100 full-time employees on salary continuation severance at the end of each period.*

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

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

**Item 4. Controls and Procedures**

In 2002, ML & Co. formed a Disclosure Committee to assist with the monitoring and evaluation of our disclosure controls and procedures. ML & Co.'s Chief Executive Officer, Chief Financial Officer and Disclosure Committee have evaluated the effectiveness of ML & Co.'s disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this Report. Based on that evaluation, ML & Co.'s Chief Executive Officer and Chief Financial Officer have concluded that ML & Co.'s disclosure controls and procedures are effective.

In addition, no change in ML & Co.'s internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) occurred during the second fiscal quarter of 2005 that has materially affected, or is reasonably likely to materially affect, ML & Co.'s internal control over financial reporting.

## PART II — OTHER INFORMATION

### Item 1. Legal Proceedings

The following information supplements the discussions in Part I, Item 3 "Legal Proceedings" in ML & Co.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2004 and Part II — Other Information, Item 1. "Legal Proceedings" in ML & Co.'s Quarterly Report on Form 10-Q for the quarterly period ended April 1, 2005:

***Enron Litigation:***

*Newby v. Enron Corp. et al.:* On July 27, 2005, Merrill Lynch filed a Motion for Judgment on the Pleadings based, in part, on the Supreme Court's April 19, 2005, decision in *Dura Pharmaceuticals v. Broudo*, which addressed the standards for pleading and proving loss causation. On August 3, 2005, plaintiff filed a Motion for Partial Summary Judgement against Merrill Lynch, which seeks a judgement that Merrill Lynch knowingly committed deceptive acts in furtherance of a scheme to defraud. Merrill Lynch is opposing that motion. The parties are still awaiting the court's ruling on whether the case should be certified as a class action.

***Allegheny Energy Litigation:***

*Merrill Lynch v. Allegheny Energy, Inc.:* On July 18, 2005, following a bench trial, the court issued a decision holding that Allegheny is required to pay Merrill Lynch $115 million plus interest and that Allegheny is not entitled to any recovery against Merrill Lynch. Allegheny has stated that it intends to appeal the decision.

***Research Litigation:***

*State of West Virginia v. Bear Stearns, et al.:* On June 8, 2005, the West Virginia Supreme Court held that the Attorney General of West Virginia lacked authority to bring the action.

***IPO Allocation Litigation:***

*In re Initial Public Offering Securities Litigation:* On June 30, 2005, the United States Court of Appeals for the Second Circuit entered an order agreeing to review the district court's order granting plaintiffs' motion for class certification.

***Boston Chicken Litigation:***

*BCI Trustee Litigation:* Trial of this matter is scheduled to begin on February 14, 2006.

***Tyco-Related Arbitration:***

On July 25, 2005, arbitration hearings began on a claim by a group of persons who allege that as a result of allegedly misleading research issued by Merrill Lynch, they were induced not to sell Tyco stock that they had acquired in connection with the sale of their business. They seek damages of over $90 million. Merrill Lynch is vigorously defending the action.

***California Overtime Action:***

*Burns v. Merrill Lynch, et al.:* This matter has been settled for an amount that did not have a material effect on ML & Co.'s financial condition or results of operations. The detailed terms and conditions of the settlement are confidential.

***Blum v. Merrill Lynch, et al.:***

This matter has been settled for an amount that did not have a material effect on ML & Co.'s financial condition or results of operations. The detailed terms and conditions of the settlement are confidential.

**Other:**

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

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

Given the number of these matters, some are likely to result in adverse judgments, settlements, penalties, injunctions, fines, or other relief. Merrill Lynch believes it has strong defenses to, and where appropriate, will vigorously contest, many of these matters. In accordance with SFAS No. 5, *Accounting for Contingencies*, when resolution of cases is both probable and estimable Merrill Lynch will accrue a liability. In many lawsuits and arbitrations, including almost all of the class action lawsuits disclosed in Item 3 of the 2004 Form 10-K, it is not possible to determine whether a liability has been incurred or to estimate the ultimate or minimum amount of that liability until the case is close to resolution, in which case no accrual is made until that time. In view of the inherent difficulty of predicting the outcome of such matters, particularly in cases in which claimants seek substantial or indeterminate damages, Merrill Lynch cannot predict what the eventual loss or range of loss related to such matters will be. Merrill Lynch continues to assess these cases and believes, based on information available to it, that the resolution of these matters will not have a material adverse effect on the financial condition of Merrill Lynch as set forth in the Condensed Consolidated Financial Statements, but may be material to Merrill Lynch's operating results or cash flows for any particular period and may impact ML & Co.'s credit ratings.

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

The table below sets forth the information with respect to purchases made by or on behalf of Merrill Lynch or any “affiliated purchaser” (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934), of our common stock during the quarter ended July 1, 2005.

ISSUER PURCHASES OF EQUITY SECURITIES

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

| Period | Total Number of Shares Purchased(1) | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Program | Approximate Dollar Value of Shares that May Yet be Purchased Under the Program(1) |
|---|---|---|---|---|
| Month #1 (Apr. 2 — May 6) | | | | |
| Capital Management Program | 5,400,000 | $ 53.71 | 5,400,000 | $ 3,710 |
| Employee Transactions | 480,381 | 54.28 | N/A | N/A |
| Month #2 (May 7 — Jun. 3) | | | | |
| Capital Management Program | 8,130,000 | $ 54.29 | 8,130,000 | $ 3,269 |
| Employee Transactions | 294,390 | 54.51 | N/A | N/A |
| Month #3 (Jun. 4 — Jul. 1) | | | | |
| Capital Management Program | 6,645,400 | $ 55.34 | 6,645,400 | $ 2,901 |
| Employee Transactions | 185,907 | 55.67 | N/A | N/A |
| Total, July 1, 2005 | | | | |
| Capital Management Program | 20,175,400 | $ 54.48 | 20,175,400 | $ 2,901 |
| Employee Transactions(2) | 960,678 | 54.62 | N/A | N/A |

(1) *At period-end. As part of Merrill Lynch’s capital management, the board of directors authorized the repurchase of up to $4 billion of Merrill Lynch outstanding common shares under a program announced on April 19, 2005. Share repurchases under the program were made pursuant to open-market purchases, Rule 10b5-1 plans or privately negotiated transactions as market conditions warranted and at prices Merrill Lynch deemed appropriate.*

(2) *Included in the total number of shares purchased are 959,882 shares purchased during the period by participants in the Merrill Lynch 401(k) Savings and Investment Plan (“401(k)”) and the Merrill Lynch Retirement Accumulation Plan (“RAP”) and 796 shares delivered or attested to in satisfaction of the exercise price by holders of ML & Co. employee stock options (granted under employee stock compensation plans) who exercised options during the quarter.*

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

On April 22, 2005, ML & Co. held its Annual Meeting of Shareholders. Further details concerning matters submitted for shareholders' vote can be found in ML & Co.'s Quarterly Report on Form 10-Q for the quarterly period ended April 1, 2005.

**Item 6. *Exhibits***

| | |
|---|---|
| 3 | By-Laws of ML & Co., effective as of June 6, 2005. |
| 4 | Instruments defining the rights of security holders, including indentures:<br>Pursuant to Item 601(b)(4)(iii)(A) of Regulation S-K, ML & Co. hereby undertakes to furnish to the Securities and Exchange Commission, upon request, copies of the instruments defining the rights of holders of long-term debt securities of ML & Co. that authorize an amount of securities constituting 10% or less of the total assets of ML & Co. and its subsidiaries on a consolidated basis. |
| 10.1 | ML & Co. Deferred Stock Unit Plan For Non-Employee Directors (Exhibit A to ML & Co.'s Proxy Statement for the 2005 Annual Meeting of Shareholders contained in ML & Co.'s Schedule 14A filed on March 15, 2005). |
| 10.2 | ML & Co. 2006 Deferred Compensation Plan for a Select Group of Eligible Employees (Exhibit 10 to Registration Statement on Form S-8 (file No. 333-125109)). |
| 11 | Statement re: computation of earnings per common share (the calculation of per share earnings is in Part I, Item 1, Note 9 to the Condensed Consolidated Financial Statements (Earnings Per Share) and is omitted in accordance with Section (b)(11) of Item 601 of Regulation S-K). |
| 12 | Statement re: computation of ratios. |
| 15 | Letter re: unaudited interim financial information. |
| 18 | Letter re: change in accounting principle. |
| 31.1 | Rule 13a-14(a) Certification of the Chief Executive Officer. |
| 31.2 | Rule 13a-14(a) Certification of the Chief Financial Officer. |
| 32.1 | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 99 | Charter of the Nominating and Corporate Governance Committee of the ML & Co. Board of Directors. |

SIGNATURES

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

MERRILL LYNCH & CO., INC.
(Registrant)

By: /s/ Jeffrey N. Edwards

Jeffrey N. Edwards
Senior Vice President and Chief Financial Officer

By: /s/ Laurence A. Tosi

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

Date: August 5, 2005

## INDEX TO EXHIBITS

| Exhibit | |
|---|---|
| 3 | By-Laws of ML & Co., effective as of June 6, 2005. |
| 10.1 | ML & Co. Deferred Stock Unit Plan For Non-Employee Directors (Exhibit A to ML & Co.'s Proxy Statement for the 2005 Annual Meeting of Shareholders contained in ML & Co.'s Schedule 14A filed on March 15, 2005). |
| 10.2 | ML & Co. 2006 Deferred Compensation Plan for a Select Group of Eligible Employees (Exhibit 10 to Registration Statement on Form S-8 (file No. 333-125109)). |
| 12 | Statement re: computation of ratios. |
| 15 | Letter re: unaudited interim financial information. |
| 18 | Letter re: change in accounting principle. |
| 31.1 | Rule 13a-14(a) Certification of the Chief Executive Officer. |
| 31.2 | Rule 13a-14(a) Certification of the Chief Financial Officer. |
| 32.1 | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 99 | Charter of the Nominating and Corporate Governance Committee of the ML & Co. Board of Directors. |

**Exhibit 3**

# AMENDED BY-LAWS

# OF

# MERRILL LYNCH & CO., INC.

**Effective: June 6, 2005**

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

# BY-LAWS

# OF

# MERRILL LYNCH & CO., INC.

## ARTICLE I.

## OFFICES

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

## ARTICLE II.

## MEETINGS OF STOCKHOLDERS

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

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

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

a. Notice. Except as otherwise provided by law, notice of each meeting of stockholders shall be given either by delivering a written notice personally or mailing a written notice to each stockholder of record entitled to vote thereat or by providing notice in such other form and by such other method as may be permitted by Delaware law. If mailed, the notice shall be directed to the stockholder in a postage-prepaid envelope at his address as it appears on the stock books of the Corporation unless, prior to the time of mailing, he shall have filed with the Secretary a written request that notices intended for him be mailed to some other address, in which case it shall be mailed to the address designated in such request. Notice of each meeting of stockholders shall be in such form as is approved by the Board of Directors and shall state the purpose or purposes for which the meeting is called, the date and time when and the place where it is to be held, and shall be delivered personally or mailed not more than sixty (60) days and not less than ten (10) days before the day of the meeting. Except as otherwise provided by law, the business which may be transacted at any special meeting of stockholders shall consist of and be limited to the purpose or purposes so stated in such notice. The Secretary or an Assistant Secretary or the Transfer Agent of the Corporation shall, after giving such notice, make an affidavit stating that notice has been given, which shall be filed with the minutes of such meeting.

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

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

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

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

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

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

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

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

b. The inspectors shall: (1) ascertain the number of shares outstanding and the voting power of each; (2) determine the shares represented at a meeting and the validity of proxies and ballots; (3) count all votes and ballots; (4) determine and retain for a reasonable period a record of the disposition of any challenges made to any determination by the inspectors; and (5) certify their determination of the number of shares represented at the meeting, and their count of all votes and ballots. The inspectors may appoint or retain other persons or entities to assist the inspectors in the performance of their duties.

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

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

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

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

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

## ARTICLE III.

## BOARD OF DIRECTORS

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

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

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

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

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

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

Section 6. *Organization Meeting.* A newly elected Board of Directors may meet and organize, and also may transact any other business which might be transacted at a regular meeting on the day of the Annual Meeting of Stockholders, at the place at which such meeting of stockholders took place, without notice of such meeting, provided a majority of the whole Board of Directors is present. Such organization meeting may otherwise be held at any other time or place which may be specified in a notice given in the manner provided in Section 8 of this Article III for special meetings of the Board of Directors, or in a waiver of notice thereof.

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

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

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

Section 10. *Quorum and Manner of Acting.* Except as otherwise provided by Section 6 of this Article III, at every meeting of the Board of Directors one-third (1/3) of the total number of directors constituting the whole Board of Directors shall constitute a quorum but in no event shall a quorum be constituted by less than two (2) directors. Except as otherwise provided by law or by the Certificate of Incorporation, or by Section 15 of this Article III, or by Section 1 or Section 8 of Article IV, or by

Section 3 of Article V, or by Article IX, the act of a majority of the directors present at any such meeting, at which a quorum is present, shall be the act of the Board of Directors. In the absence of a quorum, a majority of the directors present may adjourn any meeting, from time to time, until a quorum is present. No notice of any adjourned meeting need be given other than by announcement at the meeting that is being adjourned. Members of the Board of Directors or any committee thereof may participate in a meeting of the Board of Directors or of such committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation by a member of the Board of Directors in a meeting pursuant to this Section 10 of Article III shall constitute his presence in person at such meeting.

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

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

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

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

Section 15. *Vacancies.* Subject to the rights of the holders of any series of Preferred Stock or any other class of capital stock of the Corporation (other than the Common Stock) then outstanding, any vacancies in the Board of Directors for any reason, including by reason of any increase in the number of directors, shall, if occurring prior to the expiration of the term of office of the class in which such vacancy occurs, be filled only by the Board of Directors, acting by the affirmative vote of a majority of the remaining directors then in office, although less than a quorum, and any directors so elected shall hold office until the next election of the class for which such directors have been elected and until their successors are elected and qualify.

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

ARTICLE IV.

COMMITTEES

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

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

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

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

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

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

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

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

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

Section 10. *Emergency Management Committee.* In the event that a quorum of the Board of Directors cannot readily be convened as a result of emergency conditions following a catastrophe or disaster, then all the powers and duties vested in the Board of Directors shall vest automatically in an Emergency Management Committee which shall consist of all readily available members of the Board of Directors and which Committee shall have and may exercise all of the powers of the

Board of Directors in the management of the business and affairs of the Corporation. Two members shall constitute a quorum. Other provisions of these By-Laws notwithstanding, the Emergency Management Committee shall call a meeting of the Board of Directors as soon as circumstances permit, for the purpose of filling vacancies on the Board of Directors and its committees and to take such other action as may be appropriate; and if the Emergency Management Committee determines that less than a majority of the members of the Board of Directors are available for service, the Emergency Management Committee shall, as soon as practicable, issue a call for a special meeting of stockholders for the election of directors. The powers of the Emergency Management Committee shall terminate upon the convening of the meeting of the Board of Directors above prescribed at which a majority of the members thereof shall be present, or upon the convening of the above prescribed meeting of stockholders, whichever first shall occur.

## ARTICLE V.

## THE OFFICERS

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

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

Section 3. *Removal of Elected Officers.* Any elected officer may be removed at any time, either for or without cause, by affirmative vote of a majority of the whole Board of Directors, at any regular meeting or at any special meeting called for the purpose and, in the case of any officer not more senior than a Senior Vice President, by affirmative vote of a majority of the whole committee of the Board of Directors so empowered at any regular meeting or at any special meeting called for the purpose.

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

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

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

Section 7. *The President.* The President, if any, shall be the chief operating officer of the Corporation unless the President designates another officer to so serve as the chief operating officer of the Corporation. He shall implement the general directives, plans and policies formulated by the Chairman of the Board pursuant to the By-Laws, in general shall have authority to exercise all the powers delegated to him by the Chairman of the Board and shall establish operating and administrative plans and policies and direct and coordinate the Corporation's organizational components, within the scope of the authority delegated to him by the Board of Directors or the Chairman of the Board. He shall have general authority to execute bonds, deeds and contracts in the name and on behalf of the Corporation and responsibility for the employment or appointment of such employees, agents and officers (except officers to be elected by the Board of Directors pursuant to Section 1 of this Article V) as may be required to carry on the operations of the business and authority to fix compensation of such employees, agents and officers as provided in Section 15 of this Article V. He shall have authority to suspend or to remove any employee or agent of the Corporation (other than officers). As provided in Section 6 of this Article V, in the absence of the Chairman of the Board, the President shall perform all the duties and exercise the authority of the Chairman of the Board. In the absence of the President, his duties shall be performed and his authority may be exercised by the Chairman of the Board. In the absence of the President and the Chairman of the Board, the duties of the President shall be performed and his authority may be exercised by such officer as may have been designated by the most senior officer of the Corporation who has made any such designation, with the right reserved to the Board of Directors to make the designation or supersede any designation so made.

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

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

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

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

Section 12. *The Secretary.* The Secretary shall attend to the giving of notice of all meetings of stockholders and of the Board of Directors and committees thereof, and, as provided in Section 5 of Article II and Section 9 of Article III, shall keep minutes of all proceedings at meetings of the stockholders and of the Board of Directors at which the Secretary is present, as well as of all proceedings at all meetings of committees of the Board of Directors at which the Secretary has served as secretary, and where some other person has served as secretary thereto, the Secretary shall maintain custody of the minutes of such proceedings. As provided in Section 2 of Article VII, the Secretary shall have charge of the corporate seal and shall have authority to attest any and all instruments or writings to which the same may be affixed. The Secretary shall keep and account for all books, documents, papers and records of the Corporation, except those for which some other officer or agent is properly accountable. The Secretary shall generally perform all the duties usually appertaining to the office of secretary of a corporation. In the absence of the

Secretary, such person as shall be designated by the Chairman of the Board shall perform such duties.

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

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

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

## ARTICLE VI.

## STOCK AND TRANSFERS OF STOCK

Section 1. *Stock Certificates.* The capital stock of the Corporation shall be represented by certificates signed by, or in the name of the Corporation by, the Chairman of the Board, the President or a Vice Chairman of the Board, and by the Secretary or an Assistant Secretary or by the Treasurer or an Assistant Treasurer, and sealed with the seal of the Corporation. If such stock certificate is countersigned by a Transfer Agent other than the Corporation or its employee or by a Registrar other than the Corporation or its employee, any other signature on the certificate may be a facsimile, engraved or printed. Such seal may be a facsimile, engraved or printed. In case any such officer, Transfer Agent or Registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, Transfer Agent or Registrar before such certificate is issued by the Corporation, it may nevertheless be issued by the Corporation with the same effect as if such officer, Transfer Agent or Registrar had not ceased to be such at the date of its issue. The certificates representing the capital stock of the Corporation shall be in such form as shall be approved by the Board of Directors.

Section 2. *Transfers of Stock.* Transfers of stock shall be made on the books of the Corporation by the person named in the certificate, or by an attorney lawfully constituted in writing, and upon surrender and cancellation of a certificate or certificates for a like number of shares of the same class or series of stock, duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer, and with such proof of the authenticity of the signatures as the Corporation or its agents may reasonably require and with all required stock transfer tax stamps affixed thereto and canceled or accompanied by sufficient funds to pay such taxes.

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

Section 4. *Determination of Holders of Record for Certain Purposes.* In order to determine the stockholders or other holders of securities entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of capital stock or other securities or for the purpose of any other lawful action, the Board of Directors may fix, in advance, a record date, not more than sixty (60) days prior to the date of payment of such dividend or other distribution or allotment of such rights or the date when any such rights in respect of any change, conversion or exchange of stock or securities may be exercised, and in such case only holders of record on the date so fixed shall be entitled to receive payment of such dividend or other distribution or to receive such allotment of rights, or to exercise such rights, notwithstanding any transfer of any stock or other securities on the books of the Corporation after any such record date fixed as aforesaid. No record date shall precede the date on which the Board of Directors establishes such record date.

## ARTICLE VII.

## CORPORATE SEAL

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

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

## ARTICLE VIII.

## MISCELLANEOUS

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

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

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

## ARTICLE IX.

## AMENDMENTS

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

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

Dated: June 6, 2005

/s/ Judith A. Witterschein

Secretary

**Exhibit 12**

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

| | For the Three Months Ended | | For the Six Months Ended | |
|---|---|---|---|---|
| | **July 1, 2005** | **June 25, 2004** | **July 1, 2005** | **June 25, 2004** |
| Pre-tax earnings[(a)] | $1,504 | $ 1,293 | $ 3,096 | $ 2,884 |
| Add: Fixed charges (excluding capitalized interest and preferred security dividend requirements of subsidiaries) | 4,921 | 2,121 | 9,233 | 4,068 |
| Pre-tax earnings before fixed charges | 6,425 | 3,414 | 12,329 | 6,952 |
| Fixed charges: | | | | |
| Interest | 4,870 | 2,076 | 9,130 | 3,974 |
| Other[(b)] | 51 | 45 | 103 | 94 |
| Total fixed charges | 4,921 | 2,121 | 9,233 | 4,068 |
| Preferred stock dividend requirements | 23 | 12 | 33 | 25 |
| Total combined fixed charges and preferred stock dividends | $4,944 | $ 2,133 | $ 9,266 | $ 4,093 |
| **Ratio of earnings to fixed charges** | **1.31** | **1.61** | **1.34** | **1.71** |
| **Ratio of earnings to combined fixed charges and preferred stock dividends** | **1.30** | **1.60** | **1.33** | **1.70** |

*(a) Excludes undistributed earnings from equity investments.*

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

**Exhibit 15**

August 5, 2005

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

We have made a review, in accordance with the standards of the Public Company Accounting Oversight Board (United States), of the unaudited interim condensed consolidated financial information of Merrill Lynch & Co., Inc. and subsidiaries (“Merrill Lynch”) as of July 1, 2005 and for the three-month and six-month periods ended July 1, 2005 and June 25, 2004, as indicated in our report dated August 5, 2005; 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 July 1, 2005, is incorporated by reference in the following Registration Statements, as amended:

Filed on Form S-8:

Registration Statement No. 33-41942 (1986 Employee Stock Purchase Plan)

Registration Statement No. 33-17908 (Incentive Equity Purchase Plan)

Registration Statement No. 33-33336 (Long-Term Incentive Compensation Plan)

Registration Statement No. 33-51831 (Long-Term Incentive Compensation Plan)

Registration Statement No. 33-51829 (401(k) Savings and Investment Plan)

Registration Statement No. 33-54154 (Non-Employee Directors’ Equity Plan)

Registration Statement No. 33-54572 (401(k) Savings and Investment Plan (Puerto Rico))

Registration Statement No. 33-56427 (Amended and Restated 1994 Deferred Compensation Plan for a Select Group of Eligible Employees)

Registration Statement No. 33-55155 (1995 Deferred Compensation Plan for a Select Group of Eligible Employees)

Registration Statement No. 33-60989 (1996 Deferred Compensation Plan for a Select Group of Eligible Employees)

Registration Statement No. 333-00863 (401(k) Savings & Investment Plan)

Registration Statement No. 333-09779 (1997 Deferred Compensation Plan for a Select Group of Eligible Employees)

Registration Statement No. 333-13367 (Restricted Stock Plan for Former Employees of Hotchkis and Wiley)

Registration Statement No. 333-15009 (1997 KECALP Deferred Compensation Plan for a Select Group of Eligible Employees)

Registration Statement No. 333-17099 (Deferred Unit and Stock Unit Plan for Non-Employee Directors)

Registration Statement No. 333-18915 (Long-Term Incentive Compensation Plan for Managers and Producers)

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

Registration Statement No. 333-33125 (Employee Stock Purchase Plan for Employees of Merrill Lynch Partnerships)

Registration Statement No. 333-41425 (401(k) Savings & Investment Plan)

Registration Statement No. 333-56291 (Long-Term Incentive Compensation Plan for Managers and Producers)

Registration Statement No. 333-60211 (1999 Deferred Compensation Plan for a Select Group of Eligible Employees)

Registration Statement No. 333-62311 (Replacement Options; Midland Walwyn Inc.)

Registration Statement No. 333-85421 (401(k) Savings and Investment Plan)

Registration Statement No. 333-85423 (2000 Deferred Compensation Plan For a Select Group of Eligible Employees)

Registration Statement No. 333-92663 (Long-Term Incentive Compensation Plan for Managers and Producers)

Registration Statement No. 333-44912 (2001 Deferred Compensation Plan for a Select Group of Eligible Employees)

Registration Statement No. 333-64676 (1986 Employee Stock Purchase Plan)

Registration Statement No. 333-64674 (Long-Term Incentive Compensation Plan for Managers and Producers)

Registration Statement No. 333-68330 (2002 Deferred Compensation Plan for a Select Group of Eligible Employees)

Registration Statement No. 333-99105 (2003 Deferred Compensation Plan for a Select Group of Eligible Employees)

Registration Statement No. 333-108296 (2004 Deferred Compensation Plan for a Select Group of Eligible Employees)

Registration Statement No. 333-109236 (Employee Stock Compensation Plan)

Registration Statement No. 333-118615 (2005 Deferred Compensation Plan for a Select Group of Eligible Employees)

Registration Statement No. 333-125109 (2006 Deferred Compensation Plan for a Select Group of Eligible Employees)

Registration Statement No. 333-125181 (2006 Deferred Stock Unit Plan for Non-Employees)

Filed on Form S-3:

Debt Securities, Warrants, Common Stock, Preferred Securities, and/or Depository Shares:

Registration Statement No. 33-54218

Registration Statement No. 2-78338

Registration Statement No. 2-89519

Registration Statement No. 2-83477

Registration Statement No. 33-03602

Registration Statement No. 33-17965

Registration Statement No. 33-27512

Registration Statement No. 33-33335

Registration Statement No. 33-35456

Registration Statement No. 33-42041

Registration Statement No. 33-45327

Registration Statement No. 33-45777

Registration Statement No. 33-49947

Registration Statement No. 33-51489

Registration Statement No. 33-52647

Registration Statement No. 33-55363

Registration Statement No. 33-61559

Registration Statement No. 33-65135

Registration Statement No. 333-13649

Registration Statement No. 333-16603

Registration Statement No. 333-20137

Registration Statement No. 333-25255

Registration Statement No. 333-28537

Registration Statement No. 333-42859

Registration Statement No. 333-44173

Registration Statement No. 333-59997

Registration Statement No. 333-68747

Registration Statement No. 333-38792

Registration Statement No. 333-52822

Registration Statement No. 333-83374

Registration Statement No. 333-97937

Registration Statement No. 333-105098

Registration Statement No. 333-109802

Registration Statement No. 333-122639

Medium Term Notes:

Registration Statement No. 2-96315

Registration Statement No. 33-03079

Registration Statement No. 33-05125

Registration Statement No. 33-09910

Registration Statement No. 33-16165

Registration Statement No. 33-19820

Registration Statement No. 33-23605

Registration Statement No. 33-27549

Registration Statement No. 33-38879

Other Securities:

Registration Statement No. 333-02275 (Long-Term Incentive Compensation Plan)

Registration Statement No. 333-24889 (Long-Term Incentive Compensation Plan, and Long-Term Incentive Compensation Plan for Managers and Producers)

Registration Statement No. 333-36651 (Hotchkis and Wiley Resale)

Registration Statement No. 333-59263 (Exchangeable Shares of Merrill Lynch & Co., Canada Ltd. re: Midland Walwyn Inc.)

Registration Statement No. 333-67903 (Howard Johnson & Company Resale)

Registration Statement No. 333-45880 (Herzog, Heine, Geduld, Inc. Resale)

We are also aware that the aforementioned report, pursuant to Rule 436(c) under the Securities Act of 1933, is not considered a part of a Registration Statement prepared or certified by an accountant or a report prepared or certified by an accountant within the meaning of Sections 7 and 11 of that Act.

/s/ Deloitte & Touche LLP
New York, New York

**Exhibit 18**

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

At your request, we have read the description included in your Quarterly Report on Form 10-Q to the Securities and Exchange Commission for the quarter ended July 1, 2005, of the facts relating to a change in accounting principle that results in the presentation of cash collateral related to derivatives contracts on a net basis. The accounting for credit support agreements related to derivative contracts is being changed from the presentation of cash collateral pledged and received as separate assets and liabilities to the presentation of cash collateral on a net basis with the value of the related derivatives in your consolidated financial statements. This is a more relevant presentation of the credit risk of the associated derivative contracts. We believe, on the basis of the facts so set forth and other information furnished to us by appropriate officials of Merrill Lynch & Co., Inc. and subsidiaries ("Merrill Lynch"), that the accounting change described in your Form 10-Q is to an alternative accounting principle that is preferable under the circumstances.

We have not audited any consolidated financial statements of Merrill Lynch as of any date or for any period subsequent to December 31, 2004. Therefore, we are unable to express, and we do not express, an opinion on the facts set forth in the above mentioned Form 10-Q, on the related information furnished to us by officials of Merrill Lynch, or on the financial position, results of operations, or cash flows of Merrill Lynch as of any date or for any period subsequent to December 31, 2004.

Yours truly,

/s/ Deloitte & Touche LLP

New York, New York
August 5, 2005

**Exhibit 31.1**

Certification

I, E. Stanley O'Neal, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Merrill Lynch & Co., Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ E. Stanley O'Neal
E. Stanley O'Neal
Chairman of the Board and
Chief Executive Officer

Dated: August 5, 2005

**Exhibit 31.2**

Certification

I, Jeffrey N. Edwards, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Merrill Lynch & Co., Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Jeffrey N. Edwards
Jeffrey N. Edwards
Senior Vice President and
Chief Financial Officer

Dated: August 5, 2005

**Exhibit 32.1**

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Merrill Lynch & Co., Inc. (the "Company") on Form 10-Q for the period ended July 1, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, E. Stanley O'Neal, Chairman of the Board and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ E. Stanley O'Neal
E. Stanley O'Neal
Chairman of the Board and
Chief Executive Officer

Dated: August 5, 2005

**Exhibit 32.2**

**CERTIFICATION PURSUANT TO**
**18 U.S.C. SECTION 1350,**
**AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Merrill Lynch & Co., Inc. (the “Company”) on Form 10-Q for the period ended July 1, 2005 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Jeffrey N. Edwards, Senior Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Jeffrey N. Edwards
Jeffrey N. Edwards
Senior Vice President and
Chief Financial Officer

Dated: August 5, 2005

**Exhibit 99**

**Revised: April 22, 2005**

# MERRILL LYNCH & CO., INC.
# NOMINATING AND CORPORATE GOVERNANCE COMMITTEE
# OF THE
# BOARD OF DIRECTORS

## I. Purpose

The Nominating and Corporate Governance Committee (the “Committee”) shall be appointed by the Board of Directors (the “Board” or “Board of Directors”) of Merrill Lynch & Co., Inc. (the “Corporation”) to:

A. Identify individuals qualified to become directors, consistent with criteria approved by the Board and recommend to the Board the candidates for all directorships to be filled by the Board of Directors or by the shareholders;

B. Recommend to the Board of Directors candidates for membership on Board committees;

C. Develop and recommend to the Board guidelines for effective corporate governance; and

D. Lead and oversee the Board of Directors in its annual review of the performance of the Board of Directors.

## II. Membership

The Committee’s membership is determined by the Board of Directors and shall consist of at least three (3) Board members, each of whom meet the criteria for independence contained in the rules of the New York Stock Exchange and any other applicable regulations. The Board shall appoint the Chair of the Committee.

## III. Meetings and Reports

The Committee shall meet as frequently as circumstances dictate, but no less than [twice] annually. The Chair of the Committee, or any two members of the Committee, may call meetings of the Committee. Meetings of the Committee may be held telephonically.

The Chair shall preside at all sessions of the Committee at which he or she is present and shall set the agendas for Committee meetings. All members of the Board of Directors are free to suggest items for inclusion in the agenda for the Committee's meetings. The agenda and information concerning the business to be conducted at each Committee meeting shall, to the extent practical, be communicated to the members of the Committee sufficiently in advance of each meeting to permit meaningful review.

The Committee shall report regularly to the Board (i) following meetings of the Committee, (ii) with respect to such other matters that are within the Committee's responsibilities and (iii) with respect to such recommendations as the Committee may deem appropriate. The report to the Board may take the form of an oral report by the Chair or any other member of the Committee designated by the Committee to make such report. The Committee shall maintain minutes or other records of meetings and activities of the Committee.

## IV. Authority

The Committee shall perform the following functions related to the purposes of the Committee outlined in Section I of this Charter. The Committee may carry out additional functions and adopt additional policies and procedures as may be appropriate in light of changing business, legislative, regulatory, legal or other conditions. The Committee shall also carry out any other responsibilities and duties delegated to it by the Board of Directors from time to time related to the purposes of the Committee outlined in Section I of this Charter. The Committee shall have the authority to delegate any of its responsibilities to subcommittees as the Committee may deem appropriate in its sole discretion.

### A. Board Selection, Composition and Evaluation

1. Establish criteria for the selection of directors to serve on the Board of Directors.

2. Identify individuals believed to be qualified as candidates to serve on the Board of Directors, conduct all necessary and appropriate inquiries into the backgrounds and qualifications of such candidates and recommend that the Board select the candidates for directorships to be filled by the Board of Directors or by the shareholders from such identified individuals.

3. Review and make recommendations to the Board as to whether non-employee members of the Board should stand for re-election. As part of such review, the Committee will review each non-employee director against such guidelines for evaluating non-employee director re-nominations as it may adopt from time to time.

4. Review candidates for director nominees proposed by shareholders and determine whether to recommend that the Board of Directors consider such proposed candidates as nominees for election to the Board of Directors.

5. Review and make recommendations, as the Committee deems appropriate, regarding the composition and size of the Board of Directors in order to ensure the Board has the requisite expertise and its membership consists of persons with sufficiently diverse backgrounds. Consider matters relating to the Corporation's director retirement policy.

B. Directors' Compensation

1. Periodically review the compensation and benefits of non-employee members of the Board of Directors. Recommend changes to the Corporation's director compensation policy to the Board of Directors for consideration as appropriate.

C. Committee Selection, Composition and Evaluation

1. Establish, monitor and recommend to the Board the purpose, structure and operations of the various committees of the Board, the qualifications and criteria for membership on each committee of the Board and, as circumstances dictate or the Committee otherwise deems appropriate, make any recommendations regarding periodic rotation of directors among the committees.

2. In consultation with the Chairman of the Board and the committee Chairs, recommend members of the Board of Directors to serve on the committees of the Board, giving consideration to the criteria for service on each committee as set forth in the charter for each such committee, and, where appropriate, make recommendations regarding the removal of any member of any committee.

3. Recommend members of the Board of Directors to serve as the Chair of the committees of the Board.

4. Evaluate whether the necessary and appropriate committees exist to support the work of the Board and make recommendations to the Board of Directors for the creation of additional committees or the elimination of Board committees as appropriate.

D. Corporate Governance

1. Oversee compliance with the Corporation's Corporate Governance Guidelines, monitor developments in corporate governance, review the Corporation's Corporate Governance Guidelines periodically and propose modifications to the Guidelines to the Board of Directors for consideration as appropriate.

2. The Corporation has adopted the Corporation's Guidelines for Business Conduct: The Code of Ethics for Directors, Officers and Employees as its Code of Ethics pursuant to the NYSE requirements and applicable law. The Committee will periodically review the Guidelines and propose modifications to the Guidelines to the Board of Directors for consideration as appropriate.

E. Retention of Outside Advisers

1. The Committee has the authority to retain counsel, consultants or other outside advisers, with respect to any issue without consulting or obtaining the approval of any officer of the Corporation in advance.

2. The Committee shall have sole authority to retain and terminate any search firm to be used to assist in identifying Board candidates, including the sole authority to approve the search firm's fee and other retention terms.

F. Annual Evaluations; Review of Charter

1. Lead and oversee the Board of Directors in an annual self-evaluation process to determine whether the Board and its committees are functioning effectively. Receive comments from the Board members and summarize and report annually to the Board of Directors an assessment of the Board's performance. The Committee will establish the criteria to be used in such evaluations.

2. Assess, on an annual basis, the skills and characteristics of the Board of Directors as a whole. This assessment should include an analysis of the Board's core competencies, including understanding of the financial industry, financial expertise, integrity, wisdom, judgment, commitment to excellence, business experience and acumen, skills, diverse perspectives and availability. As a result of this assessment, the Committee will determine whether the effectiveness of the Board could be enhanced by a change in its membership and the addition of new directors with other skills and experience.

3. Review each non-employee director against the Corporation's Director Independence Standards on an annual basis and provide its assessment to the Board as to which such directors should be deemed to be independent.

4. Perform an annual review and evaluation of the Committee's performance, including a review of the Committee's compliance with this Charter. The Committee shall conduct such evaluation and review in such manner as it deems appropriate and report the results of the evaluation to the entire Board of Directors.

5. The Committee shall annually review and assess the adequacy of this Charter and, if appropriate, shall recommend changes to the Board of Directors for approval.