

# News

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**MERRILL LYNCH REPORTS THIRD QUARTER 2007  
NET LOSS FROM CONTINUING OPERATIONS OF  
\$2.85 PER DILUTED SHARE**

**RECORD NET REVENUES FROM GLOBAL PRIVATE CLIENT,  
EQUITY MARKETS AND INVESTMENT BANKING  
FOR THE FIRST NINE MONTHS OF 2007**

NEW YORK, October 24 – Merrill Lynch (NYSE: MER) today reported a net loss from continuing operations for the third quarter of \$2.3 billion, or \$2.85 per diluted share, significantly below net earnings of \$2.22 per diluted share for the second quarter of 2007 and \$3.14 for the third quarter of 2006. Third quarter 2006 net earnings per diluted share, excluding the impact of the one-time, after-tax net benefit of \$1.1 billion (\$1.8 billion pre-tax) related to the merger of Merrill Lynch Investment Managers (MLIM) and BlackRock (NYSE: BLK), were \$1.97. Third quarter 2007 results reflect significant net write-downs and losses attributable to Merrill Lynch's Fixed Income, Currencies & Commodities (FICC) business, including write-downs of \$7.9 billion across CDOs and U.S. sub-prime mortgages, which are significantly greater than the incremental \$4.5 billion write-down Merrill Lynch disclosed at the time of its earnings pre-release. These write-downs and losses were partially offset by strong revenues in Global Wealth Management (GWM), Equity Markets, and Investment Banking, particularly in regions outside of the U.S. The results described above and herein,

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exclude Merrill Lynch Insurance Group (MLIG) which is reported under discontinued operations.

Third quarter 2007 total net revenues of \$577 million decreased 94% from \$9.8 billion in the prior-year period and were down 94% from \$9.7 billion in the second quarter of 2007. Merrill Lynch's third quarter 2007 pre-tax net loss was \$3.5 billion. At the end of the third quarter, book value per share was \$39.75, down slightly from the end of the third quarter of 2006.

"Mortgage and leveraged finance-related write-downs in our FICC business depressed our financial performance for the quarter. In light of difficult credit markets and additional analysis by management during our quarter-end closing process, we re-examined our remaining CDO positions with more conservative assumptions. The result is a larger write-down of these assets than initially anticipated," said Stan O'Neal, chairman and chief executive officer. "We expect market conditions for sub-prime mortgage-related assets to continue to be uncertain and we are working to resolve the remaining impact from our positions," Mr. O'Neal continued. "Away from the mortgage-related areas, we continue to believe that secular trends in the global economy are favorable and that our businesses can perform well, as they have all year."

Net revenues for the first nine months of 2007 were \$20.0 billion, down 23% from \$25.8 billion in the comparable 2006 period. Net earnings per diluted share of \$1.94 were down 62% from \$5.12 in the prior-year period, and net earnings of \$2.0 billion were down 61%. Results for the first nine months of 2006 included \$1.2 billion of one-time, after-tax compensation expenses (\$1.8 billion pre-tax) related to the adoption of Statement of Financial Accounting Standards No. 123R ("one-time compensation expenses") incurred in the first quarter of 2006, as well as the net benefit associated with the MLIM merger. Excluding these one-time items, net revenues for the first nine months of 2007 were down 16%, net earnings per diluted share were down 63% and net earnings were down 62% from the prior-year period. The pre-tax profit margin for the first nine months was 12.8%, down 14.2 percentage points from the comparable 2006 period, or down 16.3 percentage points excluding the one-time items. The

annualized return on average common equity was 6.5%, down 13.0 percentage points from the first nine months of 2006, or down 13.4 percentage points excluding the one-time items.

### **Business Segment Review:**

In the first quarter of 2006, Merrill Lynch recorded the one-time compensation expenses (pre-tax) in the business segments as follows: \$1.4 billion to Global Markets and Investment Banking, \$281 million to Global Wealth Management and \$109 million to Merrill Lynch Investment Managers (which ceased to exist as a business segment upon its merger with BlackRock). The one-time net benefit associated with the MLIM merger was recorded in the Corporate Segment. Comparisons to results from the third quarter and first nine months of 2006 in the following discussion of business segment results exclude the impact of these one-time items. A reconciliation of these segment results appears on Attachment V to this release.

### **Global Markets and Investment Banking (GMI)**

GMI recorded negative net revenues and a pre-tax loss for the third quarter of 2007 of \$3.0 billion and \$4.4 billion, respectively, as strong net revenues from Equity Markets and Investment Banking were more than offset by the net losses in FICC. GMI's third quarter net revenues also included a net benefit of approximately \$600 million due to the impact of the widening of Merrill Lynch's credit spreads on the carrying value of certain long-term debt liabilities.

- Third quarter and year-to-date 2007 net revenues from GMI's three major business lines were as follows:

FICC net revenues were negative \$5.6 billion for the quarter, impacted primarily by losses across CDOs and U.S. sub-prime mortgages. These positions consist of CDO trading positions and warehouses, as well as U.S. sub-prime mortgage related whole loans, warehouse lending, residual positions and residential mortgage backed securities. See below for details.

(\$ billions)	<u>Net Exposures at Period End:</u>		<u>Percent</u>
	<u>Sept. 28, 2007</u>	<u>June 29, 2007</u>	<u>Inc / Dec</u>
Total ABS CDO-related exposures	\$15.2	\$32.1	(53) %
Total U.S. sub-prime mortgage-related exposures	5.7	8.8	(35)

	<u>Net Exposures at</u>	<u>Net Write-downs</u>
		<u>For the Three</u>
	<u>Sept. 28, 2007</u>	<u>Months Ended</u>
		<u>Sept. 28, 2007</u>
AAA-rated super senior exposures:		
High-grade	\$8.3	(\$1.9)
Mezzanine	5.3	(3.1)
CDO-squared	0.6	(0.8)
Total ABS CDO super senior exposures	14.2	(5.8)
Other retained and warehouse exposures	1.0	(1.1)
<b>Total ABS CDO-related exposures</b>	<b>\$15.2</b>	<b>(\$6.9)</b>
Total U.S. sub-prime mortgage-related exposures	5.7	(1.0)
<b>Total Net Write-downs</b>		<b>(\$7.9)</b>

Third quarter write-downs of \$7.9 billion across CDOs and U.S. sub-prime mortgages are significantly greater than the incremental \$4.5 billion write-downs Merrill Lynch disclosed at the time of its earnings pre-release. This is due to additional analysis and price verification completed as part of the quarter-end closing process, including the use of more conservative loss assumptions in valuing the underlying collateral.

FICC net revenues were also impacted by write-downs of \$967 million on a gross basis, and \$463 million net of related fees, related to all corporate and financial sponsor, non-investment grade lending commitments, regardless of the expected timing of funding or closing. These commitments totaled approximately \$31 billion at the end of the third quarter of 2007, a net reduction of 42% from \$53 billion at the end of the second quarter. The net losses related to these commitments were limited through aggressive and effective risk management, including disciplined and selective underwriting and exposure reductions through syndication, sales and transaction restructurings.

Other FICC businesses reported strong results with record net revenues in interest rates and currencies and solid results in commodities and commercial real estate.

For the first nine months of 2007, FICC net revenues were negative \$153 million as strength in interest rate products, currencies and commercial real estate was

more than offset by declines in credit products and the structured finance and investments business.

- Equity Markets net revenues increased 4% from the prior-year quarter to \$1.6 billion, driven by substantial growth in client volumes. Revenues from cash trading, equity-linked trading, and financing and services were significantly higher compared to the prior-year period, while revenues declined in the Strategic Risk Group and the private equity business. Excluding the private equity business, net revenues for the remaining Equity Markets businesses increased 40% from the 2006 third quarter. For the first nine months of 2007, Equity Markets net revenues were a record \$6.1 billion, up 23% from the prior-year period, driven by strength in cash equities, equity-linked and the financing and services businesses.
- Investment Banking generated record net revenues for a fiscal third quarter, up 23% from the prior-year period to \$1.0 billion. Revenues were driven by growth in both merger and acquisition advisory services and equity origination, partially offset by declines in debt origination. Investment Banking net revenues for the first nine months of 2007 were a record \$3.8 billion, up 38% from the 2006 period, reflecting the momentum in Merrill Lynch's global origination franchise. Compared with the first nine months of 2006, significant increases in acquisition advisory services, equity and debt origination, more than offset a decline in leveraged finance origination revenues.
- The third quarter 2007 pre-tax net loss for GMI was \$4.4 billion compared with \$1.5 billion of pre-tax earnings in the prior-year period.
- GMI's net revenues for the first nine months of 2007 were \$9.7 billion, down 28% from the record prior-year period. Pre-tax earnings were \$6 million, down from \$4.5 billion in the prior-year period.

### **Global Wealth Management (GWM)**

GWM generated robust net revenues and pre-tax earnings for the third quarter and for the first nine months of 2007, driven by strong results in Global Private Client (GPC), as well as by a solid contribution from Global Investment Management (GIM), which includes earnings from Merrill Lynch's investment in BlackRock.

- GWM's third quarter 2007 net revenues were \$3.5 billion, up 29% from the third quarter of 2006:
  - GPC's net revenues increased 23% to \$3.3 billion from the prior-year period, driven by year-over-year increases in every major revenue category, including record fee-based revenues, which reflected higher asset values and continued strength in flows into annuitized-revenue products, as well as sizeable increases in transaction and origination revenues, which included a few particularly large deals, and net interest revenues. For the first nine months of 2007, GPC's net

revenues increased 16% over the prior-year period to a record \$9.6 billion, also driven by every major revenue category.

- GIM's net revenues increased 210% year-over-year to \$270 million, due primarily to revenues from Merrill Lynch's investment in BlackRock, which began to contribute to revenues during the 2006 fourth quarter, as well as increases in revenues from Merrill Lynch's ownership positions in other investment management companies and the business that creates alternative investment products for GPC clients. GIM's net revenues for the first nine months of 2007 were \$836 million, up 153% from the comparable period.
- GWM's third quarter 2007 pre-tax earnings were \$953 million, up 70% from the third quarter of 2006. The pre-tax profit margin was 26.9%, up from 20.4% in the prior-year period, driven by strong revenue growth in GPC, continued discipline in managing the business with a focus on operating leverage, and the impact of the investment in BlackRock.
- For the first nine months of 2007, GWM's net revenues increased 21%, to a record \$10.4 billion, driven by both GPC and GIM. Pre-tax earnings increased 46% to \$2.7 billion, demonstrating the continued operating leverage in this business, despite continuing investment in GWM's leading product offerings, technology platform, and training initiatives. GWM's year-to-date pre-tax profit margin was 26.1%, up 4.5 percentage points from 21.6% in the comparable prior-year period.
- Turnover among Financial Advisors (FAs) remained near historical lows, particularly among top-producing FAs. FA headcount reached 16,610 at quarter-end, an increase of 410 FAs for the quarter, reflecting the continuing trend of favorable net recruiting from competitors and the addition of graduates from our training programs.
- Client assets in products that generate annuitized revenues ended the quarter at \$691 billion, up 20% from the third quarter of 2006, and total client assets in GWM accounts were a record \$1.8 trillion, up 14%. Net inflows of client assets into annuitized-revenue products were \$10 billion for the third quarter, and total net new money was \$26 billion, the highest quarterly level in over six years. For the first nine months of 2007 net inflows of client assets into annuitized-revenue products were \$38 billion, and total net new money was \$51 billion.
- On September 21, 2007 Merrill Lynch closed its acquisition of First Republic Bank, which further bolsters Merrill Lynch's private client organization by growing its private banking franchise, broadening high net worth client relationships and deepening GPC's management expertise. First Republic provides personalized, relationship-based banking services, including private banking, private business banking, real estate lending, trust, brokerage and investment management.
- On August 13, 2007 Merrill Lynch announced the divestiture of its insurance business MLIG, as part of a broader strategic relationship with AEGON, NV. The transaction is expected to close in the fourth quarter of 2007, and GPC's results have been restated to exclude the results of MLIG.

**Merrill Lynch Investment Managers (MLIM)**

On September 29, 2006, Merrill Lynch merged MLIM with BlackRock in exchange for a total of 65 million common and preferred shares representing an economic interest of approximately half of the combined BlackRock. Following the merger, the MLIM business segment ceased to exist, and under the equity method of accounting, an estimate of the net earnings associated with Merrill Lynch's ownership position in BlackRock is recorded in the GIM portion of the GWM segment. For the third quarter of 2006, MLIM's net revenues were \$700 million, and its pre-tax earnings were \$284 million. For the first nine months of 2006, MLIM's net revenues were \$1.9 billion, and its pre-tax earnings were \$746 million.

**Additional Items:****Compensation Expenses**

Compensation and benefits expenses were \$2.0 billion for the third quarter of 2007 compared with \$3.9 billion in the third quarter of 2006. Compensation and benefits expenses were \$11.6 billion, or 58.1% of net revenues for the first nine months of 2007, up from 49.2% in the comparable prior-year period, excluding the one-time compensation expenses and the one-time MLIM benefit.

Merrill Lynch remains focused on paying its best performing employees competitively. In the same vein, it may be necessary to accrue compensation expense at a higher level in the fourth quarter to ensure it can appropriately reward employees whose performance will drive future growth.

**Non-compensation Expenses**

Overall, non-compensation expenses were \$2.1 billion for the third quarter of 2007, up 14% from the prior year period.

Details of the significant changes in non-compensation expenses from the third quarter of 2006 are as follows:

- Brokerage, clearing, and exchange fees were \$365 million, up 31% due primarily to higher transaction volumes.
- Occupancy costs and related depreciation were \$297 million, up 15% due principally to higher office rental expenses and office space added via acquisitions.
- Advertising and market development costs were \$182 million, an increase of 12% due to increased costs associated with increased business activity.
- Expenses of consolidated investments totaled \$68 million, down from \$142 million primarily due to the deconsolidation of certain MLIM investments in connection with the merger.

- Other expenses were \$341 million, an increase of 71% due primarily to the write-off of approximately \$100 million of identifiable intangible assets related to First Franklin.

### **Income Taxes**

The effective tax rate for the first nine months of 2007 was 23.1%, compared with 27.0% in the prior-year period, or 25.9% excluding the one-time items.

### **Capital and Liquidity Management**

Based on current market conditions, Merrill Lynch's liquidity position is strong. Because the markets are unsettled, and market conditions that affect the company's liquidity may become more severe, the company is continuing to closely monitor its liquidity and is pursuing opportunities to preserve and enhance its liquidity and capital position.

As part of its active management of equity capital, Merrill Lynch repurchased 19.9 million shares of its common stock for \$1.5 billion during the third quarter of 2007, largely to offset the 11.6 million shares issued as consideration upon closing the First Republic Bank acquisition.

### **Staffing**

Merrill Lynch's full-time employees totaled 64,200 at the end of the third quarter of 2007, a net increase of 2,300 during the quarter, due primarily to the acquisition of First Republic and the impact of seasonal training programs.

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Stan O'Neal and Jeff Edwards, senior vice president and chief financial officer, will host a conference call today at 10:00 a.m. ET to discuss the company's 2007 third quarter results. The conference call can be accessed via a live audio webcast available through the Investor Relations website at [www.ir.ml.com](http://www.ir.ml.com) or by dialing (888) 810-0245 (U.S. callers) or (706) 634-0180 (non-U.S. callers). On-demand replay of the webcast will be available from approximately 1:00 p.m. ET today at the same web address.

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Merrill Lynch is one of the world's leading wealth management, capital markets and advisory companies with offices in 38 countries and territories and total client assets of approximately \$1.8 trillion. As an investment bank, it is a leading global trader and underwriter of securities and derivatives across a broad range of asset classes and serves as a strategic advisor to corporations, governments, institutions and individuals worldwide. Merrill Lynch owns approximately half of BlackRock, one of the world's largest publicly traded investment management companies with more than \$1 trillion in assets under management. For more information on Merrill Lynch, please visit [www.ml.com](http://www.ml.com).

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Merrill Lynch may make forward-looking statements, including, for example, statements about management expectations, strategic objectives, growth opportunities, business prospects, investment banking pipelines, 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 are not statements of historical facts and represent only Merrill Lynch's 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 the 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, financial market volatility; actions and initiatives taken by current and potential competitors; general economic conditions; the effect of current, pending and future legislation, regulation, and regulatory actions; and the other additional factors described in the Risk Factors section of Merrill Lynch's Annual Report on Form 10-K for the fiscal year ended December 29, 2006 and also disclosed from time to time in its subsequent reports on Form 10-Q and 8-K, which are available on the Merrill Lynch Investor Relations website at [www.ir.ml.com](http://www.ir.ml.com) and at the SEC's website, [www.sec.gov](http://www.sec.gov).

Accordingly, readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date 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 date the forward-looking statements are made. The reader should, however, consult any further disclosures Merrill Lynch may make in its future filings of its reports on Form 10-K, Form 10-Q and Form 8-K.

Merrill Lynch may also, from time to time, disclose financial information on a non-GAAP basis where management believes this information will be valuable to investors in gauging the quality of Merrill Lynch's financial performance and identifying trends.

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## Preliminary Unaudited Earnings Summary

(in millions, except per share amounts)	For the Three Months Ended			Percent Inc / (Dec)	
	Sept. 28,	June 29,	Sept. 29,	3Q07 vs.	3Q07 vs.
	2007	2007	2006	2Q07	3Q06
<b>Net revenues</b>					
Principal transactions	\$ (5,930)	\$ 3,547	\$ 1,673	N/M %	N/M %
Commissions	1,860	1,795	1,345	4	38
Investment banking	1,281	1,538	922	(17)	39
Managed accounts and other fee-based revenues	1,397	1,352	1,714	3	(18)
Revenues from consolidated investments	508	133	210	282	142
Other <sup>(1)</sup>	(918)	716	773	N/M	N/M
Subtotal	(1,802)	9,081	6,637	N/M	N/M
Gain on merger	-	-	1,969	N/M	N/M
Interest and dividend revenues	15,787	14,635	10,651	8	48
Less interest expense	13,408	14,052	9,424	(5)	42
Net interest profit	2,379	583	1,227	308	94
<b>Total net revenues</b>	<b>577</b>	<b>9,664</b>	<b>9,833</b>	(94)	(94)
<b>Non-interest expenses</b>					
Compensation and benefits	1,992	4,760	3,942	(58)	(49)
Communications and technology	499	484	484	3	3
Brokerage, clearing, and exchange fees	365	346	278	5	31
Occupancy and related depreciation	297	276	259	8	15
Professional fees	243	244	223	(0)	9
Advertising and market development	182	201	163	(9)	12
Expenses of consolidated investments	68	43	142	58	(52)
Office supplies and postage	55	56	53	(2)	4
Other	341	263	199	30	71
<b>Total non-interest expenses</b>	<b>4,042</b>	<b>6,673</b>	<b>5,743</b>	(39)	(30)
<b>(Loss)/earnings from continuing operations before income taxes</b>	<b>(3,465)</b>	<b>2,991</b>	<b>4,090</b>	N/M	N/M
Income tax (benefit)/expense	(1,199)	872	1,071	N/M	N/M
<b>Net (loss)/earnings from continuing operations</b>	<b>(2,266)</b>	<b>2,119</b>	<b>3,019</b>	N/M	N/M
<b>Discontinued operations:</b>					
Earnings from discontinued operations	38	32	38	19	0
Income tax expense	13	12	12	8	8
Net earnings from discontinued operations	25	20	26	25	(4)
<b>Net (loss)/earnings</b>	<b>\$ (2,241)</b>	<b>\$ 2,139</b>	<b>\$ 3,045</b>	N/M	N/M
<b>Preferred stock dividends</b>	<b>\$ 73</b>	<b>\$ 72</b>	<b>\$ 50</b>	1	46
<b>Net (loss)/earnings applicable to common stockholders</b>	<b>\$ (2,314)</b>	<b>\$ 2,067</b>	<b>\$ 2,995</b>	N/M	N/M
Basic (loss)/earnings per common share from continuing operations	(2.85)	2.46	3.47	N/M	N/M
Basic earnings per common share from discontinued operations	0.03	0.02	0.03	50	0
Basic (loss)/earnings per common share	\$ (2.82)	\$ 2.48	\$ 3.50	N/M	N/M
Diluted (loss)/earnings per common share from continuing operations	(2.85)	2.22	3.14	N/M	N/M
Diluted earnings per common share from discontinued operations	0.03	0.02	0.03	50	0
Diluted (loss)/earnings per common share	\$ (2.82)	\$ 2.24	\$ 3.17	N/M	N/M
<b>Average shares used in computing earnings per common share</b>					
Basic	821.6	833.8	855.8	(1)	(4)
Diluted	821.6	923.3	945.3	(11)	(13)
<b>Annualized return on average common equity from continuing operations</b>	N/M	22.1%	35.1%		
<b>Annualized return on average common equity</b>	N/M	22.4%	35.4%		

N/M = Not Meaningful

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

(1) Includes losses related to valuation allowances taken on held-for-sale loans.

## Preliminary Unaudited Earnings Summary

(in millions, except per share amounts)	For the Nine Months Ended		Percent Inc / (Dec)
	Sept. 28, 2007	Sept. 29, 2006	
<b>Net revenues</b>			
Principal transactions	\$ 351	\$ 4,841	(93) %
Commissions	5,360	4,462	20
Investment banking	4,333	3,166	37
Managed accounts and other fee-based revenues	4,038	5,047	(20)
Revenues from consolidated investments	772	500	54
Other <sup>(1)</sup>	880	2,436	(64)
Subtotal	<u>15,734</u>	<u>20,452</u>	(23)
Interest and dividend revenues	43,346	28,928	50
Less interest expense	<u>39,055</u>	<u>25,500</u>	53
Net interest profit	<u>4,291</u>	<u>3,428</u>	25
Gain on merger	-	1,969	
<b>Total net revenues</b>	<b><u>20,025</u></b>	<b><u>25,849</u></b>	(23)
<b>Non-interest expenses</b>			
Compensation and benefits	11,640	13,662	(15)
Communications and technology	1,462	1,365	7
Brokerage, clearing, and exchange fees	1,021	803	27
Occupancy and related depreciation	838	749	12
Professional fees	711	617	15
Advertising and market development	540	498	8
Expenses of consolidated investments	170	334	(49)
Office supplies and postage	170	167	2
Other	910	687	32
<b>Total non-interest expenses</b>	<b><u>17,462</u></b>	<b><u>18,882</u></b>	(8)
<b>Earnings from continuing operations before income taxes</b>	<b><u>2,563</u></b>	<b><u>6,967</u></b>	(63)
Income tax expense	<u>592</u>	<u>1,883</u>	(69)
<b>Net earnings from continuing operations</b>	<b><u>1,971</u></b>	<b><u>5,084</u></b>	(61)
<b>Discontinued operations:</b>			
Earnings from discontinued operations	128	103	24
Income tax expense	<u>43</u>	<u>34</u>	26
Net earnings from discontinued operations	<u>85</u>	<u>69</u>	23
<b>Net earnings</b>	<b><u>\$ 2,056</u></b>	<b><u>\$ 5,153</u></b>	(60)
<b>Preferred stock dividends</b>	<b><u>\$ 197</u></b>	<b><u>\$ 138</u></b>	43
<b>Net earnings applicable to common stockholders</b>	<b><u>\$ 1,859</u></b>	<b><u>\$ 5,015</u></b>	(63)
Basic earnings per common share from continuing operations	2.13	5.65	(62)
Basic earnings per common share from discontinued operations	<u>0.10</u>	<u>0.08</u>	25
Basic earnings per common share	<u>\$ 2.23</u>	<u>\$ 5.73</u>	(61)
Diluted earnings per common share from continuing operations	1.94	5.12	(62)
Diluted earnings per common share from discontinued operations	<u>0.09</u>	<u>0.07</u>	29
Diluted earnings per common share	<u>\$ 2.03</u>	<u>\$ 5.19</u>	(61)
<b>Average shares used in computing earnings per common share</b>			
Basic	832.2	875.0	(5)
Diluted	916.3	966.6	(5)
<b>Annualized return on average common equity from continuing operations</b>	6.5%	19.5%	
<b>Annualized return on average common equity</b>	6.8%	19.7%	

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

(1) Includes losses related to valuation allowances taken on held-for-sale loans.

**Reconciliation of Non-GAAP Measures**

During the third quarter of 2006, Merrill Lynch completed the merger of its Merrill Lynch Investment Managers business with BlackRock, Inc. Merrill Lynch recognized a gain associated with this merger along with other non-recurring expenses, collectively "Impact of BlackRock Merger".

Management believes that while the results excluding the impact of the BlackRock merger are considered non-GAAP measures, they depict the operating performance of the company more clearly and enable more appropriate period-to-period comparisons.

**Unaudited Earnings Summary**

For the Three Months Ended September 29, 2006

(in millions, except per share amounts)	Excluding Impact of BlackRock Merger	Impact of BlackRock Merger	GAAP Basis
<b>Net revenues (a)</b>	<b>\$ 7,864</b>	<b>\$ 1,969</b>	<b>\$ 9,833</b>
<b>Non-interest expenses</b>			
Compensation and benefits (b)	3,798	144	3,942
Non-compensation expenses (c)	1,743	58	1,801
<b>Total non-interest expenses</b>	<b>5,541</b>	<b>202</b>	<b>5,743</b>
<b>Earnings from continuing operations before income taxes (d)</b>	<b>2,323</b>	<b>1,767</b>	<b>4,090</b>
Income tax expense (e)	409	662	1,071
<b>Net earnings from continuing operations</b>	<b>\$ 1,914</b>	<b>\$ 1,105</b>	<b>\$ 3,019</b>
Earnings from discontinued operations before income taxes	\$ 38	\$ -	\$ 38
Income tax expense	12	-	12
Net earnings from discontinued operations	\$ 26	\$ -	\$ 26
<b>Net earnings</b>	<b>\$ 1,940</b>	<b>\$ 1,105</b>	<b>\$ 3,045</b>
<b>Preferred stock dividends</b>	<b>\$ 50</b>	<b>\$ -</b>	<b>\$ 50</b>
<b>Net earnings applicable to common stockholders</b>	<b>\$ 1,890</b>	<b>\$ 1,105</b>	<b>\$ 2,995</b>
Basic earnings per common share from continuing operations	\$ 2.18	\$ 1.29	\$ 3.47
Basic earnings per common share from discontinued operations	0.03	-	0.03
Basic earnings per common share	\$ 2.21	\$ 1.29	\$ 3.50
Diluted earnings per common share from continuing operations	\$ 1.97	\$ 1.17	\$ 3.14
Diluted earnings per common share from discontinued operations	0.03	-	0.03
Diluted earnings per common share	\$ 2.00	\$ 1.17	\$ 3.17
<b>Average shares used in computing earnings per common share</b>			
Basic	855.8	-	855.8
Diluted	945.3	-	945.3

**Financial Ratios**For the Three Months Ended  
September 29, 2006

	Excluding Impact of BlackRock Merger	GAAP Basis
Ratio of compensation and benefits to net revenues (b)/(a)	48.3%	40.1%
Ratio of non-compensation and benefits to net revenues (c)/(a)	22.2%	18.3%
Effective tax rate (e)/(d)	17.6%	26.2%
Pre-tax profit margin (d)/(a)	29.5%	41.6%
Average common equity	\$ 33,862	\$ 33,862
Impact of the BlackRock merger	(276)	-
Average common equity	33,586	33,862
Annualized return on average common equity from continuing operations	22.2%	35.1%
Annualized return on average common equity	22.5%	35.4%

**Reconciliation of Non-GAAP Measures**

Merrill Lynch adopted Statement of Financial Accounting Standards No. 123 (as revised in 2004) for stock-based employee compensation during the first quarter of 2006. Additionally, as a result of a comprehensive review of the retirement provisions in its stock-based compensation plans, Merrill Lynch also modified the retirement eligibility requirements of existing stock awards in order to facilitate transition to more stringent retirement eligibility requirements for future stock awards. These modifications and the adoption of the new accounting standard required Merrill Lynch to accelerate the recognition of compensation expenses for affected stock awards, resulting in the "one-time compensation expenses." These changes represent timing differences and are not economic in substance.

During the third quarter of 2006, Merrill Lynch completed the merger of its Merrill Lynch Investment Managers business with BlackRock, Inc. Merrill Lynch recognized a gain associated with this merger along with other non-recurring expenses, collectively "Impact of BlackRock Merger".

Management believes that while the results excluding these one-time compensation expenses and the impact of the BlackRock merger are considered non-GAAP measures, they depict the operating performance of the company more clearly and enable more appropriate period-to-period comparisons.

**Unaudited Earnings Summary**For the Nine Months Ended September 29, 2006<sup>(1)</sup>

(in millions, except per share amounts)	Excluding One-time Compensation Expenses & Impact of BlackRock Merger	Impact of One-time Compensation Expenses	Impact of BlackRock Merger	GAAP Basis
	\$	\$	\$	\$
Net revenues (a)	23,880	-	1,969	25,849
<b>Non-interest expenses</b>				
Compensation and benefits (b)	11,759	1,759	144	13,662
Non-compensation expenses (c)	5,162	-	58	5,220
<b>Total non-interest expenses</b>	<b>16,921</b>	<b>1,759</b>	<b>202</b>	<b>18,882</b>
<b>Earnings from continuing operations before income taxes (d)</b>	<b>6,959</b>	<b>(1,759)</b>	<b>1,767</b>	<b>6,967</b>
Income tax expense (e)	1,803	(582)	662	1,883
<b>Net earnings from continuing operations</b>	<b>\$ 5,156</b>	<b>\$ (1,177)</b>	<b>\$ 1,105</b>	<b>\$ 5,084</b>
Earnings from discontinued operations before income taxes	103	-	-	103
Income tax expense	34	-	-	34
Net earnings from discontinued operations	69	-	-	69
<b>Net earnings</b>	<b>\$ 5,225</b>	<b>\$ (1,177)</b>	<b>\$ 1,105</b>	<b>\$ 5,153</b>
<b>Preferred stock dividends</b>	<b>\$ 138</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 138</b>
<b>Net earnings applicable to common stockholders</b>	<b>\$ 5,087</b>	<b>\$ (1,177)</b>	<b>\$ 1,105</b>	<b>\$ 5,015</b>
Basic earnings per common share from continuing operations	5.75	(1.35)	1.25	5.65
Basic earnings per common share from discontinued operations	0.08	-	-	0.08
Basic earnings per common share	5.83	(1.35)	1.25	5.73
Diluted earnings per common share from continuing operations	5.20	(1.22)	1.14	5.12
Diluted earnings per common share from discontinued operations	0.07	-	-	0.07
Diluted earnings per common share	5.27	(1.22)	1.14	5.19
<b>Average shares used in computing earnings per common share</b>				
Basic	873.1	1.9	-	875.0
Diluted	964.7	1.9	-	966.6

**Financial Ratios**For the Nine Months Ended<sup>(1)</sup>

September 29, 2006

	Excluding One-time Compensation Expenses & Impact of BlackRock Merger	GAAP Basis
Ratio of compensation and benefits to net revenues (b)/(a)	49.2%	52.9%
Ratio of non-compensation and benefits to net revenues (c)/(a)	21.6%	20.2%
Effective tax rate (e)/(d)	25.9%	27.0%
Pre-tax profit margin (d)/(a)	29.1%	27.0%
Average common equity	\$ 33,887	\$ 33,887
Impact of one-time compensation expenses and the BlackRock merger	(256)	-
Average common equity	33,631	33,887
Annualized return on average common equity from continuing operations	19.9%	19.5%
Annualized return on average common equity	20.2%	19.7%

(1) For purposes of comparison with previously published results, data excluding the impact of the one-time compensation expenses for the first nine months of 2006 assumes the impact of the one-time compensation expenses is limited to the first quarter of 2006.

## Preliminary Segment Data (unaudited)

	For the Three Months Ended			Percent Inc / (Dec)		For the Nine Months Ended		Percent Inc / (Dec)
	Sept. 28, 2007	June 29, 2007	Sept. 29, 2006	3Q07 vs. 2Q07	3Q07 vs. 3Q06	Sept. 28, 2007	Sept. 29, 2006	
(dollars in millions)								
<b>Global Markets &amp; Investment Banking</b>								
<b>Global Markets</b>								
FICC	\$ (5,572)	\$ 2,618	\$ 2,081	N/M %	N/M %	\$ (153)	\$ 5,830	N/M %
Equity Markets	1,581	2,148	1,519	(26)	4	6,115	4,969	23
Total Global Markets net revenues	(3,991)	4,766	3,600	N/M	N/M	5,962	10,799	(45)
<b>Investment Banking<sup>(1)</sup></b>								
Origination:								
Debt	281	479	366	(41)	(23)	1,351	1,195	13
Equity	344	547	193	(37)	78	1,254	745	68
Strategic Advisory Services	385	397	260	(3)	48	1,181	813	45
Total Investment Banking net revenues	1,010	1,423	819	(29)	23	3,786	2,753	38
Total net revenues (a)	(2,981)	6,189	4,419	N/M	N/M	9,748	13,552	(28)
Pre-tax earnings / (loss) from continuing operations	(4,439)	2,102	1,472	N/M	N/M	6	3,153	(100)
Impact of one-time compensation expenses	-	-	-	N/M	N/M	-	1,369	N/M
Pre-tax earnings / (loss) from continuing operations excluding one-time compensation expenses (b)	(4,439)	2,102	1,472	N/M	N/M	6	4,522	(100)
Pre-tax profit margin	N/M	34.0%	33.3%			0.1%	23.3%	
Pre-tax profit margin excluding one-time compensation expenses (b)/(a)	N/M	34.0%	33.3%			0.1%	33.4%	
<b>Global Wealth Management</b>								
<b>Global Private Client</b>								
Fee-based revenues	\$ 1,605	\$ 1,544	\$ 1,361	4	18	\$ 4,622	\$ 4,057	14
Transactional and origination revenues	989	1,015	708	(3)	40	2,915	2,480	18
Net interest profit and related hedges <sup>(2)</sup>	584	577	508	1	15	1,753	1,545	13
Other revenues	90	113	76	(20)	18	300	207	45
Total Global Private Client net revenues	3,268	3,249	2,653	1	23	9,590	8,289	16
<b>Global Investment Management net revenues</b>	270	305	87	(11)	210	836	330	153
Total net revenues (a)	3,538	3,554	2,740	(0)	29	10,426	8,619	21
Pre-tax earnings from continuing operations	953	979	560	(3)	70	2,716	1,585	71
Impact of one-time compensation expenses	-	-	-	N/M	N/M	-	281	N/M
Pre-tax earnings from continuing operations excluding one-time compensation expenses (b)	953	979	560	(3)	70	2,716	1,866	46
Pre-tax profit margin	26.9%	27.5%	20.4%			26.1%	18.4%	
Pre-tax profit margin excluding one-time compensation expenses (b)/(a)	26.9%	27.5%	20.4%			26.1%	21.6%	
<b>Merrill Lynch Investment Managers</b>								
Total net revenues (a)	\$ -	\$ -	\$ 700	N/M	N/M	\$ -	\$ 1,900	N/M
Pre-tax earnings from continuing operations	-	-	284	N/M	N/M	-	637	N/M
Impact of one-time compensation expenses	-	-	-	N/M	N/M	-	109	N/M
Pre-tax earnings from continuing operations excluding one-time compensation expenses (b)	-	-	284	N/M	N/M	-	746	N/M
Pre-tax profit margin	-	-	40.6%			-	33.5%	
Pre-tax profit margin excluding one-time compensation expenses (b)/(a)	-	-	40.6%			-	39.3%	
<b>Corporate</b>								
Total net revenues	\$ 20	\$ (79)	\$ 1,974	N/M	(99)	\$ (149)	\$ 1,778	N/M
Impact of BlackRock merger	-	-	1,969	N/M	N/M	-	1,969	N/M
Total net revenues excluding the BlackRock merger	20	(79)	5	N/M	300	(149)	(191)	(22)
Pre-tax earnings / (loss) from continuing operations	21	(90)	1,774	N/M	(99)	(159)	1,592	N/M
Impact of BlackRock merger	-	-	(1,767)	N/M	N/M	-	(1,767)	N/M
Pre-tax earnings / (loss) from continuing operations excluding the BlackRock merger	21	(90)	7	N/M	200	(159)	(175)	(9)
<b>Total</b>								
Total net revenues (a)	\$ 577	\$ 9,664	\$ 9,833	(94)	(94)	\$ 20,025	\$ 25,849	(23)
Impact of BlackRock merger	-	-	1,969	N/M	N/M	-	1,969	N/M
Total net revenues excluding the BlackRock merger	577	9,664	7,864	(94)	(93)	20,025	23,880	(16)
Pre-tax earnings / (loss) from continuing operations	(3,465)	2,991	4,090	N/M	N/M	2,563	6,967	(63)
Impact of BlackRock merger	-	-	(1,767)	N/M	N/M	-	(1,767)	N/M
Impact of one-time compensation expenses	-	-	-	N/M	N/M	-	1,759	N/M
Pre-tax earnings / (loss) from continuing operations excluding BlackRock merger and one-time compensation expenses (b)	(3,465)	2,991	2,323	N/M	N/M	2,563	6,959	(63)
Pre-tax profit margin	N/M	30.9%	41.6%			12.8%	27.0%	
Pre-tax profit margin excluding BlackRock merger and one-time compensation expenses (b)/(a)	N/M	30.9%	29.5%			12.8%	29.1%	

N/M = Not Meaningful

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

(1) A portion of Origination revenue is recorded in Global Wealth Management.

(2) Includes interest component of non-qualifying derivatives which are included in Other Revenues in Attachments I &amp; II.



## Consolidated Quarterly Earnings (unaudited)

(in millions)

	3Q06	4Q06	1Q07	2Q07	3Q07
<b>Net Revenues</b>					
Principal transactions	\$ 1,673	\$ 2,193	\$ 2,734	\$ 3,547	\$ (5,930)
Commissions					
Listed and over-the-counter securities	881	978	1,126	1,203	1,278
Mutual funds	426	485	521	541	522
Other	38	60	58	51	60
Total	1,345	1,523	1,705	1,795	1,860
Investment banking					
Underwriting	660	1,227	1,117	1,140	899
Strategic advisory	262	287	397	398	382
Total	922	1,514	1,514	1,538	1,281
Managed accounts and other fee-based revenues					
Portfolio service fees	757	795	832	859	904
Asset management fees	649	141	136	152	149
Account fees	113	115	111	118	120
Other fees	195	190	210	223	224
Total	1,714	1,241	1,289	1,352	1,397
Revenues from consolidated investments	210	70	131	133	508
Other <sup>(1)</sup>	773	820	1,082	716	(918)
Subtotal	6,637	7,361	8,455	9,081	(1,802)
Interest and dividend revenues	10,651	11,505	12,924	14,635	15,787
Less interest expense	9,424	10,322	11,595	14,052	13,408
Net interest profit	1,227	1,183	1,329	583	2,379
Gain on merger	1,969	-	-	-	-
<b>Total Net Revenues</b>	<b>9,833</b>	<b>8,544</b>	<b>9,784</b>	<b>9,664</b>	<b>577</b>
<b>Non-Interest Expenses</b>					
Compensation and benefits	3,942	3,327	4,888	4,760	1,992
Communications and technology	484	477	479	484	499
Brokerage, clearing, and exchange fees	278	294	310	346	365
Occupancy and related depreciation	259	249	265	276	297
Professional fees	223	263	224	244	243
Advertising and market development	163	194	157	201	182
Expenses of consolidated investments	142	46	59	43	68
Office supplies and postage	53	59	59	56	55
Other	199	333	306	263	341
<b>Total Non-Interest Expenses</b>	<b>5,743</b>	<b>5,242</b>	<b>6,747</b>	<b>6,673</b>	<b>4,042</b>
<b>Earnings/(loss) from continuing operations before income taxes</b>	<b>4,090</b>	<b>3,302</b>	<b>3,037</b>	<b>2,991</b>	<b>(3,465)</b>
Income tax expense/(benefit)	1,071	993	919	872	(1,199)
<b>Net earnings/(loss) from continuing operations</b>	<b>3,019</b>	<b>2,309</b>	<b>2,118</b>	<b>2,119</b>	<b>(2,266)</b>
<b>Discontinued operations:</b>					
Earnings from discontinued operations	38	54	58	32	38
Income tax expense	12	17	18	12	13
Net earnings from discontinued operations	26	37	40	20	25
<b>Net earnings/(loss)</b>	<b>\$ 3,045</b>	<b>\$ 2,346</b>	<b>\$ 2,158</b>	<b>\$ 2,139</b>	<b>\$ (2,241)</b>
<b>Per Common Share Data</b>					
	3Q06	4Q06	1Q07	2Q07	3Q07
Earnings/(loss) from continuing operations - Basic	\$ 3.47	\$ 2.67	\$ 2.45	\$ 2.46	\$ (2.85)
Earnings/(loss) from continuing operations - Diluted	3.14	2.37	2.22	2.22	(2.85)
Dividends paid	0.25	0.25	0.35	0.35	0.35
Book value	40.22	41.35	42.25	43.55	39.75 est.

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

(1) Includes losses related to valuation allowances taken on held-for-sale loans.

## Percentage of Quarterly Net Revenues (unaudited)

	3Q06	4Q06	1Q07	2Q07	3Q07
<b>Net Revenues</b>					
Principal transactions	17.0%	25.7%	27.9%	36.7%	N/M%
Commissions					
Listed and over-the-counter securities	9.0%	11.4%	11.5%	12.4%	221.5%
Mutual funds	4.3%	5.7%	5.3%	5.6%	90.5%
Other	0.4%	0.7%	0.6%	0.6%	10.4%
Total	13.7%	17.8%	17.4%	18.6%	N/M%
Investment banking					
Underwriting	6.7%	14.4%	11.4%	11.8%	155.8%
Strategic advisory	2.7%	3.4%	4.1%	4.1%	66.2%
Total	9.4%	17.8%	15.5%	15.9%	222.0%
Managed accounts and other fee-based revenues					
Portfolio service fees	7.7%	9.3%	8.5%	8.9%	156.7%
Asset management fees	6.6%	1.7%	1.4%	1.6%	25.8%
Account fees	1.1%	1.3%	1.1%	1.2%	20.8%
Other fees	2.0%	2.2%	2.2%	2.3%	38.8%
Total	17.4%	14.5%	13.2%	14.0%	242.1%
Revenues from consolidated investments	2.1%	0.8%	1.3%	1.4%	88.0%
Other	7.9%	9.6%	11.1%	7.4%	N/M%
Subtotal	67.5%	86.2%	86.4%	94.0%	N/M%
Interest and dividend revenues	108.3%	134.7%	132.1%	151.4%	N/M%
Less interest expense	95.8%	120.9%	118.5%	145.4%	N/M%
Net interest profit	12.5%	13.8%	13.6%	6.0%	N/M%
Gain on merger	20.0%	0.0%	0.0%	0.0%	0.0%
<b>Total Net Revenues</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Non-Interest Expenses</b>					
Compensation and benefits	40.1%	38.9%	50.0%	49.3%	N/M%
Communications and technology	4.9%	5.6%	4.9%	5.0%	86.5%
Brokerage, clearing, and exchange fees	2.8%	3.4%	3.2%	3.6%	63.3%
Occupancy and related depreciation	2.6%	2.9%	2.7%	2.9%	51.5%
Professional fees	2.3%	3.1%	2.3%	2.5%	42.1%
Advertising and market development	1.7%	2.3%	1.6%	2.1%	31.5%
Expenses of consolidated investments	1.4%	0.5%	0.6%	0.4%	11.8%
Office supplies and postage	0.5%	0.7%	0.6%	0.6%	9.5%
Other	2.1%	4.0%	3.1%	2.7%	59.1%
<b>Total Non-Interest Expenses</b>	<b>58.4%</b>	<b>61.4%</b>	<b>69.0%</b>	<b>69.1%</b>	<b>N/M%</b>
<b>Earnings/loss from continuing operations before income taxes</b>	<b>41.6%</b>	<b>38.6%</b>	<b>31.0%</b>	<b>30.9%</b>	<b>N/M%</b>
Income tax expense/benefit	10.9%	11.6%	9.4%	9.0%	N/M%
<b>Net earnings from continuing operations</b>	<b>30.7%</b>	<b>27.0%</b>	<b>21.6%</b>	<b>21.9%</b>	<b>N/M%</b>
<b>Discontinued operations:</b>					
Earnings from discontinued operation	0.4%	0.6%	0.6%	0.3%	6.6%
Income tax expense	0.1%	0.2%	0.2%	0.1%	2.3%
Net earnings from discontinued operation	0.3%	0.4%	0.4%	0.2%	4.3%
<b>Net earnings/loss</b>	<b>31.0%</b>	<b>27.4%</b>	<b>22.0%</b>	<b>22.1%</b>	<b>N/M%</b>
<b>Common shares outstanding (in millions):</b>					
Weighted-average - basic	855.8	847.4	841.3	833.8	821.6
Weighted-average - diluted	945.3	952.2	930.2	923.3	821.6
Period-end	883.3	868.0	876.9	862.6	855.4

N/M = Not Meaningful

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

## Supplemental Data (unaudited)

(dollars in billions)

	<u>3Q06</u>	<u>4Q06</u>	<u>1Q07</u>	<u>2Q07</u>	<u>3Q07</u>
<b>Client Assets</b>					
U.S.	\$ 1,412	\$ 1,483	\$ 1,503	\$ 1,550	\$ 1,601
Non - U.S.	130	136	145	153	161
Total Client Assets	<u>1,542</u>	<u>1,619</u>	<u>1,648</u>	<u>1,703</u>	<u>1,762</u>
Assets in Annuitized-Revenue Products	576	611	627	662	691
<b>Net New Money</b>					
All Client Accounts <sup>(1)</sup>	\$ 14	\$ 22	\$ 16	\$ 9	\$ 26
Annuitized-Revenue Products <sup>(1)(2)</sup>	7	18	16	12	10
<b>Balance Sheet Information:</b> <sup>(3)</sup>					
Short-term Borrowings	\$ 14.3	\$ 18.1	\$ 20.2	\$ 20.1	\$ 36.3
Deposits	77.9	84.1	84.9	82.8	95.0
Long-term Borrowings	160.4	181.4	205.4	226.0	238.6
Junior Subordinated Notes (related to trust preferred securities)	3.1	3.8	3.5	4.4	5.2
<b>Stockholders' Equity:</b> <sup>(3)</sup>					
Preferred Stockholders' Equity	3.1	3.1	4.7	4.6	4.8
Common Stockholders' Equity	<u>35.6</u>	<u>35.9</u>	<u>37.0</u>	<u>37.6</u>	<u>34.0</u>
Total Stockholders' Equity	<u>38.7</u>	<u>39.0</u>	<u>41.7</u>	<u>42.2</u>	<u>38.8</u>
<b>Full-Time Employees</b> <sup>(4)</sup>	55,300 <sup>(5)</sup>	56,200	60,300	61,900	64,200
<b>Financial Advisors</b> <sup>(6)</sup>	15,700	15,880	15,930	16,200	16,610

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

- (1) Net new money excludes flows associated with the Institutional Advisory Division which serves certain small- and middle-market companies, as well as net inflows at BlackRock from distribution channels other than Merrill Lynch.
- (2) Includes both net new client assets into annuitized-revenue products, as well as existing client assets transferred into annuitized-revenue products.
- (3) Balance Sheet Information and Stockholders' Equity are estimated for 3Q07.
- (4) Excludes 200 full-time employees on salary continuation severance at the end of 3Q06, 100 at the end of 4Q06, 200 at the end of 1Q07, 300 at the end of 2Q07, and 400 at the end of 3Q07.
- (5) Excludes 2,400 MLIM employees that moved over to BlackRock at the end of 3Q06.
- (6) Includes 150 Financial Advisors associated with the Mitsubishi UFJ joint venture at the end of 3Q06 and 4Q06, 160 at the end of 1Q07, 170 at the end of 2Q07, and 170 at the end of 3Q07.

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