Merrill Lynch, Pierce, Fenner & Smith Incorporated and Subsidiaries

(SEC ID No. 8-7221)
Consolidated Balance Sheet

June 30, 2009
(Unaudited)

Member, Securities Investor Protection Corporation (SIPC)

Merrill Lynch, Pierce, Fenner & Smith Incorporated and Subsidiaries
Index
June 30, 2009

Page(s)

Consolidated Financial Statements

Consolidated Balance Sheet 1

Notes to Consolidated Financial Statements 2–41

Merrill Lynch, Pierce, Fenner & Smith Incorporated and Subsidiaries
Consolidated Balance Sheet – (Unaudited)
June 30, 2009

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

Assets	
Cash and cash equivalents	$ 1,621
Cash and securities segregated for regulatory purposes or deposited with clearing organizations	9,880
Securities financing transactions	
Receivables under resale agreements (includes $577 measured at fair value in accordance with SFAS No. 159)	2,136
Receivables under securities borrowed transactions	31,214
	33,350
Trading assets, at fair value (includes securities pledged as collateral that can be sold or repledged of $968)	
Corporate debt and preferred stock	8,442
Equities and convertible debentures	5,899
Municipals and Money markets	5,014
Derivative contracts	770
Mortgages, mortgage-backed, and asset-backed	692
U.S. Government and agencies	345
Non-U.S. governments and agencies	40
	21,202
Securities received as collateral, at fair value	3,954
Receivables from affiliated companies (includes $4,823 measured at fair value in accordance with SFAS No. 159)	32,021
Other receivables	
Customers (net of allowance for doubtful accounts of $90)	5,732
Brokers and dealers	2,829
Interest and other	1,718
	10,279
Other investments	587
Equipment and facilities (net of accumulated depreciation and amortization of $4,486	1,303
Goodwill and intangible assets	5,030
Other assets	5,053
Total Assets	**$ 124,280**
Liabilities and Stockholders' Equity	
Liabilities	
Securities financing transactions	
Payables under repurchase agreements (includes $45 measured at fair value in accordance with SFAS No. 159)	$ 9,283
Payables under securities loaned transactions	5,459
	14,742
Trading liabilities, at fair value	
Equities and convertible debentures	5,654
Derivative contracts	609
U.S. Government and agencies	242
Other	132
	6,637
Obligations to return securities received as collateral, at fair value	3,954
Other payables	
Customers	17,718
Brokers and dealers	8,242
Compensation and benefits	2,399
Interest and other	2,957
	31,316
Payables to affiliated companies (includes $538 measured at fair value in accordance with SFAS No. 159)	49,499
Subordinated borrowings	12,700
Stockholders' equity	
Preferred stock, $1,000 liquidation preference per share; par value $1 per share; 10,000 shares authorized; 2,485 shares issued and outstanding	2
Common stock, par value $1,000 per share; 1,200 shares authorized; 1,000 shares issued and outstanding	1
Paid-in capital	5,556
Accumulated other comprehensive income, net of tax	3
Accumulated deficit	(130)
Total Stockholders' Equity	5,432
Total Liabilities and Stockholders' Equity	**$ 124,280**

See notes to Consolidated Balance Sheet.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES

Description of Business

Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S"), together with its subsidiaries (the "Company"), acts as a broker (i.e., agent) for corporate, institutional, government, and other clients and as a dealer (i.e., principal) in the purchase and sale of corporate debt and equity securities. The Company also acts as a broker and/or a dealer in the purchase and sale of mutual funds, money market instruments, government securities, high yield bonds, municipal securities, financial futures contracts and options. The futures business and foreign exchange activities are conducted through the Company. The Company holds memberships and/or has third-party clearing relationships with all major commodity and financial futures exchanges and clearing associations in the United States and it also carries positions reflecting trades executed on exchanges outside of the United States through affiliates and/or third-party clearing brokers. As a investment banking entity, the Company provides corporate, institutional, and government clients with a wide variety of financial services including underwriting the sale of securities to the public, structured and derivative financing, private placements, mortgage and lease financing and financial advisory services, including advice on mergers and acquisitions. The Company is a wholly-owned subsidiary of Merrill Lynch & Co., Inc. (the "Parent"), which is a wholly-owned subsidiary of Bank of America Corporation ("Bank of America").

On January 1, 2009, the Parent was acquired by Bank of America through the merger of a wholly owned subsidiary of Bank of America. The Parent continues as a surviving corporation and a wholly owned subsidiary of Bank of America. As a result of the merger, all of the direct and indirect subsidiaries of the Parent, including the Company, have become indirect subsidiaries of Bank of America. As a result of the acquisition, the components of the Company's shareholders' equity at December 26, 2008 were reclassified to paid-in-capital on January 1, 2009.

The Company also provides securities clearing services for its own account and for unaffiliated broker-dealers through its Broadcort Division and through its principal subsidiary, Merrill Lynch Professional Clearing Corp. ("MLPCC"). MLPCC is involved in the prime brokerage business and also makes a market in listed option contracts on various options exchanges.

The Company also provides discretionary and non-discretionary investment advisory services. These advisory services include the Merrill Lynch Consults® Service, the Personal Investment Advisory Program, the Merrill Lynch Mutual Fund Advisor® program, the Merrill Lynch Mutual Fund Advisor Selects® program, the Merrill Lynch Personal Advisor program and the Merrill Lynch Global Selects program. The Company also offers fee-based financial planning services, including the Financial Foundation® report. The Company provides financing to clients, including margin lending and other extensions of credit.

Through its retirement group, the Company provides a wide variety of investment and custodial services to individuals through Individual Retirement Accounts and small business retirement programs. The Company also provides investment, administration, communications, and consulting services to corporations and their employees for their retirement programs, including 401(k), pension, profit-sharing and nonqualified deferred compensation plans.

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

Effective January 1, 2009, the Company adopted calendar year-end reporting periods to coincide with those of Bank of America. The intervening period between the Company's previous fiscal year end (December 26, 2008) and the beginning of the current period (January 1, 2009) (the "stub period") is included in the Consolidated Balance Sheet.

In connection with the acquisition of the Parent by Bank of America, the carrying value of the Company's goodwill as of December 26, 2008 was eliminated. New goodwill was recorded on January 1, 2009. In addition, as of January 1, 2009, certain intangible assets were adjusted to their fair value and new intangible assets (e.g. trade name) were recorded.

During the first half of 2009, the Company purchased the majority of the trading assets of the equities and futures businesses from a subsidiary of Bank of America, Banc of America Securities LLC ("BAS") and sold the majority of the Company's fixed income trading assets to BAS. The Company has service fee agreements with BAS and Bank of America.

Basis of Presentation

The Consolidated Balance Sheet includes the accounts of MLPF&S and its subsidiaries and is presented in accordance with U.S. Generally Accepted Accounting Principles, which include industry practices. Intercompany transactions and balances have been eliminated. The Consolidated Balance Sheet is presented in U.S. dollars. The Consolidated Balance Sheet includes the accounts of the Company, whose subsidiaries are generally controlled through a majority voting interest.

At June 30, 2009, approximately $16,588 of assets and $13,806 of liabilities were attributable to consolidated subsidiaries. The aggregate stockholders' equity of these subsidiaries was $2,782 at June 30, 2009.

Variable Interest Entities and Qualified Special Purpose Entities

In the normal course of business, the Company enters into a variety of transactions with variable interest entities ("VIEs"). The applicable accounting guidance requires the Company to perform a qualitative and/or quantitative analysis when the Company first becomes involved with a VIE to determine whether it must consolidate the VIE. In performing this analysis, the Company makes assumptions regarding future performance of assets held by the VIE, taking into account estimates of credit risk, estimates of the fair value of assets, timing of cash flows, and other significant factors. Although a VIE's actual results may differ from projected outcomes, a revised consolidation analysis is not required subsequent to the initial assessment unless a reconsideration event occurs. If a VIE meets the conditions to be considered a qualifying special purpose entity ("QSPE"), it is typically not required to be consolidated. A QSPE is a passive entity whose activities must be significantly limited. A servicer of the assets held by a QSPE may have discretion in restructuring or working out assets held by the QSPE, as long as that discretion is significantly limited and the parameters of that discretion are fully described in the legal documents that established the QSPE. Determining whether the activities of a QSPE and its servicer meet these conditions requires management judgment.

Securitization Activities

In the normal course of business, the Company securitizes pools of residential mortgage-backed securities and municipal bonds. The Company may retain interests in the securitized financial assets by holding issuances of the securitization. In accordance with Statement of Financial Accounting Standards ("SFAS") No. 140, *Accounting for Transfers and Servicing of Financial*

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

Assets and Extinguishment of Liabilities ("SFAS No. 140"), where the Company relinquishes control, it recognizes transfers of financial assets as sales to the extent of cash and any proceeds received. Control is considered to be relinquished when all of the following conditions have been met:

- The transferred assets have been legally isolated from the transferor even in bankruptcy or other receivership;
- The transferee has the right to pledge or exchange the assets it received, or if the entity is a QSPE, the beneficial interest holders have the right to pledge or exchange their beneficial interests; and
- The transferor does not maintain effective control over the transferred assets (e.g., the ability to unilaterally cause the holder to return specific transferred assets).

Use of Estimates
In presenting the Consolidated Balance Sheet, management makes estimates regarding:

- Valuations of assets and liabilities requiring fair value estimates;
- The outcome of litigation;
- Assumptions and cash flow projections used in determining whether VIEs should be consolidated and the determination of the qualifying status of QSPEs;
- The realization of deferred taxes and the recognition and measurement of uncertain tax positions;
- The carrying amount of goodwill and other intangible assets;
- The amortization period of intangible assets with definite lives;
- Incentive-based compensation accruals and certain allocated liabilities; and
- Other matters that affect the reported amounts and disclosure of contingencies in the financial statement.

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 Consolidated Balance Sheet, and it is possible that such changes could occur in the near term.

Fair Value Measurement
The Company accounts for a significant portion of its financial instruments at fair value or considers fair value in its measurement. SFAS No. 157, *Fair Value Measurements* ("SFAS No. 157"), defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value and enhances disclosure requirements for fair value measurements. The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., the exit price).

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

The Company accounts for certain financial assets and liabilities at fair value under various accounting literature, including SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* ("SFAS No. 133") and SFAS No. 159, *Fair Value Option for Financial Assets and Liabilities* ("SFAS No. 159"). The Company also accounts for certain assets at fair value under applicable industry guidance, namely broker-dealer and investment company accounting guidance. The Company adopted SFAS No. 159 for certain repurchase and resale financial instruments. See Note 4 to the Consolidated Balance Sheet for further information.

Fair values for over-the-counter ("OTC") derivative financial instruments, principally forwards, options, and swaps, represent the present value of amounts estimated to be received from or paid to a market participant in settlement of these instruments (i.e., the amount the Company would expect to receive in a derivative asset assignment or would expect to pay to have a derivative liability assumed). 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 creditworthiness as appropriate. Determining the fair value for OTC derivative contracts can require a significant level of estimation and management judgment.

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 that market participants would use in pricing the instrument which may impact the results of operations reported in the Consolidated Balance Sheet. For instance, on long-dated contracts extrapolation methods are applied to observed market data in order to estimate inputs and assumptions that are not directly observable. This enables the Company to consistently mark to fair value all positions when only a subset of prices is directly observable. Values for OTC derivatives are verified using observed information about the costs of hedging the risk and other trades in the market. As the markets for these products develop, the Company continually refines its pricing models to correlate more closely to the market price of these instruments.

Certain financial instruments recorded at fair value are initially measured using mid-market prices which results in gross long and short positions marked-to-market at the same pricing level prior to the application of position netting. The resulting net positions are then adjusted to fair value representing the exit price as defined in SFAS No. 157. The significant adjustments include liquidity and counterparty credit risk.

Liquidity

The Company makes adjustments to bring a position from a mid-market to a bid or offer price, depending upon the net open position. The Company values net long positions at bid prices and net short positions at offer prices. These adjustments are based upon either observable or implied bid-offer prices.

Counterparty Credit Risk

In determining fair value, the Company considers the credit risk of its counterparties. The Company attempts to mitigate credit risk to third parties by entering into netting and collateral arrangements. Net counterparty exposure (counterparty positions netted by offsetting transactions and both cash and securities collateral) is then valued for counterparty creditworthiness and this resultant value is incorporated into the fair value of the respective instruments. The Company generally calculates the credit risk adjustment for derivatives on observable market credit spreads.

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

SFAS No. 157 also requires that the Parent consider its own creditworthiness when determining the fair value of certain instruments, including OTC derivative instruments. The approach to measuring the impact of the Parent's credit risk on an instrument is done in the same manner as for third party credit risk. The impact of the Parent's credit risk is incorporated into the fair value, even when credit risk is not readily observable, of an instrument such as in OTC derivatives contracts. OTC derivative liabilities are valued based on the net counterparty exposure as described above.

Legal Reserves
The Company is a party in various actions, some of which involve claims for substantial amounts. Amounts are accrued for the financial resolution of claims that have either been asserted or are deemed probable of assertion if, in the opinion of management, it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. In many cases, 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. Accruals are subject to significant estimation by management with input from outside counsel.

Income Taxes
The Company provides for income taxes on all transactions that have been recognized in the Consolidated Balance Sheet in accordance with SFAS No. 109, *Accounting for Income Taxes* ("SFAS No. 109"). Accordingly, deferred taxes are adjusted to reflect the tax rates at which future taxable amounts will likely be settled or realized. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts that are more-likely-than-not to be realized. Assessment of the need for a valuation allowance is made on a consolidated basis in accordance with the intercompany tax allocation policy of Bank of America.

The Company recognizes and measures its unrecognized tax benefits in accordance with Financial Accounting Standards Board ("FASB") Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"). The Company estimates the likelihood, based on its technical merits, that tax positions will be sustained upon examination considering the facts and circumstances and information available at the end of each period. The Company adjusts the level of unrecognized tax benefits when there is more information available, or when an event occurs requiring a change. In accordance with Bank of America's policy, any new or subsequent change in an unrecognized tax benefit related to Bank of America state consolidated, combined or unitary return in which the Company is a member will not be reflected in the Company's balance sheet. However, upon resolution of the item, any material impact determined to be attributable to the Company will be reflected in the Company's balance sheet. The Company accrues income-tax-related interest and penalties, if applicable, within income tax expense.

The results of operations of the Company are included in the consolidated U.S. federal income tax return, and certain combined and unitary state tax returns of Bank of America. In addition, the Company files tax returns in certain states on a stand-alone basis.

See Note 13 to the Consolidated Balance Sheet for further discussion of income taxes.

Balance Sheet Captions
The following are descriptions related to specific balance sheet captions.

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

Cash and Cash Equivalents
The Company defines cash equivalents as short-term, highly liquid securities, and interest-earning deposits with maturities, when purchased, of 90 days or less, that are not used for trading purposes. The amounts recognized for cash and cash equivalents in the Consolidated Balance Sheet approximate fair value due to their short-term nature.

Cash and Securities Segregated for Regulatory Purposes or Deposited with Clearing Organizations
The Company maintains relationships with clients and therefore it is obligated by rules mandated by its primary regulators, including the Securities and Exchange Commission ("SEC") and the Commodities Futures Trading Commission ("CFTC") in the United States, to segregate or set aside cash and/or qualified securities to satisfy these regulations, which have been promulgated to protect customer assets. In addition, the Company is a member of various clearing organizations at which it maintains cash and/or securities required for the conduct of its day-to-day clearance activities. The amounts recognized for cash and securities segregated for regulatory purposes or deposited with clearing organizations in the Consolidated Balance Sheet either is at or approximates fair value amounts.

Securities Financing Transactions
The Company enters into repurchase and resale agreements and securities borrowed and loaned transactions to accommodate customers and earn residual interest rate spreads (also referred to as "matched-book" transactions), obtain securities for settlement and finance inventory positions. The Company also engages in securities financing for customers through margin lending. See the *Other Receivables and Payables—Customers* section for additional information.

Resale and repurchase agreements are accounted for as collateralized financing transactions and may be recorded at their contractual amounts plus accrued interest or at fair value under the fair value option election in SFAS No. 159. Resale and repurchase agreements recorded at fair value are generally valued based on pricing models that use inputs with observable levels of price transparency.

Where the fair value option has been elected, changes in the fair value of resale and repurchase agreements are reflected in principal transactions revenues and the contractual interest coupon is recorded as interest revenue or interest expense, respectively. Resale and repurchase agreements recorded at their contractual amounts plus accrued interest approximate fair value, as the fair value of these items is not materially sensitive to shifts in market interest rates because of the short-term nature of these instruments or to credit risk because the resale and repurchase agreements are fully collateralized. See Note 5 for additional information.

The Company's policy is to obtain possession of collateral with a market value equal to or in excess of the principal amount loaned under resale agreements. To ensure that the market value of the underlying collateral remains sufficient, collateral is valued daily, and the Company may require counterparties to deposit additional collateral or return collateral pledged, when appropriate.

Substantially all repurchase and resale activities are transacted under master repurchase agreements that give the Company the right, in the event of default, to liquidate collateral held and to offset receivables and payables with the same counterparty. The Company offsets certain repurchase and resale agreement balances with the same counterparty on the Consolidated Balance Sheet.

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

The Company may use qualifying securities received as collateral for resale agreements to satisfy regulatory requirements such as Rule 15c3-3 of the Securities Exchange Act of 1934.

Securities borrowed and loaned transactions are recorded at the amount of cash collateral advanced or received. Securities borrowed transactions require the Company to provide the counterparty with collateral in the form of cash, letters of credit, or other securities. The Company receives collateral in the form of cash or other securities for securities loaned transactions. On a daily basis, the Company monitors the market value of securities borrowed or loaned against the collateral value and the Company may require counterparties to deposit additional collateral or may return collateral pledged, when appropriate. Although substantially all securities borrowing and lending activities are transacted under master netting agreements, such receivables and payables with the same counterparty are not offset on the Consolidated Balance Sheet. The carrying value of these instruments approximates fair value as these items are not materially sensitive to shifts in market interest rates because of their short-term nature and/or their variable interest rates.

All firm-owned securities pledged to counterparties where the counterparty has the right, by contract, to sell or repledge the securities are disclosed parenthetically in *Trading assets* on the Consolidated Balance Sheet.

In transactions where the Company acts as the lender in a securities lending agreement and receives securities that can be pledged or sold as collateral, it recognizes an asset on the Consolidated Balance Sheet carried at fair value, representing the securities received (*Securities received as collateral*), and a liability for the same amount, representing the obligation to return those securities (*Obligations to return securities received as collateral*). The amounts on the Consolidated Balance Sheet result from non-cash transactions.

Trading Assets and Liabilities

The Company's trading activities consist primarily of securities brokerage and trading; derivatives dealing and brokerage; commodities trading and futures brokerage; and securities financing transactions. Trading assets and trading liabilities consist of cash instruments (e.g., securities) and derivative instruments used for trading purposes or for managing risk exposures in other trading inventory. See Note 3 for additional information on the accounting for derivatives.

Trading assets and liabilities are generally recorded on a trade date basis at fair value. Included in trading liabilities are securities that the Company has sold but did not own and will therefore be obligated to purchase at a future date ("short sales").

Receivables and Payables from/to Affiliates

The Company enters into securities financing repurchase and resale agreements and securities borrowed and loaned transactions to finance firm inventory positions and obtain securities for settlement and engages in trading activities with other companies affiliated by common ownership. The Company also engages in trading activities such as providing securities brokerage, dealing, financing and underwriting services with affiliated companies. See Note 2 to the Consolidated Balance Sheet for further discussion.

Other Receivables and Payables

Customers

Customer securities are recorded on a settlement date basis. Receivables from and payables to customers include amounts due on cash and margin transactions, including futures contracts

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

transacted on behalf of the Company's customers. Due to their short-term nature, such amounts approximate fair value. Securities owned by customers, including those that collateralize margin or other similar transactions, are not reflected on the Consolidated Balance Sheet.

Brokers and Dealers
Receivables from brokers and dealers primarily include amounts receivable for securities not delivered by the Company to a purchaser by the settlement date ("fails to deliver"), margin deposits, commissions and net receivables arising from unsettled trades. Payables to brokers and dealers primarily include amounts payable for securities not received by the Company from a seller by the settlement date ("fails to receive"), and net payables arising from unsettled trades. Broker and dealer receivables and payables also include amounts related to futures contracts transacted on behalf of customers and clearing organizations. Due to their short-term nature, the amounts recognized for brokers and dealers receivables and payables approximate fair value.

Interest and Other
Interest and other receivables include interest receivable on corporate and governmental obligations, customer or other receivables, and stock-borrowed transactions. Also included are receivables from underwriting and advisory fees, commissions and fees, and other receivables. Interest and other payables include interest payable for stock-loaned transactions. Also included are amounts payable for minority interest, non-trading derivatives, dividends, other reserves, and other payables.

Compensation and Benefits
Compensation and benefits payables consists of salaries payable, financial advisor compensation, incentive and deferred compensation, payroll taxes, pension and other employee benefits.

Other Investments
The Company's other investments include private equity investments accounted for at fair value or under the equity method of accounting.

Private equity investments that are held for capital appreciation and/or current income are accounted for under the AICPA Accounting and Auditing Guide, *Investment Companies* ("the Investment Company Guide") and carried at fair value. The carrying value of private equity investments reflects expected exit values based upon market prices or other valuation methodologies including expected cash flows and market comparables of similar companies.

For investments accounted for using the equity method, income is recognized based on the Company's share of the earnings or losses of the investee. Dividend distributions are generally recorded as reductions in the investment balance. Impairment testing is based on the guidance provided in Accounting Principles Board ("APB") Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*, and the investment is reduced when an impairment is determined to be other-than-temporary.

Equipment and Facilities
Equipment and facilities primarily consist of technology hardware and software, leasehold improvements, and owned facilities. Equipment and facilities are reported at historical cost, net of accumulated depreciation and amortization, except for land, which is reported at historical cost.

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

Depreciation and amortization are computed using the straight-line method. Equipment is depreciated over its estimated useful life, while leasehold improvements are amortized over the lesser of the improvement's estimated economic useful life or the term of the lease.

Goodwill and Intangible Assets

Goodwill is the cost of an acquired company in excess of the fair value of identifiable net assets at acquisition date. Goodwill is tested annually (or more frequently under certain conditions) for impairment at the reporting unit level in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets* ("SFAS No. 142").

Intangible assets consist primarily of value assigned to customer relationships. Intangible assets with definite lives are tested for impairment in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* ("SFAS No. 144"), whenever certain conditions exist which would indicate the carrying amount of such assets may not be recoverable. Intangible assets with definite lives are amortized over their respective estimated useful lives.

Other Assets

Other assets consist primarily of prepaid pension expense, which is allocated to the Company by the Parent, related to the excess of the fair value of pension assets over the related pension obligation, deferred tax assets, other prepaid expenses, deferred deal related expenses and other deferred charges.

Subordinated Borrowings

The Company's funding needs are generally met by and dependent upon loans principally obtained from the Parent (see Note 8) and repurchase agreements.

New Accounting Pronouncements

In July 2009, the FASB issued SFAS No. 168, *FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* ("SFAS No. 168"). SFAS No. 168 approved the FASB Accounting Standards Codification ("Codification") as the single source of authoritative nongovernmental GAAP. The Codification is effective for interim or annual periods ending after September 15, 2009. All existing accounting standards have been superseded and all other accounting literature not included in the Codification will be considered nonauthoritative. The adoption of SFAS No. 168 will not impact the Company's Consolidated Balance Sheet.

In June 2009, the FASB issued SFAS No. 166, *Accounting for Transfers of Financial Assets – an amendment of FASB Statement No. 140* ("SFAS No. 166"), and SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)* ("SFAS No. 167"). The amendments will be effective January 1, 2010. SFAS No. 166 revises SFAS No. 140, which establishes sale accounting criteria for transfers of financial assets. Among other things, SFAS No. 166 amends SFAS No. 140 to eliminate the concept of a QSPE. As a result, existing QSPEs will be subject to consolidation in accordance with the guidance provided in SFAS No. 167.

SFAS No. 167 amends FIN 46(R) by significantly changing the criteria by which an enterprise determines whether it must consolidate a VIE. A VIE is an entity, typically an SPE, which has insufficient equity at risk or which is not controlled through voting rights held by equity investors. FIN 46(R) currently requires that a VIE be consolidated by the enterprise that will absorb a majority of the expected losses or expected residual returns created by the assets of the VIE. SFAS No. 167 amends FIN 46(R) to require that a VIE be consolidated by the enterprise that has both the

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

power to direct the activities that most significantly impact the VIE's economic performance and the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. SFAS No. 167 also requires that an enterprise continually reassess, based on current facts and circumstances, whether it should consolidate the VIEs with which it is involved. See Note 6 for the Company's involvement with VIEs.

The adoption in January 2010 of SFAS Nos. 166 and 167 will result in the consolidation of certain QSPEs and VIEs that are not currently recorded on the Company's Consolidated Balance Sheet (e.g. certain mortgage and municipal bond securitizations). These consolidations will result in an increase in trading assets and on-balance sheet funding. The Company is currently evaluating those entities within the scope of SFAS Nos. 166 and 167 to determine the ultimate impact of adoption.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events,* (SFAS No. 165). SFAS No. 165 provides general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. In addition, SFAS No. 165 requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. The adoption of SFAS No. 165, effective June 30, 2009, did not impact the Company's Consolidated Balance Sheet. The Company evaluated subsequent events through the date of the filing.

In April 2009, the FASB issued FASB Staff Position ("FSP") No. FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly,* ("FSP FAS 157-4"). FSP FAS 157-4 provides guidance for determining whether a market is inactive and a transaction is distressed in order to apply the existing fair value measurement guidance in SFAS No. 157. The Company elected to early adopt FSP FAS 157-4 effective January 1, 2009. The adoption did not have a material impact on the Consolidated Balance Sheet.

In April 2009, the FASB issued FSP No. FAS 107-1 and APB Opinion 28-1, *Interim Disclosures about Fair Value of Financial Instruments* ("FSP FAS 107-1"). FSP FAS 107-1 requires expanded disclosures for all financial instruments as defined by SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*. The expanded disclosure requirements for FSP FAS 107-1 are effective for the Company for the six months ending June 30, 2009. Since FSP FAS 107-1 only requires certain additional disclosures, it will not affect the Company's Consolidated Balance Sheet.

In April 2009, the FASB issued FSP No. FAS 141(R)-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies*, ("FSP FAS 141(R)-1") whereby assets acquired and liabilities assumed in a business combination that arise from contingencies should be recognized at fair value on the acquisition date if fair value can be determined during the measurement period. If fair value cannot be determined, companies should typically account for the acquired contingencies using existing guidance. FSP 141(R)-1 is effective for new acquisitions consummated on or after January 1, 2009.

In March 2008, the FASB issued SFAS No. 161, *Disclosure about Derivative Instruments and Hedging Activities, an Amendment of FASB Statement No. 133* ("SFAS No. 161"). SFAS No. 161 is intended to improve transparency in financial reporting by requiring enhanced disclosures of an entity's derivative instruments and hedging activities and their effects on the entity's financial position, financial performance, and cash flows. SFAS No. 161 applies to all derivative instruments

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

within the scope of SFAS No. 133. It also applies to non-derivative hedging instruments and all hedged items designated and qualifying as hedges under SFAS No. 133. SFAS No. 161 amends the current qualitative and quantitative disclosure requirements for derivative instruments and hedging activities set forth in SFAS No. 133 and generally increases the level of disaggregation required in an entity's financial statements. SFAS No. 161 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments, and disclosures about credit-risk related contingent features in derivative agreements. SFAS No. 161 is effective prospectively for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. Since SFAS No. 161 only requires certain additional disclosures, it did not affect the Company's Consolidated Balance Sheet.

In February 2008, the FASB issued FSP FAS 140-3, *Accounting for Transfers of Financial Assets and Repurchase Financing Transactions* ("FSP FAS 140-3"). Under the guidance in FSP FAS 140-3, there is a presumption that the initial transfer of a financial asset and subsequent repurchase financing involving the same asset are considered part of the same arrangement (i.e. a linked transaction) under SFAS No. 140. However, if certain criteria are met, the initial transfer and repurchase financing will be evaluated as two separate transactions under SFAS No. 140. FSP FAS 140-3 is effective for new transactions entered into in fiscal years beginning after November 15, 2008. Early adoption was prohibited. The adoption of FSP FAS 140-3 did not have a material impact on the Consolidated Balance Sheet.

2. RELATED PARTY TRANSACTIONS

The Company enters into repurchase and resale agreements and securities borrowed and loaned transactions to finance firm inventory positions and obtain securities for settlement with other companies affiliated by common ownership. The Company also engages in trading activities such as providing securities brokerage, dealing, financing and underwriting services with affiliated companies.

The Company clears certain securities and financially settled OTC commodities transactions through or for other affiliated companies on both a fully-disclosed and non-disclosed basis. Pursuant to agreements, the Company receives or pays a fee for such services.

The Company also has been engaged by an affiliate to provide services to asset management customers. Pursuant to an agreement, the Company receives a fee for such services.

Newly hired financial advisors are offered cash upfront in the form of an interest-bearing loan. Financial advisors who receive this loan also receive a monthly service incentive payment that equates to the principal and interest due on the loan for as long as they remain with the Company during the loan term. The outstanding loan balance will become due if employment is terminated before the vesting period. As of June 30, 2009, the Company had loans outstanding from financial advisors of $619, which is included in *Interest and other receivables* on the Consolidated Balance Sheet.

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

Receivables from affiliated companies are comprised of:

Receivables under resale agreements	$ 24,474
Trading assets	2,457
Receivables under securities borrowed transactions	1,827
Brokers and dealers	1,210
Cash and securities segregated for regulatory purposes	741
Customers	190
Loans	20
Other	1,102
	$ 32,021

Payables to affiliated companies are comprised of:

Payables under securities loaned transactions	$ 16,453
Payables under repurchase agreements	10,205
Due to Parent, net	9,778
Customers	8,774
Trading liabilities	2,167
Brokers and dealers	251
Loans	200
Other	1,671
	$ 49,499

The Company obtains financing from the Parent in the normal course of business. Amounts due to the Parent primarily include the following: $6,972 of uncollateralized obligations at variable interest rates based on the 30-day commercial paper rate; and $2,800 of collateralized, short-term borrowings outstanding under one revolving loan agreement with an available commitment of $2,000 and one revolving overnight demand note with no specified total commitment amount. Borrowings outstanding under these agreements, which mature 12 months following demand, are collateralized by fixed assets and securities. Amounts due to the Parent are offset by other receivables from the Parent.

3. TRADING ACTIVITIES

The Company's trading activities include providing securities brokerage, dealing, financing and underwriting services to both affiliated companies and third party clients. While trading activities are primarily generated by client order flow, the Company also takes selective proprietary positions based on expectations of future market movements and conditions. The Company's trading strategies rely on the integrated management of its client-driven and proprietary positions, along with the related hedging and financing.

Market Risk

Market risk is the potential change in an instrument's value caused by fluctuations in interest and currency exchange rates, equity and commodity prices, credit spreads, or other risks. The level of market risk is influenced by the volatility and the liquidity in the markets in which financial instruments are traded.

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

The Company seeks to mitigate market risk associated with trading inventories by employing hedging strategies that correlate rate, price, and spread movements of trading inventories and related financing and hedging activities. The Company uses a combination of cash instruments and derivatives to hedge its market exposures. The following discussion describes the types of market risk faced by the Company.

Interest Rate Risk
Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. Interest rate swap agreements, Eurodollar futures, and U.S. Treasury securities and futures are common interest rate risk management tools. The decision to manage interest rate risk using futures or swap contracts, as opposed to buying or selling short U.S. Treasury or other securities, depends on current market conditions and funding considerations.

Currency Risk
Currency risk arises from the possibility that fluctuations in foreign exchange rates will impact the value of financial instruments. Currency forwards and options are commonly used to manage currency risk. Currency swaps may also be used in situations where a long-dated forward market is not available or where the client needs a customized instrument to hedge a foreign currency cash flow stream. Typically, parties to a currency swap initially exchange principal amounts in two currencies, agreeing to exchange interest payments and to re-exchange the currencies at a future date and exchange rate.

Equity Price Risk
Equity price risk arises from the possibility that equity security prices will fluctuate, affecting the value of equity securities and other instruments that derive their value from a particular stock, a defined basket of stocks, or a stock index. Instruments typically used by the Company to manage equity price risk include equity options, warrants, total return swaps and baskets of equity securities. Equity options, for example, can require the writer to purchase or sell a specified stock or to make a cash payment based on changes in the market price of that stock, basket of stocks, or stock index.

Credit Spread Risk
Credit spread risk arises from the possibility that changes in credit spreads will affect the value of financial instruments. Credit spreads represent the credit risk premiums required by market participants for a given credit quality (i.e., the additional yield that a debt instrument issued by a AA-rated entity must produce over a risk-free alternative (e.g., U.S. Treasury instrument)). Certain instruments are used by the Company to manage this type of risk. Swaps and options, for example, can be designed to mitigate losses due to changes in credit spreads, as well as the credit downgrade or default of the issuer. Credit risk resulting from default on counterparty obligations is discussed in the *Counterparty Credit Risk* section.

Commodity Price Risk
The Company enters into exchange-traded futures contracts and financially settled OTC derivatives. Commodity contracts expose the Company to the risk that the price of the underlying commodity may rise or fall.

Counterparty Credit Risk
The Company is exposed to the risk of loss if an individual, counterparty or an issuer fails to perform its obligations under contractual terms (“default risk”). Both cash instruments and

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

derivatives expose the Company to default risk. Credit risk arising from changes in credit spreads was previously discussed in the Market Risk section.

The Company has established policies and procedures for mitigating credit risk on principal transactions, including reviewing and establishing limits for credit exposure, maintaining qualifying collateral, purchasing credit protection and continually assessing the creditworthiness of counterparties.

In the normal course of business, the Company executes, settles, and finances various customer securities and commodities transactions. Execution of these transactions includes the purchase and sale of securities by the Company. These activities may expose the Company to default risk arising from the potential that customers or counterparties may fail to satisfy their obligations. In these situations, the Company may be required to purchase or sell financial instruments at unfavorable market prices to satisfy obligations to other customers or counterparties. The Company seeks to control the risks associated with its customer margin activities by requiring customers to maintain collateral in compliance with regulatory and internal guidelines.

Liabilities to other brokers and dealers related to unsettled transactions (i.e., securities failed to receive) are recorded at the amount for which the securities were purchased and are paid upon receipt of the securities from other brokers or dealers. In the case of aged securities failed to receive, the Company may purchase the underlying security in the market and seek reimbursement for losses from the counterparty.

Concentrations of Credit Risk

The Company's exposure to credit risk, both default and credit spread, associated with its trading and other activities is measured on an individual counterparty basis, as well as by groups of counterparties that share similar attributes. Concentrations of credit risk can be affected by changes in political, industry, or economic factors. To reduce the potential for risk concentration, credit limits are established and monitored in light of changing counterparty and market conditions.

Concentration of Risk to the U.S. Government and its Agencies

At June 30, 2009, the Company's significant concentration of net credit risk was with the U.S. Government and its agencies. Direct and indirect exposure, which primarily results from trading asset positions in instruments issued or guaranteed by the U.S. Government and its agencies and the related accrued interest receivable, amounted to $362 at June 30, 2009. The Company's indirect exposure results from maintaining U.S. Government and agencies securities as collateral, primarily for resale agreements and securities borrowed transactions. The Company's direct credit exposure on these transactions is with the counterparty; thus the Company has credit exposure to the U.S. Government and its agencies only in the event of the counterparty's default. Securities issued by the U.S. Government and its agencies held as collateral for resale agreements at June 30, 2009 totaled $18,946 all of which was from affiliated companies.

The Company's significant industry credit concentration is with financial institutions, including both affiliates and third parties. Financial institutions include other brokers and dealers, commercial banks, financing companies, insurance companies, and investment companies. This concentration arises in the normal course of the Company's brokerage, trading, financing, and underwriting activities.

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

In the normal course of business, the Company purchases, sells, underwrites, and makes markets in non-investment grade instruments. These activities expose the Company to a higher degree of credit risk than is associated with trading, investing in, and underwriting investment grade instruments and extending credit to investment grade counterparties.

Derivatives

A derivative is an instrument whose value is derived from an underlying instrument or index, such as interest rates, equity security prices, currencies, commodity prices or credit spreads. Derivatives include futures, forwards, swaps, or option contracts, or other financial instruments with similar characteristics. Derivative contracts often involve future commitments to exchange interest payment streams or currencies based on a notional or contractual amount (e.g., interest rate swaps or currency forwards) or to purchase or sell other financial instruments at specified terms on a specified date (e.g., options to buy or sell securities or currencies).

SFAS No. 133, as amended, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts ("embedded derivatives") and for hedging activities. SFAS No. 133 requires that an entity recognize all derivatives as either assets or liabilities and measure those instruments at fair value. The fair value of all derivatives is recorded on a net-by-counterparty basis on the Consolidated Balance Sheet where management believes a legal right of setoff exists under an enforceable netting agreement. All derivatives are reported on the Consolidated Balance Sheet as *Trading assets* and *Trading liabilities*.

The accounting for changes in fair value of a derivative instrument depends on its intended use and if it is designated and qualifies as an accounting hedging instrument under SFAS No. 133.

Trading Derivatives

The Company enters into derivatives to facilitate client transactions, for proprietary trading and financing purposes, and to manage risk exposures arising from trading assets and liabilities.

Non-trading Derivatives

The Company also enters into derivatives such as foreign-exchanges forward contracts and currency swaps in order to manage risk exposures arising from assets and liabilities not carried at fair value. These derivatives are used to mitigate the impact of changes in exchange rates.

Derivative Balances by Primary Risk

Derivative instruments contain numerous market risks. In particular, most derivatives have interest rate risk, as they contain an element of financing risk which is affected by changes in interest rates. Additionally, derivatives expose the Company to counterparty credit risk, although this is generally mitigated by collateral margining and netting arrangements. For disclosure purposes below, the primary risk of a derivative is largely determined by the business that is engaging in the derivative activity. For instance, a derivative that is initiated by an equities derivative desk will generally have equity price risk as its primary underlying market risk and is classified as such for the purposes of this disclosure, despite the fact that there may be other market risks that affect the value of the instrument.

The following table identifies the primary risk for derivative instruments at June 30, 2009. The primary risk is provided on a gross basis, prior to the application of the impact of counterparty netting.

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

	Contract/ Notional[1]	Trading Assets- Derivative Contracts	Contract/ Notional[1]	Trading Liabilities- Derivative Contracts
Interest rate contracts	$ 318	$ 194	$ -	$ -
Equity contracts	89,153	3,583	91,204	3,555
Credit derivatives	-	-	431	61
Gross derivative assets/liabilities	$ 89,471	3,777	$ 91,635	3,616
Less: Legally enforceable master netting		(3,007)		(3,007)
Total derivative asset and liabilities		$ 770		$ 609

(1) These amounts include trading derivatives and non-trading derivatives. Derivative contracts with affiliate entities are recorded in Receivables from and Payables to Affiliates' on the Consolidated Balance Sheet.

Derivatives as guarantees

The Company enters into certain derivative contracts that meet the definition of a guarantee under FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* ("FIN 45"). FIN 45 defines guarantees to include derivative contracts that contingently require a guarantor to make payment to a guaranteed party based on changes in an underlying (such as changes in the value of interest rates, security prices, currency rates, commodity prices, indices, etc.), that relate to an asset, liability or equity security of a guaranteed party. Derivatives that meet the FIN 45 definition of guarantees include certain written equity options. The Company does not track, for accounting purposes, whether its clients enter into these derivative contracts for speculative or hedging purposes. Accordingly, the Company has disclosed information about certain types of written options that can potentially be used by clients to protect against changes in an underlying, regardless of how the contracts are actually used by the client.

The Company's derivatives that act as guarantees at June 30, 2009 are summarized below:

	Maximum Payout/ Notional	Less than 1 Year	1 - 3 Years	3 - 5 Years	Over 5 Years	Carrying Value[1]
Other derivative contracts	$ 3,216	$ 76	$ 76	$ 1	$ -	$ 153

(1) Derivative contracts are shown on a gross basis prior to cash collateral or counterparty netting.

Other derivative contracts

Other derivative contracts in the guarantees table above represent written equity options. The Company does not monitor its exposure to derivatives based on the theoretical maximum payout because that measure does not take into consideration the probability of the occurrence. As such, rather than including the maximum payout, the notional value of these contracts has been included to provide information about the magnitude of involvement with these types of contracts. However, it should be noted that the notional value is not a reliable indicator of the Company's exposure to these contracts. Instead, as previously noted, a risk framework is used to define risk tolerances and

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

establish limits to help ensure that certain risk-related losses occur within acceptable, predefined limits.

As the fair value and risk of payment under these derivative contracts are based upon market factors, such as changes in the carrying values in the table above reflect the best estimate of the Company's performance risk under these transactions at June 30, 2009. The Company economically hedges its exposure to these contracts by entering into a variety of offsetting derivative contracts and security positions.

Credit Risk Management of Derivatives

The Company defines counterparty credit risk as the potential for loss that can occur as a result of an individual, counterparty, or issuer being unable or unwilling to honor its contractual obligations. The Company mitigates its credit risk to counterparties through a variety of techniques, including, where appropriate, the right to require initial collateral or margin, the right to terminate transactions or to obtain collateral should unfavorable events occur, the right to call for collateral when certain exposure thresholds are exceeded, the right to call for third party guarantees, and the purchase of credit default protection.

The Company enters into International Swaps and Derivatives Association, Inc. ("ISDA") master agreements or their equivalent ("master netting agreements") with almost all derivative counterparties. Master netting agreements provide protection in bankruptcy in certain circumstances and, in some cases, enable receivables and payables with the same counterparty to be offset for accounting and risk management purposes. Netting agreements are generally negotiated bilaterally and can require complex terms. While the Company makes reasonable efforts to execute such agreements, it is possible that a counterparty may be unwilling to sign such an agreement and, as a result, would subject the Company to additional credit risk. 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.

Where the Company has entered into legally enforceable netting agreements with counterparties, it reports derivative assets and liabilities, and any related cash collateral, net in the Condensed Consolidated Balance Sheets in accordance with FIN No. 39, *Offsetting Amounts Related to Certain Contracts* ("FIN 39"). At June 30, 2009, the Company did not receive or pledge cash collateral to third party counterparties.

4. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair Value Hierarchy

In accordance with SFAS No. 157, the Company has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Financial assets and liabilities recorded on the Consolidated Balance Sheet are categorized based on the inputs to the valuation techniques as follows:

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

Level 1 - Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Company has the ability to access (examples include active exchange-traded equity securities, exchange traded derivatives, U.S. Government securities, and certain other sovereign government obligations).

Level 2. Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability. Level 2 inputs include the following:

a. Quoted prices for similar assets or liabilities in active markets (examples include restricted stock and U.S. agency securities);

b. Quoted prices for identical or similar assets or liabilities in non-active markets (examples include corporate and municipal bonds, which trade infrequently);

c. Pricing models whose inputs are observable for substantially the full term of the asset or liability (examples include most over-the-counter derivatives, including interest rate and currency swaps); and

d. Pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the asset or liability (examples include certain residential and commercial mortgage-related assets, including loans, securities and derivatives).

Level 3. Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability (examples include certain private equity investments, certain residential and commercial mortgage related assets), and long-dated equity derivatives.

As required by SFAS No. 157, when the inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement in its entirety. For example, a Level 3 fair value measurement may include inputs that are observable (Levels 1 and 2) and unobservable (Level 3). Further, the following tables do not take into consideration the effect of offsetting Level 1 and 2 financial instruments entered into by the Company that economically hedge certain exposures to the Level 3 positions.

A review of fair value hierarchy classifications is conducted on a quarterly basis. Changes in the observability of valuation inputs may result in a reclassification for certain financial assets or liabilities. Reclassifications impacting Level 3 of the fair value hierarchy are reported as transfers in/out of the Level 3 category as of the beginning of the quarter in which the reclassifications occur.

Valuation Techniques

The following outlines the valuation methodologies for the most significant Level 3 positions:

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

Mortgage Related Positions
In the most liquid markets, readily available or observable prices are used in valuing mortgage related positions. In less liquid markets, the lack of securitization activity and related pricing necessitates the use of other available information and modeling techniques to approximate the fair value for some of these positions, including derivatives and securities.

Residential and Commercial Mortgages
For certain residential and commercial mortgages, the Company employs a fundamental cash flow valuation approach. This cash flow analysis includes cumulative loss and prepayment assumptions derived from multiple inputs including mortgage remittance reports, property prices and other market data. In addition, independent third party bids received on loans are also considered for valuation purposes.

U.S. ABS CDOs
The valuation for certain of the Company's U.S. super senior asset-backed collateralized debt obligations ("ABS CDO") positions is based on cash flow analysis including cumulative loss assumptions. These assumptions are derived from multiple inputs including mortgage remittance reports, housing prices and other market data. Relevant ABX indices are also analyzed as part of the overall valuation process.

Corporate Debt and Auction Rate Securities
Certain corporate debt, particularly those related to emerging market, leveraged and distressed companies, and auction rate securities have limited price transparency. For corporate debt, where credit spread pricing is unavailable for a particular company, recent trades as well as proxy credit spreads and trends may be considered in the valuation. For auction rate securities, the pricing methodology relies upon a number of assumptions including weighted average life, coupon, discount margin and liquidity discounts. In addition, recent trades and issuer tenders may be considered in the valuation.

Private Equity
For certain private equity investments held, valuation methodologies include discounted cash flows, publicly traded comparables derived by multiplying a key performance metric (e.g., earnings before interest, taxes, depreciation and amortization) of the portfolio company by the relevant valuation multiple observed for comparable companies, acquisition comparables, or entry level multiples, and are subject to appropriate discounts for lack of liquidity or marketability. Certain factors which may influence changes to the fair value include, but are not limited to, recapitalizations, subsequent rounds of financing, and offerings in the equity or debt capital markets.

The following table presents the Company's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2009:

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

	Fair Value Measurements on a Recurring Basis As of June 30, 2009				
	Level 1	Level 2	Level 3	Netting Adj.[(1)]	Total
Assets					
Securities segregated for regulatory purposes or deposited with clearing organizations:					
Corporate Debt	$ -	$ 201	$ -	$ -	$ 201
U.S. government and agencies	-	1,698	-	-	1,698
Total securities segregated for regulatory purposes or deposited with clearing organizations	-	1,899	-	-	1,899
Receivables under resale agreements	-	577	-	-	-
Trading assets, excluding derivative contracts					
Equities and Convertible Debentures	3,918	1,968	13	-	5,899
Mortgages, mortgage-backed, and asset-backed	-	533	159	-	692
Corporate Debt and Preferred Stock[(2)]	126	1,028	7,288	-	8,442
Non-U.S. governments and agencies	-	40	-	-	40
U.S. government and agencies	338	7	-	-	345
Municipals and money markets	-	4,083	931	-	5,014
Total trading assets, excluding derivative contracts	4,382	7,659	8,391	-	20,432
Derivative contracts	335	3,390	52	(3,007)	770
Securities received as collateral	3,954	-	-	-	3,954
Other investments	70	23	339	-	432
Receivables from affiliated companies[(3)]	-	7,190	341	(361)	7,170
Liabilities					
Payables under repurchase agreements	$ -	$ 45	$ -	$ -	$ 45
Trading liabilities, excluding derivative contracts					
Equities and Convertible Debentures	5,602	52	-	-	5,654
U.S. government and agencies	236	6	-	-	242
Other	18	104	11	-	133
Total trading liabilities, excluding derivatives contracts	**$ 5,856**	**$ 162**	**$ 11**	**$ -**	**$ 6,029**
Derivatives contracts	235	3,307	74	(3,007)	609
Obligation to return securities received as collateral	3,954	-	-	-	3,954
Payables to affiliated companies[(3)]	-	2,706	-	(111)	2,595

(1) Represents counterparty and cash collateral netting.

(2) Level 3 balance primarily represents Auction Rate Securities.

(3) Receivables from affiliated companies and Payables to affiliated companies consist of trading assets, trading liabilities, receivables under resale agreements, payables under repurchase agreements and derivative contracts.

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

Level 3 Assets and Liabilities

- Level 3 derivative contracts (assets) relate to equity derivatives of $52.
- Level 3 other investments of $339 relate to private equity investments.
- Level 3 receivables from affiliated companies include Trading Assets (excluding derivatives) – Preferred Stock of $280 and credit default swaps of $61.
- Level 3 derivative contracts (liabilities) primarily relate to total return swaps of $61.

Fair Value Option

SFAS No. 159 provides a fair value option election that allows companies to irrevocably elect fair value as the initial and subsequent measurement attribute for certain financial assets and liabilities. SFAS No. 159 permits the fair value option election on an instrument by instrument basis at initial recognition of an asset or liability or upon an event that gives rise to a new basis of accounting for that instrument.

The Company elected the fair value option on a prospective basis for certain resale and repurchase agreements. The fair value option election was made based on the tenor of the resale and repurchase agreements, which reflects the magnitude of the interest rate risk. The majority of resale and repurchase agreements collateralized by U.S. government securities were excluded from the fair value option election as these contracts are generally short-dated and therefore the interest rate risk is not considered significant.

For the year ended June 30, 2009, the difference between fair value and the aggregate contractual principal amount of receivables under resale agreements and payables under repurchase agreements, for which the fair value option has been elected, was not material to the Consolidated Balance Sheet.

5. SECURITIES FINANCING TRANSACTIONS

The Company enters into repurchase and resale agreements and secured borrowing and lending transactions to finance trading inventory, to obtain securities for settlement, to meet customers' needs and to earn residual interest rate spreads.

Under these agreements and transactions, the Company either receives or provides collateral, including U.S. Government and agencies, asset-backed securities, corporate debt, equity, and non-U.S. Governments and agency securities. The Company receives collateral in connection with resale agreements, securities borrowing transactions, customer margin loans, and other loans. Under most agreements the Company is permitted to sell or repledge the securities received as collateral and use these securities to secure repurchase agreements, enter into securities lending transactions or deliver to counterparties to cover short positions. At June 30, 2009, the fair value of securities received as collateral where the Company is permitted to sell or repledge the securities was $119,958, of which $30,250 was received from affiliated companies. Included in the securities received from affiliated companies, $13,287 is segregated in a special reserve account as required by Rule 15c3-3 under the Securities Exchange Act of 1934. The fair value of securities received as collateral that had been sold or repledged was $92,453, of which $38,390 have been sold or repledged to affiliated companies.

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

The Company additionally receives securities as collateral in connection with certain securities transactions in which the Company is the lender. In instances where the Company is permitted to sell or repledge securities received, the Company reports the fair value of such securities received as collateral and the related obligation to return securities received as collateral in the Consolidated Balance Sheets.

The Company pledges certain firm-owned assets which are included in Trading assets to collateralize repurchase agreements and other secured financings. Pledged securities that can be sold or repledged by the secured party are disclosed parenthetically in Trading assets on the Consolidated Balance Sheet. The carrying value and classification of securities owned by the Company that have been loaned or pledged to counterparties where those counterparties do not have the right to sell or repledge at June 30, 2009 are as follows:

Equities and Convertible Debentures	$ 4,407
Corporate Debt and preferred stock	599
	$ 5,006

At June 30, 2009, pledged securities to affiliated companies that can be sold or repledged by the affiliated companies was $276. Securities loaned or pledged where the affiliated companies do not have the right to sell or repledge was $505.

6. SECURITIZATION TRANSACTIONS AND TRANSACTIONS WITH SPECIAL PURPOSE ENTITIES

FSP FAS 140-4 and FIN 46(R)-8, which was adopted by the Company on December 26, 2008, requires additional disclosures for transactions with VIEs and transfers of financial assets in securitization or asset-backed financing arrangements. Under this guidance, the Company is required to disclose information for consolidated VIEs, for VIEs in which the Company is the sponsor as defined below or holds a significant variable interest and for VIEs that are established for securitizations and asset-backed financing arrangements.

The Company has defined “sponsor” to include all transactions where the Company has transferred assets to the VIE, the transfer met the sale conditions in SFAS No. 140 and the Company has continued involvement which includes retaining an interest in the securities issued by the VIE.

The Company does not generally provide financial support to any VIE beyond that which is contractually required. Quantitative information on contractually required support is reflected in the tables provided below.

The Company was not the primary beneficiary of a VIE and did not have a significant variable interest in a VIE at June 30, 2009.

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

The Company has entered into transactions primarily with QSPEs which are described as follows:

Residential Mortgage-backed Securities

The Company has involvement with SPEs that hold mortgage related assets where the assets are primarily related to and secured by government sponsored agencies (e.g., Federal Home Loan Mortgage Corporation, Federal National Mortgage Association and Government National Mortgage Association). These SPEs include entities that are primarily designed to obtain exposure to mortgage related assets for both clients and the Company. All of these SPEs, are securitization SPEs that meet the QSPE criteria in SFAS No. 140. Transactions where the Company is the transferor of mortgage-backed securities to a QSPE, accounts for the transaction as a sale, and has a continued involvement, are reflected in the Securitizations table of this Note.

Municipal Bonds

Municipal Bond securitizations are transactions where the Company transfers municipal bonds to SPEs, and those SPEs issue puttable floating rate instruments and a residual interest in the form of an inverse floater. These SPEs are considered to be QSPEs and are, therefore, not consolidated by the Company. The Company reports these QSPEs in the Securitizations table of this Note.

In the normal course of dealer market-making activities, an affiliate of the Company may act as liquidity provider for municipal bond securitization QSPEs. Specifically, the holders of beneficial interests issued by municipal bond securitization QSPEs have the right to tender their interests for purchase by an affiliate of the Company on specified dates at a specified price. Beneficial interests that are tendered are then sold by an affiliate of the Company to investors through a best efforts remarketing where the Company 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 facility issued by an affiliate of the Company.

Securitizations

The following table relates to securitization activity where the Company transferred financial assets to QSPEs, accounted for the transfer as a sale and has continued involvement which includes retaining an interest in the securities issued by the QSPEs.

	For the Six-Months Ended June 30, 2009				
Type of Activity	**Size/ Principal Outstanding[1]**	**Assets on Balance Sheet[2]**	**Liabilities on Balance Sheet[2]**	**Max Exposure to Loss[3]**	**2009 Cash Flows**
QSPEs					
Residential mortgage-backed securities[4]	$ 4,271	$ 13	$ -	$ 13	$ 169
Municipal Bonds[5]	1,182	500	27	664	189

[1] Size/Principal Outstanding reflects the estimated principal of the underlying assets of the QSPEs.

[2] Assets and Liabilities on the Company's Balance Sheet reflect the effect of FIN 39 balance sheet netting, if applicable.

[3] The maximum exposure to loss includes the following: the assets held by the Company- including the value of derivatives that are in an asset position and retained interests in the QSPEs; and the notional amount of liquidity and other support. The maximum exposure to loss for liquidity and other support assumes a total loss on the referenced assets held by the QSPE.

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

(4) For residential mortgage-backed securities QSPEs, assets on balance sheet are primarily securities issued by the entity and are recorded in trading assets.

(5) For municipal bond QSPEs, assets are recorded in trading assets – municipals and liabilities are recorded in trading liabilities – derivative contracts.

In certain instances, the Company retains interests in the senior tranche, subordinated tranche, and/or residual tranche of securities issued by certain QSPEs or VIEs that are created to securitize assets.

Generally, retained interests and contracts that are used to provide support to the QSPE, VIE or the investors are recorded in the Consolidated Balance Sheet at fair value. To obtain fair values, observable market prices are used if available. Where observable market prices are unavailable, the Company generally estimates fair value based on the present value of expected future cash flows using management's best estimates of credit losses, prepayment rates, forward yield curves, and discount rates, commensurate with the risks involved. Retained interests are held as trading assets.

Retained interests in securitized assets were approximately $513 at June 30, 2009, which primarily relate to municipal bond securitization transactions. Retained interests in securitized assets do not include loans made to entities under asset-backed financing arrangements.

The following table presents information on retained interests, excluding the offsetting benefit of financial instruments used to hedge risks, held by the Company as of June 30, 2009 arising from the Company's municipal bonds. The pre-tax sensitivities of the current fair value of the retained interests to immediate 10% and 25% favorable and adverse changes in assumptions and parameters are also shown.

	Municipal Bonds
Retained interest (fair value)(1)	$ 500
Weighted average life (in years)(2)	-
Weighted average discount rate	4.8%
Impact on fair value of 10% favorable change	$ 1.0
Impact on fair value of 25% favorable change	$ 2.0
Impact on fair value of 10% adverse change	$ (2.0)
Impact on fair value of 25% adverse change	$ (3.0)

(1) Sensitivity analysis for mortgage securities have not been evaluated due to immateriality.

(2) The Company does not hold any retained interest where the underlying assets are prepayable.

The preceding sensitivity analysis is hypothetical and should be used with caution. In particular, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated independent of changes in any other assumption; in practice, changes in one factor may result in changes in another, which might magnify or counteract the sensitivities. Further, changes in fair

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

value based on a 10% or 25% variation in an assumption or parameter generally cannot be extrapolated because the relationship of the change in the assumption to the change in fair value may not be linear. Also, the sensitivity analysis does not include the offsetting benefit of financial instruments that the Company utilizes to hedge risks, including credit, interest rate, and prepayment risk, that are inherent in the retained interests. These hedging strategies are structured to take into consideration the hypothetical stress scenarios above, such that they would be effective in principally offsetting the Company's exposure to loss in the event that these scenarios occur.

7. GOODWILL AND INTANGIBLE ASSETS

In connection with the acquisition of the Parent by Bank of America, the carrying value of the Parent's goodwill as of December 26, 2008 was eliminated. New goodwill was recorded on January 1, 2009. In addition, as of January 1, 2009, certain intangible assets were adjusted to their fair value and new intangible assets (e.g. trade name) were recorded.

Goodwill

Goodwill is the cost of an acquired company in excess of the fair value of identifiable net assets at acquisition date. Goodwill is tested annually (or more frequently under certain conditions) for impairment at the reporting unit level in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets.* If the fair value of the reporting unit exceeds the carrying value, goodwill is not deemed to be impaired. If the fair value is less than the carrying value, a further analysis is required to determine the amount of impairment, if any. The carrying amount of Goodwill at June 30, 2009 is $2,000.

Intangible Assets

Intangible assets with definite lives at June 30, 2009 consist primarily of value assigned to customer relationships. Intangible assets with definite lives are tested for impairment in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, ("SFAS No. 144") whenever certain conditions exist which would indicate the carrying amounts of such assets may not be recoverable. Intangible assets with definite lives are amortized over their respective estimated useful lives. Intangible assets with indefinite lives consist of value assigned to the Merrill Lynch brand and are tested for impairment in accordance with SFAS No. 142. Intangible assets with indefinite lives are not amortized.

The gross carrying amount of intangible assets with definite lives was $2,400 and the accumulated amortization of intangible assets related to these assets amounted to $120 as of June 30, 2009. The gross carrying amount of intangible assets with indefinite lives was $750 as of June 30, 2009.

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

8. SUBORDINATED BORROWINGS

At June 30, 2009, subordinated borrowings and total credit facilities outstanding with the Parent consisted of the following:

	Maturity	Amount Outstanding	Total Credit Facility
MLPF&S			
Revolving Subordinated Loan	April 30, 2011	$ 8,300	$ 12,000
Cash Subordinated Loan	December 31, 2010	500	500
Cash Subordinated Loan	March 31, 2011	500	500
Cash Subordinated Loan	September 30, 2010	1,400	1,400
Cash Subordinated Loan	December 31, 2010	1,000	1,000
Cash Subordinated Loan	February 25, 2011	1,000	1,000
MLPCC			
Revolving Subordinated Loan	April 30, 2011	-	3,000
Cash Subordinated Loan	April 30, 2011	-	500
		$ 12,700	$ 19,900

These borrowings, which have been approved for regulatory capital purposes for each respective company, are U.S. dollar-denominated obligations that accrue interest at variable interest rates based on one-month LIBOR plus a spread.

9. STOCKHOLDERS' EQUITY

MLPF&S is authorized to issue 1,200 shares of $1,000 par value common stock. At June 30, 2009, there were 1,000 shares issued and outstanding.

MLPF&S is authorized to issue 1,000 shares of $25 par value preferred stock. At June 30, 2009, there were no preferred shares issued.

MLPCC is authorized to issue 10,000 shares of $1 par value preferred stock, with a liquidation preference of $1,000 per share. At June 30, 2009, there were 2,485 preferred shares issued and outstanding.

As a result of the acquisition by Bank of America, the components of the Company's shareholders' equity at December 26, 2008 were reclassified to paid-in-capital on January 1, 2009.

10. COMMITMENTS, CONTINGENCIES AND GUARANTEES

Litigation

In the ordinary course of business as a global financial services institution, the Company is routinely a defendant in many pending and threatened legal actions and proceedings, including actions brought on behalf of various classes of claimants. The Company is also subject to regulatory examinations, information gathering requests, inquiries, and investigations. In connection with formal and informal inquiries by its regulators, it receives numerous requests,

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

subpoenas and orders for documents, testimony and information in connection with various aspects of its regulated activities.

In view of the inherent difficulty of predicting the outcome of such litigation and regulatory matters, particularly where the claimants seek unspecified or very large damages or where the matters present novel legal theories or involve a large number of parties, the Company cannot state with confidence what the eventual outcome of the pending matters will be, what the timing of the ultimate resolution of these matters will be, or what the eventual loss, fines or penalties related to each pending matter may be.

In accordance with SFAS No. 5*,* the Company establishes reserves for litigation and regulatory matters when those matters present loss contingencies that are both probable and estimable. When loss contingencies are not both probable and estimable, the Company does not establish reserves. In many matters, including most 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 matter is close to resolution, in which case no accrual is made until that time. Based on current knowledge, management does not believe that loss contingencies arising from pending litigation and regulatory matters, including the litigation and regulatory matters described below, will have a material adverse effect on the consolidated financial position or liquidity of the Company.

The actions against the Company include, but are not limited to, the following:

Auction Rate Securities ("ARS")-Related Litigation

Burton v. Merrill Lynch & Co., Inc., et al.: On March 25, 2008, a purported class action was filed in the U.S. District Court for the Southern District of New York against Merrill Lynch & Co., Inc., the Company, and others on behalf of persons who purchased and continue to hold auction rate securities offered for sale by the Company between March 25, 2003 and February 13, 2008. The complaint alleges that the Company failed to disclose material facts about auction rate securities. A similar action, captioned *Stanton v. Merrill Lynch & Co., Inc., et al.,* was filed the next day in the same court. On October 31, 2008, the two cases were consolidated, and on December 10, 2008, a consolidated class action amended complaint was filed. On May 22, 2009, after the defendants moved to dismiss the consolidated amended complaint, the plaintiffs filed a second amended consolidated complaint. On July 24, 2009, the Company filed a motion to dismiss the second amended consolidated complaint.

Since October 2007, numerous arbitrations and individual lawsuits have been filed in various jurisdictions against the Company by parties who purchased auction rate securities. The plaintiffs in these matters generally allege various causes of action arising out of their purchases, including fraud, negligence, and breach of fiduciary duty and other duties, and seek compensatory damages totaling in excess of $1,300 as well as rescission, among other relief.

The Company has entered into agreements in principle to settle regulatory actions related to its sale of ARS. As part of these settlements, the Company agreed to offer to purchase ARS held by certain individuals, charities and non-profit corporations and to pay a fine of $125.

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

Bank Sweep Programs Litigation

DeBlasio v. Merrill Lynch, et al.: On January 12, 2007, a purported class action was brought against Merrill Lynch & Co., Inc., the Company, and other securities firms in the U.S. District Court for the Southern District of New York alleging that their bank sweep programs violated state law because their terms were not adequately disclosed to customers. On May 1, 2007, plaintiffs filed an amended complaint, which added additional defendants. On November 12, 2007, defendants filed motions to dismiss the amended complaint. Briefing on the motions was completed on March 6, 2008. Thereafter, the court granted defendants' motion to dismiss.

Benistar

Gail A. Cahaly, et al. v. Benistar Property Exchange Trust Company, Inc, et al.: In a matter pending in the Superior Court of the Commonwealth of Massachusetts, Suffolk County, plaintiffs allege that Merrill Lynch Pierce Fenner & Smith Incorporated ("MLPF&S") aided and abetted a fraud and breach of fiduciary duty allegedly perpetrated by Benistar, a former client of the Company. In 2002, following a trial, a jury rendered a verdict requiring the Company to pay plaintiffs $9 in compensatory damages. After the court granted the Company's motion to vacate the verdict, the court granted plaintiffs' motion for a new trial. Plaintiffs seek $9 in compensatory damages as well as unspecified punitive damages, consequential damages and attorney's fees. Plaintiffs have notified the Company that they intend to file a motion for discovery-related sanctions.

On June 2, 2009, trial commenced in the liability phase of this case in which plaintiffs alleged that the Company aided and abetted a fraud and breach of fiduciary duty allegedly perpetrated by Benistar. On June 25, 2009, the jury found in favor of the plaintiffs on all counts. The damages phase of the trial will be scheduled by the Court. The plaintiffs have filed discovery-related sanctions motions.

Enron Litigation

Newby v. Enron Corp. et al.: On April 8, 2002, the Company was added as a defendant in a consolidated class action filed in the U.S. District Court for the Southern District of Texas on behalf of the purchasers of Enron's publicly traded equity and debt securities during the period October 19, 1998 through November 27, 2001. The complaint alleges, among other things, that the Company engaged in improper transactions in the fourth quarter of 1999 that helped Enron misrepresent its earnings and revenues in the fourth quarter of 1999. The district court denied the Company's motions to dismiss, and certified a class action by Enron shareholders and bondholders against the Company and other defendants. On March 19, 2007, the Fifth Circuit Court of Appeals reversed the district court's decision certifying the case as a class action. On January 22, 2008, the Supreme Court denied plaintiffs' petition to review the Fifth Circuit's decision. The Company moved for summary judgment based on the Fifth Circuit's March 19, 2007 decision rejecting class certification and the Supreme Court's January 15, 2008 decision rejecting liability in another case, *Stoneridge Investment v. Scientific Atlanta*. Other individual actions have been brought against the Company and other investment firms in connection with their Enron-related activities. There has been no adjudication of the merits of these claims. On March 5, 2009, the U.S. District Court for the Southern District of Texas granted the Company's motion for summary judgment and dismissed the claims against the Company with prejudice.

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

Illinois Funeral Directors Association Matters
Various state, federal and self-regulatory organization ("SRO") entities are investigating the role of Merrill Lynch Life Agency, Inc. ("MLLA") and/or MLPF&S in selling certain life insurance policies to a trust established by the Illinois Funeral Directors Association ("IFDA") that received certain proceeds from pre-need funeral contracts purchased by Illinois residents. On May 18, 2009, the Illinois Department of Financial and Professional Regulation Division of Insurance (the "Department") and MLLA entered into a Stipulation and Consent Order by which MLLA agreed, among other things, to contribute $18 to a Fund ("Fund") to benefit certain affected purchasers of pre-need funeral contracts and funeral directors. MLLA and MLPF&S continue to cooperate with other state, federal and SRO entities who have ongoing investigations relating to the IFDA trust. On July 7, 2009, a purported class action, *Fred C. Dames Funeral Homes, Inc., et al., v. Daniel W. Hynes, the Illinois Office of the Comptroller et al.,* was filed in the Circuit Court of Cook County, Illinois on behalf of certain funeral directors who are seeking a declaratory judgment against the Illinois Comptroller, the Department, MLPF&S, MLLA and Merrill Lynch Bank & Trust Company that all terms of the Stipulation and Consent Order are unlawful and unenforceable, an injunction against the Department and the Illinois Comptroller from taking further action, and recovery of attorneys' fees in pursuing the action.

In addition, several lawsuits have been filed in Illinois state and federal courts seeking damages relating to the IFDA trust against both MLLA and MLPF&S. On January 28, 2009, a purported derivative action on behalf of six funeral homes, *Calvert Funeral Homes Ltd., et al. v. Robert W. Ninker, et al.*, was filed in the Circuit Court of Cook County, Illinois against MLLA and MLPF&S, along with other defendants, for breach of purported fiduciary duties, negligence, tortious inducement of breach of fiduciary duty, civil conspiracy, fraud, and unjust enrichment. On June 16, 2009, a purported class action on behalf of a proposed class of pre-need contract holders, *David Tipsword as Trustee of Mildred E. Tipsword Trust, individually and on behalf of all others similarly situated v. I.F.D.A. Services Inc., et al.,* was filed in the U.S. District Court for the Southern District of Illinois against MLPF&S, among other defendants. The complaint alleges that MLPFS breached purported fiduciary duties and committed negligence. On June 30, 2009, a purported class action on behalf of a proposed class of funeral directors, *Clancy-Gernon Funeral Home, Inc., et al. v. MLPFS, et al.*, was filed in the Circuit Court of Cook County, Illinois, alleging that MLPF&S, MLLA, and Merrill Lynch Life Insurance Company, among other defendants, committed consumer fraud, civil conspiracy, unjust enrichment, and conversion. In each of these lawsuits, plaintiffs seek unspecified compensatory and punitive damages, among other relief.

IndyMac
IBEW Local 103 v. IndyMac MBS et al.: On January 20, 2009, MLPF&S, along with IndyMac MBS, IndyMac ABS, and other underwriters and individuals, were named as defendants in a putative class action complaint, entitled *IBEW Local 103 v. Indymac MBS et al.*, filed in the Superior Court of the State of California, County of Los Angeles, by purchasers of IndyMac mortgage pass-through certificates. The complaint alleges, among other things, that the mortgage loans underlying these 92 securities were improperly underwritten and failed to comply with the guidelines and processes described in the applicable registration statements and prospectus supplements, in violation of Sections 11 and 12 of the Securities Act.

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

IPO Allocation Litigation
In re Initial Public Offering Securities Litigation: Beginning in 2001, the Company was named as one of the defendants in approximately 110 securities class action complaints alleging that dozens of underwriter defendants artificially inflated and maintained the stock prices of securities by creating an artificially high post-IPO demand for shares. On October 13, 2004, the U.S. District Court for the Southern District of New York, having previously denied defendants' motions to dismiss, issued an order allowing certain of these cases to proceed against the underwriter defendants as class actions. On December 5, 2006, the Second Circuit Court of Appeals reversed this order, holding that the district court erred in certifying these cases as class actions. On September 27, 2007, plaintiffs again moved for class certification. On December 21, 2007, defendants filed their opposition to plaintiffs' motion. The court has not issued a decision on the class certification issue. Most of the parties in the case, including the Company, have agreed in principle to a settlement of the case, subject to court approval. The Company's portion of the settlement has been fully accrued and is reflected in the Company's Consolidated Balance Sheet. On June 9, 2009, the U.S. District Court for the Southern District of New York entered an order preliminarily approving the settlement. If the District Court grants final approval to the settlement and the decision survives any appeals that may be brought, the settlement will resolve the claims of all settlement class members (as defined in the settlement agreement) who do not opt out.

Lehman Brothers Litigation
In re Lehman Brothers Securities and ERISA Litigation: The Company, along with other underwriters and individuals, has been named as a defendant in several putative class action complaints filed in the U.S. District Court for the Southern District of New York and state courts in New York and Arkansas. Plaintiffs allege that the underwriter defendants violated Sections 11 and 12 of the Securities Act of 1933 by making false or misleading disclosures in connection with various debt and convertible stock offerings of Lehman Brothers Holdings, Inc. and seek unspecified damages. On January 9, 2009, the court entered an order consolidating most of the cases under the caption *In re Lehman Brothers Securities and ERISA Litigation,* and ordered the plaintiffs to file consolidated amended complaints within 45 days of the order and for the defendants to file answers or motions to dismiss 45 days thereafter. The Company and other defendants have moved to dismiss the consolidated amended complaint. All cases against the Company have now been transferred or conditionally transferred to the multi-district litigation in the United States District Court for the Southern District of New York.

Lyondell Litigation
On July 23, 2009, an adversary proceeding, *Official Committee of Unsecured Creditors v. Citibank, N.A., et al.*, was filed in the United States Bankruptcy Court for the Southern District of New York. This adversary proceeding, in which MLPF&S and Merrill Lynch Capital Corporation and more than fifty other individuals and entities are named defendants, relates to ongoing Chapter 11 bankruptcy proceedings in *In re Lyondell Chemical Company, et al.*, Chap. 11 Case No. 09-10023. The plaintiff in the adversary proceeding, the Official Committee of Unsecured Creditors of Lyondell Chemical Company and affiliates (the "Committee"), alleges in its complaint that the December 20, 2007 merger (the "Merger") between Lyondell Chemical Company and Basell AF S.C.A. ("Basell") rendered LyondellBasell, Inc. (the combined company) insolvent, inadequately capitalized, or unable to pay its debts. The Company is the administrative agent under an interim "bridge" facility (the "BridgeFacility") and one of the joint lead arrangers under a senior credit facility (the "Senior Facility"). The Bridge Facility and the Senior Facility were executed in connection with the Merger. The Company is a secured lender under each facility. The Committee alleges that certain loans made and liens granted in connection with the Bridge Facility and Senior Facility were fraudulent

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

transfers and therefore 104 avoidable under Section 548 of the Bankruptcy Code and state fraudulent transfer laws. The Committee also seeks to recover fees and other payments, including interest, made in connection with the Merger and on account of the facilities. Other claims against the Company relate to its role as advisor to Basell's parent company, Access Industries, in connection with the Merger. The Committee also seeks unspecified damages on the theory that the Company allegedly aided and abetted a breach of fiduciary duty.

MBIA Insurance Corporation CDO Litigation
MBIA Insurance Corporation and LaCrosse Financial Products, LLC v. Merrill Lynch Pierce Fenner and Smith Inc., and Merrill Lynch International: On April 30, 2009, MBIA Insurance Corporation and LaCrosse Financial Products, LLC filed a complaint in New York State Supreme Court, New York County, against MLPF&S and MLI. The complaint relates to certain credit default swap agreements and insurance agreements by which plaintiffs provided credit protection to the Merrill Lynch entities and other parties on certain collateralized debt obligation ("CDO") securities held by them. Plaintiffs claim that the Merrill Lynch entities did not adequately disclose the credit quality and other risks of the CDO securities and underlying collateral. The complaint alleges claims for fraud, negligent misrepresentation and breach of contract, among other claims, and seeks rescission and unspecified compensatory and punitive damages, among other relief. Defendants filed a motion to dismiss on July 1, 2009.

Subprime Mortgage-Related Litigation
In re Merrill Lynch & Co., Inc. Securities, Derivative, and ERISA Litigation: Beginning in October 2007, Merrill Lynch & Co., Inc. and the Company (collectively, "Merrill Lynch") were named in putative class actions filed on behalf of certain persons who acquired Merrill Lynch securities (the Securities Action) or participated in Merrill Lynch retirement plans (the ERISA Action) and purported shareholder derivative actions (the Derivative Actions) that have largely been consolidated under the caption, *In re Merrill Lynch & Co., Inc. Securities, Derivative, and ERISA Litigation*, filed in the U.S. District Court for the Southern District of New York. The complaints allege, among other things, that the defendants misrepresented and omitted facts related to Merrill Lynch's exposure to subprime collateralized debt obligations and subprime lending markets in violation of the federal securities laws, and seek damages in unspecified amounts. The Securities Action plaintiffs allege harm to investors who purchased Merrill Lynch securities during the class period; the ERISA Action plaintiffs allege harm to employees who invested retirement assets in Merrill Lynch securities, in violation of the Employee Retirement Income Securities Act (ERISA); and the plaintiffs in the derivative suits allege harm to Merrill Lynch itself from alleged breaches of fiduciary duty. In January 2009, the parties entered into agreements in principle to settle the Securities Action for $475 and the ERISA Action for $75, all of which has been accrued and reflected in Merrill Lynch's Consolidated Balance Sheet. The settlement is subject to a number of conditions, including court approval and confirmatory discovery, and was reached without any adjudication of the merits or finding of liability. On February 17, 2009, the court granted Merrill Lynch's motion to dismiss the Derivative Actions. On July 27, 2009, the court granted final approval of the Securities Action settlement. On August 24, 2009, the court granted final approval of the ERISA Action settlement.

Louisiana Sheriffs' Pension & Relief Fund v. Conway, et al.: On October 3, 2008, the Louisiana Sheriffs' Pension & Relief Fund and the Louisiana Municipal Police Employees' Retirement System filed a class action against Merrill Lynch & Co., Inc., the Company (collectively, "Merrill Lynch"), and certain present and former officers and directors of Merrill Lynch & Co., Inc. in New York Supreme Court. The complaint seeks relief on behalf of all persons who purchased or otherwise

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

acquired Merrill Lynch debt securities issued pursuant to a shelf registration statement dated March 31, 2006. The complaint alleges that Merrill Lynch's prospectuses misstated its financial condition and failed to disclose its exposures to losses from investments tied to subprime and other mortgages, as well as its liability arising from its participation in the market for auction rate securities. On October 22, 2008, the case was removed to federal court and on November 5, 2008 it was accepted as a related case to *In re Merrill Lynch & Co., Inc. Securities, Derivative, and ERISA Litigation.* On February 9, 2009, Merrill Lynch filed a motion to dismiss the action. On April 21, 2009, the parties reached an agreement in principle to settle the case and dismiss all claims with prejudice. On August 21, 2009, the court granted preliminary approval of the settlement.

Connecticut Carpenters Pension Fund, et al. v. Merrill Lynch & Co., Inc., et al.: On December 5, 2008, a class action complaint was filed against Merrill Lynch & Co., Inc., the Company and affiliated entities in the Superior Court of the State of California, County of Los Angeles on behalf of persons who purchased billions of dollars of Merrill Lynch Mortgage Trust Certificates pursuant or traceable to registration statements that Merrill Lynch Mortgage Investors, Inc. filed with the SEC on August 5, 2005, December 21, 2005, and February 2, 2007. The complaint alleges that the registration statements misrepresented or omitted material facts regarding the quality of the mortgage pools underlying the Trusts, the mortgages' loan-to-value ratios, and other criteria that were used to qualify borrowers for mortgages.

Iron Workers Local No. 25 Pension Fund v. Credit-Based Asset Servicing and Securitization LLC, et al.: On December 12, 2008, a class action complaint was filed against Merrill Lynch & Co., Inc., the Company and others in the U.S. District Court for the Southern District of New York on behalf of persons who purchased approximately $476 of asset-backed certificates pursuant or traceable to a registration statement that Credit-Based Asset Servicing and Securitization LLC ("C-BASS") filed with the SEC on April 26, 2007. The complaint alleges that Merrill Lynch entities acted either as underwriter or depositor for C-BASS and are liable for alleged misrepresentations or omissions in the C-BASS registration statement regarding the underwriting standards purportedly used in connection with the underwriting of the mortgage loans underlying the asset-backed certificates, the loan-to-value ratios used to qualify borrowers, the appraisals of properties underlying the mortgage loans, and the debt-to-income ratios for applicants associated with the underlying mortgage loans.

Public Employees' Retirement System of Mississippi v. Merrill Lynch & Co. Inc.: On February 17, 2009, the Public Employees' Retirement System of Mississippi filed a putative class action against Merrill Lynch & Co., Inc., the Company and others in the U.S. District Court for the Southern District of New York on behalf of persons who purchased approximately $55 of Merrill Lynch Mortgage Trust Certificates pursuant or traceable to registration statements that Merrill Lynch Mortgage Investors, Inc. filed with the SEC on December 21, 2005 and February 2, 2007. The complaint alleges that the registration statements and accompanying prospectuses and prospectus supplements misrepresented or omitted material facts regarding the underwriting standards used to originate the mortgages in the mortgage pools underlying the Trusts, the process by which Merrill Lynch Mortgage Lending and First Franklin Financial Corp. acquired the mortgage pools, and the appraisals of the homes secured by the mortgages. Plaintiffs seek to recover alleged losses in the market value of the Certificates allegedly caused by the performance of the underlying mortgages or to rescind their purchases of the Certificates.

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

Connecticut Carpenters Pension Fund, et al. v. Merrill Lynch & Co., Inc., et al.; Iron Workers Local No. 25 Pension Fund v. Credit-Based Asset Servicing and Securitization LLC, et al.; Public Employees' Ret. System of Mississippi v. Merrill Lynch & Co. Inc.; Wyoming State Treasurer v. Merrill Lynch & Co. Inc.: These cases were consolidated and on May 20, 2009, a consolidated amended complaint was filed. On June 17, 2009, the Company filed a motion to dismiss the consolidated amended complaint.

Wyoming State Treasurer v. Merrill Lynch, et. al: On April 3, 2009, a putative class action complaint was filed against Merrill Lynch and certain affiliated entities in the U.S. District Court for the Southern District of New York on behalf of persons who purchased Merrill Lynch Mortgage Trust Certificates ("Mortgage Trust Certificates") pursuant or traceable to registration statements filed by Merrill Lynch Mortgage Investors dated August 5, 2005, December 21, 2005, and February 2, 2007. The complaint alleges that the registration statements misrepresented or omitted material facts regarding the quality of the mortgage loans underlying the Mortgage Trust Certificates, the appraisals of the properties secured by the mortgages, and the credit ratings assigned to the Mortgage Trust Certificates in violation of Sections 11 and 12 of the Securities Act of 1933. Plaintiffs seek unspecified compensatory damages, among other relief.

In addition to the above class actions, the Company is a respondent or defendant in arbitrations and lawsuits brought by customers relating to the purchase of subprime-related securities that, in the aggregate, allege hundreds of millions of dollars of damages. The complaints in these cases generally allege causes of action for negligence, breach of duty, and fraud. The Company is defending itself in these actions.

Commitments

In the normal course of business, the Company enters into commitments for underwriting transactions. Settlement of these transactions as of June 30, 2009 would not have had a material effect on the consolidated financial condition of the Company. At June 30, 2009, the Company's commitments had the following expirations:

		Commitment Expiration			
	Total	Less than 1 Year	1 - 3 Years	4 - 5 Years	Over 5 Years
Commitments to purchase service contracts	$ 1,854	$ 197	$ 419	$ 460	$ 778
Letters of credit	205	205	-	-	-
Commitments to enter into forward dated repo agreements	1	1	-	-	-
Commitments to enter into forward dated resale agreements	74	74	-	-	-
Commitments to purchase loans	61	13	9	14	25
Commitments to purchase partnership interests	14	-	14	-	-
Operating leases	1,461	304	495	324	338
Total	$ 3,670	$ 794	$ 937	$ 798	$ 1,141

The Company has entered into commitments to purchase service contracts with providers of market data, communications, and systems consulting services. The Company obtains letters of

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

credit from issuing banks to satisfy various counterparty collateral requirements in lieu of depositing cash or securities collateral. The Company has commitments to enter into forward dated resale and repurchase agreements.

Further, the Company entered into commitments to purchase loans, which upon settlement of the commitment will be included in trading assets. The Company also has commitments to purchase partnership interests, primarily related to private equity investments.

The Parent and the Company have entered into various non-cancelable long-term lease agreements for premises and equipment that expire through 2019. The Company has also entered into various non-cancelable short-term equipment leases. The minimum lease commitments shown above in the table have not been reduced by $33 of minimum sublease rentals to be received in the future under non-cancelable subleases. In addition, the amounts in the above table do not include amounts related to lease renewal or purchase options or escalation clauses providing for increased rental payments based upon maintenance, utility and tax increases.

Guarantees

The Company provides guarantees in connection with certain transactions. In accordance with Disclosures and Credit Derivatives and Certain Guarantees: An amendment of FASB Statement No. 133 and *FASB Interpretation No. 45, Clarification of the Effective Date of FASB Statement No. 161* ("FSP FAS 133-1 and FIN 45-4"), and FIN 45, the Company is required to disclose information for guarantee arrangements such as the maximum potential amount of future payments under the guarantee, the term and carrying value of the guarantee, the nature of any collateral or recourse provisions and the current payment status of the guarantee.

These guarantees and their expiration are summarized below:

Type of Guarantee	Payout/ Notional	Less than 1 Year	1 - 3 Years	4 - 5 Years	Over 5 Years	Carrying Value
Auction rate securities	$ 745	$ 745	$ -	$ -	$ -	$ 64
Standby letters of credit	48	-	-	22	26	-
Performance guarantee [1]	7	-	-	-	7	-

[1] Relates to MLPCC guarantee on behalf of a client with a foreign stock exchange. This guarantee is secured by the assets of the client's accounts and has no expiration. No contingent liability is recorded since it is fully collateralized.

ARS Guarantees

Under the terms of its announced purchase program, as augmented by the global agreement reached with the New York Attorney General, the Securities and Exchange Commission, the Massachusetts Securities Division and other state securities regulators, the Company agreed to purchase ARS at par from its retail clients, including individual, not-for-profit, and small business clients. Certain retail clients with less than $4 in assets with the Company as of February 13, 2008 were eligible to sell eligible ARS to the Company starting on October 1, 2008. Other eligible retail clients meeting specified asset requirements were eligible to sell ARS to the Company beginning on January 2, 2009. The final date of the ARS purchase program is January 15, 2010. Under the ARS purchase program, the eligible ARS held in accounts of eligible retail clients at the Company

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

as of June 30, 2009 was $745. As of June 30, 2009, the Company had purchased $8,000 of ARS from eligible clients. In addition, under the ARS purchase program, the Company has agreed to purchase ARS from retail clients who purchased their securities from the Company and transferred their accounts to other brokers prior to February 13, 2008. Payment risk related to ARS guarantees is based largely upon the client's overall financial objectives. At June 30, 2009, a liability of $64 has been recorded for the difference between the fair value and par value for all outstanding ARS that are subject to this guarantee.

Standby Letters of Credit and Other FIN 45 Guarantees
The Company provides guarantees to certain counterparties in the form of standby letters of credit in the amount of $48. Payment risk is evaluated based upon historical payment activity. As of June 30, 2009, there were no draw downs under such arrangements.

The Company provides guarantees to securities clearinghouses and exchanges. Under the standard membership agreement, members are required to guarantee the performance of other members. Under the agreements, if another member becomes unable to satisfy its obligations to the clearinghouse, other members would be required to meet shortfalls. The Company's liability under these arrangements is not quantifiable and could exceed the cash and securities it has posted as collateral. However, the potential for the Company to be required to make payments under these arrangements is remote. Accordingly, no liability is carried in the Consolidated Balance Sheet for these arrangements.

In connection with its prime brokerage business, the Company provides to counterparties guarantees of the performance of its prime brokerage clients. Under these arrangements, the Company stands ready to meet the obligations of its customers with respect to securities transactions. If the customer fails to fulfill its obligation, the Company must fulfill the customer's obligation with the counterparty. The Company is secured by the assets in the customer's account as well as any proceeds received from the securities transaction entered into by the Company on behalf of the customer. No contingent liability is carried in the Consolidated Balance Sheet for these transactions as the potential for the Company to be required to make payments under these arrangements is remote.

In connection with its securities clearing business, the Company performs securities execution, clearance and settlement services on behalf of other broker-dealer clients for whom it commits to settle trades submitted for or by such clients, with the applicable clearinghouse; trades are submitted either individually, in groups or series or, if specific arrangements are made with a particular clearinghouse and client, all transactions with such clearing entity by such client. The Company's liability under these arrangements is not quantifiable and could exceed any cash deposit made by a client. However, the potential for the Company to be required to make unreimbursed payments under these arrangements is remote due to the contractual capital requirements associated with clients' activity and the regular review of clients' capital. Accordingly, no liability is carried in the Consolidated Balance Sheet for these transactions.

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

11. EMPLOYEE BENEFIT PLANS

See Note 1 for a discussion of the Bank of America acquisition of the Parent, which was completed on January 1, 2009. Effective January 1, 2009 the pension, and post-retirement benefit plans sponsored by the Parent were assumed by Bank of America.

Defined Contribution Pension Plans

The U.S. defined contribution plans consist of the Retirement Accumulation Plan ("RAP") and the 401(k) Savings & Investment Plan ("401(k)"). These plans cover substantially all U.S. employees who have met service requirements.

Defined Benefit Pension Plans

The Parent has purchased a group annuity contract which guarantees the payment of benefits vested under a U.S. defined benefit plan that was terminated in accordance with the applicable provisions of the Employee Retirement Income Security Act of 1974. The Company also maintains arrangements to provide certain supplemental benefits for certain U.S. employees.

Postretirement Benefits Other Than Pensions

The Company provides health insurance benefits to retired employees under Parent-sponsored plans that cover substantially all U.S. employees who have met age and service requirements. The health care coverage is contributory with certain retiree contributions adjusted periodically. Non-contributory life insurance was offered to employees that had retired prior to February 1, 2000. At June 30, 2009, neither the Company nor the Parent had funded these plans.

Postemployment Benefits

The Company provides certain postemployment benefits for employees on extended leave due to injury or illness and for terminated employees. Employees who are disabled due to non-work related illness or injury are entitled to disability income, medical coverage and life insurance. The Company also provides severance benefits to terminated employees.

Severance benefits may be provided to terminated employees under the terms of a severance pay plan. Although all full-time employees are eligible for severance benefits, no additional amounts were accrued as of June 30, 2009, since future severance costs are not estimable.

12. EMPLOYEE INCENTIVE PLANS

See Note 1 for a discussion of the Bank of America acquisition of the Parent, which was completed on January 1, 2009. Effective January 1, 2009 the incentive plans sponsored by the Parent were assumed by Bank of America.

The Company accounts for stock-based compensation in accordance with SFAS No. 123(R), *Share-Based Payment* ("SFAS No. 123(R)").

To align the interests of employees with those of stockholders, Bank of America sponsors several employee compensation plans that provide eligible employees, including those of the Company, with stock or options to purchase stock. The Company participates in compensation plans sponsored by Bank of America, which provide eligible employees with shares of Bank of America's common stock or options to purchase such stock, and deferred cash compensation. These plans

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

include the Financial Advisor Capital Accumulation Award Plan ("FACAAP"), and other deferred compensation plans and award programs.

At June 30, 2009, the Company had $470 of total unrecognized compensation cost related to non-vested share-based payment compensation arrangements. This cost is expected to be recognized over a weighted average period of 2.0 years.

FACAAP

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

Other Compensation Arrangements

The Company participates in Bank of America sponsored deferred compensation plans in which employees who meet certain minimum compensation thresholds may participate on either a voluntary or mandatory basis. Contributions to the plans are made on a tax-deferred basis by participants. Participants' returns on these contributions may be indexed to various mutual funds and other funds. The Company also participates in several Bank of America sponsored, cash-based employee award programs, under which certain employees are eligible to receive future cash compensation, generally upon fulfillment of the service and vesting criteria for the particular program. At June 30, 2009, accrued liabilities for these plans and grants totaled $1,207 and are recorded in *Compensation and benefits* payable on the Consolidated Balance Sheet.

When appropriate, the Company maintains various investments as an economic hedge of its liabilities to participants under these deferred compensation plans and award programs, including a derivative transaction with an affiliate. At June 30, 2009, the Company had such investments totaling $287 in *Other investments* on the Consolidated Balance Sheet, and a derivative transaction with an affiliate effectively hedging an additional $960 of the Company's liabilities.

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

13. INCOME TAXES

At June 30, 2009, the Company had a current tax payable to Bank of America of $9.

Significant components of the Company's net deferred tax assets and liabilities at June 30, 2009, included on the Consolidated Balance Sheet within *Other assets*, are comprised of:

Gross deferred assets	
Employee compensation	$ 2,389
Net operating loss carryforwards	2,284
Mark to market and gains/losses on assets	436
Non-trading Investments	300
Accrued expenses	278
Depreciation	186
Other	6
	5,879
Valuation allowance, net	(189)
Deferred tax assets, net	5,690
Gross deferred liabilities	
Goodwill and Intangibles	(1,182)
Net deferred tax asset	$ 4,508

At June 30, 2009, the Company had U.S. federal and state net operating loss carryforwards of approximately $5,256 and $7,192, respectively, which are available to offset future taxable income, if any, for fiscal years ending in 2009 through 2028. The Company also had approximately $57 of state tax credit carryforwards expiring in various years after 2009.

The Company adopted the provisions of FIN 48 effective January 1, 2007. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

Balance at December 27, 2008	$ 121
Additions based on tax positions related to the current year	-
Balance at June 30, 2009	$ 121

Of the above balance at June 30, 2009, approximately $103 (net of federal benefit of state issues) represents the amount of unrecognized tax benefits that, if recognized, would favorably affect the effective tax rate in future periods.

The Parent is under examination by the Internal Revenue Service ("IRS") and states in which Merrill Lynch has significant business operations. The years under examination vary by jurisdiction.

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

Below is a chart of tax years that remain subject to examination by major tax jurisdictions:

Jurisdiction	Examination
U.S. federal	2004-2008
New York State and City	2002-2008

The IRS audits for the years 2005, 2006 and 2007 may be completed in 2009. The IRS proposed adjustments for two issues in the audit for the tax year 2004 which the Parent has protested to the Appeals office. The issues involve the eligibility for the dividends received deduction and foreign tax credits with respect to certain transactions. The Parent intends to protest proposed adjustments for these two issues in later years. New York State and New York City audits are in progress for the years 2002 through 2006. While it is reasonably possible that a significant reduction in unrecognized tax benefits may occur within twelve months of June 30, 2009, quantification of an estimated range cannot be made at this time due to the uncertainty of the potential outcomes.

14. REGULATORY REQUIREMENTS

As a registered broker-dealer and futures commission merchant, MLPF&S is subject to the net capital requirements of Rule 15c3-1 (the “Rule”) under the Securities Exchange Act of 1934 (the “Act”) and capital requirements of the Commodity Futures Trading Commission (“CFTC”). Under the alternative method permitted by the Rule, the minimum required net capital, as defined, shall be the greater of 2% of aggregate debit items (“ADI”) arising from customer transactions or $500 in accordance with Appendix E of the Rule. In addition, this alternative method also requires MLPF&S to maintain tentative net capital of at least $1,000. At June 30, 2009, MLPF&S’ regulatory net capital of $5,004 was approximately 51.8% of ADI, and its regulatory net capital in excess of the SEC minimum requirement was $4,498. The CFTC also requires that minimum net capital should not be less than 8% of the total customer risk margin requirement plus 4% of the total non-customer risk margin requirement. At June 30, 2009, MLPF&S’ regulatory net capital of $5,004 exceeded the CFTC minimum requirement of $575 by $4,428.

MLPCC, a fully-guaranteed subsidiary of MLPF&S, is subject to the regulatory requirements promulgated by the SEC or other regulatory and exchange authorities. Net capital and excess net capital at June 30, 2009 as defined by these regulatory authorities is $1,631 and $1,557, respectively.

MLPF&S and MLPCC are also subject to the customer protection requirements of Rule 15c3-3 under the Act.

For the June 30, 2009 customer reserve computation, MLPF&S and MLPCC segregated in a special reserve account, for the exclusive benefit of customers, qualified securities and cash with a contract value of $11,727 and $0, respectively. Securities for both companies were obtained under resale agreements with an affiliate.

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

MLPF&S and MLPCC are also required to perform a computation of reserve requirements for Proprietary Accounts of Introducing Brokers ("PAIB") pursuant to Rule 15c3-3 of the Act. For the June 30, 2009 PAIB reserve computation, MLPF&S and MLPCC segregated in a special reserve account for the exclusive benefit of PAIB securities with a contract value of $615 and $2,130, respectively. The securities for both companies were obtained under resale agreements with an affiliate.

As futures commission merchants, MLPF&S and MLPCC are required to perform computations of the requirements of Section 4d(2) and Regulation 30.7 under the Commodity Exchange Act. As of June 30, 2009, assets segregated and secured and held in separate accounts totaled $10,949 and $1,539 and exceeded requirements by $1,919 and $635 for MLPF&S and MLPCC, respectively.