

3. The Massachusetts Securities Division of the Office of the Secretary of the Commonwealth ("MSD") alleged violations of the Massachusetts Uniform Securities Act ("Act") concerning Merrill's sale of auction rate securities issued by collateral debt obligations ("ARS CDOs") to the City of Springfield, Massachusetts ("City"). Without admitting or denying the MSD's allegations, Merrill agreed to certain undertakings, to cease and desist from violations of the Act, and to the entry of a censure order. On or about January 31, 2008, Merrill purchased from the City the ARS CDOs at the \$13.9 million par value.

4. Merrill entered into consent orders with numerous state securities regulators concerning conduct relating to the marketing and sale of auction rate securities ("ARS") to customers. Without admitting or denying the allegations, Merrill agreed to cease and desist from violations of certain state securities laws, and to certain undertakings, including to buy back eligible ARS from eligible investors. Merrill also paid civil penalties and fines, allocated at the discretion of the states, to resolve all underlying conduct relating to the sale of ARS.

Under the terms of the settlement, Merrill agreed to undertakings designed to provide liquidity to eligible investors. Merrill offered to (1) purchase at par from eligible investors certain ARS that failed at auction; (2) pay certain eligible investors who sold certain ARS below par the difference between par and the price at which the ARS were sold; (3) participate in a special arbitration process for the purpose of arbitrating any eligible investor's consequential damages claim arising from their inability to sell certain ARS; (4) refund to municipal issuers certain refinancing fees received by Merrill for the issuance or refinancing of such issuers' ARS; and (5) endeavor to work with issuers and other interested parties to provide liquidity solutions for institutional investors that purchased certain ARS from Merrill but are not considered eligible investors and are not entitled to participate in the ARS buyback under the terms of the settlement.

Merrill's control affiliate BAS entered into similar consent orders with state securities regulators.

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