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Global Markets & Investment Banking Group

**Description of Merrill Lynch's**  
**Auction Rate Securities**  
**Practices and Procedures**

## Introduction

The purpose of this Description of Merrill Lynch's Auction Rate Securities Practices and Procedures (the "Description") is to provide Merrill Lynch customers and potential customers ("you") with a general description of Merrill Lynch's practices and procedures with respect to auction rate securities and to help you understand those practices and procedures, as well as various risk factors and special considerations of which you should be aware, if you are currently participating, or decide in the future to participate, in the auction rate securities market as a Merrill Lynch customer.<sup>1</sup>

This Description is intended for purposes of general description only and is not intended to describe any particular auction rate security, or the risk factors and special considerations that may pertain to any particular auction rate security. This Description is neither a substitute for, nor a supplement to, the specific prospectus or offering memorandum (collectively, the "offering documents") for any particular auction rate security.

Before you invest in any auction rate security, you should read and understand the relevant offering documents, including the information that they provide regarding practices and procedures with respect to auctions of the security, and all the risk factors and other special considerations that may apply. This Description does not change, alter or amend, in any way, any provision in any offering document.

You should read this Description in its entirety. If you have questions about anything you read in this Description, you should consult your Merrill Lynch representative or local Merrill Lynch office for more information. If you have invested in auction rate securities through Merrill Lynch, you may request a copy of this Description by contacting your Merrill Lynch representative.

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<sup>1</sup> On May 31, 2006, the U.S. Securities and Exchange Commission ("SEC") announced that it had settled its investigation of fifteen firms, including Merrill Lynch, that participate in the auction rate securities market regarding their respective practices and procedures in the market. The SEC alleged in the settlement that the firms had managed auctions for auction rate securities in which they participated in ways that were not adequately disclosed or that did not conform to disclosed auction procedures. As part of the settlement, Merrill Lynch agreed to pay a civil money penalty of \$1,500,000. In addition, Merrill Lynch, without admitting or denying the SEC's allegations, agreed to be censured, to cease and desist from violating certain provisions of the securities laws, to provide to customers written descriptions of its material auction practices and procedures, and to implement procedures reasonably designed to detect and prevent any failures by Merrill Lynch to conduct the auction process in accordance with disclosed procedures.

## General Description of Auction Rate Securities

Auction rate securities were first offered for sale in U.S. financial markets in the early 1980s. As of the end of 2005, there were approximately \$263 billion of auction rate securities outstanding. Many different types of issuers have issued auction rate securities – for example, closed-end funds, corporations, municipal authorities and student loan organizations.

Auction rate securities have generally been issued as either bonds or preferred stock and are designed to serve as money market-type instruments. They are purchased and sold, at established intervals, through an auction-type mechanism, but have long-term maturities, or no maturity at all. In the auctions, auction rate securities are purchased and sold at par. Auction rate securities have also been called “Auction Market Preferred Stock,” “Variable Rate Preferred Securities,” “Money Market Preferred Securities” and “Periodic Auction Rate Securities.” The interest or dividend rate of an auction rate security is reset at these established intervals based on an auction in which investors who already hold the security (called “holders”) and investors who seek to acquire the security (called “prospective holders”)<sup>2</sup> indicate their interest in continuing to hold, or in purchasing or selling, the security at rates that they specify to broker-dealers, such as Merrill Lynch, who have been appointed to participate in the auction. The dates on which the auctions take place (the “auction dates”), and the interval between the auction dates (the “auction period”), vary depending on the security. The auctions commonly are every seven days, twenty-eight days, thirty-five days or forty-nine days, but there are also some securities for which the auctions occur daily and others for which the auctions occur at longer intervals – for example, every six months or once over a multi-year period.

The offering documents may also provide that the auction period is subject to change. See *Auction Periods May Change* below.

You should refer to the offering documents that apply to a particular auction rate security to find specific information regarding the auction dates and the auction period for that security, as well as information regarding the payment of interest or dividends on that security.

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<sup>2</sup> A holder can also be a prospective holder to the extent that he or she already holds a security and wishes to acquire more of the security.

For your convenience, this Description includes a glossary of terms. See *Glossary* below. You should note that a number of terms used in this Description, such as “holder” and “prospective holder,” are used in many offering documents. You should be aware that all terms used in this Description are solely for purposes of this Description, and do not change, alter or amend, in any way, any term or definition in any offering document.

## **Merrill Lynch’s Role in the Auction Rate Securities Market**

### ***Because Merrill Lynch Plays Multiple Roles in the Auction Rate Securities Market, Its Interests May Differ From Yours***

Merrill Lynch plays multiple roles in the auction rate securities market, including providing services to issuers of auction rate securities, acting as an agent for investors (both Merrill Lynch private clients and institutional clients) and purchasing and selling as principal for Merrill Lynch’s own account. These roles are discussed below.

You should be aware that, because of the multiple roles that Merrill Lynch plays in the auction rate securities market, Merrill Lynch’s interests in participating in that market may differ from yours. See *Risk Factors and Special Considerations* below.

### **Merrill Lynch Provides Services To Many Issuers of Auction Rate Securities**

Merrill Lynch receives underwriting fees for underwriting issuances of auction rate securities. Merrill Lynch underwrites offerings of the following types of products which may be issued as auction rate securities: shares of closed-end funds, including taxable and tax-exempt preferred securities; corporate securities eligible for the dividends-received deduction; municipal bonds; asset-backed securities, including taxable and tax-exempt bonds; and hybrid capital products, which may be structured as private placements for sale to institutional investors.

Issuers of auction rate securities pay firms that they select, like Merrill Lynch, to act as a dealer through which investors must submit orders into auctions for the issuers’ securities. See *How Merrill Lynch Conducts Auctions of Auction Rate Securities* below. A firm so selected is called an “auction dealer” and is said to “participate” in auctions. Auction dealers receive fees for these services (called “auction dealer fees”). Merrill Lynch, on a regular basis, participates as an auction dealer in several hundred auctions each day that the U.S. securities markets are open. See *Broker-Dealer Agreements* and *Auction Dealer Fees* below.

In general, auction dealer fees are based on the amount of securities that Merrill Lynch places with investors. See *Auction Dealer Fees* below.

### **Merrill Lynch Acts As Agent For Investors**

Merrill Lynch acts as agent for investors – both Merrill Lynch private clients and institutional clients – when it places orders on investors’ behalf in the auctions.

### **Merrill Lynch Acts As Principal For Its Own Account**

Merrill Lynch acts as principal for its own account when it places orders for its own account in auctions and when it buys and sells for its own account between auctions in the secondary market. However, Merrill Lynch is not obligated to place orders for its own account in auctions, nor is it obligated to buy and sell securities for its own account between auctions in the

secondary market. When it does so, it does so in its sole discretion. See *Important Merrill Lynch Policies* and *Risk Factors and Special Considerations* below.

### ***The Auction Desk***

Merrill Lynch's business as an auction dealer of auction rate securities is principally managed by industry professionals who staff Merrill Lynch's Auction Market Securities Trading Desk (the "Auction Desk"). The Auction Desk is the Merrill Lynch business unit that is responsible for acting on behalf of Merrill Lynch private clients, institutional clients, issuer clients and Merrill Lynch's proprietary accounts in connection with auctions of auction rate securities and the buying and selling of auction rate securities between auctions.

## **How Merrill Lynch Conducts Auctions of Auction Rate Securities**

### ***Merrill Lynch Follows the Auction Procedures That Are Disclosed in the Offering Documents***

When managing auctions of an auction rate security, Merrill Lynch follows the auction procedures that are disclosed in the offering documents that apply to the security. In many offering documents – and for purposes of this Description as well – this information is called the "auction procedures." Generally, the auction procedures may be found in the offering documents.

The auction procedures that apply to many auctions conducted by Merrill Lynch may also include reference to agreements that are generally called "Broker-Dealer Agreements" and "Auction Agency Agreements." In general, even if the auction procedures do not reference a Broker-Dealer Agreement or an Auction Agency Agreement, you should assume that such agreements exist with respect to every auction rate security.

### **Broker-Dealer Agreements**

A Broker-Dealer Agreement is an agreement between the issuer of a specific auction rate security and a broker-dealer, such as Merrill Lynch, by which the broker-dealer agrees to serve, for auction dealer fees payable by the issuer, as an "auction dealer" for auctions of the security. See *Merrill Lynch Provides Services To Many Issuers of Auction Rate Securities* above, and *Auction Dealer Fees* below. The Broker-Dealer Agreement permits the broker-dealer to participate in auctions of the security by, among other things, submitting orders into the auctions on behalf of its customers and to place auction orders for its own account. See *How Merrill Lynch Determines the Rate To Bid When Bidding For Its Own Account* and *Bidding by Merrill Lynch* below. When a Broker-Dealer Agreement is in effect, the broker-dealer is said to be "signed up" to participate in auctions of the security.

Unless the offering documents state otherwise, issuers generally are free to sign up multiple broker-dealers to serve as auction dealers for a specific auction rate security. The issuer may sign up broker-dealers at the time of the initial offering of the security, or afterward. Generally,

the issuer may terminate a broker-dealer's status as a signed-up auction dealer, and a broker-dealer may resign that status.

If there is only one auction dealer signed up to participate in auctions for an auction rate security, the auctions are called "sole-managed" auctions. If multiple auction dealers are signed up, the auctions are called "multi-dealer" auctions.

Merrill Lynch serves as auction dealer in both sole-managed and multi-dealer auctions.

### **Auction Agency Agreements**

An Auction Agency Agreement is an agreement between the issuer of a specific auction rate security and a firm (typically a bank) that agrees to serve, for fees payable by the issuer, as the "auction agent" for auctions of the security. Merrill Lynch does not serve as an auction agent.

Auction dealers, such as Merrill Lynch, submit to the auction agent the auction orders that they receive from their customers. Upon receiving the auction orders, the auction agent determines the winning interest or dividend rate that will apply to the entire outstanding amount of the securities until the next auction date (this is called the "clearing rate" or "auction rate"). The auction agent then informs each auction dealer of the auction results.

Generally, the issuer may terminate a firm's services as auction agent, and the auction agent may resign from that role.

### ***Types of Orders Permitted in the Auctions***

The auction procedures set forth in most offering documents permit three types of auction orders to be placed:

- **Hold order:** A holder may indicate to the auction dealer the amount of the security that he or she wishes to continue to hold without regard to the clearing rate that sets in the auction. Generally, auction procedures call this type of order a "hold" order. Auction dealers may also refer to it as a "roll" order.
- **Bid:** A holder may indicate to the auction dealer the amount of the security that he or she desires to continue to hold, or a prospective holder may indicate to the auction dealer that he or she wishes to acquire a specified amount of the security, at or above a desired interest or dividend rate that the holder or prospective holder specifies. Generally, the auction procedures call this type of order a "bid," and a person who places a bid a "bidder." If the clearing rate sets below the interest or dividend rate that the holder or prospective holder specifies in his or her bid:

- (1) the holder will be required to sell the securities subject to his or her bid in the auction; and

(2) the prospective holder will not acquire the securities subject to his or her bid in the auction.

Auction dealers refer to bids by prospective holders as “buy” orders, and bids by holders as “roll-at-rate” orders.

- **Sell order:** If the holder desires to sell a specified amount of the security in the auction without regard to the clearing rate that sets in the auction, he or she will place a “sell” order with the auction dealer for that amount of the security.

The auction procedures set forth in most offering documents require that an order becomes irrevocable when Merrill Lynch submits it to the auction agent.

You should be aware that if, as a holder, you submit a bid (a “roll-at-rate” order), you will be required to sell the securities subject to your bid if the clearing rate sets below the rate that you specified in your bid, just as if you had placed a sell order. For this reason, auction dealers use the term “exposed for sale” to refer to securities that are the subject of roll-at-rate orders. The total amount of securities that are the subject of sell orders and roll-at-rate orders is the total amount of securities that are “exposed for sale” in the auction.

If a holder of securities does not place an order (hold, bid or sell) with respect to the securities he or she holds, the auction procedures generally provide that the holder will be deemed to have elected to continue to hold the securities regardless of the clearing rate. Such securities are called “deemed hold” securities. However, auction procedures may specify that, with respect to auctions in which the issuer is changing the auction period, the holders of “deemed hold” securities will be deemed to have elected to sell their securities in the auction. See *Auction Periods May Change* below.

In general, auction procedures permit Merrill Lynch to place orders in auctions for its own account. See *How Merrill Lynch Determines the Rate To Bid When Bidding For Its Own Account* and *Bidding by Merrill Lynch* below. Auction procedures and/or Broker-Dealer Agreements may specify that the issuer of the security has the right to prohibit Merrill Lynch and other appointed auction dealers from submitting bids for their own account. However, in such circumstances, auction procedures and/or Broker-Dealer Agreements also generally specify that Merrill Lynch and other auction dealers would be permitted to continue to place hold or sell orders with respect to securities that they already hold.

You should be aware that, if Merrill Lynch is not signed up as an auction dealer for an auction in which you place an order, Merrill Lynch may place the order on your behalf through another broker-dealer that is signed up for that auction. In such circumstances, your order will be subject to the auction practices and procedures of the broker-dealer through which Merrill Lynch places your order. You should feel free to contact your Merrill Lynch representative or local Merrill Lynch office to obtain further information.

## ***Price Talk***

Before the start of an auction, Merrill Lynch may, in its discretion, make available to holders and prospective holders Merrill Lynch's good faith judgment of the range of likely clearing rates for the auction based on market and other information at a given time. This is known as "Price Talk." Price Talk is available to holders and prospective holders who are Merrill Lynch customers. Generally, the Price Talk will be made available either the night before or on the morning of the auction date.

You should be aware that Price Talk is not a guaranty that the clearing rate for an auction will be within the range of rates identified in Price Talk for that auction, and that Merrill Lynch may occasionally update and change Price Talk before the auction. See *Price Talk Is Not a Guaranty* below.

When bidding in the auction for its own account, Merrill Lynch may bid outside or inside the range of rates that it makes available in Price Talk. See *How Merrill Lynch Determines the Rate To Bid When Bidding For Its Own Account* and *Bidding by Merrill Lynch* below.

## ***Deadlines***

Auction procedures generally require that auction dealers that are signed up for the auction submit all orders to the auction agent by a deadline called the "submission deadline." For many auction rate securities, the submission deadline will be 1:00 PM, New York City time, on the auction date. Different auction rate securities may have different submission deadlines, depending on the requirements set forth in the offering documents that apply to the securities.

In order to provide Merrill Lynch sufficient time to process and prepare auction orders for submission to the auction agent by the applicable submission deadline, Merrill Lynch requires that customers submit all auction orders to Merrill Lynch by an earlier deadline (that is, prior to the submission deadline). This earlier deadline is called the "internal deadline." The internal deadline is established by Merrill Lynch, in its sole discretion, and is available to holders and prospective holders who are Merrill Lynch customers. With respect to many auction rate securities, the internal deadline set by Merrill Lynch is 12:15 PM, New York City time, on the day of the auction. Merrill Lynch's internal deadline falls earlier than 12:15 PM, however, with respect to auction rate securities for which the offering documents require daily auctions, and for all auctions on days when there is an early trading close in the market.

Merrill Lynch may make exceptions to the internal deadline to resolve *bona fide* clerical errors. Similarly, some auction procedures permit a limited grace period within which to resolve *bona fide* clerical errors after the auction agent's submission deadline.

You should be aware that the internal deadline is subject to change in Merrill Lynch's sole discretion. For these reasons, you should consult your Merrill Lynch representative for specific information with respect to the internal deadline that applies to the particular securities that you have purchased or are considering purchasing.

You should also be aware that auction orders that Merrill Lynch places for its own account are not subject to the internal deadline that Merrill Lynch establishes, although they are subject to the auction agent’s submission deadline. As a result, Merrill Lynch may place an order in the auction for its own account – and/or withdraw or revise that order if permitted by the auction procedures – after Merrill Lynch is aware of some or all of the orders that Merrill Lynch customers have placed with respect to the same auction. See *How Merrill Lynch Determines the Rate To Bid When Bidding For Its Own Account* and *Bidding by Merrill Lynch* below.

***How the Auction Agent Determines the Clearing Rate***

After the submission deadline for an auction has passed, the auction agent assembles all the orders submitted to it by Merrill Lynch and any other auction dealer that is signed up to participate in the auction. The auction agent then determines the clearing rate. The clearing rate is the lowest rate bid sufficient to cover all the securities that are exposed for sale in the auction.

To illustrate, the following is a hypothetical example of how the auction procedures generally are used in determining the clearing rate. The example assumes that there are 1,000 shares of a security outstanding and that the following orders are received by the auction agent for an auction of the security:

<b>Roll-at-Rate Orders (Holders)</b>	<b>Sell Orders (Holders)</b>	<b>Buy Orders (Prospective Holders)</b>
20 Shares at 2.90%	100 Shares	40 Shares at 2.95%
60 Shares at 3.02%	100 Shares	60 Shares at 3.00%
120 Shares at 3.05%	200 Shares	100 Shares at 3.05%
200 Shares at 3.10%	<b>Total = 400 Shares</b>	100 Shares at 3.10%
200 Shares at 3.12%		100 Shares at 3.11%
<b>Total = 600 Shares</b>		100 Shares at 3.14%
		200 Shares at 3.15%
		<b>Total = 700 Shares</b>

In the above example, 1,000 shares of the security – the entire issue size – have been exposed for sale in the auction because there are sell orders for 400 shares and roll-at-rate orders for 600 shares. There are no hold orders or “deemed hold” securities in this example. The following chart illustrates how the clearing rate is established based on the above assumed orders:

Number of Shares in Order	Rate Bid	Cumulative Shares	Winning/Losing
20	2.90%	20	Winning
40	2.95%	60	Winning
60	3.00%	120	Winning
60	3.02%	180	Winning
100	3.05%	280	Winning
120	3.05%	400	Winning
200	3.10%	600	Winning
100	3.10%	700	Winning
100	3.11%	800	Winning
<b>200</b>	<b>3.12%</b>	<b>1000</b>	<b>Winning</b>
100	3.14%		Losing
200	3.15%		Losing

The customer who placed the roll-at-rate order for 200 shares at 3.12% (see bolded order in the above chart) clears the auction of all 1,000 shares that are exposed for sale. The rate of 3.12% is the clearing rate that will apply to all the shares of the security until the next auction date. The holders and prospective holders in the above example who submitted bids at or below 3.12% – that is, the winning bids – will either retain their shares (in the case of the holders’ bids) or be awarded the number of shares indicated in their bids (in the case of the prospective holders’ bids). The prospective holders who placed bids for 100 shares at 3.14% and 200 shares at 3.15%, respectively, will not be awarded any shares in the auction – these are losing bids.

### Maximum Rate

Generally, auction procedures specify that if a bid by a holder exceeds a certain rate called the “maximum rate,” the bid will be treated as a sell order and that a bid by a prospective holder that exceeds the maximum rate will not be considered. Generally, the maximum rate is an above-market rate determined by a formula set forth in the offering documents. For example, the maximum rate could be based upon a multiple of the London Interbank Offered Rate (“LIBOR”) or an applicable U.S. Treasury Index Rate. Alternatively, the offering documents could specify a fixed percentage rate as the maximum rate.

### Minimum Rate

The auction procedures may require that if a bid by a holder or a prospective holder specifies a rate that is lower than a certain rate called the “minimum rate,” then the bid will be treated as though it specified the minimum rate.

The minimum rate is generally a materially below-market rate determined by a formula set forth in the offering documents. For example, the offering documents could specify that the minimum rate will be based on 60% of LIBOR or an applicable U.S. Treasury Index Rate. In many offering documents, the minimum rate is called the “all hold rate.” See *All Hold Auctions* below.

### ***How the Auction Agent Allocates Securities in the Auction***

After the auction agent determines the clearing rate, it allocates the securities among the auction dealers based on the orders that each submitted. If Merrill Lynch is the only auction dealer that is signed up for the auction, then the securities would be allocated only to Merrill Lynch. Generally, the auction procedures require the auction agent to allocate securities in the following order of priority:

- First: hold orders;
- Second: roll-at-rate and then buy orders that indicate a rate below the clearing rate;
- Third: roll-at-rate orders that indicate a rate at the clearing rate; and
- Fourth: buy orders that indicate a rate at the clearing rate.

If there are more bids that indicate a rate at the clearing rate than securities that remain for allocation, the auction procedures generally require that the auction agent allocate the securities among the bids on a *pro rata* basis, first among roll-at-rate orders that indicate a rate at the clearing rate and then among buy orders that indicate a rate at the clearing rate.

Generally, auction procedures specify that the auction agent will inform the auction dealers of the results of the auction – that is, the clearing rate and the allocation results – by approximately 3:00 PM, New York City time, on the auction date. The auction dealers, in turn, notify their customers who placed orders in the auction of the disposition of the orders and confirm purchases and sales with each customer purchasing or selling securities as a result of the auction.

### ***Auction Failure***

The auction procedures as set forth in most offering documents require that, in the event the amount of the security in the auction that is the subject of bids from prospective holders (that is, buy orders) is less than the amount of the security that is the subject of sell orders submitted into the auction, the maximum rate will automatically apply to the entire outstanding amount of the security until the next auction date. See *Maximum Rate* above. This is called “auction failure.”

Holders who have submitted sell orders should be aware that, in the event of an auction failure, they will not be able to sell all, and may not be able to sell any, securities in the auction. See *Holder’s Ability to Resell Auction Rate Securities May Be Limited* below. Specifically, if no buy orders are placed in an auction, holders will not be able to sell any of their securities in the auction. To the extent any buy orders are placed in a failed auction, the auction procedures require the auction agent to fill holders’ sell orders on a *pro rata* basis.

To illustrate, the following is a hypothetical example of how the auction procedures would require holders' sell orders to be handled in the event of a failed auction in which insufficient buy orders are placed. The example assumes that there are 1,000 shares of a security outstanding, and that:

- 500 shares of the security are the subject of hold orders;
- 350 shares are the subject of roll-at-rate orders indicating rates equal to or less than the maximum rate;
- 150 shares are the subject of sell orders (these sell orders are placed by Holder A, who places an order to sell 30 shares, and Holder B, who places an order to sell 120 shares); and
- 100 shares are the subject of buy orders indicating rates equal to or less than the maximum rate.

The above auction results in failure, and the maximum rate will apply to all the outstanding shares, because the number of shares that are the subject of sell orders (150 shares) exceeds the number of shares that are the subject of buy orders (100 shares). The holders who submitted the roll-at-rate orders in the above example will retain their shares because they indicated rates that are equal to or less than the maximum rate. The prospective holders who submitted buy orders will have their orders filled because they, too, indicated rates that are equal to or less than the maximum rate. To fill the prospective holders' orders, Holder A's order to sell 30 shares and Holder B's order to sell 120 shares will be pro-rated so that Holder A will sell 20 shares and Holder B will sell 80 shares.

As discussed above, if, in the above hypothetical example, no buy orders had been placed at all, then Holder A and Holder B would not have been able to sell any of their shares in the auction.

### ***All Hold Auctions***

Generally, the auction procedures require that, if in a particular auction all the outstanding securities are subject to hold orders – meaning that no holder has submitted either a roll-at-rate or sell order – the “all hold rate” (or “minimum rate”) will automatically apply to the entire outstanding amount of the security until the next auction date. Auction procedures may refer to such a result as an “all hold auction.”

Generally, as noted above, the all hold rate is a materially below-market rate determined by a formula set forth in the offering documents. For example, the offering documents could specify that the all hold rate will be based on 60% of LIBOR or an applicable U.S. Treasury Index Rate. In some offering documents, the all hold rate is called the “minimum rate.” See *Minimum Rate* above.

## **Important Merrill Lynch Policies**

### ***Customer Orders***

Customers ordinarily place orders through their Merrill Lynch representative, who conveys the orders to the Auction Desk. As a general matter, Merrill Lynch discourages the employees of the Auction Desk from accepting orders directly from customers.

You should be aware that Merrill Lynch prohibits the employees of the Auction Desk from:

- exercising discretion of any kind with respect to a customer order. For example, the Auction Desk is not permitted to select the rate at which to bid, the auction in which to bid or the quantity of the security to specify in any customer order;
- altering the terms of any customer order, or canceling a customer order, except upon express instructions from the Merrill Lynch representative who entered the order, or from the customer on whose behalf the order was entered; and
- matching auction orders, outside the auction, rather than submitting the orders into the auction.

### ***Prohibited Communications by the Auction Desk***

Merrill Lynch prohibits Auction Desk employees from disclosing to any holder or prospective holder:

- information about actual bidding in any auction by any other holder or prospective holder. For example, it is not permitted to disclose to anyone, other than the auction agent, the rate or quantity at which other holders or prospective holders have placed their bids or are likely to place their bids, or the status of any other holder's or prospective holder's auction order;
- the rate or quantity at which Merrill Lynch plans to bid, or the status of any auction order for Merrill Lynch's account;
- the size of any other holder's or prospective holder's position, or the size of Merrill Lynch's position (apart from information with respect to Merrill Lynch's inventory that Merrill Lynch makes available to customers);
- whether there are sufficient bids to prevent a failed auction;
- prior to when the auction agent posts the results of an auction, what the auction's clearing rate is; and
- whether an all hold auction is likely to occur.

Merrill Lynch also prohibits the employees of the Auction Desk from:

- providing to anyone assurance, either directly or indirectly, that a submitted or potential auction order will be filled;
- advising anyone as to the specific rate or dollar amount to apply to any auction order;
- initiating contact with anyone for the purpose of having a submitted auction order withdrawn or modified (except, under certain circumstances, for the correction of obvious errors);
- providing different Price Talk to different holders or prospective holders. Merrill Lynch requires that any Price Talk that is given to any Merrill Lynch customer that is a holder or prospective holder must be made available to all such customers; and
- discussing Merrill Lynch's Price Talk with broker-dealers that compete with Merrill Lynch for business in the auction rate securities market, or seeking to obtain other broker-dealers' equivalent of Price Talk.

#### ***How Merrill Lynch Determines the Rate To Bid When Bidding For Its Own Account***

Merrill Lynch, consistent with The Bond Market Association's Best Practices for Broker-Dealers of Auction Rate Securities (the "Best Practices"),<sup>3</sup> requires that, whenever Merrill Lynch bids in the auctions for its own account, Merrill Lynch must bid at a rate or within a range of rates which, in Merrill Lynch's good faith judgment, reflects a fair and reasonable rate for the security, taking into consideration such circumstances as prevailing market conditions with respect to the security at the time of the determination, general economic conditions and trends, current rates for comparable securities, and the financial condition and prospects of the issuer of the security. Merrill Lynch may, consistent with the Best Practices, take into consideration such factors as the expense involved, the size of Merrill Lynch's inventory position, Merrill Lynch's capital requirements and Merrill Lynch's risk management needs.

Merrill Lynch agrees with the view, as set forth in the Best Practices, that no single auction determines what is a market rate, and that consequently the market rate is not necessarily the rate bid on the preponderance of securities in a particular auction, but rather a rate indicative of the broader market for similar securities.

Consistent with the Best Practices, Merrill Lynch, when bidding in auctions for its own account, prohibits the firm from taking into consideration the interest of the issuer of the security in paying a low rate or the interest of customers in receiving a high rate.

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<sup>3</sup> The Best Practices are available to the public, free of charge, on The Bond Market Association website at: <<http://www.bondmarkets.com>>.

You should be aware that Merrill Lynch usually determines Price Talk for a particular auction before Merrill Lynch determines the rate at which to bid for its own account in that auction. Consequently, Merrill Lynch may bid outside or inside the range of rates that it makes available in Price Talk due to changes in market conditions and other factors that may arise between the time when Merrill Lynch makes Price Talk available and the time it bids for its own account in the auction. See *Bidding by Merrill Lynch* and *Price Talk Is Not a Guaranty* below.

### ***Merrill Lynch May Buy and Sell Auction Rate Securities For Its Own Account Between Auctions***

Auction procedures generally permit auction dealers like Merrill Lynch to buy and sell, in their sole discretion, auction rate securities for their own account between auctions at any time. See *Holder's Ability to Resell Auction Rate Securities May Be Limited* below.

Merrill Lynch requires that, between auctions, all bids and offers by Merrill Lynch should be at a price reflecting Merrill Lynch's good faith judgment of current market yields, and that re-sales by Merrill Lynch of any auction rate security bought at auction ordinarily should not be at a price above or below the par value of the security if market yields have not moved and the credit quality of the issuer of the security has not changed since the auction. However, when Merrill Lynch holds an inventory position in a security, Merrill Lynch may sell the position at a discount to the par value of the security in order to reduce its portfolio risk, to manage its regulatory capital and to accept unsolicited offers to purchase the security in block size.

The Auction Desk makes available offers by Merrill Lynch to re-sell securities from its inventory and may include offers by Merrill Lynch to re-sell the securities at discount to their par value. Merrill Lynch does not inform customers of unsolicited offers that Merrill Lynch receives to purchase securities from its inventory. You should be aware that, as a general matter, customers who make unsolicited offers to purchase blocks of securities from Merrill Lynch's inventory may be more likely to acquire such securities at discount to their par value than customers who do not.

The Auction Desk is prohibited from encouraging anyone, either directly or indirectly, to make an unsolicited offer to purchase securities in block size at discount to their par value that Merrill Lynch holds in its inventory.

## **Risk Factors and Special Considerations**

### ***Bidding by Merrill Lynch***

Merrill Lynch is permitted, but not obligated, to submit orders in auctions for its own account either as a bidder or a seller, or both, and routinely does so in its sole discretion.

If Merrill Lynch submits an order for its own account, it would likely have an advantage over other bidders because Merrill Lynch would have knowledge of some or all of the other orders placed through Merrill Lynch in that auction and, thus, could determine the rate and size of its

order so as to ensure that its order is likely to be accepted in the auction and that the auction is likely to clear at a particular rate. For this reason, and because, among other things, Merrill Lynch is appointed and paid by the issuer of the auction rate securities to serve as an auction dealer in the auction, Merrill Lynch's interests in conducting an auction may differ from those of holders and prospective holders who participate in auctions. See *Merrill Lynch's Role in the Auction Rate Securities Market* above, and *Auction Dealer Fees* below.

Merrill Lynch would not have knowledge of orders submitted to the auction agent by any other auction dealer that is, or may in the future be, appointed to accept orders pursuant to a Broker-Dealer Agreement.

As discussed in *How the Auction Agent Determines the Clearing Rate* above, if Merrill Lynch is the only auction dealer appointed by the issuer to serve as auction dealer in the auction, then Merrill Lynch would be the only auction dealer that submits orders to the auction agent in that auction. As a result, in such circumstances, Merrill Lynch could discern the clearing rate before the orders are submitted to the auction agent and set the clearing rate with its order.

Merrill Lynch may routinely place one or more bids in an auction for its own account to acquire auction rate securities for its inventory, to prevent an auction failure (which, as discussed in *Auction Failure* above, would result in the clearing rate being set at the maximum rate) or an auction from clearing at a rate that Merrill Lynch believes does not reflect the market for the securities. Merrill Lynch may place such bids even after obtaining knowledge of some or all of the other orders submitted through it. When bidding for its own account, Merrill Lynch may also bid outside or inside the range of rates that it makes available in Price Talk. See *How Merrill Lynch Determines the Rate To Bid When Bidding For Its Own Account* above and *Price Talk Is Not a Guaranty* below.

Merrill Lynch also may routinely encourage bidding by others in auctions, including to prevent an auction failure or an auction from clearing at a rate that Merrill Lynch believes does not reflect the market for the auction rate securities. Merrill Lynch may routinely encourage such bids even after obtaining knowledge of some or all of the other orders submitted through it.

Bids by Merrill Lynch or by those it may encourage to place bids are likely to affect the clearing rate, including preventing the clearing rate from being set at the maximum rate or otherwise causing bidders to receive a higher or lower rate than they might have received had Merrill Lynch not bid or not encouraged others to bid. In addition, bids by Merrill Lynch or by those it may encourage to place bids are likely to affect the allocation of the securities being auctioned, including displacing some bidders who may not have their bids filled or may receive fewer securities than they would have received if Merrill Lynch had not bid or encouraged others to bid. Because of these practices, the fact that an auction clears successfully does not mean that an investment in the securities involves no significant liquidity or credit risk. Merrill Lynch is not obligated to continue to place such bids or encourage other bidders to do so in any particular auction to prevent an auction from failing or clearing at a rate Merrill Lynch believes does not reflect the market for the securities. Investors should not assume that Merrill Lynch will do so or that auction failures will not occur.

Investors should be aware that bids by Merrill Lynch or by those it may encourage to place bids may cause lower clearing rates to occur.

As discussed in *All Hold Auctions* above, in any particular auction, if all outstanding securities are the subject of hold orders (meaning that no holder has submitted either a roll-at-rate or sell order), the interest rate that will apply to all the shares of the security in the auction until the next auction date will be the all hold rate, and the auction will be an all hold auction.

As a matter of policy, Merrill Lynch does not advise its customers when an all hold auction is likely.

If Merrill Lynch holds any securities for its own account on an auction date, Merrill Lynch will submit a sell order into the auction with respect to such securities, which would prevent that auction from being an all hold auction. Merrill Lynch may, but is not obligated to, submit bids for its own account in that same auction, as set forth above.

### ***Auction Dealer Fees***

Merrill Lynch has been appointed by many issuers of auction rate securities to serve as an auction dealer and is paid by those issuers for its services. Generally, issuers appoint Merrill Lynch pursuant to Broker-Dealer Agreements between the issuer and Merrill Lynch. It has been common for Broker-Dealer Agreements to provide that Merrill Lynch will receive from the issuer auction dealer fees based on the amount of the securities placed through Merrill Lynch. As a result, Merrill Lynch's interests in conducting auctions may differ from those of investors who participate in auctions.

Merrill Lynch may share a portion of the auction dealer fees it receives with other broker-dealers that submit orders through Merrill Lynch that Merrill Lynch successfully places in auctions. Similarly, with respect to auctions for auction rate securities for which Merrill Lynch does not serve as an auction dealer, the auction dealers in those auctions may share auction dealer fees with Merrill Lynch for orders that Merrill Lynch submits through those auction dealers that those auction dealers successfully place in those auctions.

### ***Price Talk Is Not a Guaranty***

As discussed in *Price Talk* above, you should be aware that Price Talk is not a guaranty that the clearing rate for an auction will be within the range of rates identified in Price Talk for that auction. Holders and prospective holders are free to use Price Talk or ignore it. If Merrill Lynch provides Price Talk, Merrill Lynch will make the Price Talk available to its customers who are holders and prospective holders, generally either the night before or on the morning of the auction date. Merrill Lynch may occasionally update and change Price Talk before the auctions based on changes in issuer credit quality or macroeconomic factors that are likely to result in a change in interest rate levels, such as an announcement by the Federal Reserve Board of a change in the Federal Funds rate or an announcement by the Bureau of Labor Statistics of unemployment numbers. Merrill Lynch will make such Price Talk changes available to its customers who are holders and prospective holders that were given the original Price Talk.

### ***“All-or-Nothing” Bids***

Merrill Lynch does not accept “all-or-nothing” bids (that is, bids whereby the bidder proposes to reject an allocation smaller than the entire quantity bid) or any other type of bid that allows the bidder to avoid auction procedures that require the *pro rata* allocation of securities where there are not sufficient sell orders to fill all bids at the clearing rate.

### ***No Assurances Regarding Auction Outcomes***

Merrill Lynch provides no assurance as to the outcome of any auction. Nor does Merrill Lynch provide any assurance that any bid will be successful, in whole or in part, or that any auction will clear at a rate that a bidder considers acceptable. Bids may be only partially filled, or not filled at all, and the rate on any securities purchased or retained in an auction may be lower than the market rate for similar investments. Before you invest in any auction rate security, you should read and understand the relevant offering documents, including all the risk factors and other special considerations that may apply.

Under no circumstance will Merrill Lynch agree before an auction to buy securities from or sell securities to a customer after the auction.

### ***Holder’s Ability to Resell Auction Rate Securities May Be Limited***

In any auction of auction rate securities, holders will be able to sell all of their securities for which they submitted a sell order only if there are sufficient bids to purchase all those securities in the auction. If sufficient bids have not been made, auction failure results, and holders that have submitted sell orders will not be able to sell in the auction all, and may not be able to sell any, of the securities subject to such submitted sell orders. See *Auction Failure* above.

As discussed in *Bidding by Merrill Lynch* above, Merrill Lynch may submit a bid in an auction to keep it from failing, but it is not obligated to do so. There may not always be enough bidders to prevent an auction from failing in the absence of Merrill Lynch bidding in the auction for its own account or encouraging others to bid. Therefore, auction failures are possible, especially if the issuer’s credit were to deteriorate, if a market disruption were to occur or if, for any reason, Merrill Lynch were unable or unwilling to bid. Between auctions, there can be no assurance that a secondary market for any auction rate securities will develop or, if it does develop, that it will provide a holder the ability to resell the securities on the terms or at the times desired by the holder. Merrill Lynch may, in its own discretion, decide to buy or sell the securities in the secondary market for its own account to or from investors at any time and at any price, including at prices equivalent to, below, or above the par value of the securities. See *Merrill Lynch May Buy and Sell Auction Rate Securities For Its Own Account Between Auctions* above. However, Merrill Lynch is not obligated to make a market in the securities, and may discontinue trading the securities in the secondary market without notice for any reason at any time. Holders who resell between auctions may receive less than par value, depending on market conditions.

Your ability to resell any auction rate securities will depend on various factors affecting the market for the securities, including news relating to the issuer of the securities, the attractiveness

of alternative investments, the perceived risk of owning the securities (whether related to credit, liquidity or any other risk), the tax or accounting treatment accorded the securities (including U.S. generally accepted accounting principles as they apply to the accounting treatment of auction rate securities), reactions of market participants to regulatory actions or press reports, financial reporting cycles and market conditions generally. Demand for auction rate securities may change without warning, and declines in demand may be short-lived or continue for longer periods.

### ***Auction Periods May Change***

For many auction rate securities, the issuer of the securities may, pursuant to the terms of the auction procedures as set forth in the offering documents, extend the length of the next auction period – that is, the length of the interval between auction dates – for up to a specified period of time, which may be in excess of one year (this is called a “changed auction period” or a “special auction period”). The issuer’s declaration of a changed auction period may reduce the liquidity of your investment. A changed auction period would likely be longer than a regular auction period, and you would be unable to sell the securities in an auction for a corresponding longer period of time. If you sell your securities between auctions in a changed auction period, you may receive less than the price you paid for them, especially when market interest rates have risen. The risks described in this paragraph will become greater as the length of the changed auction period increases.

## Glossary

For your convenience, the following is a glossary of terms used in this Description. A number of terms included in the glossary are defined in many offering documents of specific auction rate securities. You should be aware that all terms used in this Description and the following glossary are solely for purposes of this Description, and do not change, alter or amend, in any way, any term or definition in any offering document.

<i>Term</i>	<i>Definition</i>
<i>All hold auction</i>	Occurs in the event that, in an auction, all the outstanding securities are subject to hold orders (that is, no holder has submitted either a roll-at-rate or sell order). Generally, the auction procedures set forth in most offering documents specify that in the event of an all hold auction, the “all hold rate” automatically applies to all the outstanding securities until the next auction date. See definition of <i>all hold rate</i> .
<i>All hold rate</i>	A materially below-market rate that applies in the event of an all hold auction and is determined by a formula set forth in the offering documents. For example, the offering documents could specify that the all hold rate will be based on 60% of the London Interbank Offered Rate (“LIBOR”) or an applicable U.S. Treasury Index Rate. The all hold rate may also be called the “minimum rate.” See definition of <i>all hold auction</i> .
<i>All-or-nothing bid</i>	<p>A bid whereby the bidder proposes to reject an allocation smaller than the entire quantity that is the subject of the bidder’s bid.</p> <p>Merrill Lynch does not accept all-or-nothing bids, or any other type of bid that allows the bidder to avoid auction procedures that require the <i>pro rata</i> allocation of securities where there are not sufficient sell orders to fill all bids at the clearing rate.</p>
<i>Auction Agency Agreement</i>	An agreement between an issuer of a specific auction rate security and a firm (typically a bank) that agrees to serve, for fees payable by the issuer, as the auction agent for auctions of the security. See definition of <i>auction agent</i> .
<i>Auction agent</i>	A firm that, pursuant to an Auction Agency Agreement, receives auction orders for a specific auction rate security from the auction dealers and determines the winning interest or dividend rate in the auction, which will apply to the entire outstanding amount of the security until the next auction date – that is, the clearing rate. See definition of <i>Auction Agency Agreement</i> .
<i>Auction date</i>	The date on which an auction of a specific auction rate security takes place. Generally, the offering documents for the security establish the auction date.
<i>Auction dealer</i>	A broker-dealer that is signed up by an issuer, pursuant to a Broker-Dealer Agreement, to act as a dealer through which investors may submit orders into auctions for a specific auction rate security issued by the issuer. See definition of <i>Broker-Dealer Agreement</i> . Auction dealers are paid auction dealer fees by the issuer for their services. See definition of <i>auction dealer fees</i> .

<i>Term</i>	<i>Definition</i>
<i>Auction dealer fees</i>	Fees that an auction dealer, such as Merrill Lynch, receives from issuers of auction rate securities pursuant to a Broker-Dealer Agreement to serve as auction dealer for auction rate securities. See definitions of <i>auction dealer</i> and <i>Broker-Dealer Agreement</i> .
<i>Auction failure</i>	Occurs in the event the amount of the security in the auction that is the subject of bids from prospective holders (that is, buy orders) is less than the amount of the security that is the subject of sell orders submitted into the auction. Generally, auction procedures specify that, in the event of auction failure, the maximum rate automatically applies to the entire outstanding amount of the security until the next auction date. See definition of <i>maximum rate</i> .
<i>Auction period</i>	The interval of time that elapses between auction dates. See definition of <i>auction date</i> . Generally, the offering documents for each specific auction rate security establish the auction period and may provide that the auction period is subject to change.
<i>Auction procedures</i>	The procedures governing the conduct of an auction of a specific auction rate security. Generally, the auction procedures are set forth in the offering documents for the security.
<i>Bid</i>	<p>An auction order placed by a holder indicating to the auction dealer the amount of the security that he or she desires to continue to hold, or by a prospective holder indicating to the auction dealer the amount of the security that he or she wishes to acquire, at or above a desired interest or dividend rate that the holder or prospective holder specifies. See definitions of <i>roll-at-rate order</i> and <i>buy order</i>.</p> <p>If the clearing rate sets below the rate that the holder specifies in his or her bid, the holder will be required to sell the securities subject to his or her bid in the auction. If the clearing rate sets below the rate that the prospective holder specifies in his or her bid, the prospective holder will not acquire the securities subject to his or her bid in the auction.</p> <p>Generally, auction procedures specify that, if a bid by a holder exceeds the maximum rate, the bid will be treated as a sell order, and that a bid by a prospective holder that exceeds the maximum rate will not be considered. See definition of <i>maximum rate</i>.</p> <p>The auction procedures may require that if a bid by a holder or a prospective holder specifies a rate that is lower than the minimum rate, then the bid will be treated as though it specified the minimum rate. See definition of <i>all hold rate</i>.</p>
<i>Bidder</i>	A person who places a bid in an auction. See definition of <i>bid</i> .
<i>Broker-Dealer Agreement</i>	An agreement between an issuer of a specific auction rate security and a broker-dealer by which the broker-dealer agrees to serve, for auction dealer fees payable by the issuer, as an auction dealer for auctions of the security. The Broker-Dealer Agreement permits the auction dealer to participate in auctions of the security by, among other things, submitting orders into the auctions on behalf of its customers and to place auction orders for its own account. See definitions of <i>auction dealer fees</i> and <i>auction dealer</i> .

<i>Term</i>	<i>Definition</i>
<i>Buy order</i>	A bid in an auction placed by a prospective holder may be called a “buy” order. See definition of <i>bid</i> .
<i>Changed Auction Period</i>	For many auction rate securities, the issuer of the securities may, pursuant to the terms of the auction procedures as set forth in the offering documents, extend the length of the next auction period for up to a specified period of time which may be in excess of one year. This may be called a “changed auction period” or a “special auction period.”
<i>Clearing rate</i>	The interest or dividend rate determined by the auction agent to be the rate that prevails in the auction. The clearing rate applies to the entire outstanding amount of the security until the next auction date. The clearing rate may also be called the “auction rate.”
<i>Deemed hold</i>	If, for any reason, a holder does not place an order to hold, bid or sell with respect to auction rate securities that he or she holds, the auction procedures set forth in most offering documents provide that the holder will be deemed to have elected to continue to hold the securities regardless of the clearing rate. Such securities are called “deemed hold” securities. The auction procedures may specify that, with respect to auctions in which the auction period is being changed, the holders of “deemed hold” securities will be deemed to have elected to sell their securities in the auction. See definition of <b>holder</b> .
<i>Hold order</i>	An auction order placed by a holder indicating to the auction dealer that he or she wishes to retain the securities without regard to the clearing rate that sets in the auction. A hold order may also be called a “roll” order. See definition of <b>holder</b> .
<i>Holder</i>	A beneficial owner of auction rate securities (generally, a customer of the auction dealer who is listed on the records of the auction dealer, or, if applicable, on the records of the auction agent, as the owner of the security).
<i>Internal deadline</i>	The time by which Merrill Lynch requires customers to submit auction orders to Merrill Lynch. The internal deadline is established by Merrill Lynch policy and always precedes the submission deadline (that is, the time by which Merrill Lynch must submit the orders to the auction agent) that applies to the specific auction rate securities. See definition of <i>submission deadline</i> .
<i>Maximum rate</i>	An above-market rate determined by a formula set forth in the offering documents. The maximum rate, for example, could be based upon a multiple of the London Interbank Offered Rate (“LIBOR”) or an applicable U.S. Treasury Index Rate. Alternatively, the offering documents could specify a fixed percentage rate as the maximum rate.
<i>Minimum rate</i>	See definition of <i>all hold rate</i> .
<i>Multi-dealer auction</i>	An auction of auction rate securities is a “multi-dealer auction” if more than one auction dealer is signed up by the issuer of the securities pursuant to a Broker-Dealer Agreement to participate in the auction. See definition of <b>Broker-Dealer Agreement</b> .

<i>Term</i>	<i>Definition</i>
<i>Price Talk</i>	A range of rates reflecting Merrill Lynch’s good faith judgment, based on market and other information at a given time, of the range of the likely clearing rates for an auction.
<i>Prospective holder</i>	A person who places a bid in an auction of auction rate securities to acquire shares of the securities. See definitions of <i>buy order</i> and <i>bid</i> .
<i>Roll order</i>	See definition of <i>hold order</i> .
<i>Roll-at-rate order</i>	A bid in an auction placed by a holder may also be called a “roll-at-rate” order. See definitions of <i>bid</i> and <i>holder</i> .
<i>Sell order</i>	An auction order placed by a holder indicating to the auction dealer the holder’s desire to sell his or her securities in the auction without regard to the clearing rate that sets in the auction. See definition of <i>holder</i> .
<i>Sole-managed auction</i>	An auction of auction rate securities is a “sole-managed auction” if only one auction dealer is signed up by the issuer of the securities pursuant to a Broker-Dealer Agreement to participate in the auction. See definition of <i>Broker-Dealer Agreement</i> .
<i>Special Auction Period</i>	See definition of <i>changed auction period</i> .
<i>Submission deadline</i>	<p>The time by which all auction dealers, such as Merrill Lynch, that are signed up to participate in an auction of auction rate securities must submit orders to the auction agent. Generally, the submission deadline is established by the offering documents.</p> <p>In order to provide Merrill Lynch sufficient time to process and prepare auction orders for submission to the auction agent by the applicable submission deadline, Merrill Lynch requires that customers submit auction orders to Merrill Lynch by an internal deadline that is set by Merrill Lynch policy and that precedes the submission deadline. See definition of <i>internal deadline</i>.</p>