

SECURITIES AND EXCHANGE COMMISSION

FORM DEFS14A

Definitive proxy statement for special meeting

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FILER

MERRILL LYNCH PRIME FUND INC

CIK: **853911** | IRS No.: **222998937** | State of Incorpor.: **NJ** | Fiscal Year End: **0831**
Type: **DEFS14A** | Act: **34** | File No.: **811-05870** | Film No.: **94500804**

Business Address
*800 SCUDDERS MILL RD
PLAINSBORO NJ 08536
6092822800*

MERRILL LYNCH PRIME FUND, INC.
(DOING BUSINESS AS MERRILL LYNCH SENIOR FLOATING RATE FUND)
BOX 9011
PRINCETON, NEW JERSEY 08543-9011

NOTICE OF MEETING OF STOCKHOLDERS

FEBRUARY 25, 1994

To The Stockholders Of
Merrill Lynch Prime Fund, Inc.:

Notice is hereby given that a Meeting of Stockholders (the "Meeting") of Merrill Lynch Prime Fund, Inc. (the "Fund") will be held at the offices of Merrill Lynch Asset Management, 800 Scudders Mill Road, Plainsboro, New Jersey, on Friday, February 25, 1994 at 10:30 A.M. for the following purposes:

- (1) To elect six Directors to serve for an indefinite term;
- (2) To consider and act upon a proposal to ratify the selection of Deloitte & Touche to serve as independent auditors of the Fund for its fiscal year ending August 31, 1994;
- (3) To consider and act upon a proposal to amend the Fund's Articles of Incorporation to effect the change of the name of the Fund from "Merrill Lynch Prime Fund, Inc." to "Merrill Lynch Senior Floating Rate Fund, Inc." The Fund currently does business as "Merrill Lynch Senior Floating Rate Fund"; and
- (4) To transact such other business as may properly come before the Meeting or any adjournment thereof.

The Board of Directors has fixed the close of business on December 20, 1993 as the record date for the determination of stockholders entitled to notice of and to vote at the Meeting or any adjournment thereof.

A complete list of the stockholders of the Fund entitled to vote at the Meeting will be available and open to the examination of any stockholder of the Fund for any purpose germane to the Meeting during ordinary business hours from and after February 11, 1994, at the office of the Fund, 800 Scudders Mill Road, Plainsboro, New Jersey 08536. You are cordially invited to attend the Meeting. Stockholders who do not expect to attend the Meeting in person are requested to complete, date and sign the enclosed form of proxy and return it promptly in the envelope provided for this purpose. The enclosed proxy is being solicited on behalf of the Board of Directors of the Fund.

By Order of the Board of
Directors

Patrick D. Sweeney

Secretary

Plainsboro, New Jersey
Dated: January 10, 1994

PROXY STATEMENT

MERRILL LYNCH PRIME FUND, INC.
(DOING BUSINESS AS MERRILL LYNCH SENIOR FLOATING RATE FUND)
BOX 9011
PRINCETON, NEW JERSEY 08543-9011

MEETING OF STOCKHOLDERS

FEBRUARY 25, 1994

INTRODUCTION

This Proxy Statement is furnished in connection with the solicitation of proxies on behalf of the Board of Directors of Merrill Lynch Prime Fund, Inc., a Maryland corporation (the "Fund"), to be voted at a Meeting of Stockholders of the Fund (the "Meeting"), to be held at the offices of Merrill Lynch Asset Management ("MLAM"), 800 Scudders Mill Road, Plainsboro, New Jersey, on Friday, February 25, 1994 at 10:30 A.M. The approximate mailing date of this Proxy Statement is January 12, 1994.

All properly executed proxies received prior to the Meeting will be voted at the Meeting in accordance with the instructions marked thereon or otherwise as provided therein. Unless instructions to the contrary are marked, proxies will be voted for the election of the six Directors named herein to serve for an indefinite term; for the ratification of the selection of independent auditors to serve for the Fund's current fiscal year; and for the proposal to amend the articles of incorporation of the Fund to change the name of the Fund. Any proxy may be revoked at any time prior to the exercise thereof by giving written notice to the Secretary of the Fund.

The Board of Directors has fixed the close of business on December 20, 1993 as the record date for the determination of stockholders entitled to notice of and to vote at the Meeting and at any adjournment thereof. Stockholders on the record date will be entitled to one vote for each share held, with no shares having cumulative voting rights. As of December 20, 1993, the Fund had outstanding 70,742,381 shares of common stock, par value \$.10 per share. To the knowledge of the Fund, as of December 20, 1993 no person was the beneficial owner of more than five percent of its outstanding shares.

The Board of Directors of the Fund knows of no business other than that mentioned in Items 1 through 3 of the Notice of Meeting which will be presented for consideration at the Meeting. If any other matter is properly presented, it is the intention of the persons named in the enclosed proxy to vote in accordance with their best judgment.

1. ELECTION OF DIRECTORS

At the Meeting, six Directors will be elected to serve for an indefinite term until their successors are elected and qualified.

There normally will be no meeting of stockholders for the purpose of electing Directors unless and until such time as less than a majority of the Directors holding office have been elected by stockholders, at which time the Directors then in office will call a special meeting of stockholders for the election of Directors. Stockholders may, in accordance with the terms of the By-Laws of the Fund, cause a meeting to be held for the purpose of voting on the removal of Directors at the request of 10% of the outstanding shares of the Fund. A Director elected by the holders of capital stock may be removed only for cause by a vote of the holders of at least two-thirds of the shares of the Fund entitled to vote on the matter. See "Additional Information--Meetings of Stockholders" below.

It is the intention of the persons named in the enclosed proxy to nominate and vote in favor of the election of the persons listed below.

Each nominee listed below has consented to serve as a Director. The Board of Directors of the Fund knows of no reasons why any of these nominees will be unable to serve, but in the event of any such unavailability, the proxies received will be voted for such substitute nominee or nominees as the Board of Directors may recommend.

Certain information concerning the nominees is set forth as follows:

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NAME AND ADDRESS OF NOMINEE	AGE	PRINCIPAL OCCUPATIONS DURING PAST FIVE YEARS AND PUBLIC DIRECTORSHIPS(1)	DIRECTOR SINCE	SHARES OF COMMON STOCK OF THE FUND BENEFICIALLY OWNED AT DECEMBER 20, 1993
<S>	<C>	<C>	<C>	<C>
Ronald W. Forbes(1)(2).. School of Business BA 309 State University of New York at Albany 1400 Washington Avenue Albany, New York 12222	53	Professor of Finance, School of Business, State University of New York at Albany, since 1989, and Associate Professor prior thereto; Member, Task Force on Municipal Securities Markets, Twentieth Century Fund.	1989	-0-
Cynthia A. Montgomer- ery(1)..... Harvard Business School Soldiers Field Road Boston, Massachusetts 02163	41	Professor, Harvard Business School since 1989; Associate Professor, J.L. Kellogg Graduate School of Management, Northwest-ern University, 1985-1989; As- sistant Professor, Graduate	--	-0-

School of Business Administration, the University of Michigan, 1979-1985; Director, UNUM Corporation.

<p>Charles C. Reilly(1)(2). 9 Hampton Harbor Road Hampton Bays, New York 11946</p>	<p>62 President and Chief Investment Officer of Verus Capital, Inc. from 1979 to 1990; Senior Vice President of Arnhold and S. Bleichroeder, Inc. from 1973 to 1990; Adjunct Professor, Columbia University Graduate School of Business since 1990; Adjunct Professor, Wharton School, University of Pennsylvania, 1990; Director, Harvard Business School Alumni Association, since 1991.</p>	<p>1990</p>	<p>-0-</p>
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NAME AND ADDRESS OF NOMINEE	AGE	PRINCIPAL OCCUPATIONS DURING PAST FIVE YEARS AND PUBLIC DIRECTORSHIPS(1)	DIRECTOR SINCE	SHARES OF COMMON STOCK OF THE FUND BENEFICIALLY OWNED AT DECEMBER 20, 1993
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<S>	<C>	<C>	<C>	<C>
Kevin A. Ryan(1)(2)..... 127 Commonwealth Avenue Chestnut Hill, Massa- chusetts 02167	61	Professor of Education at Boston University since 1982; Founder and current Director of The Boston University Center for the Advancement of Ethics and Character.	1992	-0-
Richard R. West(1)(2)... 482 Tepi Drive Southbury, Connecticut 06488	55	Professor of Finance, and Dean from 1984 to 1993, New York University Leonard N. Stern School of Business Administration; Professor of Finance at the Amos Tuck School of Business Administration from 1976 to 1984 and Dean from 1976 to 1983; Director of Vornado, Inc. (real estate holding corporation), Bowne & Co., Inc. (printer), Smith Corona Corporation (manufacturer of typewriters and word processors) and Alexander's Inc.	1989	-0-
Arthur Zeikel(1)(3)..... P.O. Box 9011 Princeton, New Jersey 08543-9011	61	President of MLAM since 1977, Chief Investment Officer thereof since 1976 and Director thereof from 1976 to 1993; President and Chief Investment Officer of Fund Asset Management ("FAM") since 1977 and Director thereof from 1977 to 1993; Director of Princeton Services, Inc. ("Princeton Services") since 1993; an Executive Vice President of Merrill Lynch & Co., Inc. ("ML & Co.") since 1990; an Executive Vice President of Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch") since 1990 and a Senior Vice President from 1985 to 1990.	1989	-0-

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- (1) Each of the nominees is a director or trustee of certain other investment companies for which MLAM or FAM acts as investment adviser. See "Merrill Lynch Investment Company Directorships" below.
 - (2) Member of Audit Committee of the Board of Directors.
 - (3) Interested person, as defined in the Investment Company Act of 1940, as amended (the "Investment Company Act"), of the Fund.

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Committee's and Board of Directors' Meetings. The Board of Directors has a

standing Audit Committee, which consists of the Directors who are not "interested persons" of the Fund within the meaning of the Investment Company Act. The principal purpose of the Audit Committee is to review the scope of the annual audit conducted by the Fund's independent auditors and the evaluation by such auditors of the accounting procedures followed by the Fund. The non-interested Directors have retained independent legal counsel to assist them in connection with these duties. The Board of Directors does not have a nominating committee.

During the fiscal year ended August 31, 1993, the Board of Directors held five meetings and the Audit Committee held four meetings. Each of the Directors then serving attended at least 75% of the total number of meetings of the Board of Directors, and, if a member, the total number of meetings of the Audit Committee, held during such period.

Interested Persons. The Fund considers Mr. Zeikel to be an "interested person" of the Fund within the meaning of Section 2(a)(19) of the Investment Company Act as a result of the position he holds with MLAM and its affiliates. Mr. Zeikel is the President of the Fund, the President of MLAM and FAM, and a Director of Princeton Services, the general partner of FAM and MLAM.

Compensation of Directors. MLAM, the investment adviser, pays all compensation of all officers of the Fund and all Directors of the Fund who are affiliated with ML&Co. or its subsidiaries. The Fund pays each Director not affiliated with the investment adviser a fee of \$4,000 per year plus \$800 per meeting attended, together with such Director's actual out-of-pocket expenses relating to attendance at meetings. The Fund also pays each member of its Audit Committee, which consists of all of the non-affiliated Directors, a fee of \$2,000 per year, together with such Director's out-of-pocket expenses relating to attendance at meetings. In addition, the Chairman of the Audit Committee receives an annual fee of \$1,000. These fees and expenses aggregated \$51,339 for the fiscal year ended August 31, 1993.

Merrill Lynch Investment Company Directorships. MLAM and FAM, act as the investment adviser for over 90 other registered investment companies. Mr. Zeikel is a trustee or director of each of these companies except for Merrill Lynch Series Fund, Inc., Merrill Lynch Institutional Intermediate Fund, Merrill Lynch Funds for Institutions Series and Merrill Lynch Institutional Tax-Exempt Fund. Each of the nominees is a director or trustee of Merrill Lynch Utility Income Fund, Inc., MuniVest Fund, Inc., MuniVest Fund II, Inc., Senior High Income Portfolio, Inc., Senior High Income Portfolio II, Inc., Taurus MuniCalifornia Holdings, Inc. and Taurus MuniNew York Holdings, Inc. Messrs. Forbes, Reilly, Ryan and West are trustees or directors of and Ms. Montgomery is nominated to be a trustee or director of CMA Money Fund, CMA Treasury Fund, CMA Tax-Exempt Fund, CMA Government Securities Fund, CMA Multi-State Municipal Series Trust, CBA Money Fund, Merrill Lynch Strategic Dividend Fund, Merrill Lynch Municipal Series Trust, Merrill Lynch Corporate Bond Fund, Inc., Merrill Lynch Municipal Bond Fund, Inc., The Corporate Fund Accumulation Program, Inc., The Municipal Fund Accumulation Program, Inc., Merrill Lynch Global Utility Fund, Inc., Merrill Lynch High Income Municipal Bond Fund, Inc., and Merrill Lynch Fund for Tomorrow, Inc. In addition, Messrs. Reilly and West are directors of Merrill Lynch Healthcare Fund, Inc., Merrill Lynch International Holdings, Inc., Merrill Lynch Latin America Fund, Inc., Merrill Lynch Short-Term Global Income Fund, Inc., Merrill Lynch Technology Fund, Inc., Merrill Lynch Global Bond Fund for Investment and Retirement, Merrill Lynch Global Allocation Fund, Inc., Merrill Lynch Pacific Fund, Inc., Merrill Lynch Developing Capital Markets Fund, Inc., Merrill Lynch EuroFund, Merrill Lynch Dragon Fund, Inc., Merrill Lynch International Equity Fund, and Merrill Lynch Americas Income Fund, Inc.

Officers of the Fund. The Board of Directors has elected seven officers of the Fund. The following sets forth information concerning each of these officers:

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NAME AND PRINCIPAL OCCUPATION	OFFICE	AGE	OFFICER SINCE
<S>	<C>	<C>	<C>
Arthur Zeikel..... President of MLAM since 1977, Chief Investment Officer thereof since 1976 and Director thereof from 1976 to 1993; President and Chief Investment Officer of FAM since 1977 and Director thereof from 1977 to 1993; Director of Princeton Services since 1993; Executive Vice President of ML & Co. since 1990; Executive Vice President of Merrill Lynch since 1990 and a Senior Vice President from 1985 to 1990.	President	61	1989
Terry K. Glenn..... Executive Vice President of MLAM and FAM since 1983	Executive Vice President	53	1989

and Director thereof from 1992 to 1993; Director of Princeton Services since 1993; President of Merrill Lynch Funds Distributor, Inc. ("MLFD") since 1986 and Director thereof since 1991; President of Princeton Administrators.

N. John Hewitt.....	Senior Vice	59	1993
Senior Vice President of MLAM and FAM since 1980 and Vice President from 1979 to 1980.			
R. Douglas Henderson.....	Vice President	36	1990
Vice President of MLAM since 1989; Vice President, Leveraged Finance Department, Security Pacific Merchant Bank from 1987 to 1989; Vice President, Corporate Finance and Banking Department, Security Pacific Merchant Bank from 1983 to 1987.			
Donald C. Burke.....	Vice President	33	1993
Vice President of MLAM since 1990; employee of Deloitte & Touche from 1982 to 1990.			
Gerald M. Richard.....	Treasurer	44	1989
Senior Vice President and Treasurer of MLAM and FAM since 1984; Treasurer of MLFD since 1984 and Vice President since 1981.			
Patrick D. Sweeney.....	Secretary	39	1990
Vice President of MLAM since 1990; Vice President and Associate Counsel of Security Pacific Merchant Bank from 1988 to 1990; Lawyer in private practice from 1981 to 1988.			

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Stock Ownership. At December 20, 1993, the Directors and officers of the Fund as a group (12 persons) owned an aggregate of less than 1/4 of 1% of the Common Stock of the Fund outstanding at such date. At such date, Mr. Zeikel, a Director of the Fund, and the officers of the Fund owned an aggregate of less than 1/4 of 1% of the outstanding shares of common stock of ML & Co.

2. SELECTION OF INDEPENDENT AUDITORS

The Board of Directors of the Fund, including a majority of the Directors who are not interested persons of the Fund, has selected the firm of Deloitte & Touche ("D&T"), independent auditors to examine the financial statements of the Fund for the current fiscal year. The appointment of D&T continues a relationship with the Fund that began in 1989. The Fund knows of no direct or indirect financial interest of such firm in the Fund. Such appointment is subject to ratification or rejection by the stockholders of the Fund. Unless a contrary specification is made, the accompanying proxy will be voted in favor of ratifying the selection of such auditors.

D&T also acts as independent auditors for ML & Co. and all of its subsidiaries and for substantially all of the other investment companies for which MLAM or FAM acts as investment adviser. The fees received by D&T from these other entities are substantially greater, in the aggregate, than the total fees received by it from the Fund. The Board of Directors of the Fund considered the fact that D&T has been retained as the independent auditors for ML & Co. and the other entities described above in its evaluation of the independence of D&T with respect to the Fund.

Representatives of D&T are expected to be present at the Meeting and will have the opportunity to make a statement if they so desire and to respond to questions from stockholders.

3. PROPOSAL TO AMEND THE ARTICLES OF INCORPORATION OF THE FUND TO CHANGE THE NAME OF THE FUND FROM "MERRILL LYNCH PRIME FUND, INC." TO "MERRILL LYNCH SENIOR FLOATING RATE FUND, INC."

At a meeting held on December 8, 1993, the Directors of the Fund approved the change of the Fund's name from "Merrill Lynch Prime Fund, Inc." to "Merrill Lynch Senior Floating Rate Fund, Inc." for the reasons discussed below. At that meeting the Directors also determined to recommend that the Fund solicit, at the next meeting of shareholders, shareholder approval of an amendment to the Fund's Articles of Incorporation to effect the name change. In the interim, the Fund has been doing business under the name "Merrill Lynch Senior Floating Rate Fund".

As stated in the Fund's prospectus, the Fund's investment objective is

to provide as high a level of current income and such preservation of capital as is consistent with investment in senior collateralized corporate loans ("Corporate Loans") primarily in the form of Participation Interests . . . in Corporate Loans made by banks or other financial institutions.

The prospectus further states that

[i]t is anticipated that the Corporate Loans will pay interest at rates which float at a margin above a generally recognized base lending rate, such as the prime rate of a designated U.S. bank, or which adjust periodically at a margin above the Certificate of Deposit ("CD") rate or the London InterBank Offered Rate ("LIBOR").

The terms of the types of Corporate Loans available for investment by the Fund typically are based on the Prime Rate, LIBOR or the CD rate, plus specified margins that vary according to each particular base rate. Both LIBOR and the CD rate generally are lower than the established Prime Rate published by leading U.S. banks. In the past, under normal market conditions, the margins for the LIBOR and CD rate borrowing options were established through negotiation, often at a level higher than the corresponding margin for the

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Prime borrowing option, which resulted in approximately equal effective interest rates, regardless of the borrowing option selected. Since the Fund's inception, however, the spread between the Prime Rate and LIBOR and the CD rate has increased to the point where the higher margins for LIBOR and CD-based pricing options do not compensate for the difference between Prime and the other base rates.

In light of these changes in base lending rate relationships, the percentage of the investments available to the Fund where Borrowers pay a margin large enough to compensate for the gap between the Prime Rate and LIBOR or the CD rate has declined significantly. Since the net return to the Fund's shareholders reflects the interest rates paid on Corporate Loans held by the Fund, such return will vary and, depending on the composition of the Fund's portfolio and the current relationship among the base lending rates, may or may not approximate the average published Prime Rate.

In connection with the most recent review of the Fund's prospectus, MLAM determined to recommend certain changes to the Fund's prospectus disclosure to reflect these changes in the relationships that have evolved among the base lending rates on which the interest paid on Corporate Loans is established. Consistent with these changes, the Investment Adviser also recommended that the name of the Fund be changed from "Merrill Lynch Prime Fund, Inc." to "Merrill Lynch Senior Floating Rate Fund, Inc." No changes are recommended to the Fund's stated investment objective and policies, and the Fund will continue to invest in Corporate Loans consistent with such objective and policies.

The Directors recommend that the Fund's shareholders vote to amend the Fund's Articles of Incorporation to effect the name change.

THE INVESTMENT ADVISORY AGREEMENT

On October 12, 1989, the Fund entered into an investment advisory agreement (the "Investment Advisory Agreement") and an administration agreement (the "Administration Agreement") with MLAM. On December 5, 1990, the Board of Directors of the Fund approved the continuance of the Investment Advisory Agreement and the Administration Agreement for a period of one year. On December 4, 1991, December 9, 1992, and December 8, 1993, the Board of Directors of the Fund approved the continuance of the Investment Advisory Agreement and the Administration Agreement for subsequent periods of one year.

INFORMATION CONCERNING MLAM

Effective January 1, 1994, MLAM was reorganized as a Delaware limited partnership. MLAM (the general partner of which is Princeton Services, a wholly-owned subsidiary of ML & Co.) is owned and controlled by ML & Co. and is located at 800 Scudders Mill Road, Plainsboro, New Jersey 08536. ML & Co. is located at 250 Vesey Street, New York, New York 10281. The reorganization did not result in a change of management of MLAM, in any of its personnel, or in an adverse change in its financial condition. Prior to the reorganization, MLAM was a Delaware corporation which was a wholly-owned subsidiary of ML & Co. MLAM or FAM acts as the investment adviser for more than 90 other registered investment companies. In addition, MLAM offers portfolio management and portfolio analysis services to individuals and institutions. MLAM's audited balance sheet for its fiscal year ended December 25, 1992 is appended to this Proxy Statement as Exhibit A. An unaudited balance sheet for MLAM as of September 24, 1993 is appended to

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this Proxy Statement as Exhibit B. MLAM represents that, to its knowledge, there has been no material adverse change in its financial condition since September 24, 1993.

Securities held by the Fund may also be held by, or be appropriate investments for, other funds or clients (collectively referred to as "clients") for which MLAM or FAM acts as an investment adviser. Because of different investment objectives or other factors, a particular security may be

bought for one or more clients when one or more clients are selling the security. If purchases or sales of securities for the Fund or other clients arise for consideration at about the same time, transactions in such securities will be made, insofar as feasible, for the respective clients in a manner deemed equitable to all by MLAM or FAM. To the extent that transactions on behalf of more than one client of MLAM or FAM during the same period may increase the demand for securities being purchased or the supply of securities being sold, there may be an adverse effect on price.

The following table sets forth the name, title and principal occupation of the principal executive officer of MLAM and the directors of Princeton Services, the general partner of MLAM:

<TABLE>
<CAPTION>

NAME ----	TITLE -----	PRINCIPAL OCCUPATION -----
<S>	<C>	<C>
Arthur Zeikel*.....	President of MLAM and Director of Princeton Services	President of MLAM and FAM
Terry K. Glenn.....	Executive Vice President of MLAM and Director of Princeton Services	Executive Vice President of MLAM and FAM
Philip L. Kirstein.....	Senior Vice President and General Counsel of MLAM and Director of Princeton Services	General Counsel of MLAM and FAM

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* Mr. Zeikel is presently a Director and the President of the Fund. The address of Messrs. Zeikel, Glenn and Kirstein is P.O. Box 9011, Princeton, New Jersey 08543-9011, which is also the address of FAM and MLAM.

TERMS OF INVESTMENT ADVISORY AND ADMINISTRATION AGREEMENTS

Investment Advisory Agreement. The Investment Advisory Agreement provides that, subject to the direction of the Board of Directors of the Fund, MLAM is responsible for the actual management of the Fund's portfolio and for the review of the Fund's holdings in light of its own research analysis and analyses from other relevant sources. The responsibility for making decisions to buy, sell or hold a particular security rests with MLAM, subject to review by the Board of Directors. MLAM provides the portfolio management for the Fund. Such portfolio management considers analyses from various sources, makes the necessary investment decisions and places transactions accordingly. MLAM is also obligated to perform certain management services for the Fund.

Administration Agreement. Under the terms of the Administration Agreement with the Fund, MLAM also performs or arranges for the performance of the administrative services (i.e., services other than investment advice and related portfolio activities) necessary for the operation of the Fund, including paying all compensation of and furnishing office space for officers and employees of the Fund connected with

investment and economic research, trading and investment management of the Fund, as well as the compensation of all Directors of the Fund who are affiliated persons of MLAM or any of its affiliates.

Investment Advisory and Administration Fees. The Investment Advisory Agreement provides that as compensation for its services to the Fund, MLAM receives from the Fund at the end of each month a fee at an annual rate of 0.95% of the Fund's average daily net assets (i.e., the average daily value of the total assets of the Fund, minus the sum of accrued liabilities of the Fund and accumulated dividends on the shares of preferred stock, if any). For purposes of this calculation, average daily net assets are determined at the end of each month on the basis of the average net assets of the Fund for each day during the Month.

For the administrative services rendered to the Fund and the facilities furnished, the Fund pays MLAM a monthly fee at an annual rate of 0.25% of the Fund's average daily net assets determined in the same manner as the fee payable by the Fund under the Investment Advisory Agreement. The combined advisory and administration fees are greater than the advisory fees paid by most funds but are similar in amount to the fees paid by similar funds making similar investments.

For the fiscal year ended August 31, 1993, the fee paid by the Fund to MLAM pursuant to the Investment Advisory Agreement was \$7,202,400 and the fee paid by the fund to MLAM pursuant to the Administration Agreement was \$1,895,368 (based on average daily net assets of approximately \$760 million). At December 17, 1993, the Fund had net assets of approximately \$706.2 million. At this asset level the Fund's annual investment advisory and administration fees would aggregate approximately \$8,474,646.

Payment of Expenses. The Administration Agreement, as described above, obligates MLAM to pay all compensation of and furnish office space for officers and employees of the fund connected with investment and economic research, trading and investment management of the Fund, as well as the fees of all Directors of the Fund who are affiliated persons of MLAM or any of its affiliates. The Fund pays all other expenses incurred in the operation of the Fund, including, among other things, expenses for legal and auditing services, taxes, costs of printing proxies, listing fees, if any, stock certificates and shareholder reports, charges of the Custodian and Transfer Agent, Dividend Disbursing Agent and Shareholder Servicing Agent, expenses of registering the shares under Federal and State securities laws, fees and expenses with respect to the issuance of preferred shares or any borrowing, Securities and Exchange Commission fees, fees and expenses of unaffiliated directors, accounting and pricing costs, insurance, interest, brokerage costs, litigation and other extraordinary or non-recurring expenses, mailing and other expenses properly payable by the Fund. Accounting services are provided to the Fund by MLAM, and the Fund reimburses MLAM for its costs in connection with such services. For the fiscal year ended August 31, 1993, the Fund reimbursed \$98,259 to MLAM for such accounting services.

Duration and Termination. The Investment Advisory Agreement will continue in effect from year to year if approved annually (a) by the Board of Directors of the Fund or by a majority of the outstanding shares of capital stock of the Fund and (b) by a majority of the Directors who are not parties to such agreement or interested persons (as defined in the Investment Company Act) of any such party. Such agreement is not assignable and may be terminated without penalty on 60 days' written notice at the option of either party thereto or by the vote of the stockholders of the Fund. The Administration Agreement will continue in effect for an indefinite term but is not assignable and may be terminated without penalty on 60 days' written notice at the option of either party thereto.

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PORTFOLIO TRANSACTIONS

Subject to policies established by the Board of Directors of the Fund, MLAM is primarily responsible for the execution of the Fund's portfolio transactions and the allocation of brokerage. In executing such transactions, MLAM seeks to obtain the best results for the Fund, taking into account such factors as price (including the applicable fee, commission or spread), size of order, difficulty of execution and operational facilities of the firm involved and the firm's risk in positioning a block of securities. While MLAM generally seeks reasonable competitive commission rates, the Fund does not necessarily pay the lowest commission or spread available. The securities in which the Fund invests generally do not trade in a broker market. The Fund paid no brokerage commissions in connection with portfolio transactions for the fiscal year ended August 31, 1993.

The Fund will purchase Corporate Loans in individually negotiated transactions with commercial banks, thrifts, insurance companies, finance companies and other financial institutions. In selecting such financial institutions, MLAM may consider, among other factors, the financial strength, professional ability, level of service and research capability of the institution. While such financial institutions generally are not required to repurchase Participation Interests in Corporate Loans which they have sold, they may act as principal or on an agency basis in connection with the Fund's disposition of Corporate Loans.

The Fund has no obligation to deal with any bank, broker or dealer in execution of transactions in portfolio securities. Subject to obtaining the best price and execution, brokers who provided supplemental investment research to MLAM, including Merrill Lynch, may receive orders for transactions by the Fund. Information so received will be in addition to and not in lieu of the services required to be performed by MLAM under the Investment Advisory Agreement and the expenses of MLAM will not necessarily be reduced as a result of the receipt of such supplemental information.

Other securities in which the Fund may invest are traded primarily in the over-the-counter markets, and the Fund intends to deal directly with dealers who make markets in the securities involved, except in those circumstances where better prices and execution are available elsewhere. Under the Investment Company Act, except as permitted by exemptive order, persons affiliated with the Fund are prohibited from dealing with the Fund as principal in the purchase and sale securities. Since transactions in the over-the-counter market usually involve transactions with dealers acting as principal for their own account, the Fund does not deal with affiliated persons, including Merrill Lynch and its affiliates, in connection with such transactions. However, an affiliated person of the Fund may serve as its broker in over-the-counter transactions conducted on an agency basis.

The Board of Directors has considered the possibility of recapturing for the benefit of the Fund brokerage commissions, dealer spreads and other expenses of possible portfolio transactions, such as underwriting commissions, by

conducting portfolio transactions through affiliated entities, including Merrill Lynch. For example, brokerage commissions received by Merrill Lynch could be offset against the investment advisory fee paid by the Fund to MLAM. After considering all factors deemed relevant, the Directors made a determination not to seek such recapture. The Directors will reconsider this matter from time to time.

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ADDITIONAL INFORMATION

The expenses of preparation, printing and mailing of the enclosed form of proxy and accompanying Notice and Proxy Statement will be borne by the Fund. The Fund will reimburse banks, brokers and others for their reasonable expenses in forwarding proxy solicitation material to the beneficial owners of the shares of the Fund. The Fund may also hire proxy solicitors at the expense of the Fund.

In order to obtain the necessary quorum at the Meeting (i.e., a majority of the shares of the Fund entitled to vote at the Meeting, present in person or by proxy), supplementary solicitation may be made by mail, telephone, telegraph or personal interview by officers of the Fund. It is anticipated that the cost of such supplementary solicitation, if any, will be nominal.

The proposal to elect the Fund's directors (Item 1) and the proposal to ratify the selection of the Fund's auditors (Item 2) may be approved by majority vote of the stockholders, present in person or by proxy, at a meeting at which a quorum is duly constituted.

The proposal to amend the articles of incorporation of the Fund to change the name of the Fund (Item 3) requires the affirmative vote of more than 50% of the outstanding shares of the Fund.

All shares represented by properly executed proxies, unless such proxies have previously been revoked, will be voted at the Meeting in accordance with the directions on the proxies; if no direction is indicated, the shares will be voted "FOR" the six Director nominees, "FOR" the ratification of D&T as independent auditors for the Fund and "FOR" the change of the name of the Fund to "Merrill Lynch Senior Floating Rate Fund, Inc." Shares will not be voted for any of the aforementioned proposals, however, unless (i) in the judgment of the Fund's Board of Directors, there has been no material adverse change in the financial condition of MLAM between September 24, 1993 and the date of MLAM's most recently completed fiscal quarter and (ii) the Fund shall have received a certificate of the President or a Senior Vice President of MLAM, dated the Meeting date, attesting that, to the knowledge of such officer, there has been no material adverse change in the financial condition of MLAM unless such material adverse change has been disclosed to stockholders in additional proxy solicitation materials.

Broker-dealer firms, including Merrill Lynch, holding Fund shares in "street name" for the benefit of their customers and clients will request the instructions of such customers and clients on how to vote their shares on each Item before the Meeting. The Fund understands that, under the rules of the New York Stock Exchange, such broker-dealer firms may, without instructions from their customers and clients, grant authority to the proxies designated to vote on the election of Directors (Item 1), the ratification of the selection of independent auditors (Item 2) and the amendment of the Fund's Articles of Incorporation to effect the change of the name of the Fund (Item 3) if no instructions have been received prior to the date specified in the broker-dealer firm's request for voting instructions. Merrill Lynch has advised that it intends to exercise discretion over shares held in its name for which no instructions are received by voting such shares in the same proportion as it has voted shares for which it has received instructions. The Fund will include shares held of record by broker-dealers as to which such authority has been granted in its tabulation of the total number of votes present for purposes of determining whether the necessary quorum of shareholders exists. The Fund also will count towards a quorum shares as to which proxies are returned by record shareholders but which are marked "abstain" on any Item. A failure by a broker-dealer who returns a proxy to vote for their clients on an Item or an abstention will have no effect with respect to the vote on Item 1 or Item 2; however, such a failure or abstention with respect to the vote on Item 3 will have the same effect as a vote against the proposal.

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MEETINGS OF SHAREHOLDERS

The By-Laws of the Fund do not require that the Fund hold an annual meeting of stockholders. However, the Fund will be required to call special meetings of stockholders in accordance with the requirements of the Investment Company Act to seek approval of new management and advisory arrangements or of a change in the fundamental policies, objectives or restrictions of the Fund. The Fund also

would be required to hold a special stockholders' meeting to elect new Directors at such time as less than a majority of the Directors holding office have been elected by stockholders. The By-Laws of the Fund provide that a stockholders' meeting may be called for any reason at the request of 10% of the outstanding shares of the Fund or by a majority of the Directors or the President of the Fund.

By Order of the Board of
Directors

Patrick D. Sweeney
Secretary

Dated: January 10, 1994

EXHIBIT A

INDEPENDENT AUDITORS' REPORT

Merrill Lynch Investment Management, Inc.:

We have audited the accompanying consolidated balance sheet of Merrill Lynch Investment Management, Inc. and its subsidiaries (the "Company") as of December 25, 1992. This consolidated balance sheet is the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated balance sheet based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the balance sheet is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the balance sheet. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall balance sheet presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such consolidated balance sheet presents fairly, in all material respects, the financial position of the Company at December 25, 1992 in conformity with generally accepted accounting principles.

DELOITTE & TOUCHE
Parsippany, New Jersey
February 19, 1993

MERRILL LYNCH INVESTMENT MANAGEMENT, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

<TABLE>
<CAPTION>

	DECEMBER 25, 1992

ASSETS	
<S>	<C>
Cash and cash equivalents.....	\$ 3,049,854
Receivable from affiliated companies--lease transactions.....	730,849,170
Investments in affiliated Limited Partnership.....	64,587,294
Investments in leases:	
Leveraged leases.....	121,508,161
Sales-type lease.....	12,831,711
Investments in affiliated investment companies--at the lower of cost or market (market: \$40,783,430).....	40,382,265
Fund management and administrative fees receivable.....	32,720,272
Fixed assets (net of \$9,140,416 accumulated depreciation).....	6,577,818
Prepaid expenses and other assets.....	12,372,403

Total Assets.....	\$1,024,878,948
	=====
LIABILITIES AND STOCKHOLDER'S EQUITY	
Liabilities:	
Payable to affiliates.....	\$ 747,726,743
Accrued liabilities and other payables.....	36,982,643
Deferred income--unearned fees.....	5,361,686
Deferred income taxes:	
Arising from leveraged leases.....	111,585,182
Arising from sales-type lease.....	5,245,721
Other.....	43,705,466

	950,607,441

Stockholder's Equity:	
Common stock, par value \$1.00 per share--authorized 25,000 shares,	
outstanding 10,000 shares.....	10,000
Additional paid-in capital.....	23,266,792
Accumulated translation adjustment.....	280,287
Retained earnings.....	50,714,428

Total stockholder's equity.....	74,271,507

Total Liabilities and Stockholder's Equity.....	\$1,024,878,948
=====	

</TABLE>

See notes to consolidated balance sheet.

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MERRILL LYNCH INVESTMENT MANAGEMENT, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED BALANCE SHEET, DECEMBER 25, 1992

1. Summary of significant accounting policies

Organization--Merrill Lynch Investment Management, Inc. and its subsidiaries (the "Company"), serve as investment adviser to certain registered investment companies, and provide investment advisory services for individuals and institutions. Merrill Lynch Investment Management, Inc., a wholly-owned subsidiary of Merrill Lynch Group, Inc., is an indirect wholly-owned subsidiary of Merrill Lynch & Co., Inc. ("ML&Co").

The Company's consolidated balance sheet reflects its 100 percent ownership of Merrill Lynch Funds Distributor, Inc., a distributor of shares of various affiliated managed registered investment companies, Fund Asset Management, Inc., an investment adviser to various registered investment companies and a lessor participant in leveraged lease agreements, Merrill Lynch International Asset Management, Ltd., a Channel Islands based investment adviser and Princeton Administrators, Inc., an administrator to certain non-affiliated investment companies, and its 60% ownership of Merrill Lynch International Capital Management Co., a Japan based investment adviser.

Fixed assets--Fixed assets are recorded at cost and consist principally of furniture and equipment. Depreciation is calculated using the straight-line method over a period ranging from 3 to 10 years.

Deferred income--unearned fees--Investment advisory services are billed at the beginning of the period for which services are to be rendered. The fee is deferred and credited to income on a pro rata basis over the period of the contract, which normally does not exceed one year.

Income taxes--The results of the operations of the Company are included in the consolidated federal and combined state and local income tax returns filed by ML&Co. It is the policy of ML&Co. to allocate the tax associated with such operating results to each respective subsidiary in a manner which approximates the separate company method. Effective in the first quarter of 1992, ML&Co. adopted statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109") which requires an asset and liability method in recording income taxes on all transactions that have been recognized in the financial statements. SFAS 109 provides that deferred taxes be adjusted to reflect tax rates at which future tax liabilities or assets are expected to be settled or realized. Previously, the Company accounted for income taxes in accordance with SFAS 96. The current year's impact on adopting SFAS 109 was minimal.

Cash and cash equivalents--For purposes of the consolidated balance sheet, cash and cash equivalents include marketable securities with initial maturity dates of less than three months. The carrying amount approximates fair value because of the short maturity of those instruments.

2. Transactions with affiliates

The Company serves as an investment adviser for certain investment companies. In addition, the Company, through its 100% owned subsidiary Princeton Administrators, Inc., serves as an administrator for certain non-affiliated investment companies. Management fees earned as adviser and administrator are based on a percentage of the net assets of each investment company. Such fees are generally recognized in the period earned.

The Company maintains investments in certain of these investment companies. Such investments are carried at the lower of cost or market value. Market value is determined based upon quoted market prices.

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NOTES TO CONSOLIDATED BALANCE SHEET

DECEMBER 25, 1992-- (CONTINUED)

The Company has an arrangement with Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S") which provides that the Company, which receives revenue as investment adviser to certain investment companies (the "Funds"), reimburse MLPF&S for certain costs incurred in processing transactions involving shares of the Funds.

In connection with the formation of certain affiliated investment companies (the "Investment Companies"), the Company has reimbursed MLPF&S for subscription expenses incurred in offering the Investment Companies' shares for sale. The unamortized balance included in prepaid expenses and other assets totalled \$5,361,686 as of December 25, 1992.

The Company has an unsecured note agreement with ML&Co. for \$650,000,000. In addition, the Company has certain other amounts payable to affiliates. These amounts are payable on demand. During 1992, the Company's investments in Merrill Lynch Interfunding, Inc. and Merlease Leasing Corp. were sold to an affiliate at book value. Receivable from affiliated companies-lease transactions represents the proceeds from this transaction.

The Company has a 98 percent limited partnership interest in ML Plainsboro Limited Partnership ("MLP"), whose general partner is an affiliate. Profits and losses are allocated to the Company based on its percentage interest.

The "Receivable from affiliated companies" arising from lease transactions is summarized as follows:

<S>	<C>
Monies advanced to fund lease transactions.....	\$(117,240,047)
Tax benefits allocated to the Company by ML&Co.	150,407,083
Proceeds from sale of subsidiaries.....	684,115,048
Other.....	13,567,086

Total.....	\$ 730,849,170
	=====

</TABLE>

ML&Co. is the holder of the Company's excess cash, which is available on demand to meet current liabilities. ML&Co. credits the Company for interest at a floating rate approximating ML&Co.'s average borrowing rate based on the Company's average daily balance due to/from ML&Co.

3. Investments in Leases

The Company is a lessor participant in leveraged lease agreements. The Company's net investment in leveraged leases is summarized as follows:

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NOTES TO CONSOLIDATED BALANCE SHEET

DECEMBER 25, 1992-- (CONTINUED)

<S>	<C>
Rentals receivable (net of principal and interest on non-recourse debt).....	\$ 117,309,811
Estimated residual values of leased assets.....	40,329,738
Less:	
Unearned and deferred income.....	(34,891,388)
Allowance for uncollectibles.....	(1,240,000)

Investment in leveraged leases.....	121,508,161
Less deferred taxes arising from leveraged leases.....	(111,585,182)

Net investment in leveraged leases.....	\$ 9,922,979
	=====

</TABLE>

Pertinent information relating to the Company's investments in leveraged leases is summarized as follows:

<TABLE>
<CAPTION>

ESTIMATED

TYPE OF PROPERTY	LENGTH OF LEASE (YEARS)	EQUITY INVESTMENT	RESIDUAL VALUE OF LEASED PROPERTY
<S>	<C>	<C>	<C>
Chemical tanker.....	20	42.75%	15.0%
Generating plant.....	24-25	34.06%	15.0%

</TABLE>

Financing beyond the Company's equity interest in the purchase price of the properties was furnished by outside parties in the form of long-term debt that provides for no recourse against the Company and is collateralized by a first lien on the properties and related rentals. At the end of the respective lease terms, ownership of the properties remains with the Company.

The Company's investment in the sales-type leases is composed of the following elements at December 25, 1992:

<S>	<C>
Minimum lease payments receivable.....	\$13,612,690
Less unearned income.....	(780,979)

Investment in sales-type financing leases.....	\$12,831,711
	=====

</TABLE>

At December 25, 1992 minimum lease payments receivable are \$9,941,000 for 1993 and \$3,672,000 for 1994.

For Federal income tax purposes, the Company receives the investment tax credit and has the benefit of tax deductions for (i) depreciation on the entire amount of leased assets and (ii) interest on the outstanding long-term debt. For state and local tax purposes, the Company also receives the benefits of tax deductions from (i) and (ii) above. Since, during the early years of the leases, those deductions exceed the Company's lease rental income, substantial excess deductions are available to be applied against the Company's other income and the consolidated income of ML&Co. In the later years of these leases, rental income will exceed

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MERRILL LYNCH INVESTMENT MANAGEMENT, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED BALANCE SHEET

DECEMBER 25, 1992--(CONTINUED)

the related deductions and taxes will be payable (to the extent that net deductions arising from additional leveraged lease transactions do not offset such net lease income). Deferred taxes have been provided to reflect these temporary differences.

4. Income Taxes

As part of the consolidated group, the Company transfers its current federal and state tax liabilities to the Parent. At December 25, 1992, the Company had a current Federal tax payable of \$6,922,068, and current state tax payable of \$2,588,057 payable to the Parent.

5. Pension Plan

The Company participates in the ML&Co. Comprehensive Retirement Program (the "Program"), consisting of the Retirement Accumulation Plan ("RAP") and the Employee Stock Ownership Plan (the "ESOP"). Both plans became effective January 1, 1989. Under the Program, cash contributions made by the Company and the ML&Co. stock held by the ESOP are allocated quarterly to participants' accounts. Allocations are based on years of service, age and eligible compensation. Actuarial data regarding the Company's Plan participants is not separately available.

6. Postretirement Benefits Other Than Pensions

The Company provides certain healthcare and life insurance benefits for retired employees. The Company reserves the right to amend or terminate this program at any time. Substantially all of the Company's employees become eligible for these benefits upon attainment of age 55 and completion of 10 years of service.

In December 1990, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions ("SFAS 106"). SFAS 106, effective for fiscal year 1993, will require that the Company change its method of accounting for postretirement healthcare and life insurance benefits from expensing these costs on a pay-as-you-go basis to an accrual basis. This change

in accounting will require the recognition of a transition obligation which represents the actuarial present value of benefits attributed to prior employee service. The Company has not yet determined what effect the adoption of SFAS 106 will have on its financial condition.

7. Name Change

Effective December 28, 1991, the Company, through an amendment of its certificate of incorporation, changed its name to Merrill Lynch Investment Management, Inc. ("MLIM"). MLIM will do business under the name "Merrill Lynch Asset Management".

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EXHIBIT B

MERRILL LYNCH INVESTMENT MANAGEMENT, INC.

CONSOLIDATED BALANCE SHEET
SEPTEMBER 24, 1993

<TABLE>
<CAPTION>

ASSETS	(UNAUDITED)
<S>	<C>
Cash and Cash Equivalents.....	\$ 1,887,182
Receivable from Affiliated Companies--Lease Transactions.....	747,641,938
Investment in Affiliated Limited Partnership.....	62,966,260
Investment in Leases:	
Leveraged leases.....	118,273,550
Sales-type lease.....	8,152,491
Investment in Affiliated Investment Companies--at the lower of cost or market (market: \$24,344,191).....	22,981,485
Fund Management and Administrative Fees Receivable.....	48,337,144
Fixed Assets (net of \$10,807,825 accumulated depreciation).....	8,706,455
Other Assets.....	6,132,037

Total Assets.....	\$1,025,078,542
	=====

<CAPTION>

LIABILITIES AND STOCKHOLDER'S EQUITY
LIABILITIES

<S>	<C>
Payables to Affiliates.....	\$ 737,062,022
Accrued Liabilities and Other Payables.....	10,597,512
Deferred Income Taxes:	
Arising from leveraged leases.....	111,401,573
Arising from sales-type lease.....	2,333,002
Other.....	70,751,039

Total Liabilities.....	932,145,148

<CAPTION>

STOCKHOLDER'S EQUITY

<S>	<C>
Common Stock, par value; \$1.00 per share--authorized 25,000 shares; outstanding 10,000 shares.....	10,000
Additional Paid-In Capital.....	23,266,792
Accumulated translation adjustment.....	640,374
Retained Earnings.....	69,016,228

Total Stockholder's Equity.....	92,933,394

Total Liabilities & Stockholder's Equity.....	\$1,025,078,542
	=====

</TABLE>

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MERRILL LYNCH PRIME FUND, INC.
Box 9011, Princeton, New Jersey 08543-9011

PROXY

This Proxy is solicited on behalf of the Board of Directors

The undersigned hereby appoints Arthur Zeikel, Terry K. Glenn and Patrick D. Sweeney as proxies, each with the power to appoint his substitute, and hereby authorizes them to represent and to vote, as designated below, all the shares of common stock of Merrill Lynch Prime Fund, Inc. (the "Fund") held of record by the undersigned on December 20, 1993 at a special meeting of shareholders of

auditors of the Fund to serve for the current fiscal year.

[] [] []

3. Proposal to amend the Fund's Articles of Incorporation to effect the change of the name of the Fund from "Merrill Lynch Prime Fund, Inc." to "Merrill Lynch Senior Floating Rate Fund, Inc."

FOR AGAINST ABSTAIN
[] [] []

4. In the discretion of such proxies, upon such other business as may properly come before the meeting or any adjournment thereof.

</TABLE>

Please sign exactly as name appears hereon. When shares are held by joint tenants, both should sign. When signing as attorney or as executor, administrator, trustee or guardian, please give full title as such. If a corporation, please sign in full corporate name by president or other authorized officer. If a partnership, please sign in partnership name by authorized person.

Signature Date

Signature, if held jointly Date

Please mark boxes in blue or black ink.

BY SIGNING AND PROMPTLY RETURNING THE ENCLOSED PROXY YOU MAY SAVE YOUR FUND THE EXPENSE OF ADDITIONAL SOLICITATION COSTS.

THE ENCLOSED PROXY CARD HAS BEEN FORWARDED TO YOU BECAUSE YOU WERE A SHAREHOLDER ON THE RECORD DATE.

IT IS IMPORTANT THAT YOU VOTE AND SIGN THIS PROXY AND RETURN IT IN THE ENCLOSED ENVELOPE AS SOON AS POSSIBLE.