

BD

HEDGING AND MONETIZATION

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Agenda

- Hedging and monetization
- PRISM
- Rule 10b5-1
- Postpaid PrISM

Hedging and monetization

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Diversifying restricted stock requires navigating complex rules and regulations

- Insiders can typically sell only certain amounts during certain time periods
- Volume restrictions can slow the sales process of illiquid stocks
- Sales must be publicly disclosed to the regulators
- Shareholder agreements may further limit flexibility
- Stock price may be vulnerable if sale is not executed efficiently

Clients should consult with their legal, tax or accounting advisor before undertaking restricted stock transactions

Rule 144 and Rule 145 impose significant timing requirements on restricted stock sales...

- Company must have been subject to SEC reporting requirements for at least 90 days before a Rule 144 sale
- 1-year holding requirement, including pre-IPO holding period*
- During any 3 months, greater of 1% of outstanding shares or average trading volume of previous 4 weeks may be sold**
- Insiders prohibited from “short-swing” profits arising from opposite way transactions for period 6 months before or after the sale (Section 16)
- Insiders prohibited from naked short sales (Section 16)
- Company policies require executives to observe trading windows/black-out periods to comply with insider trading laws prohibiting trading on material non-public information

* For securities acquired in connection with an M&A transaction where a holder was an affiliate of the target but is not an affiliate of the acquirer, these requirements do not apply under Rule 145.

** If the trading volume of the securities is not available through an exchange, NASDAQ, or the consolidated transaction reporting system, the amount will be based solely on the one percent limitation. After the maximum number of shares that can be sold is determined, the seller must deduct from that number any shares sold by the seller in the preceding three-month period, as well as any shares sold by entities that have to aggregate with the seller.

...as well as regulatory disclosure requirements

- Form 144 filing with SEC on or before date of sale indicating number and market value of shares to be sold
- Form 4, indicating percentage change in ownership (Section 16), must be filed with SEC within two business days following a sale
- Schedule 13D or G, when ownership percentage changes by 1% or more or if there are any other material changes (Section 13), must be filed for 5% stockholders

OTC hedging activities of affiliates and significant share-holders are subject to regulatory constraints and reporting requirements

Rule 144

- Cannot sell for one year after a private placement; JPM believes that prepaid forwards should be treated the same way, but that a shorter period may be appropriate for most collars
- During any three month period, sales cannot exceed the greater of:
 - 1% of outstanding shares or
 - Average of prior four weeks' trading volume
- JPMorgan believes volume constraints on hedging by affiliates should be analyzed similarly
- Sale or prepaid forward (but not a collar) must be reported on a Form 144
 - Must be mailed to the SEC no later than trade date
 - Becomes public record when received at the SEC
- Manner of sale restriction prohibits solicitation of buyers other than:
 - Brokers who expressed interest within last 60 days
 - Customers who expressed unsolicited interest within last 10 business days
- JPMorgan believes this applies to hedges for affiliates, as well as sales

Section 16

- Sale/hedge must be reported on a Form 4 within two business days following the trade date
- For sale/hedge under 10b5-1 plans where the affiliate does not select the date of execution, the Form 4 is due within two business days of the date of notification by the broker, as long as it is within 3 business days of the actual date of execution
- Sale/hedge is matchable against non-exempt purchases made 6 months before or after sale for short swing profit purposes
- Cash settlement of collar is considered a "purchase"; treatment of variable forwards is less clear

Section 13(d)

- If "material", sale/hedge must be reported on Section 13 form (Schedule 13D or G)
 - Originally completed when investor exceeds 5% of a class of traded or widely held voting shares
 - Change of ownership of 1% or more is deemed "material"
- Schedule 13D must be amended promptly (rule of thumb: within 48 hours) of "material" trade. Pre-IPO holders and "passive" holders can use less detailed form (13G) that is amended annually, but affiliates sometimes do not qualify as "passive" holders

Why hedge a single stock position using OTC Options?

Risk Reduction

Client can reduce or eliminate exposure to depreciation in underlying stock.

Monetization

A hedged position represents a guaranteed value; therefore, client can borrow against the position at an attractive rate.

Tax Deferral

Appropriately structured hedging transactions should not trigger a tax event at inception; clients should consult with their own tax advisors.

Upside Participation

The amount of upside retained in a hedging transaction can be structured to meet the client's stock view.

Customization

Client can tailor private hedging and monetization transactions to meet their view on the stock and other objectives.

Ownership Retention

Client retains ownership of shares; therefore has voting rights.

Options are not suitable for all investors. Investors are urged to consider carefully whether the products or strategies discussed in this material are suitable for their needs. The option strategies discussed in this presentation pertain to OTC Options and their use in hedging single stock positions. A copy of the Options Disclosure Document, "Characteristics and Risk of Standardized Options " maybe obtained by contacting your Private Banker.

Borrowing against a hedged position provides an attractive alternative to traditional financing

Details

- Proceeds can be reinvested in a diversified portfolio or private investments
- Terms can be more attractive than those for traditional secured credit:
 - Less collateral required: *non-purpose loan*: If a client is not using the proceeds of the loan to purchase or carry margin stock, Regulation U would not apply, and we would generally lend about 90% of the Put Strike on each share

purpose loan: If the client intends to use the proceeds to carry margin stock (i.e., publicly traded equities), Regulation U requires an initial collateral value of 2:1
 - Downside protection: no requirement to provide additional collateral if stock price falls
 - Pricing: Libor plus a spread; generally below unhedged lending spreads

Please note that collared loans will be extended through JPMorgan Chase Bank.

PrISM

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Assuming exempt to Section 16 and in compliance with company policy. For illustrative purposes only.

What is a PrISM?

Description

- A PrISM is a prepaid variable forward securities contract
- A PrISM (Principal Installment Stock Monetization strategy) allows a client to receive attractive upfront liquidity (typically 80-90% of the stock value) and allows for flexibility in the reinvestment of the proceeds.
- Client defers taxes on underlying shares until the maturity of the transaction (assuming that they deliver shares).
- The client protects their position below the *hedged value* and retains all participation in the upside appreciation up to a predetermined *upside limit*.
- Client retains all dividends (optional) and voting rights during the term of the PrISM.
- While similar to collar plus a loan,
 - Generally provides more cash upfront
 - No interim cash payments are required

Key Risks

- Stock appreciation is capped at the *upside limit*.
- Shares are pledged for the duration of the VPF

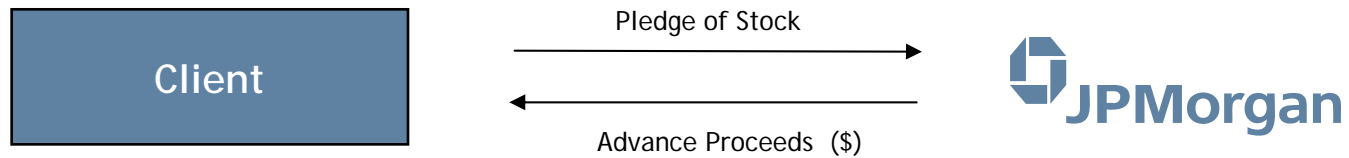
Settlement Formula

- At maturity, Client pays, in cash or shares, an amount that varies with the stock price:
 - **If stock price at maturity \leq hedged value**, market value of the shares
 - **If hedged value < stock price at maturity \leq upside limit**, hedged value of shares
 - **If the stock price at maturity > upside limit**, hedged value of shares plus appreciation above upside limit

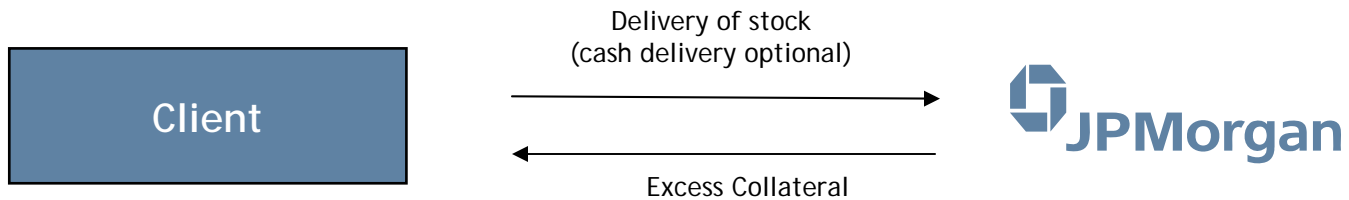
PrISM: Example Transaction Flow

PrISM - Trade Mechanics

- Start Date



- During the term of the trade: The Client can use proceeds from sale for any purpose. Client continues to receive dividends (optional) and voting rights
- Maturity



Sample list of reported pre-paid variable forward contracts

Pre-Paid Variable Forwards	
Company	Executive/Entity
Qwest Communication International Inc.	Philip Anschutz, founder
Dobson Communications Corp.	Dobson CC Limited Partnership
William Lyon Homes Inc.	Cable Family Trust
Men's Wearhouse	Mr. Zimmer, Founder and CEO
Walt Disney Corporation	Roy Disney, Vice Chairman
WellPoint Inc.	Leonard Schaeffer, CEO
Nextel Communications	Digital Radio--Craig McCaw controlled entity
O'Reilly Automotive	Charlie, Rosalie, Larry, and David O'Reilly -- most of the executive officers
Gemstar-TV Guide International, Inc.	Henry Yuen - Chairman and CEO
Level 3 Communications	James Crowe, CEO
Clear Channel Communications, Inc.	McCombs, co-founder and Director
Reebok International, Ltd.	Paul Fireman, CEO
Markel Corporation	Anthony F. Markel, President and COO
Optical Communication Products Inc.	Muoi Van Tran, Chairman and CEO
Indexed Stock Options	Schering-Plough

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Sample Pre-Paid Variable Forward Contract Press Releases

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Morningstar, Inc.

CHICAGO, April 7 /PRNewswire-FirstCall/ -- Morningstar, Inc. (Nasdaq: MORN), a leading provider of independent investment research, today announced that Joe Mansueto, its founder, chairman, and chief executive officer, is establishing a pre-arranged stock trading plan under Rule 10b5-1 of the Securities and Exchange Act of 1934 to sell a small portion of his Morningstar shares on a regular basis. Mansueto may sell up to 1.2 million shares, or 4 percent of his total shares, during a 12-month period that will begin in June 2006. Mansueto, who is adopting the plan for asset diversification purposes, wrote about his decision in his annual letter to shareholders, which was posted today at <http://global.morningstar.com/2005annualreport> .

Rule 10b5-1 allows corporate insiders to adopt pre-arranged stock trading plans to buy or sell a specified number of shares of company stock. Transactions under the plan will be disclosed through filings with the Securities and Exchange Commission.

As of March 31, 2006, Mansueto owned 30 million shares of Morningstar, Inc. common stock, which represented 73.7 percent of the company's outstanding shares.

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North Fork Bancorporation Inc.

On February 1, 2005, Thomas S. Johnson, a director of the Registrant and former CEO of GreenPoint Financial Corporation, recently acquired by the Registrant, entered into an individual sales plan with his personal securities broker, J.P. Morgan Securities, Inc., for the periodic sale on the open market at prevailing market prices of specified numbers of shares of the Registrant's common stock beneficially owned by Mr. Johnson, provided certain conditions including threshold trading prices are met. Assuming all conditions are met, the sales will occur every other week over the next 9 months and, if the plan is not terminated, may involve as many as 5.05 million shares, all of which will be shares received by Mr. Johnson upon exercise of compensatory stock options currently held by him. Mr. Johnson's sales plan is structured in accordance with Rule 10b5-1 of the Securities and Exchange Commission, which provides that trades by a corporate insider in his company's securities will not be subject to insider trading liability if effected pursuant to a qualifying plan established by the insider while not in possession of material non-public information, Mr. Johnson has stated that he adopted the plan for purposes of estate planning and portfolio diversification.

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H.J. Heinz Company

PITTSBURGH--(BUSINESS WIRE)--March 29, 2006--H.J. Heinz Company (NYSE:HNZ), a global food manufacturer, today announced that its Chairman, President and Chief Executive Officer, William R. Johnson, has adopted a prearranged trading plan in order to exercise expiring options. The stock trading plan was adopted in accordance with the guidelines specified under Rule 10b5-1 of the Securities and Exchange Act of 1934.

Rule 10b5-1 allows persons who may have material non-public information about a company to adopt written, pre-arranged stock trading plans when they are not in possession of material, non-public information. Such plans establish parameters for future stock transactions to automatically take place which may be modified or revoked by the person adopting the plan only in limited circumstances. In providing for these plans, the SEC recognized the need for corporate insiders to gradually diversify their holdings and spread stock trades out over extended periods of time to reduce market impact, without concerns whether such individuals might have had access to material, non-public information at the time of a particular transaction.

Mr. Johnson's plan provides for the exercise of 277,487 options of Heinz Common Stock due to expire in June 2006, and liquidation of shares at certain predetermined price levels to satisfy tax obligations related to the exercise, with the intention of retaining approximately 100 percent of the after-tax proceeds in Heinz Common Stock. The exercises and sales are subject to satisfaction of certain conditions and continue through June 9, 2006, at which date the trading plan terminates.

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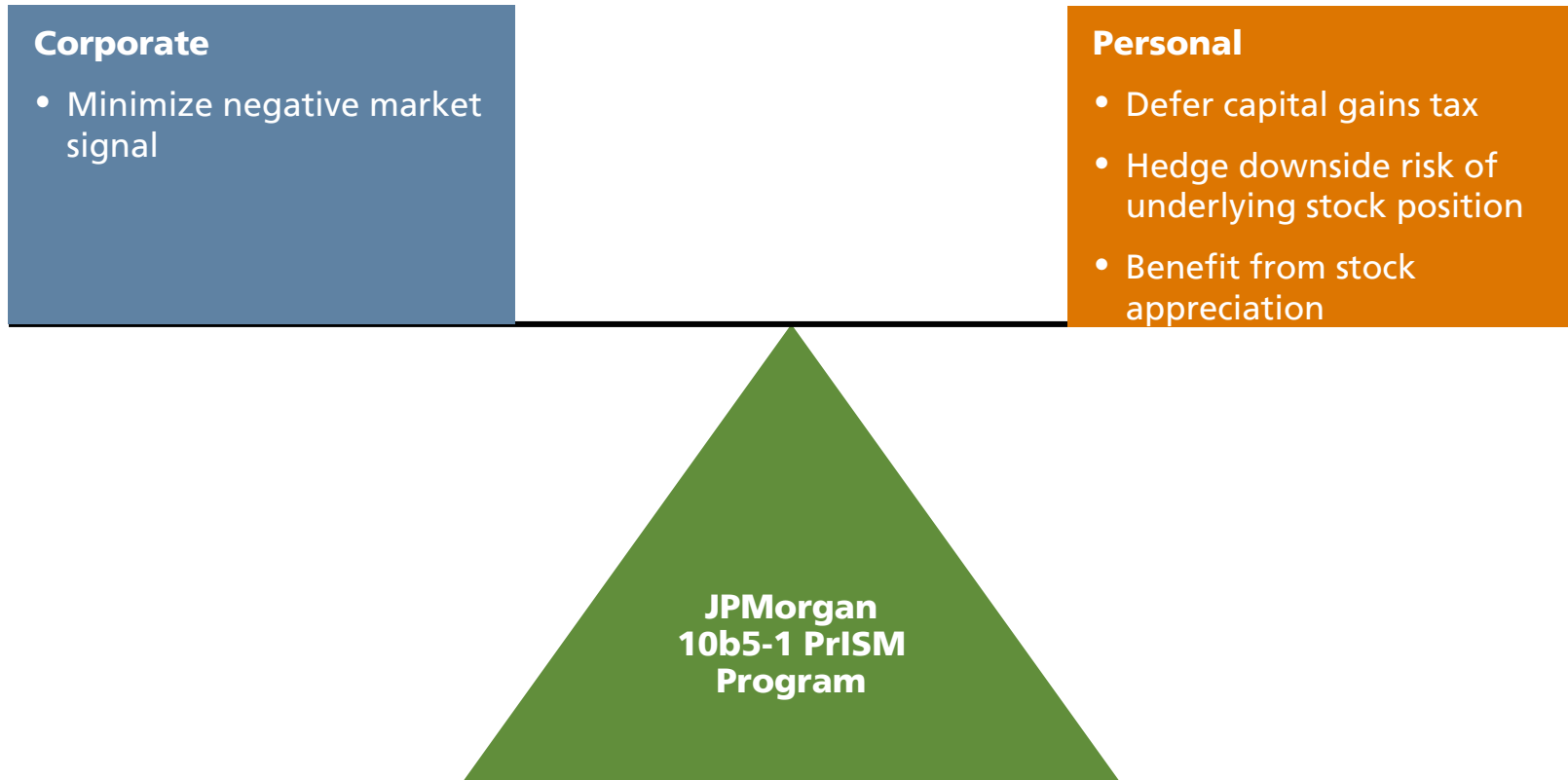
Rule 10b5-1

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JPMorgan can help insiders and/or affiliates with the successful sale of restricted stock by balancing two potentially conflicting objectives



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Rule 10b5-1 addresses challenges associated with Rule 144 requirements by offering flexibility in restricted stock sales

- This rule establishes broad “awareness” standards prohibiting insider trades on the basis of material nonpublic information if he/she is aware of the information at the time trade is made
- Establishes “affirmative defense” – no liability if, before becoming aware of the material nonpublic information, insider:
 - entered into a binding **contract** to buy or sell, or
 - gave **instructions** to another person to buy or sell for the insider’s account, **or**
 - adopted a written **plan** for selling securities
- The contract, instructions, or plan must meet certain additional requirements

Although we do not provide legal advice, our team can work with your legal advisors and issuers counsel to identify solutions and alternatives.

JPMorgan's 10b5-1 Selling Program enables insiders to take advantage of this expanded flexibility

How this works

- Transfer all or a portion of company stock into J.P. Morgan Securities Inc. brokerage account
- Develop, with dedicated "10b5-1 Team", a phased, pre-planned sales program to be executed at either market or specified prices in accordance with Rule 144
- Contract generally remains in effect until the earlier of: specified shares are sold, or one year from effective date of contract

Benefits

- **Diversification and wealth management:** can address tax, estate planning and other issues
- **Flexibility:** selling in tranches allows for market adjustments and meets cash flow needs
- **Protection:** dedicated team provides additional distance between insider and execution of trades, reducing appearance of impropriety
- **Efficiency:** dedicated team executes and monitors entire process, including Form 144 compliance

10b5-1 Program: issues to consider

- Rule 10b5-1 only provides an affirmative defense against 10b-5 liability
 - Section 16 matching liability can still apply
 - Rule 144 must still be complied with
 - state laws still apply
 - Schedule 13D/G amendments still apply
- Enter into a plan only when insider is not aware of material nonpublic information
- Corporation must acknowledge the selling program by signing the sales plan
- Corporation should review their insider trading policy
 - a trading program will probably need relief from the blackout period policy
 - corporations may want to amend their policies accordingly
- The insider has the burden to prove compliance with the rule
- This fairly recent (effective October 2000) SEC rule has and may generate ongoing interpretations

Postpaid PrISM

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What is a Postpaid PrISM?

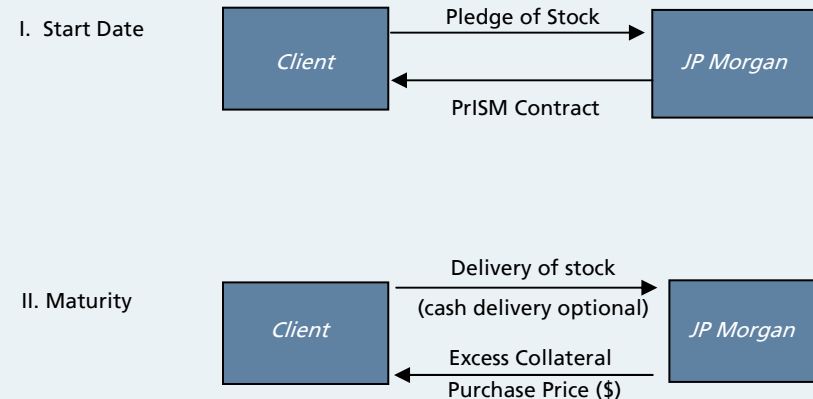
Description

- A Post-Paid PrISM allows a client to (1) lock-in a minimum Purchase Price (equal to the hedged value) for the stock and (2) retaining all appreciation in the shares up to a cap (the upside limit).
- The proceeds are advanced to the client at Maturity.
- The transaction must be physically settled, client will therefore defer taxes on the underlying shares only until maturity

Benefits

- The client protects their position below the hedged value and retains all participation in the upside appreciation up to a predetermined upside limit.
- Client retains all dividends (optional) and voting rights during the term of the PrISM.

Transaction Flow



Key Risks

- Stock appreciation is capped at the upside limit
- Shares are pledged for the duration of the PrISM
- The transaction must be physically-settled by delivery of some or all of the shares hedged. Unlike the traditional PrISM transaction, under the Post-Paid PrISM the choice of cash settlement at maturity is not available.
- If unwound early, payout may vary from expected payout at maturity *

Note: This strategy may not be suitable for all investors. This material is distributed with the understanding that it is not rendering accounting, legal or tax advice. Please consult your legal or tax advisor concerning such matters.

*based on factors including the underlying stock price, volatility, interest rates, dividend yields and time to maturity

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