AUGUST 9, 2007

BUCKEYE TOBACCO SETTLEMENT FINANCING AUTHORITY

Response to Request for Proposals for Senior Managing Underwriter Services

BUCKEYE TOBACCO SETTLEMENT FINANCING AUTHORITY

JPMorgan

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Appendices

August 9, 2007

The Buckeye Tobacco Settlement Financing Authority
Ms. J. Pari Sabety, Director of Budget and Management
30 East Broad Street, 34th Floor
Columbus, Ohio 43215

Dear Ms. Pari Sabety,

On behalf of J.P. Morgan Securities Inc. ("JPMorgan"), the investment banking division of JPMorgan Chase & Co. ("JPMC"), we are pleased to present our credentials to the State of Ohio's Buckeye Tobacco Settlement Financing Authority (the "Authority" or "BTSFA") to serve as a bookrunning senior manager. As the only qualified bookrunning manager with an investment banking office in Ohio, and as a member of the local business community through our Ohio-based banking affiliate, Chase, JPMorgan is uniquely qualified to serve the Authority. We ask that you consider the following differentiating points regarding JPMorgan's qualifications when making your final decision about the Authority's underwriting team.

- *Ohio Presence:* JPMorgan Chase is the largest financial services institution/bank in the State of Ohio with over 3.3 million Ohio consumer customers, 67,000 small business clients, and 1,900 middle market companies. JPMorgan has over 17,500 Ohio employees with over 300 offices and branches across the State, and is the 7th largest private employer in Ohio. JPMorgan is consistently a leading senior manager of Ohio negotiated bond transactions, and is the only Wall Street firm with an investment banking office in the State of Ohio.
- *Tobacco Experience:* JPMorgan has now completed an extensive and successful initiative to recruit experienced municipal securities professionals with industry-leading resumes in the MSA-backed sector, while retaining all key existing personnel with tobacco bond experience. JPMorgan's newly enhanced tobacco team has executed some of the most notable tobacco bond transactions and adds nearly $12 billion in bookrunning experience along with nearly $16 billion in co-senior managing experience.
- *Capital Strength:* JPMorgan is considered one of the strongest financial institutions in the world as evidenced by our leading Aaa-rated capital position. JPMorgan's capital strength provides the Authority with the ability to underwrite large bond positions in what currently is a very volatile market for tobacco securitizations and the credit markets generally. JPMorgan's willingness to commit capital is exemplified by our leading mega deal track record and by senior managing the largest transaction in U.S. municipal history.
- *Proven Banking Team and Underwriting Syndicate Performance:* A critical JPMorgan strength is our client-oriented approach. To meet the Authority's objectives, as we have demonstrated in past transactions with the State, we will put the Authority's interests first in working closely with all other members of the Authority's financing team. We will ensure that our co-senior bankers are active participants in all meetings, conference calls, rating agency preparation, investor marketing, and structuring discussions. Our desk will keep the syndicate desks informed as to timing and, when appropriate, structure. Further, during the pricing period, we will communicate closely with the other underwriters on where and how to structure institutional and retail maturities and coupons to deliver the Authority the lowest possible cost.
- *Innovation and Meeting the State's Financing Objectives:* The MSA-backed sector has reached a transformative point in its history with record volume, pressure on credit spreads, and recent wholesale changes to ratings criteria. We have carefully analyzed and constructed a proposed structure, and some variations thereto, to answer these challenges while meeting the Authority's net proceeds goal, and perhaps, some additional policy and other objectives.

The JPMorgan financing team assembled for the Authority possesses strong knowledge of the State, the Office of Budget and Management, the Office of the Treasurer, and the Authority's financing needs. We can assure you that we will devote all of the capital and professional resources necessary to successfully complete the proposed financings in an expedited and cost-effective manner. Further, our team is not currently encumbered by other senior managed securitization assignments and is ready to devote 100% of our time, effort and JPMorgan's resources on behalf of the Authority. Please do not hesitate to contact us if you have any further questions or would like additional information regarding the enclosed.

Sincerely,

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Jeff Hyman
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1. Firm Overview and Organizational Structure

With over 17,500 in-State employees, **JPMorgan Chase & Co. (JPMC)** is a public financial services company with over 170,000 employees worldwide, headquartered in New York, NY. **JPMC is the largest financial institution in Ohio**, third largest financial institution in the nation and the fourth largest bank in the world. **J.P. Morgan Securities Inc. ("JPMorgan")** is the investment banking subsidiary of JPMC. JPMC and JPMorgan do not qualify as minority or disadvantaged business enterprises.

- **JPMorgan's Tax-Exempt Capital Markets ("TECM") Investment Banking Group** is headquartered in New York with 19 regional U.S. offices, including Columbus, Ohio. With over 230 professionals, our approach is to match sector-specific expertise from every area of public finance – including tobacco securitization – with regional coverage represented by our extensive knowledge of the Ohio market. We are widely recognized as a global leader in combining superior origination strength and structuring expertise with exceptional distribution capability. We also provide advice and distribution to investor clients, including institutional money managers, hedge funds, mutual funds, commercial banks, corporate liquidity managers and specialized portfolio managers.
- **TECM Credit & Portfolio** manages JPMC's market-leading $36 billion municipal credit portfolio. JPMorgan is the only national firm that extends credit to issuers directly through its public finance department.
- Although securitization of tobacco settlement receipts is handled by TECM, the **Asset Backed Securities ("ABS") Group** will monitor opportunities in the taxable asset backed market that could benefit the Authority. JPMorgan originates ABS across the full spectrum of risk profiles and has experience with tobacco quotas and tobacco litigation assets.

2. Staffing Plan

a. Firm Overseeing Representative (See Appendix E for Required Attachments)

We propose joint oversight to serve the Authority's needs. Our transaction managers deliver an unsurpassed combination of Ohio public finance experience and tobacco securitization market leadership.

Eric Rockhold, *Managing Director*	**Jeff Hyman**, *Managing Director*
Co-Head of Central Region	Head of Tobacco Securitization
Ohio Expertise and Firm-wide Resources Commitment	MSA-backed Finance Expertise

b. Staffing Plan

Staffing the Ohio Tobacco Securitization revolves around two prevailing themes:

1) Offer the vast resources of JPMorgan in every necessary discipline required; and,
2) Allow each team member do what they do best, in a coordinated, fully integrated fashion to serve the Authority.

- *An expert Ohio banking team responsible for flawless execution and integration of JPMorgan team*

Banker	Title	Engagement Role	Office Location	Municipal / JPMorgan Experience
Eric Rockhold	Managing Director	Lead Ohio/JPM Resources	Chicago	20 years/ 6 years
John Lee	Vice President	Ohio Expert	Columbus	40 years/ 6 years
Jim Kelly	Executive Director	Ohio/Transaction Support	Chicago	11 years/ 6 years

- *A tobacco team with a rare resume in a highly specialized area*

Banker	Title	Engagement Role	Office Location	Municipal / JPMorgan Experience
Jeff Hyman	Managing Director	Lead Tobacco Team	New York	13 years/ 1 year
Sylvia Yamamura	Executive Director	Solutions	New York	5 years/ 1 year
Eric Altman	Managing Director	Solutions	New York	35 years / 33 years
Jeff Gertz	Vice President	Structuring	Chicago	14 years/ 3 years
Rob Pattison	Vice President	Structuring	New York	5 years/ 1 year

- *For the markets functions, we commit the Firm's top line managers*

Banker	Title	Engagement Role	Office Location	Municipal / JPMorgan Experience
Peter Clarke	Managing Director	Underwriting	New York	33 years/ 33 years
Doug MacFaddin	Managing Director	Sales, Marketing	New York	24 years/ 13 years
Jon Mastrandrea	Executive Director	High Yield Trading	New York	21 years/ 1 year

- *Wall Street decorated and respected credit/research voices following MSA bonds*

Banker	Title	Engagement Role	Office Location	Municipal / JPMorgan Experience
Robert Muller	Managing Director	Credit Analysis	New York	35 years / 27 years
Jeff Moore	Executive Director	High Yield Credit Analysis	New York	24 years/ 1 year

Unprecedented Re-commitment to Tobacco Securitization. JPMorgan has now completed an extensive and successful initiative to recruit experienced municipal securities professionals with industry leading resumes in the MSA-backed sector, while retaining all key existing personnel with tobacco bond experience.

- *Added Jeff Hyman and Rob Pattison*. Jeff is one of the industry's top three bankers for tobacco securitization, and created the market pioneering UBS team. In the past four years, Rob has become known to the rating agencies as a reliable sounding board for new criteria (we invite unsolicited reference from the analysts to verify).
  - Jeff Hyman's Tobacco Securitization Credentials:
    - Lead Book-Running Banker – 17 separate MSA-secured issues; nearly $2 bb
    - Co-Senior Manager – additional $15+ bb; "at the table" structuring on $8 bb; hired on additional $3.5 bb in progress at former firm

Pioneering Achievements:

- 1st to be engaged for Refunding (South Carolina)
- 1st Pooled TSR-backed deal (NYCTT I)
- 1st Reduction in size of required Operating Expense budget (Stanislaus County, CA, 75% lower)
- 1st use of selective ratings strategy (Kern County, CA)
- 1st Subsumption TSRs into another Revenue credit (Hawaii)
- 1st leverage of Soft Sinking Fund Payments for extra leverage (Rockland County, New York)
- 1st Debt Service Float Contract with Min/Max Schedule
- Fastest to market-appointment to closing (Rhode Island)

Other Sector Activities:

- Frequently asked to provide information, public testimony to:
  - National Association of State Treasurers
  - State of Oregon Debt Advisory
  - State of Washington Senate Finance Committee
  - Wyoming Debt Committee
  - Colorado State Legislature
  - State of Hawaii Budget Office
  - State of Maine Legislature
- Regular interaction with all ratings analysts, Cigarette Forecaster, TMA, and Institutional buyers

Jeff Hyman's Tobacco Bond Experience

Date	Issuer	State	Par ($mm)	Role
01/29/07	New Jersey Tobacco Settle Fin Corp	NJ	$3,622.208	Co-Senior Manager
10/25/06	Board of Regents Univ. of Hawaii	HI	133.810	Senior Manager
04/12/06	California Co. Tobacco Sec Agency (Fresno)	CA	39.015	Senior Manager
02/08/06	California Co. Tobacco Sec Agency (L.A.)	CA	319.827	Co-Senior Manager
10/27/05	California Co. Tobacco Sec Agency (Sonoma)	CA	83.060	Bookrunner
10/27/05	California Co. Tobacco Sec Agency (Merced)	CA	39.690	Bookrunner
05/16/05	Virginia Tobacco Settle Fin Corp	VA	448.260	Co-Senior Manager
12/02/03	New York Tobacco Settle Fin Corp	NY	2,240.415	Joint Bookrunner
09/30/03	Golden State Tobacco Sec Corp	CA	2,572.285	Co-Senior Manager
06/19/03	New York Tobacco Settle Fin Corp	NY	2,310.705	Co-Senior Manager
03/07/03	New Jersey Tobacco Settle Fin Corp	NJ	1,659.170	Co-Senior Manager
01/29/03	Golden State Tobacco Sec Corp	CA	3,000.000	Co-Senior Manager
10/10/02	Puerto Rico Tobacco Settlement	PR	1,171.200	Co-Senior Manager
07/26/02	Missouri Tobacco Settle Fin Auth	MO	49.835	Bookrunner
07/11/02	California Co. Tobacco Sec Agency (Fresno)	CA	92.955	Bookrunner
06/27/02	Rhode Island Tobacco Settle Financing Corp	RI	685.390	Bookrunner
06/13/02	Board of Regents Univ. of Hawaii	HI	150.000	Bookrunner
05/30/02	California Co. Tobacco Sec Agency (Kern)	CA	104.975	Bookrunner
04/30/02	California Co. Tobacco Sec Agency (Sonoma)	CA	37.405	Bookrunner
04/30/02	California Co. Tobacco Sec Agency (Sonoma)	CA	30.005	Bookrunner
04/04/02	California Co. Tobacco Sec Agency (Merced)	CA	30.515	Bookrunner
04/04/02	California Co. Tobacco Sec Agency (Stanislaus)	CA	67.305	Bookrunner
12/20/01	Rensselaer Tobacco Asset Sec Corp	NY	34.555	Co-Senior Manager
12/20/01	Rockland Tobacco Asset Sec Corp	NY	47.750	Bookrunner
08/08/01	New York Counties AC Tobacco	NY	215.220	Co-Senior Manager
12/07/00	New York Counties AC Tobacco	NY	227.130	Bookrunner
	Total Par Amount:		$19,412.685	

- *Added Sylvia Yamamura from Goldman Sachs to improve analytical solutions*. All of Goldman's work in tobacco included Sylvia's leadership on overall analytics, structuring to market preferences, and rating agency interaction. She leads JPMorgan's TECM Solutions Group which has a specific charge as an active tobacco partner.

Sylvia Yamamura's Tobacco Bond Experience

Date	Issuer	State	Par ($mm)	Notable Event	Role
03/14/07	Golden State Tobacco Sec Corp	CA	$4,446.826	Largest ever tobacco securitization to date	Joint Bookrunner
08/02/05	Golden State Tobacco Sec Corp	CA	3,140.564		Joint Bookrunner
11/05/02	Washington Tobacco Settle Auth	WA	517.905	Introduced Variable Rate to Rating Agencies	Co-Senior Manager
	Total Par Amount:		$8,105.295		

- *Added Jeff Moore (Blackrock) and Jon Mastrandrea (Merrill Lynch)*. As High Yield Credit and Trading specialists respectively, these two men have extensive buy-side interface expertise with the tobacco market.
- *Existing Top Talent*. Jeff Gertz has been and continues as the Firm's chief modeling and structuring specialist for tobacco now complimented by the new hires. A long-time industry Solutions specialist, Eric Altman can trace his tobacco experience to a role in inventing the sector as an "at the table" co-senior manager on New York City's 1999 inaugural securitization and continues to work with TSASC. Peter Clarke, and Doug MacFaddin have been point of underwriting and point of sale leaders for the Firm in all of its activity in this space.

Conclusion: JPMorgan now has a leading tobacco bond resume. JPMorgan's team has executed 32 tobacco securitized revenue transactions with a par amount in excess of $29.56 billion. JPMorgan's newly enhanced tobacco team has executed some of the most notable tobacco bond transactions and adds nearly $12 billion in bookrunning experience along with nearly $16 billion in co-senior managing experience.

3. Experience

Since July 2002, our newly enhanced tobacco team has senior and co-senior managed 21 transactions totaling in excess of $27.9 billion in par amount related to tobacco securitization transactions. JPMorgan's profile and experience is particularly well suited to the needs and objectives of the Authority's transaction:

Ohio's Tobacco Securitization Needs	JPMorgan Experience, Qualifications, Resources
MSA-backed experience	■ Total team experience as Senior / Co-Senior: 32 issues / nearly $30 billion ■ Many "1sts" - Pioneering track record ■ Team members represented as senior/co-senior on all 7 tobacco mega deals ($2 bb+)
Demonstrated State of Ohio public finance commitment from Wall Street	■ Clearly #1 compared to other Ohio tobacco qualified firms ■ Active, experienced, dedicated team (Rockhold, Kelly, *et al*) with a full-time Columbus banking office (Lee); #7 private employer in the State of Ohio
Tax-Exempt Mega-Deal leader for Multi-Billon Dollar Transactions	■ #2 in total senior managed "Mega Deal" volume with 20%+ market share (e.g., $11.3 bb California DWR) ■ #1 co-manager of Mega Deals
Deeply vested and committed to the State of Ohio	■ 17,500 employees, 277 banking centers in 151 different cities, #1 financial services employer in Ohio ■ 67,000 small business and 1,900 middle market company clients
Enormous Capital Base will provide stability in unstable times	■ Leader in size (U.S. 3rd, World's 4th largest) ■ Credit ratings of Bank commensurate Aaa/AA/AA- (M/S&P/F)

JPMorgan's Senior Managed Tobacco Bond Experience Since July 1, 2002

Date	Issuer	State	Par ($mm)	Role of JPMorgan
01/29/07	New Jersey Tobacco Settlement Fin Corp	NJ	$3,622.208	Co-Senior Manager
02/08/06	TSASC Inc.	NY	1,353.510	Co-Senior Manager
12/02/03	New York Tobacco Settlement Fin Corp	NY	2,240.415	Bookrunner
06/19/03	New York Tobacco Settlement Fin Corp	NY	2,310.705	Joint Bookrunner
08/15/02	TSASC Inc.	NY	500.000	Co-Senior Manager
08/01/02	California Statewide Fin Agency	CA	196.545	Co-Senior Manager
	Total Par Amount:		$10,223.383	

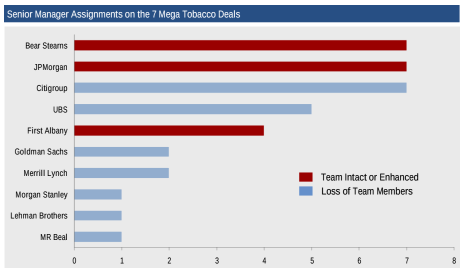
Source: Thomson Financial

JPMorgan is committed to public finance in Ohio. JPMorgan is a clear leader in negotiated Ohio underwriting activity. *Our Ohio experience far exceeds that of our closest competitors that may qualify as a bookrunner for the Authority, which demonstrates our unsurpassed commitment and knowledge of the Ohio market.* Since 2000, JPMorgan has senior managed in excess of $5.4 billion of Ohio negotiated transactions. JPMorgan's core investment banking team to the Authority has extensive Ohio experience including working with various agencies in the State of Ohio (Ohio Public Facilities Commission, Treasurer's Office, Ohio Building Authority, Ohio Water Development Authority, Ohio Housing Finance Agency), Franklin County Convention Facilities Authority, Franklin County, City of Columbus, Hamilton County, City of Cleveland and Columbus Public Schools.

2000-2007 YTD Negotiated Senior Manager Rankings for Ohio Tobacco Qualified Firms

Rank	Firm	Par amount (US $mm)	Number of issues
1	JPMorgan	$5,466.6	191
2	Goldman Sachs	4,061.0	51
3	Bear Stearns	3,383.7	31
4	Citi	3,374.0	32
5	First Albany	$364.9	4

Source: Thomson Financial as of August 7, 2007.
Note: Negotiated bond transactions only. Full credit to Book Runner



Source: Thomson Financial

Tobacco Mega Deal Experience. There have been seven tobacco securitization issues executed of mega deal size ($2 bb+). JPMorgan's team members are represented as senior or co-senior manager on all seven issues. In fact, only one other firm can make a similar claim, and can point to a team of bankers that is either intact or has been enhanced since execution of those mega deals (See <u>Appendix B</u> for a breakdown). As an "at the table" banker on these large securitizations, we can draw on these experiences for the Authority's benefit.

JPMorgan is the largest financial services institution/bank in Ohio.

- Over 3.3 million Ohio consumer customers
- 67,000 small businesses
- 1,900 middle market companies
- 277 banking centers
- 3 home loan centers
- Offices based in 151 cities and towns
- Over 17,500 Ohio employees dedicated to such activities as home, auto, and education finance and trust services

JPMorgan is the only Wall Street firm with an investment banking office in the State of Ohio.

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Mail Code OH1-1223
Columbus, OH 43215

"Mega Deal" Experience. JPMorgan is a leading underwriter of tax-exempt multi-billion dollar "mega" deals, and specializes in bringing large scale, complex transactions to market. Since 2000, JPMorgan has ranked second and first for senior managed and co-managed tax-exempt deals over $2 billion, respectively. Our experience includes working with large-scale financings for issuers such as the California Department of Water Resources, New York Metropolitan Transportation Authority, New Jersey Tobacco Settlement Financing Corporation, and the Massachusetts School Building Authority.

2000-2007 YTD National Negotiated Senior Manager "Mega Deal" Rankings

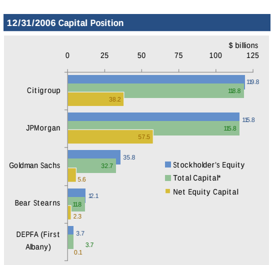
Rank	Firm	Par amount (US $mm)	Market Share (%)	Number of Issues
1	Bear Stearns	17,451.4	26.9	7
2	JPMorgan	13,047.9	20.1	5
3	Citi	9,664.2	14.9	5
4	Goldman Sachs	8,705.0	13.4	5
5	Merrill Lynch	8,496.4	13.1	4

Source: Thomson Financial as of August 6, 2007
Includes transactions with $2 billion and over in par amount

2000-2007 YTD National Negotiated Co-Manager "Mega Deal" Rankings

Rank	Firm	Par Amount (US $mm)	Number of Issues
1	JPMorgan	$62,811.5	21
2	Lehman Brothers	61,289.3	21
3	UBS	61,161.5	21
4	Morgan Stanley	58,567.5	20
5	Merrill Lynch	58,567.5	20

Source: Thomson Financial as of August 6, 2007
Includes transactions with $2 billion and over in par amount



Source: Factset

Unmatched Capital Strength. JPMorgan is one of the strongest financial institutions in the world and has the capital strength which provides the ability to underwrite large bond positions on behalf of our clients. JPMorgan's willingness to commit capital is exemplified by our mega-deal track record and by underwriting the largest transactions in U.S. municipal history.

4. Syndicate Communication

A critical JPMorgan strength is our client-oriented approach. As a senior manager to the Authority, we will ensure that the Authority's communication goals are met throughout the financing. At the outset of our engagement, we will set specific guidelines with the Authority to ensure that ongoing communication to co-senior managers will be prevalent and sought during the structuring of the transaction. For example, we will solicit "any and all" unique structuring ideas from the co-senior managers in conjunction with the Authority's financial advisor for inclusion in the Authority's financing plan.

Clear and concise communication. *In maintaining ongoing dialogue with the Authority's syndicate and selling group – and more importantly to the tobacco bond investor base -- it will be critical that the Authority's book-running manager(s)* *"speak with one voice" to the marketplace*. As noted in our response to Question 8(b), we recommend that the Authority utilize two firms as joint bookrunning managers to maximize the syndicate's capital commitment and distribution strength during volatile credit market conditions. Each respective bookrunning firm must pledge to keep the other bookrunning firm's syndicate desk informed as to all relevant investor inquiries during the marketing period leading up to pricing. Once a schedule, preliminary structure and marketing plan are determined, we would recommend that the Authority host a kickoff call with the Authority, the Authority's financial adviser, and the entire underwriting syndicate. The purpose of such a call will be to make sure that the opportunity for input from the syndicate will be available, and to raise any issues or questions from syndicate members well in advance of pricing the bond issue. After the Authority's kickoff call, to ensure efficient and effective communiciation with the syndicate and selling group members over the course of the transaction and during pricing, BTSFA's banking team will work closely with our syndicate desk to:

- Produce generic sales points for syndicate use, including a **"private label sales point memo"**
- Prior to pricing, **engage co-senior managers and co-managers on structuring ideas** and interest for specific coupons, maturities, etc. – especially for retail, investment advisors, bank trust departments, etc.
- **Provide daily updates** with co-senior and co-managers after the mailing of the POS.
- During pricing, provide accurate updates to all managers during the order period at predetermined time intervals in order to assess total orders received. Moreover, to ensure that all syndicate members know how the transaction is being received in the market, we recommend that the **bookrunning firm(s) host a conference call with the co-senior managers and co-managers to review the transactions "book of orders" at the end of the order period.** Thus, the syndicate will be informed prior to the final pricing of the bonds
- **Lessons learned from New Jersey's 2007 Securitization.** As a Co-Senior Manager on this issue, we developed some balanced observations and recommendations that would benefit the Authority in its syndicate:
  - Order book status. Communication about the condition of the order book needs to be timely, continuous and complete. The underwriting syndicate must be fully prepared to be allotted balances, if necessary, rather than be shocked into potentially "dumping" bonds at the takedown or below. If the buyers sense there will be a choppy after-market, then they will demand a premium as a cushion for the value of their positions. On a large tobacco offering, this dynamic is accentuated. The Authority's issue may have smaller and medium sized firms, with smaller capital bases rightfully in its syndicate to help maximize distribution. These same firms might be among those less willing and able to uphold pricing levels. Keeping them informed will overcome this pitfall.
  - True consensus on spread relationships. When the bookrunner(s) form a pricing conviction, it should be done with a large group, not on an island. The syndicate will get on board with and retain ownership of their views. This is particularly critical in an eroding market where yield adjustments preserve spreads.
  - One voice. Above all, speak with the same voice and content to the marketplace. It does appear that there was at least some discrepancy in the message during the New Jersey price talk and pre pricing period, where different spread relationships were shared with investors by certain firms than what was discussed as a group. This simply sets up a deal for failure. A unified team is the only way to do business for the Authority. We suggest establishment of strict penalties (i.e., dropped from the syndicate) for any member that undermines the message.

Below we highlight our role as bookrunner for one particular "mega deal" transaction.

California Dept. of Water Resources ("DWR"); $11,263,500,000 Power Supply Revenue Bonds; 2002 Ser. A - E

In 2002, JPMorgan advised the State of California's Department of Water Resources on appropriate strategic and financing strategies in order to help mitigate the State's exposure to the energy crisis. **This $11.263 billion municipal financing is the largest in U.S. history.** JPMorgan led a syndicate as lead joint bookrunner with 3 co-senior managers, two co-managers, and twenty-four selling group members. Peter Clarke, the BTSFA's lead underwriter, led the DWR syndicate to a successful pricing with not only various series, but also various insurance providers (and uninsured bonds) and a diversified product base of fixed rate bonds, auction rate securities, variable rate demand bonds, and taxable securities. For a highly complex transaction that required full participation of retail and institutional investors with a variety of products, our active dialogue in preparing the syndicate and market for this transaction greatly benefited the State by generating a lower interest cost.

5. Specific Underwriting Experience (Please see Appendix B for further transaction details.)

a. Tobacco securitizations of $250 million or more in par;

JPMorgan has senior managed or co-senior managed five tobacco securitizations of $250 million or more in par since July 1, 2002, totaling in excess of $10 billion in par amount. This experience includes working with the New Jersey Tobacco Settlement Financing Corporation, TSASC, and New York Tobacco Settlement Financing Corporation.

b. Other asset-backed securitizations of $250 million or more in par;

JPMorgan has senior managed or co-senior managed 770 taxable and tax-exempt asset-backed securitizations of $250 million or more in par since July 1, 2002, totaling nearly $730.3 billion in par amount.

c. Bond issuances for state-level issuing authorities of $1 billion or more in par.

JPMorgan has senior managed or co-senior managed 17 tax-exempt transactions with $1 billion or more in par since July 1, 2002, totaling nearly $37 billion in par amount.

6. Capital Capacity and Tobacco Commitment

a. i) Excess net capital position as of the date of the most recent filing with the NASD.

As of December 31, 2006, JPMorgan's excess net capital position is $2.038 billion.

ii) The maximum amount of bonds your firm may underwrite based on this excess net capital amount.

JPMorgan's excess net capital of over $2 billion allows us to underwrite over $29 billion of bonds on any given day.

iii) Since July 1, 2006 with respect to tobacco securitization bonds, provide the total amount of bonds your firm has traded in the secondary market and indicate your average daily inventory.

JPMorgan's recent hire of Jon Mastrandrea from Merrill Lynch demonstrates our growing commitment to tobacco securitization and other high yield municipal trading efforts. Jon has seven years of tobacco bond trading experience and has traded billions of dollars and various structures of tobacco securities in the secondary market. Since joining JPMorgan, he has spearheaded efforts with secondary market tobacco trading, totaling over $30 million for the Firm in the past month alone, indicative that we will strongly support the Authority's transaction. Our average daily inventory for fixed rate municipal securities is approximately $1 billion.

b. Recent tobacco securitization

In January 2007, JPMorgan served as co-senior manager (8% liability) on the New Jersey Tobacco Settlement Financing Corporation's ("Corporation") $3.622 billion transaction. At the end of the institutional order period, the underwriting syndicate members were faced with a large number of unsold bonds. **JPMorgan committed its capital on behalf of the Corporation and incurred a loss of $250,000 to support the Corporation's transaction and uphold what we believe were the correct market yields for the transaction.** JPMorgan's ability to preserve the integrity of the Corporation's pricing as a co-senior manager resulted in a cost-effective financing for this tobacco securitization issuer.

7. Structuring Plan to Generate Lowest Possible Financing Cost

The tobacco market is undergoing vast change relative to ratings, structure and market acceptance. Recent developments in the credit community (past 2 to 3 weeks) suggest that the Authority strongly consider the use of an S&P and Fitch only rated structure (no Moody's) which may differ from our competitors' recommendations, and certainly differs from recent prominent securitizations. The proposed structure features more aggressive, flatter debt service coverage than recent deals (average of 1.31x vs. 1.37x - 1.44x), but passes the mainstream stress tests. Rationale:

- **Moody's and other real time ratings criteria changes.** What was formerly a very negotiated, fluid ratings process at Moody's is now poised to become clinical and public. Moody's criteria will be published and rigidly adhered to for the first time. Though results are somewhat close, there is potential (even likelihood) for Fitch's improved consumption decline to be more lenient than a Moody's unwavering commitment to: OPM bankruptcies; minimum converges; and, strict limits on yield loss and default incidence tolerance which were formerly more approximate. In the past few weeks alone, each ratings agency has altered their tobacco criteria such that their outcomes significantly shifted relative to one another, and even to their own past criteria. What worked on New Jersey, West Virginia and even Riverside differs from the current conditions.
- **CAB unfriendly market.** The Authority needs product diversity to optimally place the largest ever tobacco deal, but CABs are increasingly difficult and costly to sell (evidence: Puerto Rico recent CAB sale cancellation). We advocate the need to push more debt into current interest bonds to best protect the State and Authority's net proceeds goal.
- **Shorter is better.** The proposed structure features a slightly shorter average life to maximize investor demand.

- **Fitch curiously not utilized in recent deals.** Fitch was not even given a phone call on New Jersey and West Virginia (confirmed by their lead analyst – Jeff Prackup), yet their July 23rd consumption decline changes are self acknowledged as monumental (based on Global Insight's current shipments data and conclusions about the litigation environment). At a minimum, they are willing to examine proposed cash flows at no obligation.
- **Market acceptance.** The notion that an S&P / Fitch rated securitization prices at a premium or higher yield is overstated. A 10 basis point penalty issuing without a Moody's rating is required to erase the net proceeds benefit. In our team's experience, candid dialogue with buyers about the issuer's ratings rationale neutralizes any impact.

As staunch proponents of a selective ratings strategy, JPMorgan recommends challenging the "status quo" to generate the most efficient transaction for the Authority, focusing on the Authority's net proceeds objective and other key policy and budgetary needs.

Scenario #1: RFP Requested "Base Case"

The parameters and objectives established for this scenario (net $5.05 billion at the lowest cost) leads us definitively to a plan with the **Shortest Structure which Securitizes TSRs through 2045 / Final Expected Paydown in 2030. This structure lacks subordinate CABs to minimize the higher market and execution risk.**

Since the Authority can net more than $5.05 billion in the current market, with a securitization of 100% of its expected MSA receipts through 2047, there are two choices for a Base Case approach:

- Use a smaller pledge, for the full 40 years – In which case, the Authority would need to pledge only 92.5% of its TSRs to net $5.05 billion (described later as Scenario 7 b) "Uniform Required Pledge"); or,
- Shorten the pledge - $5.05 billion is generated by securitizing the receipts only through 38 years.

Since shorter maturities carry lower interest costs, and with the lowest cost of capital a governing objective (and with the basic transaction assumptions explicitly stating a Final rated maturity of 2047 ***(or earlier)***, we pursue shortening.

Type	Stated Maturity	Par Amt. ($mm)	Exp. Final	Coupon	Yield	Spread to AAA-MMD
Serials	2009-2022	743.710	N/A	5.25%-5.75%	4.95%-5.58%	+125 to +140
Turbo CIB	2028	663.785	2016	5.65%	5.70%	+140
Turbo CIB	2031	454.815	2019	5.70%	5.73%	+140
Conv CAB	2035	573.781	2023	6.00%	6.00%	+163
Turbo CIB	2045	3,117.260	2030	5.70%	5.83%	+140
Total:		$5,553.351				
Net Proceeds		$5.05 billion	*Note: Takedown proposal in response to Fee Proposal section*			

Note: Serial Bonds priced with par call on 6/1/2017; Convertible CAB accretion period ends 12/1/2012.

Shortening of Pay-downs / Market Sensitivity. The Authority may at least be able to lower yields by having the flexibility to shorten pay-down. Other advantages are an improved residual asset value to the State, and the ability to tap unique buyer preferences at more favorable costs (Harris, USAA, Dreyfus). Shortening delivers market insurance whereby the Authority could lengthen the securitization as needed to achieve the $5.05 billion net proceeds goal.

Capitalized Interest. Not required with an assumed delivery date of October 15, 2007.

Conclusion. The Base Case and Scenarios 7 a) and b) as prompted all have benefits. We suggest that, as part of its financing process, the Authority revisit the parameters for transactional efficiency and the chance to achieve other objectives, such as more overall net proceeds or the retention of some amount of MSA receipts for a pre-determined period of time.

Scenario #2: RFP Requested Alternatives – "Max-Out" and "Uniform Required Pledge"

Preface – Ratings Game – JPMorgan's comparison, strategy and justification

	Moody's	S&P	Fitch
Recent changes to criteria (highlights)	Dated July 27th ■ OPM bankruptcies again (low rated Reynolds American important) ■ No Float Interest ■ 1.2x min. front-end coverage ■ Easier default tolerance ■ Publishing criteria	May / July ■ Now accept longer than 40 years ■ 2007 criteria simplification plus new no default requirement ■ NPM test still not constraining ■ New approach to Philip Morris bankruptcy	July partial update ■ Delays consumption decline shock, compounding impact less severe ■ Considering tobacco sector upgrade ■ No 41st year revenues eligible for leverage on Investment Grade
Pressure	■ Pressure on middle maturities	■ Pressure on later maturities	■ Back end cash flow erosion
Overall	■ Potentially now the constraint	■ Manage liquidity shocks in cash flow	■ Potentially surpasses Moody's

	Moody's	S&P	Fitch
Opportunity	■ Load up long-end ■ Reynolds American upgrade ■ Convertible CABs help middle and front 1.2x pressure	■ Push more into middle maturities ■ Size serials down slightly ■ Convertible CABs some help ■ Liquidity management tools	■ Front loaded ■ CABs friendly ■ Accelerate Year-end update, force longer current interest cash flow

We advise ongoing dialogue and negotiation, though the current environment suggests an S&P / Fitch rated transaction may deliver an incremental $30 mm of net proceeds.

7a) "Max Out"

The maximum amount of net proceeds that can be generated is $5.436 billion with a TIC of 6.013%.

Good news: With an S&P / Fitch approach, this scenario moves more bonds into the middle stated maturities in the optimization (+/- 20 years, Convertible CABs, long serials), where demand is typically highest.

Bad news: The +/- 30 year maturity is typically been the most difficult to market – not a fast pay-down (often closer to 10+ years), yet not the highest yield as offered by the longest bonds in the 40 year stated area. Also, this bond is critical in pricing because it establishes absolute spreads between key maturities (wider than 20 years, tighter than 40 years).

Offsetting strategies: Layering in Convertible CABs to alleviate pressure on the 30 year stated maturity will help to fully deliver the benefits of the S&P / Fitch approach. These bonds have proven to be marketable with limited "CAB spread".

2048 Possibilities

- Negotiate Fitch to their knees so that they accept the securitization of revenues in the 41st year. This should be doable, and the Authority will have "largest ever" leverage.
- Final Year(s) CAB maturity. The Authority can add CABs as needed and as marketable to assure the proceeds goal.

Assuming that the Authority wanted to sell the TSRs due in 2048, in today's market conditions, the issue could potentially be larger than the $6 billion in par amount authorized. This is insurance in an eroding market.

7 b) "Uniform Required Pledge"

In the current market, the Authority need only pledge 92.5% to attain $5.05 million in net proceeds. Of course, market erosion impacts the percentage pledge such that the Authority could issue at a borrowing cost 60 bps higher and still net its targeted proceeds. Pledging TSRs through 2048 would reduce the uniform required pledge to 88%.

Scenario #3: Alternative Case #1

JPMorgan has developed an intermediary alternative to the structures presented in response to questions 7a and 7b in which the State can capture a minimum net proceeds target (e.g. $5.05 bb) and achieve a fixed flow of TSRs for a period of time (e.g. $100 mm per annum for the first five years) for budgetary or other policy initiatives.

Mechanic	Description	Observations
Increased Operating Fee	■ In addition to the annual base case operating/enforcement fees , $100mm not subject to inflation, senior to debt service, paid out to the State	■ Locks-in $100mm/year unless receipts dry up soon. ■ Minimal risk. ■ Marketable (Riverside).
Step Pledge	■ Based on current market projections, the % of non-pledged TSRs = $100mm/year	■ Annual fixed dollar amount not guaranteed due to numerous factors that can affect TSR magnitude
Deferred Turbo	■ JPMorgan proprietary structure - only interest paid for a deferral period, unspent TSRs flow back to the State	■ Investors acceptance with reasonable durations ■ Provides $100mm/year; some risk and variation.

	Increased Operating Fee	Step Pledge	Deferred Turbo
Net Proceeds	$4,927.540	4,901.848	$5,004,256
Net Proceeds plus PV of expected released TSRs	$5,393.046	$5,396,756	$5,524,659
	$100 mm/yr for 5 years	$105 mm/yr for 5 yrs avg	$112.137 mm/yr for yrs avg

Scenario #4: Alternative Case #2 Go Longer

Until recently, all three agencies had a firm ceiling on final legal maturity for investment grade at 40 years. In early 2007, Moody's allowed senior-lien securitizations up to 45 years. More recently, S&P is willing to consider securitizations longer than 40 years, with final approval determined case by case by their committee. For investment grade securities, Fitch has always allowed a final legal maturity beyond 40 years, but required the bonds to pay down within 40 years under stress, and there may be room to negotiate them toward convergence. As with the analysis of the 2048 final maturity, the 45 year final maturities will be capped at the $6 billion limit and extending the maturity will serve to reduce or eliminate the subordinate CABs on a “max out” scenario or reduce the uniform required pledge.

Max Out 45 Year Scenario – a version of 7(a), but longer and larger

Net Proceeds: $5.463 bb

Senior Par Amount: $5.736 bb

Subordinate Par Amount: $0.264 bb

Uniform Required Pledge 45 Year Scenario – a version of 7(b), but with the pledge further reduced

The Uniform Required Pledge to generate $5.05 billion of net proceeds is 86%.

Again, the 45-year tobacco securitization provides an “insurance policy” to maintain a proceeds target in an eroding market. (Ex. question 7a net proceeds still achieved with a 45-year securitization rates increase by 115 basis points).

This also is likely to be the most efficient means to take up front value from longer TSRs vs. subordinated CABs.

Other Ideas

Supplemental Reserve

In 2002, members of the JPMorgan team introduced S&P to a concept that produced more leverage per dollar pledged than prevailing practice, and gained conceptual acceptance for mainstream ratings. A general description follows:

- Fund an additional, secondary liquidity account from bond proceeds on a taxable basis
- Interest theoretically accrues either to the securitization funds flow or could be released ongoing to the State.
- Possibility of principal/corpus releases to either the State or to further, accelerated turbo repayment according to a pre-determined asset-liability test (ratio of total reserves on hand including the regular plus supplementary reserves to bonds outstanding). Again, these funds could be applied to quicken debt retirement or be released to the State.

What we found was that the cost of the debt (space occupied in the structure and negative arbitrage) was outweighed by the additional leverage that could be structured – as the supplemental reserve survives severe liquidity tests under S&P. We believe current criteria and circumstances may once again be ripe for a better result using this approach.

Disputed and Withheld Payments

- ✓ *Fact*: Considerable sums have been withheld from or paid into “disputed payments accounts.” We estimate at least $75 million for the State over the past two years alone.
- ✓ *Fact*: Some portion will flow back into the cash flow – definitionally as “pledged receipts” under the documents.
- ✓ *Fact*: These funds do not help the 2007 securitization which need contemplate only selling future receipts.
- ✓ *Fact*: The receipts to the State which are associated with releases from disputed accounts or payments previously withheld need not be part of the 2007 securitization pledge.

JPMorgan has raised with the legal community the possibility of carving out the future return of disputed and withheld payments from the securitization so that they return to the State. Though a challenging mechanic, at least one law firm has indicated that this may be doable in the legal structure, and more of an accounting matter to tackle.

Variable Rate Products

Although variable rate product increases product diversity, we do not recommend it at this time:

1. The fixed spread for either a BMA or 67% of 3-Month LIBOR indexed floating rate note would have to be set so high such that the cost of capital would exceed that of a fixed rate bond and thus reduce TSR leverage
2. The ratings process becomes much longer due to the increased complexity of the securitization
3. Fixed rate investors may offer a lower price for the bonds due to increased uncertainty of their final redemption
4. Since the inception of the credit, only Golden State has issued Auction Rate Securities (ARS) for unenhanced tobacco bonds, ultimately fixing out these bonds nearly 8% to prevent a failed auction from occurring.

Utilize TOB Purchasers as New Tobacco Product Entrant

While space does not allow us to elaborate on the specific mechanics of such programs, TOB structures are a major participant in the municipal market, which have not yet purchased tobacco bonds due to the lack of available credit. Recognizing the importance of the Authority's transaction, JPMC has received preliminary credit approval to provide up to $100 million of credit enhancement in the form of a letter of credit to support the investors’ purchase of at least $200 million of the Authority’s tobacco bonds which will be placed by investors into JPMorgan’s TOB program. Although this purchase represents approximately 4% of the Authority’s proposed sale, this offer would aid the Authority's goal of achieving the lowest cost of capital through new product and greater investor diversification. We believe that the participation of this investor class will attract incremental buying interest, potentially in significant blocks, resulting in more aggressive pricing of the tobacco securitization bonds themselves.

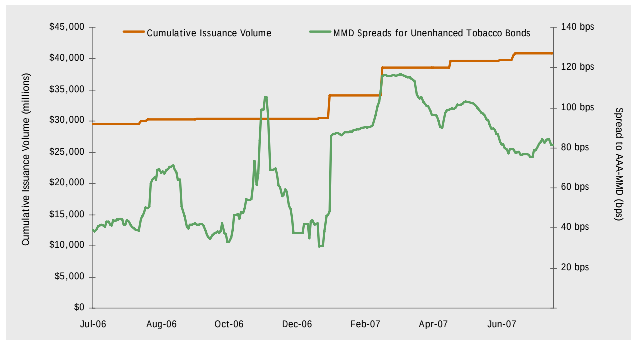
In summary, by securing credit enhancement with a JPMC Letter of Credit, investors will have the opportunity to purchase and deposit the tobacco securitization bonds into a JPMorgan TOB trust, finance the purchase of the bonds with the issuance and sale of the floating rate securities sold to the money-market funds, and retain the residual cash flow, which will be very competitive due to JPMorgan's willingness to provide credit enhancement. By providing the financial strength of JPMC, along with our alternative funding capabilities, investors should have more demand for the Authority's tobacco securitization bonds.

8. Marketing and Timing

a. Timing and Positioning the Authority's Issuance

Stake out your place and be the next big deal to market. In 2007 alone, nearly $11 billion of solely MSA-backed bonds have been issued, the heaviest volume ever. In the past 6 weeks, spreads in the tobacco securitization sector have widened by approximately 40-50 basis points, as shown in the adjacent chart, in large part due to both supply already issued AND expected to be issued.

Cumulative Tobacco Securitization Issuance Volume vs. MMD Spreads for Unenhanced Tobacco Bonds



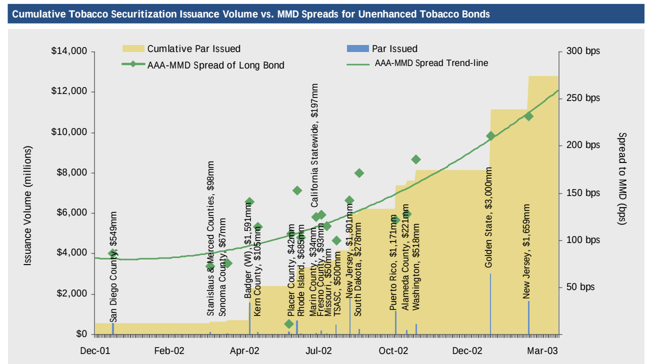
Source: JPMorgan proprietary analysis of MSRB data and Thomson Financial
Note: 20-day spread to maturity-matched MMD for all MSRB reported trades in notional amount of $1 million or more on unenhanced tobacco bonds with at least 25 years to maturity. Volume is 20-day aggregate trading volume for all MSRB reported trades in notional amount of $1 million or more on unenhanced tobacco bonds.

Potential Tobacco Bond Sales

Entity	Expected Par (millions)	Expected Timing	Objective	Restructuring Component?	Status
Louisiana (New Money Only)	$1,500	Q3 2007	Endowment	No	Bear Stearns/Citi/UBS – Co-Senior Managers
Michigan	$400+	August 13th/14th	Budget/Economic Development	No	Bear Stearns – Senior Manager
Wisconsin	$1,700	Q4 2007	Endowment	Yes	RFP Expected Late-August
Pennsylvania	$500	Q4 2007	Economic Development; Biotechnology	No	Being Considered/RFP Likely
Puerto Rico	$240	Q3 2007 ? (Pulled from pricing due to market volatility)	Budget Deficit/Grants	No	Bear Stearns – Senior Manager
San Bernardino	$400	Q4 2007	Various	No	Being Considered
Total	**$4,740**				

Conditions in the current market are now analogous to those during the 2002-2003 market (except for today's more favorable litigation environment) when supply outstripped demand, driving tobacco spreads up 150 basis points (see adjacent chart).

Cumulative Tobacco Securitization Issuance Volume vs. MMD Spreads for Unenhanced Tobacco Bonds



Source: Thomson Financial as of July 2007 and transaction official statements.

- **Litigation risk currently is a non-event but possible Federal excise tax hikes are on the horizon.** With current tobacco securitizations closing 2 to 3 weeks from pricing, the sector is not concerned with litigation events (unlike in 2005 and 2006 during which tobacco securitizations were closing in less than a week due to pending decisions in *Price*, *Engle*, and other cases). The possibility of FDA Regulation is not of concern to anyone except some of the manufacturers themselves. The primary concern in the current market is the proposed up to $0.61 per pack Federal Excise Tax increase. Global Insight indicates that a 61 cent hike would trigger a downward adjustment in its consumption forecast of at least 4.3% for 2008. Smaller magnitude taxes may also prompt a smaller adjustment. The more important outcome for the Authority would be changes to ratings criteria as a reaction. So far, none are fully committed to changing to more constrictive assumptions. Moving quickly to market may help to effectively neutralize impact since the White House will likely veto the tax hike, buying time for the Authority to sell bonds pending final outcome. It may still be useful to show anchor investor accounts a "61 cents" scenario and its impact on paydowns. Global Insight could add this to the report, or supply it separately.
- **High Yield Bond Market.** Over the past few months, there has been a "flight to quality" among all investors, essentially shutting down inflows into high yield mutual funds, which has resulted in spreads in the 'BBB' sector widening significantly. The adjacent chart reflects the past month's activity. Now, the tobacco sector has eroded by as much as 40 to 50 basis points due to:

AMG Data Cash Inflows to/(Outflows from) High Yield Bond Funds

Date	Cashflow ($000's)
08/01/2007	(4,245)
07/25/2007	(1,766)
07/18/2007	(21,484)
07/11/2007	(25,924)
07/03/2007	80,473

Source: AMG Data as of August 6, 2007.

- Decreased investor risk tolerance in the sub-prime mortgage crisis aftermath. Though the market knows the credit, emphasizing the structural resilience of MSA-backed bonds may favorably differentiate The Authority's offering from other high yield paper.
- A flood of tobacco bond supply since January 2007. Speed to the market is still the best answer.
- Concern over declining cigarette sales due to proposed Federal Excise Tax increase and FDA regulation. Once again, directly addressing the 61 cents scenario will help, as will a shorter expected paydown.

b. Composition of Syndicate and Designation Policy

The Authority's $5.5 billion upcoming bond issuance will impact the State of Ohio and its citizens more than any other financing in the State's 204 year history. Moreover, the Authority's anticipated issue will enter the market during a volatile time characterized by widening credit spreads for high yield bonds and diminishing capital bases for Wall Street broker dealers. JPMorgan, with our "Aaa-rated balance sheet", can easily provide the capital strength necessary for underwriting the Authority's bonds in volatile markets. However, by adding another experienced and well capitalized firm with wide distribution and trading resources as a joint bookrunning manager, the Authority will be less "beholden" to the tobacco high yield bond investor community. Thus, we strongly recommend that the Authority utilize two joint bookrunning senior managers in order to provide the strongest capital base possible and to maximize investor distribution outlets. Also, joint bookrunning managers will provide the Authority with a variety of structuring ideas as the market for tobacco bonds and high yield paper continues to evolve. *With JPMorgan as a joint bookrunner, the Authority's investors will have greater liquidity in the secondary market trading activity for their bonds, because JPMorgan makes strong, liquid markets on an ongoing basis to support each of the transactions we serve as bookrunning manager.*

The joint bookrunning firms should receive an aggregate liability of 55% in order to align the interests of the Authority properly with the benefits and risks associated with the transaction. Further, a slightly higher liability and economic participation should serve as a reward for the firm that takes the lead role in running the bond order/pricing process, and would suggest that the "lead" bookrunner receive a liability of 30% (leaving a 25% liability participation for the other joint bookrunning firm).

In analyzing how JPMorgan can be of maximum value to the State, we recognize that the Authority is well qualified to determine how best to select its bookrunning manager(s). *However, we believe JPMorgan best complements Bear Stearns as a joint bookrunner among qualified senior managers.* In recent years, members of JPMorgan's banking team have worked closely with the lead bankers from Bear Stearns on a variety of transactions, including all four Golden State Tobacco Securitizations (Hyman, Yamamura) and also with the State of Ohio in 2006 for an interest rate swap for the Ohio Public Facilities Commission (Rockhold, Kelly). Moreover, the syndicate desks of JPMorgan and Bear Stearns have a long-standing relationship with joint bookrunning syndicate accounts for various large competitive transactions, including rotating their bidding syndicate for the State of Ohio. Also, given that JPMorgan is a "money center" financial institution and that Bear Stearns is a broker/dealer investment bank, in today's volatile markets our firms would provide a balanced and well diversified capital base to the Authority. *Lastly, JPMorgan would be pleased to work with any of the qualified senior managing firms in implementing the Authority's transaction.*

Overall, we would recommend that the Authority form an underwriting team with the components listed in the chart at the right. This liability structure will balance compensating those firms which are heavily involved in structuring the Authority's bonds, with incentivizing firms that incur underwriting risk to maximize investor participation. To assure investors of an orderly after market and achieve aggressive pricing levels, we recommend that the firms selected to the upper level manager tiers are well-capitalized with experience in this sector. With regard to selling group members, given this is the State's largest ever transaction, we recommend that the Authority allow any Ohio-based municipal bond dealer to participate. This will help maximize distribution of the Authority's bonds without putting liability pressure on smaller firms that have only Ohio reach to in-State investors.

Proposed Underwriting Syndicate Structure

Role	# of Firms	Total Liability
Joint Bookrunning Senior Managers	2	55%
Co-Senior Managers	2 or 3	20% - 25%
Co-Managers	10 to 20	20% - 25%
Selling Group Members	Unlimited	0%

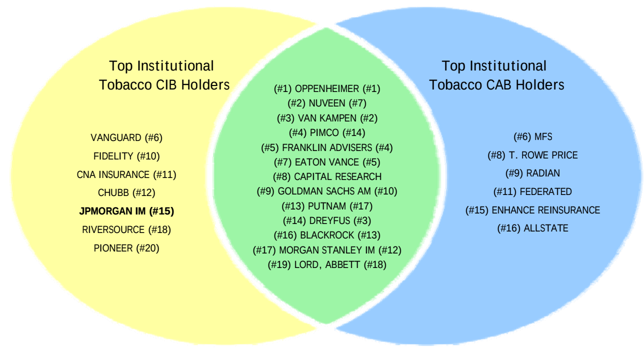
To secure the Authority's objectives, our suggested Priority of Orders is as follows:

(1) Ohio and National Retail ($1MM orders and below); (2) Group Net (based on liability percentages); (3) Net Designated ; and, (4) Member.

Further, we recommend the Net Designated order policy should include: (a) both bookrunning senior managers must be designated up to a maximum of 55% in aggregate (to be shared as determined by liability percentages) (b) All Co-Senior managers must be designated, with a maximum of 10% and minimum of 5% individually; (c) MBE/DBE firms must receive 10% of designations; and (d) at least 5% of designations must be made to co-manager tier category; and, (e) selling group members cannot be designated.

c. Investor Composition

The adjacent diagram identifies most of the prime investor targets, supplemented by opportunistic proprietary trading desks and funds such as Susquehanna Investments, Societe General, and the arbitrage desks of JPMorgan, Citi, Morgan Stanley, Goldman Sachs, Merrill Lynch, UBS and Bank of America. Product diversification will help mitigate size premium, as will maturity bifurcation and discount and deep discount couponing, selective premium couponing, and implementing convertible CAB structures, particularly around 30 years. We address marketing the structure in our response to <u>Question 9</u>.



Source: Thomson Financial's BondWatch data as of 8/3/07. Based on quarterly disclosure. Excludes hedge fund, retail, and other investor classes; captures approximately 37% of nationwide tobacco bondholders and 67% of nationwide tobacco CAB bondholders

d. Suitability for Retail

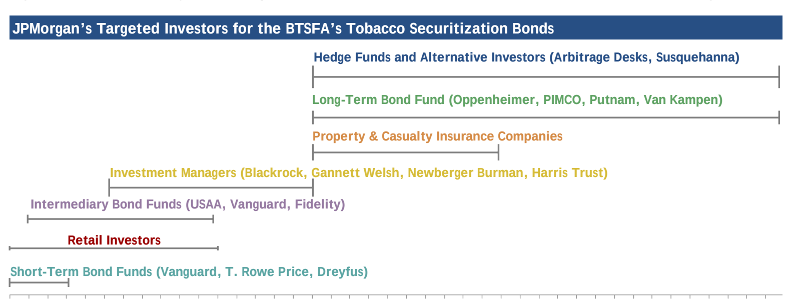
'BBB' category uninsured senior-lien securities are suitable for the retail market, including individuals, trust departments, and financial/investment advisors. Unlike other types of high yield municipal securities, tobacco securitizations feature comprehensive disclosure with regard to the security pledges for the bonds. The secondary market for tobacco securitization bonds, though volatile, provides adequate liquidity.

The Authority should consider utilizing the same approach the Treasurer's Office has implemented on its Buckeye Savers Bond Program. As previously mentioned, we would recommend a "private label sales point memo" be circulated to ensure that a consistent message is delivered to all retail investors. An in-state roadshow will also be effective in accessing each listed target – true retail, trusts and advisors and would also address the State's policy objectives with the offering. *We believe that the Authority can place $100-150 million in the true retail segment.*

9. Marketing Plan

Most marketing plans stress marketing the ***credit*** to investors. In this case, the credit is clearly established in the market. Our marketing plan will focus on marketing the ***structure***. The table below illustrates the structure developed for our response to question 7. One critical issue in a tobacco bond pricing is to generate significant order flow for the 30-year term bond, the most difficult bond to sell, requiring the majority of the attention from the syndicate.

- **Serials.** There is a variety of retail and other traditional municipal investors who will purchase these securities. With several hundred million bonds to offer we expect bifurcation and trifurcation of some or all serial maturities. Premium couponing will be applied where appropriate, including callable serials.
- **20-Year Term Bond.** The pricing of this bond will be driven by the performance of the 30-year term. This bond will generate significant investor interest due to its relatively short average and expected life. Both traditional tobacco bond investors as well as other investors searching for higher yield bonds will be interested. Our recommended structure increases the size of this tranche, allowing the Authority to expand the investor universe to include greater participation from property and casualty insurers, among others, and to push the demand from hedge funds and high yield funds to the longer maturity.
- **30-year Term Bond.** This is where communication and coordination from the syndicate will be critical. Investors will need to hear a consistent message from the underwriting team as to where these bonds should price. We also suggest pricing <u>into</u> volatility, rather than avoiding it, because volatile conditions increase demand for 30-year maturities, particularly with non-traditional investors.



- **Introduce 6.00% Coupons.** The market is now saturated with coupons in the 4.75% to 5.75% range. A 6.00% coupon will be attractive for portfolio diversification and trading opportunities.

Estimated Deal Timeline

Time	Events
Week 1	Transaction Kick-off; Engage: Counsels, Verification Agent, Global Insight ; Initiate conversation with Rating Agencies
Week 2	Circulate Draft Documentation; Optimize Structure
Week 3	Finalize Documents, Pre-Verification, Rating Agency Presale Reports
Week 4	**Post POS**; Marketing Process: **Investor Conference Call and Electronic Roadshow**
Week 5	**Premarketing** (identify investors with capacity for tobacco credit and assess desired structure); Ohio retail/Retail proxy roadshow
Week 6	**Finalize Structure and Product Mix; Price Aggressively**
Week 7	Finalize OS; Close

Note: Items in bold typeface indicate key marketing plan events

10. References

References	
NYC Tobacco Settlement Asset Securitization Corporation **Mr. Mark Page** *Director of Management and Budget,* New York City 75 Park Place, New York, New York 10007 Tel: (212) 788-5900 Email: pagem@omb.nyc.gov Relevant Transactions: 6/19/2003 - $2,240.415mm (Bookrunner); 12/02/2003 - $2,310.705mm (Joint Bookrunner)	New York State Tobacco Settlement Financing Corporation **Mr. Lou Raffaele** *Chief Budget Examiner,* State of New York State Capitol, Albany, New York 12224 Tel: (518) 473-8705 Email: bdraff@budget.state.ny.us Relevant Transactions: 2/08/2006 - $1,353.510mm (Co-Senior Manager); 8/15/2002 - $500mm (Co-Senior Manager)

11. Co-Senior Manager

JPMorgan is responding as bookrunning senior manager; per p.1 of the RFP, we will not be responding to this question.

12. Other

JPMorgan and its team to serve the Authority are ideally qualified to provide the best possible transaction execution on the Authority's behalf. In the event that credit and legal/regulation concerns come back into the market, JPMorgan's ability to tell the credit story of our issuer clients has proven time and time again to lower the all-in financing cost for our clients, either through increasing ratings or educating investors on an issuer's credit story. Bob Muller and Jeff Moore will work diligently with all market participants to provide profound education on the Authority's credit. Additionally, to reiterate, **JPMorgan is the only qualified Wall-Street firm with a public finance office in Columbus, Ohio and has an unsurpassed presence as the largest financial institution in the State of Ohio.**

13. Underwriter's Counsel(s) (and Evaluation Criteria)

Our evaluation criteria for each counsel, and these we identify for consideration, include:

- Capability of firm to perform scope of services as mentioned in the RFP question
- Extensive transaction experience
- Knowledge of constitutional and statutory provisions of Ohio law relating to the proposed transaction
- Diligence in performing duties and ability to work with other financing team members
- Firm and individuals with years of experience with Ohio legal work both as bond counsel and underwriter's counsel

National Underwriter's Counsel	Fee	Co-Underwriter's Counsel*	Fee
Sidley Austin	Est. $295,000	Forbes, Fields & Assoc. Co., LPA	Est. $40,000
Hawkins, Delafield & Wood	Est. $95,000	Wilkerson & Associates	Est. $40,000

OhioUnderwriter's Counsel	Fee
Peck, Shaffer & Williams LLP	Est. $200,000
Thomson Hine LLP	Est. $200,000
Bricker & Eckler LLP	Est. $200,000
Squire, Sanders & Dempsey LLP	Est. $200,000

**Both co-underwriter's counsels are MBE firms.*

14. Joint Proposal - Not applicable per RFP p. 1.

15. State of Ohio MSRB Rule G-37 Compliance.

JPMorgan is currently in compliance with MSRB rule G-37 in the State of Ohio.

16. Investigations, Review and Litigation

As of the date of this response, there is no litigation pending against JPMorgan that is considered to present a risk to the public finance department or municipal bond practices. JPMorgan and its predecessor firms have been named as a defendant in civil actions alleging securities laws and other violations. In the opinion of management, JPMorgan believes it has meritorious defenses to these claims and intends to defend itself vigorously. Also, as is the case with most major financial services firms, JPMorgan is involved in a number of regulatory matters arising out of the ordinary course of its business. However, we believe none of those matters would materially affect JPMorgan's ability to perform the requested service(s). JPMorgan is subject to the jurisdiction of many regulatory bodies, which, from time to time, seek documents and/or testimony from JPMorgan as a part of ordinary governmental oversight of the securities industry. JPMorgan fully cooperates with all such regulatory inquiries, but is not normally privy to the ultimate purpose of these requests. We note pending matters in Appendix C although obviously not all inclusive, as being potentially of interest.

17. State of Ohio Ethics Laws

To the best of our knowledge, since January 1, 2004, there are no pending or concluded official investigations or review, or litigation regarding a violation or alleged violation by JPMorgan of any State of Ohio ethics, campaign financing, or lobbying, laws or rules.

18. Conflict of Interest

JPMorgan has in place policies and procedures which are designed to identify, analyze and avoid or mitigate conflicts of interest which may arise as a result of our relationships with clients who may have competing interests in respect of a particular transaction. In addition, we have in place policies regarding use and disclosure of confidential client information. The policies are designed to prevent disclosure of confidential client information outside the firm or for the benefit of other JPMorgan clients. These policies expressly prohibit disclosure of confidential client information outside the firm and limit internal dissemination of confidential client information to those specific employees who need to know such information for purposes of providing services to the client to whom the information belongs.

19. Deviations from Certifications

JPMorgan does not foresee any deviations from the Certifications in Part VI of this RFQ.

Fee Proposal

a. Proposed Gross Spread

Based on a par amount of $5.5 billion (Base Case Scenario Question 7), JPMorgan proposes a gross spread of $3.77/ $1,000, including underwriters' counsels' fees, for a fixed rate transaction. Our proposed takedown assumes that JPMorgan receives 25% of the transaction's economics as a joint bookrunning manager.

b. Gross Spread Components

As a joint bookrunning senior manager, we would expect that our actual compensation would be determined only after consultation with the Authority and its financial advisor, and may differ should the size, structure, or JPMorgan's percentage of the overall economics of the proposed issue change significantly. We believe that a market level average takedown of approximately $3.60 per bond represents fair compensation for a $5.5 billion financing, assuming that two bookrunning senior managers receive sales credit and share bookrunning credit for at least 55% of the bonds. (Note: please refer to our discussion of recommended designation policy in our response to Question 8(b).) While we have not included a management fee as part of our proposal, based upon our performance in structuring and time spent leading up to the pricing of the bonds, we ask that the Authority consider providing a structuring or management fee at its discretion prior to the pricing of the bonds. The amount of such future fee will be determined by the Authority at its sole discretion and is not applicable to our proposed fees.

Lastly, the chart below does not delineate between the types of fixed rate bond product that will ultimately be implemented in the Authority's financing, as it pertains to the anticipated average takedown. In order to maximize distribution, minimize risk, and to provide for the lowest borrowing cost, we would recommend the following takedowns for each of the fixed rate products noted below based on the sales effort required to market each of the different products: (1) Serial Current Interest Bonds: $2.75/bond; (2) Other Current Interest Bonds (Term Bonds, Turbos, etc.): $3.75/bond; (3) Capital Appreciation Bonds (including convertibles): $3.75/bond.

Proposed Fees ($/1,000)[1]	
	Base Case
Average Takedown[2]:	$3.600
Management Fee/Structuring Fee (TBD at the Discretion of the Authority):	TBD
Expenses:	0.166
Total Underwriter's Discount:	**$3.766**

[1] Including underwriter's counsel is estimated at $240,000 and may change based on size and structure of transaction
[2] Takedown based on assumptions: Serial Maturities = $2.75/bond. All other Current Interest, Turbos, and CABs = $3.75/bond

JPMorgan estimates Global Insight Consumption and Verification fees to be $160,000 and $75,000 for a tobacco securitization of $5.5 billion. These fees are not included in the underwriters' spread.

c. Expenses

Please find a breakdown of JPMorgan's estimated expenses below.

Estimated Breakdown of Expenses ($/1,000)[1]			
Underwriters' Counsel [2]:	$ 0.037	Ohio Expenses:	0.001
Co- Underwriter's Counsel[2]:	0.007	Day Loan:	0.028
TBMA:	0.030	Total Syndicate Wire (DALCOMP+tax):	0.060
CUSIP:	0.001	Estimated Travel and out of Pocket*:	0.001
DTC*:	0.001	**Total Expenses:**	**$ 0.166**

[1]Assumes par amount of $5.5 billion
[2] Underwriter's counsel is estimated at $240,000 and may change based on size and structure of transaction
**Fixed Expense*

d. Market Tested Takedown

We believe the fees proposed above are commensurate with the ability to aggressively price a $5.5 billion tobacco securitization, based upon JPMorgan receiving at least 25% of the sales credit for the transaction as a joint bookrunning manager. In effect, we believe the combination of having JPMorgan and another joint bookrunning firm receive in aggregate at least 55% of the transaction's economics will provide the capital commitment necessary to aggressively price the Authority's bonds. In addition, we recognize that the serial current interest bonds will likely be the most easily sold securities and are ideal instruments for the non-traditional tobacco bond investor. *At a takedown of $2.75/bond for those maturities, that will be the lowest ever takedown for a fixed rate long term tobacco securitization.* Moreover, a significant portion of the current interest serial bonds will be sold through the co-senior managers, co-managers, and selling group members, and we believe that the risks of underwriting those specific securities are less than that of the CABs and other current interest/term/turbo bonds. Further, we are not aware of any tobacco securitization of similar size and structure that has priced with an average takedown of approximately $3.60/bond. However, due to our experience in managing uninsured multi-billion dollar fixed rate transactions in California, we believe that the market takedown levels proposed, when combined with the overall capital commitment of the syndicate, will provide significant enough incentive to price the bonds aggressively.

The primary risk to the Authority is a quickly deteriorating market environment on the day of pricing for the entire bond issue. In the event that the high yield sector of the tax-exempt market erodes on pricing day, the Authority and its financial advisor may want to consider adding an "underwriting fee" of up to $0.50/bond to cushion against the need for the syndicate to underwrite any unsold bonds.

Lastly, JPMorgan is aware of another state-level tobacco securitization that will be coming to market in advance of the Authority's issue, and understands that the takedown associated with a planned $500 million issuance will be sold with takedowns of $3.00/bond. Moreover, given JPMorgan's capital strength combined with a senior manager group with the ability to commit their capital, we are confident that we can achieve an aggressively priced bond issue with a low interest cost for the Authority at the proposed fee levels outlined above.