

Report Prepared On: 01/10/13

Structured Product Details

Name Buffered Equity Notes linked to iShares Russell 2000 Index fund

Issue Size \$507,000
Issue Price \$1,000
Term 13 Months
Annualized Coupon 0.00%

Pricing Date October 27, 2009
Issue Date October 30, 2009
Valuation Date November 24, 2010
Maturity Date November 30, 2010

Issuer JPMorgan
CDS Rate 31.9 bps
Swap Rate 1.24%

Reference Asset iShares Russell 2000 Index fund
Initial Level \$58.79
Dividend Rate 1.47%
Implied Volatility 30.59%
Delta¹ 0.6

Fair Price at Issue \$981.36
Realized Return 18.87%

CUSIP 48124AAL1
SEC Link www.sec.gov/Archives/edgar/data/19617/000089109209004052/c36880_424b2.htm

Related Research

Research Papers:

www.slcg.com/research.php

- "Are Structured Products Suitable for Retail Investors?" December 2006.
- "Structured Products in the Aftermath of Lehman Brothers," November 2009.
- "What TiVo and JP Morgan Teach Us about Reverse Convertibles," June 2010.

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Buffered Equity Notes linked to iShares Russell 2000 Index fund

Description

JPMorgan issued \$507,000 of Buffered Equity Notes linked to iShares Russell 2000 Index fund on October 30, 2009 at \$1,000 per note.

These notes are JPMorgan-branded Buffered PLUS securities that do not pay periodic coupons, but instead pay a single amount at maturity depending on the final level of iShares Russell 2000 Index fund.

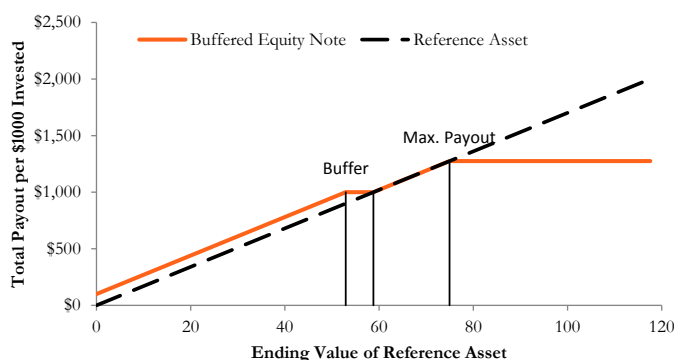
If on November 24, 2010 iShares Russell 2000 Index fund's share price is higher than \$58.79, but lower than \$74.96, the notes pay a return equal to the percentage increase in iShares Russell 2000 Index fund, up to a cap of 27.50%. If on November 24, 2010 the ref is below \$58.79 but not below \$52.91, investors receive \$1,000 face value per note. If iShares Russell 2000 Index fund's share price on November 24, 2010 is lower than \$52.91, investors receive face value per note reduced by the amount the reference asset is below \$52.91 as a percent of the initial level, \$58.79.

Valuation

This product can be valued as a combination of a note from JPMorgan, one short out-of-the-money put option, one long at-the-money call option, and one short out-of-the-money call option. For reasonable valuation inputs this note was worth \$981.36 when it was issued on October 30, 2009 because the value of the options investors gave JPMorgan plus the interest investors would have received on JPMorgan's straight debt was worth \$18.64 more than the options investors received from JPMorgan.

There is no active secondary market for most structured products. Structured products, including this note, therefore are much less liquid than simple stocks, bonds, notes and mutual funds. Investors are likely to receive less than the structured product's estimated market value if they try to sell the structured product prior to maturity. Our valuations do not incorporate this relative lack of liquidity and therefore should be considered an upper bound on the value of the structured product.

Payoff Curve at Maturity

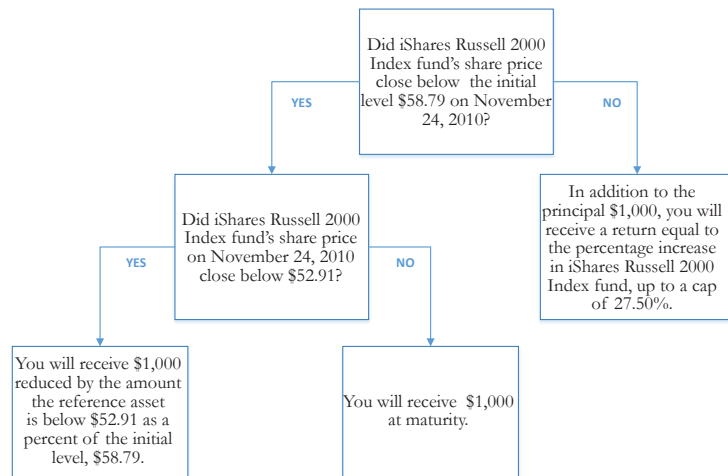


The payoff diagram shows the final payoff of this note given iShares Russell 2000 Index fund's share price (horizontal axis). For comparison, the dashed line shows the payoff if you invested in iShares Russell 2000 Index fund directly.

Principal Payback Table

iShares Russell 2000 Index fund	Note Payoff
\$0.00	\$100.00
\$5.88	\$200.00
\$11.76	\$300.00
\$17.64	\$400.00
\$23.52	\$500.00
\$29.40	\$600.00
\$35.27	\$700.00
\$41.15	\$800.00
\$47.03	\$900.00
\$52.91	\$1,000.00
\$58.79	\$1,000.00
\$64.67	\$1,100.00
\$70.55	\$1,200.00
\$76.43	\$1,275.00
\$82.31	\$1,275.00
\$88.19	\$1,275.00

Maturity Payoff Diagram

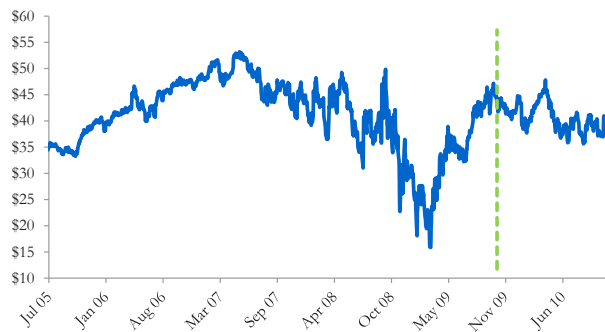


The contingent payoffs of this Buffered Equity Note.

Analysis

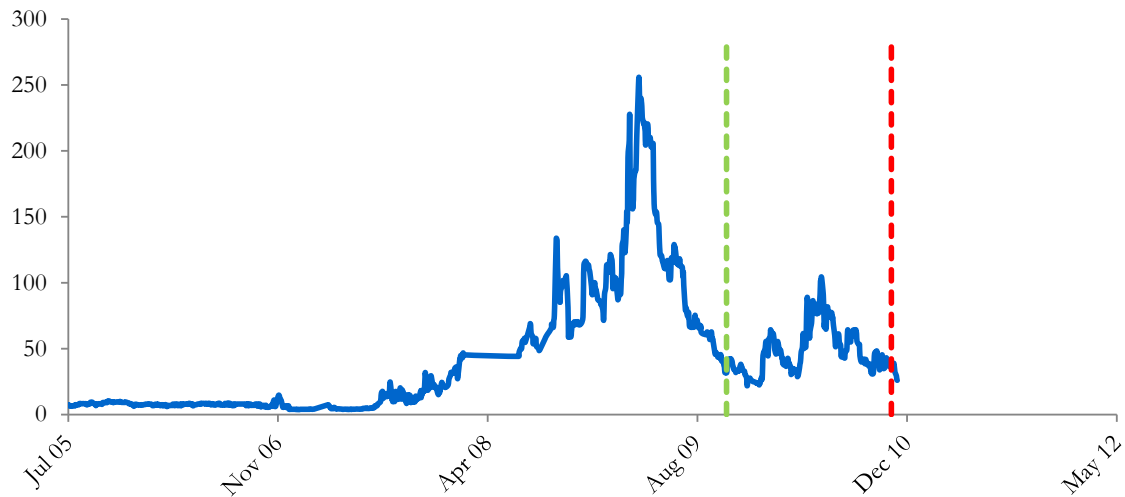
This Buffered Equity Note pays investors the increase in iShares Russell 2000 Index fund capped at 27.50%, but if iShares Russell 2000 Index fund declines over the term of the note, investors will suffer losses equal to the percentage decline in iShares Russell 2000 Index fund. In addition, investors bear the credit risk of JPMorgan. Investors purchasing this Buffered Equity Note effectively sell at-the-money put and out-of-the-money call options to JPMorgan, buy at-the-money call options, and a zero-coupon note from JPMorgan. This Buffered Equity Note is fairly priced if and only if the market value of the options investors received from JPMorgan equals the market value of the options investors gave JPMorgan plus the interest investors would have received on JPMorgan's straight debt.

JPMorgan's Stock Price



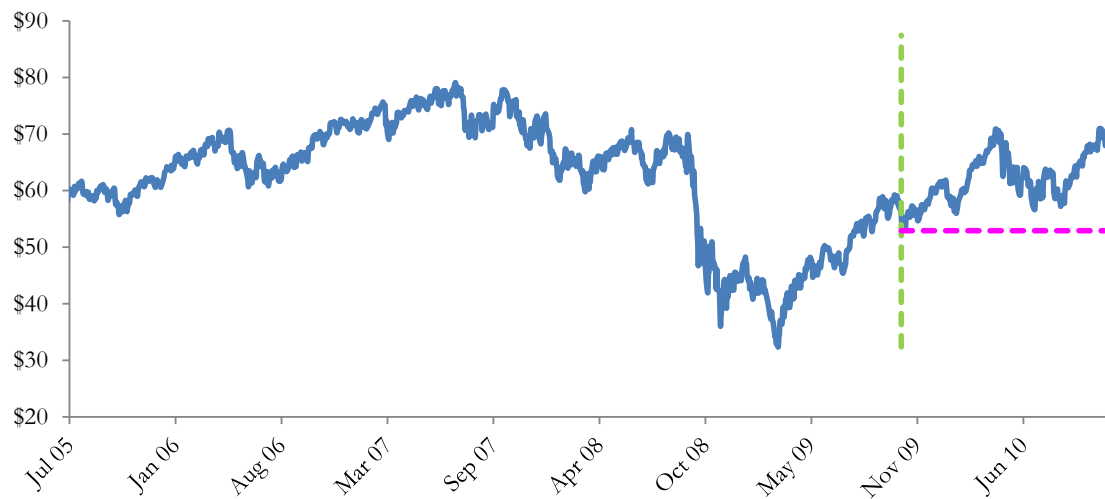
The graph above shows the adjusted closing price of the issuer JPMorgan for the past several years. The stock price of the issuer is an indication of the financial strength of JPMorgan. The adjusted price shown above incorporates any stock split, reverse stock split, etc.

JPMorgan's CDS Rate



Credit default swap (CDS) rates are the market price that investors require to bear credit risk of an issuer such as JPMorgan. CDS rates are usually given in basis points (bps). One basis point equals 0.01%. Higher CDS rates reflect higher perceived credit risk, higher required yields, and therefore lower market value of JPMorgan's debt, including outstanding Buffered Equity Note. Fluctuations in JPMorgan's CDS rate impact the market value of the notes in the secondary market.

iShares Russell 2000 Index fund's Share Price

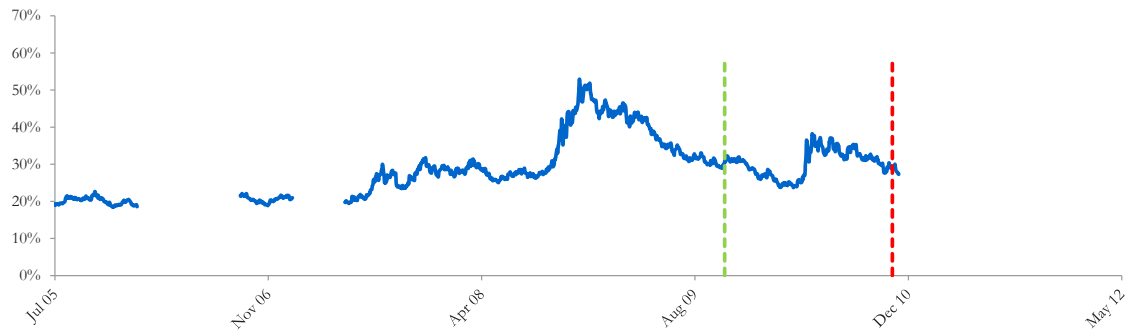


The graph above shows the historical levels of iShares Russell 2000 Index fund for the past several years. The final payoff of this note is determined by iShares Russell 2000 Index fund's share price at maturity. Higher fluctuations in iShares Russell 2000 Index fund's share price correspond to a greater uncertainty in the final payout of this Buffered Equity Note.

Realized Payoff

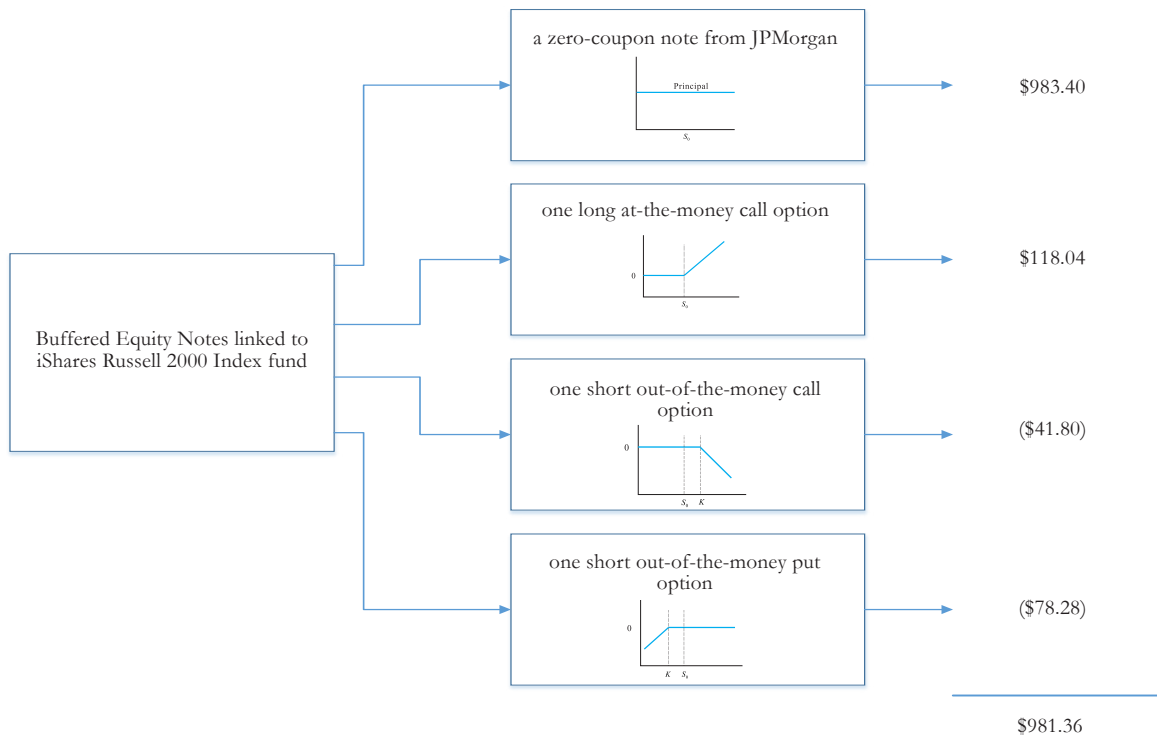
This note matured on November 30, 2010 and investors received \$1,206.33 per note.

Reference Asset iShares Russell 2000 Index fund's Implied Volatility



The annualized implied volatility of iShares Russell 2000 Index fund on October 27, 2009 was 30.59%, meaning that options contracts on iShares Russell 2000 Index fund were trading at prices that reflect an expected annual volatility of 30.59%. The higher the implied volatility, the larger the expected fluctuations of iShares Russell 2000 Index fund's share price and of the Note's market value during the life of the Notes.

Decomposition of this Buffered Equity Note



This note can be decomposed into different components, and each component can be valued separately. The chart above shows the value of each component of this Buffered Equity Note.

1. Delta measures the sensitivity of the price of the note to the iShares Russell 2000 Index fund's share price on October 27, 2009.
2. CDS rates can be considered a measure of the probability that an issuer will default over a certain period of time and the likely loss given a default. The lower the CDS rate, the lower the default probability. CDS rate is given in basis points (1 basis point equals 0.01%), and is considered as a market premium, on top of the risk-free rate, that investors require to insure against a potential default.
3. Fair price evaluation is based on the Black-Scholes model of the iShares Russell 2000 Index fund on October 27, 2009.
4. Calculated payout at maturity is only an approximation, and may differ from actual payouts at maturity.
5. Our evaluation does not include any transaction fees, broker commissions, or liquidity discounts on the notes.