

From: Steven Sinofsky <[REDACTED]>
To: Jeffrey Epstein <jeevacation@gmail.com>
Subject: Fwd: MSFT risk reduction
Date: Fri, 12 Sep 2014 20:23:09 +0000
Attachments: 20140908_Collar.pdf; MSF_Delta_Shift_9_8_14.pdf

What do you think of this approach? 547,515 shares with a cost basis of about 27.50 averaged

----- Forwarded message -----

From: Goodspeed, Matthew X <[REDACTED]>
Date: Fri, Sep 12, 2014 at 12:12 PM
Subject: MSFT risk reduction
To: Steven Sinofsky <[REDACTED]>
Cc: "Irwin, Don X" <[REDACTED]>, "Dunn, Ashley P" <[REDACTED]>

We investigated quite a few strategies for hedging your MSFT position given your input/preferences. These strategies included (but were not limited to) the following:

Long Put

A 1 year put option (90% of spot price) cost about 5.8% out of pocket and a 1 year option 80% of spot still required around 3.15%. This seemed expensive to us so we looked for ways to cheapen the cost.

Put Spread Collar

Selling a 110% call option to help finance a 90% put option results in a more amenable 2.45% out of pocket cost. If you were to sell a put to help fully offset the cost of purchasing the 90% put, the put strike would have to be set at 83%. That limits the total downside protection to only 7% while fully capping upside after 110%. Again, this tradeoff seemed less than amenable.

Laddered Strategy

After pricing other "options", we developed the following strategy that we recommend you consider. An illustration of this recommendation has been attached above:

- Collar 25% of the MSFT position for 1 year by selling a 105% call to finance a 90% put – cost is approximately 1.3% of notional (or \$79,598)
- Collar 25% of the MSFT position for 1 year by selling a 110% call to finance a 90% put – cost is approximately 2.45% of notional (or \$150,012)

- Collar 25% of the MSFT position for 1 year by selling a 115% call to finance an 85% put – cost is approximately 2.25% of notional (or 137,767)
- Write actively-managed covered calls on 25% of the position leaving upside (and downside) uncapped (and unhedged) – anticipated **net** premiums assuming no change in stock price of 1.94% or \$118,302. Please see the second attachment for details.

Using the above laddered strategy as our recommended baseline approach, we would welcome any thoughts/feedback. We can then incorporate this feedback to further refine our strategy and recommendations. As always, don't hesitate to call/e-mail with any questions!

Best,

--goodspeed