From: Wood, Jacqueline
Sent: Tuesday, February 03, 2004 2:20 PM
To: Donohue, Mark J.
Cc: Walker, Genevieve
Subject: Madoff Summary Memorandum

For your review.

Gen: Feel free to add anything further and provide an updated copy to Mark.

Thanks!
I. Split-Strike Forward Conversion Trading Strategy.

In the past three years, four of Madoff's institutional clients—Kingate Global Fund, Fairfield Sentry Ltd, Tremont—Broad Market Fund, and Thema Ltd, have consistently generated substantial "commission equivalent" revenues through the use of a trading strategy known as "split-strike forward conversion." Madoff's split-strike forward conversion strategy is a variation of an options strategy known as a "collar." A collar is effected through the purchase of an underlying stock, and the purchase of a protective put option and the writing of a covered call option on that stock. This strategy is termed a "collar" since both the potential risk and reward are contained. This type of trading strategy is generally employed to protect profits that have accrued from the underlying stock rather than increasing returns on the upside.

Rather than focusing on a single security when executing a collar, Madoff's strategy focuses on a group of securities, those comprising the S&P 100 Index ("S&P 100"). Madoff executes trades in 45 to 50 securities currently residing in the upper tier of the S&P 100. Additionally, those securities must comprise more than 75% of the total capitalization of the S&P 100. Each position is weighted by market capitalization, so that market movement of the collective securities has a correlation to the movement of the S&P 100, which is a capitalization weighted index. The corresponding option portions of Madoff's split-strike conversion trades are established by executing opening index option combinations, effectively hedging the underlying index equity positions.
II. Commission Revenues – Split-Strike Forward Conversion Trades.

For split-strike forward conversion executions, Madoff is compensated 4 cents per share "commission equivalent" on equities and $1.00 per option contract. Although 16 of Madoff's institutional clients utilize this trading strategy, since 2001, the vast majority of Madoff's commission revenues is derived from only four of its clients.

<table>
<thead>
<tr>
<th>CLIENT</th>
<th>2001 SPLIT-STRIKE CONVERSION</th>
<th>2002 SPLIT-STRIKE CONVERSION</th>
<th>2003 SPLIT-STRIKE CONVERSION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kingate Global Fund</td>
<td>$10,391,244</td>
<td>$18,437,449</td>
<td>$26,421,248</td>
</tr>
<tr>
<td>Thema Ltd</td>
<td>$2,898,990</td>
<td>$6,356,507</td>
<td>$9,410,218</td>
</tr>
<tr>
<td>Fairfield Sentry Ltd</td>
<td>$12,710,746</td>
<td>$22,788,208</td>
<td>$31,936,395</td>
</tr>
<tr>
<td>Tremont – Broad Market Fund</td>
<td>$7,772,649</td>
<td>$15,344,251</td>
<td>$22,706,092</td>
</tr>
<tr>
<td>Other</td>
<td>$551,863</td>
<td>$1,064,985</td>
<td>$1,947,240</td>
</tr>
<tr>
<td><strong>TOTAL:</strong></td>
<td><strong>$34,325,492</strong></td>
<td><strong>$63,991,400</strong></td>
<td><strong>$92,421,193</strong></td>
</tr>
</tbody>
</table>

The commission revenues generated from these four institutional clients account for the overwhelming majority of commission revenues generated for the firm since 2001. Obviously, this trading strategy has yielded Madoff unbelievable profits, which would explain why this strategy is well-guarded by Madoff.

III. Profits and Losses – Broker-Dealer Market Making Trades.

For non-split-strike forward conversion executions, Madoff is compensated on a net basis.

<table>
<thead>
<tr>
<th>equity</th>
<th>2001 options</th>
<th>2002 options</th>
<th>2003 options</th>
</tr>
</thead>
<tbody>
<tr>
<td>$92,025,051</td>
<td>($287,001)</td>
<td>$21,522,566</td>
<td>($940,948)</td>
</tr>
</tbody>
</table>

Madoff's losses on its options trades are negligible in comparison to the profits made from its market making equity trades. Moreover, the profits from Madoff's market making trades are nominal compared to the commissions generated from those clients utilizing the split-strike forward conversion strategy.
IV. Follow-Up Questions.

Based on a review of the documents produced by Madoff, the following are follow-up questions to be discussed, and issues that need to be addressed, with Madoff, as well as a request for additional documents:

1. On the Commission/Equivalent By Client spreadsheet, explain why there are various months that reflect zero dollars ($0) in commission revenues, e.g. May 2001, September and December 2002, and April 2003.

2. Clarify what “commission equivalent” means.

3. Confirm that all institutional clients have been identified (29 clients were identified).

4. For (i) Bank of Bermuda Ltd Custody FBO Kingate Global Fund; (ii) Bank of Bermuda Ltd Custody FBO Thema Ltd; (iii) Citco Global Custody NV FBO Fairfield Sentry Ltd; (iv) Tremont – Broad Market Fund LDC; and (v) Madoff’s non-split-strike forward conversion clients, provide all trading activity for the time period January 2003, March 2003, September 2003, and December 2003, including, but not limited to:

   (1) customer name;
   (2) account number;
   (3) name of security;
   (4) quantity;
   (5) date order was received;
   (6) order receipt time (including seconds);
   (7) date order was executed;
   (8) order execution time (including seconds);
   (9) contra party;
   (10) execution price;
   (11) whether the order was a buy or sell order;
   (12) whether the order was a market or limit order;
   (13) the inside market at the time the order was executed;
   (14) whether the executed order was on an agency or principal basis;
   (15) whether the executed order was entered pursuant to the exercise of discretionary authority; and
   (16) the identity of each associated person responsible for the account.

5. Identify the investment advisor for each of Madoff’s clients utilizing the split-strike forward conversion strategy.

6. Provide a detailed explanation of how Madoff determines when to buy and sell the securities involved in the split-strike forward conversion strategy.

7. Provide a list of “client defined conditions” that must exist at the time a split-strike conversion order is executed.
8. For the time period January 2001 through the present, provide all communications, including, but not limited to, written correspondence and email communications, between Madoff and any of Madoff's clients relating or referring to the split-strike forward conversion strategy.

9. For the time period January 2001 through the present, provide all communications, including, but not limited to, written correspondence and email communications, between Madoff and any investors and/or owners of Madoff's clients utilizing the split-strike forward conversion strategy.

10. For the time period January 2001 through the present, provide all documents relating or referring to the split-strike forward conversion strategy.

11. For the time period of January 1, 2001 through the present, provide monthly commission revenues for the following institutional clients utilizing the strategy:

   a. Banque Safra France SA;
   b. Groupement Financier Ltd; and
   c. Sway Trustees Ltd.