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be happening. *Fraud hypothesis 1* was that BM was simply a Ponzi scheme and the returns were fictional. *Fraud hypothesis 2* was that the returns were real but they were being illegally generated by front-running Madoff Securities broker/dealer order flow and the split-strike conversion strategy was a mere "front" or "cover." Either way, BM was committing a fraud and should go to prison.

I ran some option pricing model calculations to determine how much money BM could earn by illegally front-running his stock order flow through Madoff Securities (page 4, 2000 SEC Submission) and determined that he could earn 3 – 12 cents per share for time periods of 1 – 15 minutes if he was front-running order flow. That meant returns of 30% - 60%, given the size of the assets under management we believed he had; front-running seemed like a likely possibility in 2000 and 2001. To double check my modeling techniques and calculations, I had my assistant, derivatives portfolio manager Neil Chelo, CFA and Daniel DiBartolomeo, one of the world's most accomplished financial mathematicians, review my work. Both gentlemen concluded that either Hypothesis I or II was, in fact, correct and that BM was a fraudster. However, in 2000 and 2001 we did not have enough information on hand to determine which of the two fraud hypotheses was correct. During later time periods as Mr. Casey, Mr. Chelo, and Mr. Ocrant kept tabulating higher and higher assets under management totals, the front-running fraud hypothesis became unworkable because BM's illegal trading activity could not have gone undetected by his firm's brokerage customers.

I spent hours writing my eight-page 2000 SEC Submission and arranged with the Boston SEC's Ed Manion to meet with the Boston Regional Director of Enforcement (DOE), Attorney Grant Ward in May 2000. Given Mr. Ward's position and my understanding of his mandate, I was shocked by his financial illiteracy and inability to understand any of the concepts presented in that submission. Mr. Manion and I compared notes after the meeting and neither of us believed that the Boston Region's DOE had understood any of the information presented. Little did I know that over the next several years I would come to understand that financial illiteracy among the SEC's securities lawyers was pretty much universal with few exceptions.

2001

In 2001, the Boston SEC's Ed Manion and I spoke often of the lack of follow up to my May 2000 SEC Submission. Immediately after 9-11, Mr. Manion called me, convinced that my work had somehow fallen through the cracks and never made it to the responsible parties in the New York Regional Office. In October 2001 or thereabouts, I resubmitted my original 8-page report, wrote an additional 3 pages and included 2 pages entitled "Madoff Investment Process Explained." The New York Regional Office never contacted me after either my May 2000 or October 2001 SEC Submissions. To my mind, the mathematical analysis provided compelling proof that an investigation was required. Yet, none was conducted to my knowledge.

2002

In 2002, I continued my research into BM. I took a key trip to Europe with Access International Advisors Limited to market a Statistical Options Arbitrage Strategy that I had developed. During that trip I met with 14 French and Swiss private client banks and hedge fund of funds (FOF's). All bragged about how BM had closed his hedge fund to new investors but "*they had special access to Madoff and he'd accept new money from them.*" It was during this trip that I knew that BM was most likely a Ponzi Scheme and that he was not front-running. If

2005

In June 2005 (see page 11 of my November 7, 2005 SEC Submission) Frank Casey sent me an e-mail where I substituted "ABCDEFGH" for the name of the individual, showing that BM was attempting to borrow funds from a major European bank. This was our first inkling that BM was struggling to keep his Ponzi scheme afloat.

Fortunately, I have plenty of e-mails from the last quarter of 2005 and it was a very busy quarter for the Madoff investigation. In late October, most likely on October 25, 2005, I met with Mike Garrity, Branch Chief, of the SEC's Boston Regional Office. Mr. Ed Manion, CFA felt that Mr. Garrity was a conscientious, hard-working Branch Chief who would give me a fair and impartial hearing that might be what was needed to get this case re-submitted to the SEC's New York Office. Ed Manion scheduled an appointment for me with Mr. Garrity and I thought that perhaps the third time submitting this case would turn out to be the charm.

I met with Mr. Garrity for several hours and found him to be very patient and eager to master the details of the case. Unlike my disastrous May 2000 meeting with that office's Director of Enforcement, Attorney Grant Ward, I found Mr. Garrity to be interested and fully engaged in my telling of the scheme. Some of the derivatives math was difficult for him to understand, so I went to the white board and diagrammed out Madoff's purported strategy and its obvious failings until he understood it. A few of the more difficult concepts required repeated trips up to the white board but at the end of our meeting, it was clear that Mr. Garrity understood the scheme, it's size, and it's threat to the capital markets.

Mr. Garrity promised to follow up and he was true to his word. About a week or so later, Mike Garrity called me back telling me that he did some investigating and found some irregularities but that he couldn't tell me what they were, only that he was in contact with the New York Regional Office and wanted to put me in touch with a Branch Chief there for follow on investigation. He also said that I would have to identify myself as "the Boston Whistleblower" when I called because he wanted to protect my identity to the extent possible.

Perhaps the most impressive thing about Mr. Garrity was his willingness to think outside of the box. He was able to imagine the impossibility of Madoff's returns and understand that BM's returns were too good to be true and this obviously concerned him. He told me that if BM were located within the New England region, he would have had an inspection team inside BM's operation the very next day.

On Friday, November 4, 2005, Mr. Garrity sent me the names and contact information for Doria Bachenheimer and Meaghan Cheung. (Branch Chief). I called the latter and revealed my identity, and e-mailed her a revised 21-page report. I then e-mailed my thanks to Mike Garrity and informed him that I would be working the case with New York. On Monday, November 7, 2007, I sent Ms. Cheung the report which the Wall Street Journal has now posted on-line less everything past Attachment 1. This report further detailed BM's fraud.

My experience with New York Branch Chief Meaghan Cheung was akin to my previous discussions with Attorney Grant Ward, and demonstrated to me an SEC failure in providing appropriate personnel to understand the case I was submitting. Ms. Cheung also never grasped any of the concepts in my report, nor was she ambitious enough or courteous enough to ask questions of me. Her arrogance was highly unprofessional given my understanding of her responsibility and mandate. When I questioned whether she understood the proofs, she dismissed me by telling me that she handled the multi-billion dollar Adelphia case. I then become immune to them. We would have been surprised only if something associated with BM actually made sense.

Neil Chelo lined up Amit Zjayvergiya, Fairfield Sentry's Head of Risk Management, for a 45-minute phone interview. Mr. Zjayvergiya's answers to Mr. Chelo's questions are listed in a August 24, 2007 e-mail. We discovered from this interview that BM's largest feeder fund, a fund with over $7 billion invested in BM, was not asking any of questions one would expect of a firm purporting to conduct due-diligence. Mr. Chelo is professionally certified as a Financial Risk Manager and asked several key risk management questions of Mr. Zjayvergiya and he did not receive satisfactory answers. I actually had hopes this interview would be longer and more intensive with full responses to the two full pages of questions I had sent to Mr. Chelo. Nevertheless our doubts were confirmed by the information we obtained.

2008

2008 was a strange year for everyone in global finance and our team was no exception. Because of market turbulence all of us were busy with other matters and let our BM investigation drop by the wayside with one exception which occurred in April. A good friend of mine, a University of Chicago Ph.D. in finance, Mr. Rudi Schadt, Oppenheimer Funds' Director of Risk Management, ran into a fellow University of Chicago Ph.D., a Mr. Jonathan Sokobin who was the SEC's new Director of Risk Assessment in Washington. Mr. Schadt, who was familiar with my work in the field of risk management, put Mr. Sokobin in touch with me in late March 2008. Mr. Sokobin asked that I call him, which I did a couple of days later. I wanted to give him a heads-up on some new emerging risks that I saw looming over the horizon. After our call, I felt that I had established my bona fides as a risk expert and felt comfortable enough to send him my updated, 32-page, December 22, 2005 SEC Submission along with a short 4 paragraph e-mail. I tried calling back a few times but never got through and gave up. I never heard from Mr. Sokobin again. At this point I truly had given up on the BM investigation.

Why did BM suddenly turn himself in on Thursday, December 11, 2008? Clearly, it was because he could not meet cash redemption requests by the feeder funds and fund of funds. Due to the seductive steadiness of his returns and the purported liquidity of his strategy, the fund of funds, in a down market, would consider him the best in their lineup of managers and would most likely go to him first with their redemption requests. Many hedge funds invest in illiquid securities for which they might have trouble finding buyers in a down market. Therefore, rather than sell in a down market when there may be no buyers and drive prices even lower than they were already, these fund of fund managers felt that they would have less negative price impact by asking BM to redeem what they considered to be their "safe" investments. BM's strategy of investing in highly liquid, blue-chip stocks seemed tailor made for easy redemptions. Therefore the fund of funds managers went to BM first (and most reliable investment) and this is what brought about his downfall. Too many hedge fund investors were asking to redeem their money and BM ended up with too many of these redemption requests which brought the entire house of cards down around him.

CONCLUDING THOUGHTS

The e-mails, marketing materials, conversation records and SEC Submissions you have as part of my official document submission to Congress are what four unpaid volunteers