

EXHIBIT D

C O N F I D E N T I A L

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK
ADV. PRO. NO. 08-01789 (BRL)

-----x
SECURITIES INVESTOR PROTECTION
CORPORATION,

Videotaped

Plaintiff-Applicant,
v.

Rule 2004
Examination of:

BERNARD L. MADOFF INVESTMENT
SECURITIES, LLC,
Defendant.

SAUL B. KATZ

-----x
In Re:

BERNARD L. MADOFF,
Debtor.

-----x

TRANSCRIPT of testimony as taken by and before
NANCY C. BENDISH, Certified Court Reporter, RMR, CRR
and Notary Public of the States of New York and New
Jersey, at the offices of Baker & Hostetler, 45
Rockefeller Plaza, New York, New York on Wednesday,
August 4, 2010, commencing at 10:04 a.m.

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For Sterling Equities, certain
affiliated entities, and the Witness

ALSO PRESENT:

GREGORY P. NERO, ESQ., Sterling Equities
DANIEL McCLUTCHY, Videographer

1 A. Sterling Equities itself is a holding
2 company, or it's really just a home office, where we
3 have many, many businesses. Starting out in the
4 real estate business, we've grown it into different
5 businesses and they vary from real estate, baseball,
6 entertainment with the network. Many different
7 businesses.

8 Q. Are there any other business
9 categories that you would attribute to Sterling
10 Equities, or the Sterling Equities group of
11 companies?

12 A. Sterling Stamos is one that we
13 started.

14 Q. And what is the business of Sterling
15 Stamos?

16 A. We found a person that we wanted to
17 start managing the money for us, so we funded him
18 and got him started.

19 Q. We're going to talk more about that
20 aspect -- each of these aspects, actually, in
21 detail.

22 A. Sure.

23 Q. Are there any other aspects of
24 Sterling, the Sterling Group of companies, any other
25 categories of business that you would attribute to

1 A. Yes.

2 Q. Did you have -- what does that mean,
3 to invest in assets? Does that mean that --

4 A. Finding other properties, or if not
5 properties, they're businesses. To -- our concept
6 has been to diversify. We've been diversifying out
7 of the real estate business since 1980. If we were
8 successful in 1980 in the real estate business, we
9 want to be successful in other things to diversify.
10 And so my responsibility is to find new things to
11 diversify into.

12 Q. Okay. Then when you told me before
13 that you were responsible for investing money on
14 behalf of the business or investing on behalf of the
15 business, that's what you were referring to?

16 A. That's exactly what I'm referring to.

17 Q. Who is responsible for investing the
18 partners' money or the Sterling entity's money into
19 securities?

20 MS. SESHENS: Objection to the form.

21 A. I just don't understand the question.

22 Q. Okay. Are you aware that the
23 Sterling companies -- strike that.

24 Did the Sterling companies make
25 investments into securities or into funds, hedge

1 funds, money market funds, other types of funds?

2 A. The Sterling companies did not.
3 Individuals might have.

4 Q. When you say the Sterling, when you
5 say the Sterling companies have not --

6 A. Well, there was no Sterling way of
7 investing. It was individuals made their own. We
8 bought deals. People would be offered the
9 opportunity to join the deal. There was never a
10 point where we say, gee, IBM looks good, let's all
11 go buy IBM. That's never the way we've done
12 business.

13 Q. Okay. Describe to me how individuals
14 would be offered the opportunity to participate in
15 the deal.

16 A. Essentially the partners each have
17 their own percentage. It changed over years of what
18 percentage of the company and opportunities they
19 had. And that changed over the years. So when an
20 opportunity came up, people were told about the
21 opportunity and they could come in to that
22 opportunity up to their allotted interest.

23 Q. And they would invest their own
24 money?

25 A. Yes, they would.

1 Q. Were those -- the opportunities that
2 you're describing, did that include investment
3 within Madoff?

4 A. No. The opportunities in Madoff,
5 everybody put in what they wanted to put in. There
6 was no Sterling investment in Madoff. It's not like
7 a property that we all own a certain piece of.
8 People had some excess monies, they put them into
9 Madoff.

10 Q. Are you aware that there are accounts
11 or were accounts opened at Madoff in the name of the
12 various Sterling entities?

13 A. Yes.

14 Q. How do you reconcile that fact with
15 what you've just told me, that there were no
16 Sterling entities that invested in Madoff?

17 MS. SESHENS: Objection to the form.

18 A. Let me try again. When we bought a
19 property, it would be called 15 West 72nd Street,
20 everyone had an opportunity to invest. The Sterling
21 entities that I think you're talking about were
22 because the partners said we have excess monies --

23 Q. In that property?

24 A. No, no. Just leave that aside now.
25 I moved the ownership of that property aside and it

1 stays that ownership and it doesn't move around.

2 In addition, there may have been,
3 people had excess monies and they said, gee, I've
4 got some excess. We just sold a deal, we've got the
5 cash, who wants to put money into Madoff. I might
6 say I want to buy a house in Florida so I'm not
7 putting any money in. But Joe might put it in. And
8 the percentages that they put their money in in that
9 particular time would be that particular Sterling
10 way of putting that money. But it wasn't a Sterling
11 investment that we put out to say that we're buying
12 this piece of property. And so the percentages were
13 based upon who put how much money in as opposed to
14 what their interest in the company was.

15 The interest in the company in buying
16 the property --

17 Q. Was separate?

18 A. -- was set because that was their
19 percentage interest. The Sterling LLCs or whatever
20 they were were based upon how much money any
21 particular person had, and it wasn't based upon
22 you're allowed to put X amount -- if I'm a 15
23 percent partner, you put in 15 percent into this
24 particular Sterling Madoff account. That's not the
25 way it went. It was the other way around. It was

1 driven by who had money, and so we just put a group
2 together to do that particular one.

3 Q. So what you're telling me is that
4 the -- and just to follow up --

5 A. Sure.

6 Q. -- to close the loop on that, would
7 that account be given a name that might be similar
8 to the partnership name that owned the property?

9 That owned the --

10 A. No. No.

11 Q. No?

12 A. It might. If it was used for
13 security on a particular property, it might. There
14 were so many different -- it's been a number of
15 years, so the whole concept has morphed over the
16 years. So, if you talk about an indiv -- I don't
17 think there's any set rule. If you want to show me
18 and talk about any particular thing, I could tell
19 you what I remember of that particular company.

20 But essentially what I'm trying to
21 say is that those Sterling named companies were
22 driven by people putting money in as opposed to
23 buying an asset where everyone joins in the assets.
24 So I don't look at those as Sterling companies.
25 Although it's got a Sterling name on it, it's not as

1 if it's a Sterling company.

2 Q. Once these accounts were opened at
3 Madoff, and we will look at lists, maybe later, once
4 the accounts were open, did you have any
5 responsibility with regard to those accounts?

6 A. Absolutely none.

7 Q. Did you keep track somehow of the
8 monies in those accounts?

9 A. I would keep track of my share of
10 that money as if I'm watching my money and not as a
11 company. I could watch the company I just bought,
12 the 15 West 72nd Street company, and look to see
13 what the company is doing, but I never followed
14 those individual groups as companies. I would get a
15 report periodically showing my liquidity, my cash,
16 and so it would have pieces of each of those
17 companies, not a particular percentage that I had
18 before, but the absolute amounts. So I would watch
19 my asset.

20 Q. And what was that report that you
21 received periodically called?

22 A. It was my report. I don't know what
23 it was called.

24 Q. From whom did you receive it?

25 A. From the accounting department.

1 operates some of our properties.

2 Q. What's his name?

3 A. Dan. Dan Knopf, K-n-o-p-f. And
4 Fred's son-in-law is Wachler.

5 Q. What is David Katz's area of
6 responsibility in the Sterling organization?

7 A. Like me he's looking at different
8 deals. Has some real estate responsibilities in
9 some of the properties that we own outside the fund.
10 But his responsibility was to oversee Changing World
11 Technologies, the conversion of College Place from
12 the garage business to a condominium business.

13 Q. Right.

14 A. We have an Internet business today
15 that I don't understand called Twistage, which he's
16 responsible for. Did I say Changing World
17 Technologies?

18 Q. You did.

19 A. Okay. And he helped me with
20 Sterling, the management part of Sterling Stamos.

21 Q. How did he help you with the
22 management part of Sterling Stamos?

23 A. Well, it's really he and Peter that
24 formulated the idea of starting this. And so he and
25 I were board members of Sterling Stamos until we

1 sold half the company to Merrill Lynch.

2 Q. In?

3 A. Two years ago.

4 Q. Couple years ago?

5 A. Yeah.

6 Q. And you're no longer on the board?

7 A. I'm still on the board, but David's
8 not.

9 Q. What does Greg Katz do within the
10 organization?

11 A. He works at SAP, which is our fund
12 business, as does Todd.

13 Q. Okay. They both work at --

14 A. Yes.

15 Q. And so Todd and Michael --

16 A. Michael's two sons.

17 Q. They're all in SAP?

18 A. They're all in SAP.

19 Q. And then you mentioned your
20 son-in-law Brendan O'Brien at the Sterling Stamos
21 side.

22 A. Right.

23 Q. What does he do there?

24 A. He's in the customer relations part
25 of it.

1 today, last week. I said to him, I know there are
2 three stocks in my portfolio. I said -- in that
3 particular portfolio I still have with them. And I
4 said I must have those five or seven years. He
5 says, how about 19. I'm not an active -- I don't
6 focus on that.

7 Q. Do you understand -- do you consider
8 yourself a sophisticated investor?

9 MS. SESHENS: Objection to the form.

10 Q. I'm talking about in the stock
11 market, not in real estate or anything else.

12 A. In the sophisticated, in today's
13 world of derivatives that are going on, the answer
14 is no.

15 Q. What about -- maybe I'll make it more
16 simple.

17 A. So now I'm less sophisticated.

18 Q. You answered the question.

19 A. Okay.

20 Q. Are you, have you ever -- you've
21 obviously bought and sold stock, correct?

22 A. Not for the last umpteen years.

23 Q. Okay.

24 A. I just said 19 years I didn't know I
25 had stock...

1 Q. Have you ever traded in options?

2 A. 25, 30 years ago may have traded in
3 Ginnie Mae options that I got killed in. So, I
4 don't do well in the markets, the stock market. I'm
5 not good at it, it's not my business. I don't have
6 an active trading account anywhere.

7 Q. Have you ever traded on margin?

8 A. Yes.

9 Q. Where have you done that?

10 A. At Prudential Bache.

11 Q. Would you describe for me what that
12 is, to trade on margin.

13 A. I'm sorry?

14 Q. What does that mean, to trade on
15 margin?

16 A. That I own stocks and I borrow
17 against the company, lends me money. Brokerage
18 company has -- they lend me up to a certain
19 percentage of the value of the stock.

20 Q. And you've done that through
21 Prudential Bache?

22 A. Yes.

23 Q. Anywhere else?

24 A. Well, if you use the word on margin,
25 that can only be through a stock brokerage company.

1 was simple, well respected member of the community.
2 So...

3 Q. When were there -- when did you
4 become aware of SEC investigations?

5 A. When I read about it in the paper,
6 with those accountants in Florida.

7 Q. Were you aware at the time it was
8 occurring or were you --

9 A. No. I saw it in the paper.

10 Q. -- or after the fact?

11 A. After the fact. After the fact. I
12 didn't know --

13 Q. Let me ask the question differently.

14 A. Sure.

15 Q. Did you read about it in the paper
16 and become aware of it after the collapse of Madoff?

17 A. No.

18 Q. Closer in time to when the event
19 actually happened?

20 A. Yes. Yes.

21 Q. So you remember the accountants in
22 Florida?

23 A. Well, I remember there were
24 accountants in Florida who got in trouble with the
25 SEC and the SEC had Bernie give everybody back their

1 money, as I read, which he gave back immediately.
2 And the SEC, with this problem, in my mind would
3 have investigated Bernie to make sure that Bernie is
4 doing the right thing and he wasn't part of the
5 charge on the accountants. And, again, Bernie is
6 clean, Bernie is terrific. SEC has done a good job.

7 Q. Do you remember any other instances
8 of becoming aware of SEC investigations of
9 Mr. Madoff?

10 A. No. Not in detail. No.

11 Q. What's the relationship between
12 either Sterling or the Mets and Travelers? At least
13 back in 1990, what was the relationship?

14 A. What time was that?

15 Q. 1990.

16 A. I know we borrowed money from them.
17 I don't even recall why we borrowed the money, but I
18 know we borrowed money from them.

19 Q. Do you recall Travelers doing any
20 diligence on Madoff in connection with any of its
21 dealings with Sterling?

22 A. Yeah, because we put up some of
23 Madoff's accounts for security, so they did an
24 investigation with due diligence.

25 Q. Did you have any role in that

1 investigation?

2 A. Actually, I remember the name Barry
3 Gonder. I think he represented them at the time. I
4 also remember Barry Gonder telling me that his wife,
5 who's in the securities business, did a similar
6 strategy that Bernie was doing.

7 Q. When did he tell you that, at the
8 time?

9 A. At that time.

10 Q. Did he tell you anything else about
11 her strategy?

12 A. Not that I recall. Just the fact
13 that certain things stick in your head --
14 gesundheit -- certain things stick in your head, and
15 that's, like the name Barry Gonder comes up.

16 Q. Now, did you, in preparation for your
17 deposition, did you review Barry Gonder, any memos
18 from Barry Gonder?

19 A. Yes, I did.

20 Q. Did you remember his name before you
21 reviewed those?

22 A. Yes, I did. I don't take credit for
23 remembering too many names, but that one for some
24 reason I did.

25 (Exhibit SK-1 marked for

1 us. Before that he was outside counsel, so I can't
2 tell you 1990 if he was general counsel or outside
3 counsel.

4 Q. But he was counsel, though, correct?
5 He was a lawyer?

6 A. He is a lawyer. I'm only saying to
7 you that he was outside counsel and I'm not sure
8 when he joined us as general counsel. So in 1990
9 I'm not sure if he was general counsel or outside
10 counsel. But he's still MBT.

11 Q. Do you recall any discussion with
12 your partners concerning this memo or the
13 attachment?

14 A. No.

15 Q. Do you know whether this memo was
16 prepared -- strike that.

17 The attached memo, which is Barry
18 Gonder's memo to the Sterling Doubleday file, do you
19 know whether that was dated before or after
20 Travelers loaned money and closed the loan with your
21 organization?

22 A. I do not know.

23 Q. Do you know whether you relied in any
24 way on Mr. Gonder's findings in connection with any
25 decisions that you made to invest with -- to invest

1 money with Madoff after the date you received a copy
2 of this document?

3 A. I certainly didn't depend on Barry
4 Gonder's memo, but it's all confirmation that grows
5 over a period of time, with feeling more secure
6 about what's going on.

7 Q. Did you receive account statements
8 from Madoff with respect to your Madoff accounts?

9 A. At some time I did.

10 Q. And what would you -- was there some
11 time that you didn't?

12 A. I don't recall when I stopped looking
13 at them. What I did with them is I turned them all
14 over to Arthur.

15 Q. That was going to be my question.

16 A. I turned them over to Friedman. So
17 whether they stopped coming to me, my secretary
18 would send them right on to Arthur before they came
19 to me, but I didn't look at them.

20 Q. Okay. So, was that your practice?

21 A. Yes.

22 Q. After a short period of time you did
23 not look at the account statements?

24 A. Right.

25 Q. Do you recall receiving any other

1 A. Yes.

2 Q. You got -- what was your grade point
3 at Brooklyn College?

4 A. Brooklyn College?

5 Q. Yeah.

6 MS. SESHENS: Objection.

7 A. 2.1.

8 Q. Seriously?

9 A. Seriously. Hardly got out. I went
10 there and, glad to get out.

11 Q. Okay, maybe there was a reason you
12 didn't understand Bernie, I don't know.

13 I may have asked this before. Did
14 you discuss this relationship, do you recall any
15 discussions with your partners about this
16 relationship between the rate of return to be
17 expected from your Madoff investments and the
18 treasuries?

19 A. I don't recall having a discussion,
20 but over the years that concept has come up. And
21 so, if you asked all my partners, they'd all tell
22 you the same, I think, that that's the kind of
23 expected return we had from Madoff is two to
24 two-and-a-half times treasuries.

25 Q. Do you recall any of your other

1 partners -- whether any of your other partners
2 either understood or professed or claimed to
3 understand this correlation better than you
4 understood it? The reason for the correlation.

5 A. If I don't understand it, they don't
6 understand it, which is scary, isn't it?

7 Q. Are you telling me you're the
8 smartest, you're the smartest of your partners?

9 A. That's what I'm telling you. That's
10 what I'm telling you.

11 Q. Has that ever been discussed?
12 (Laughter.)

13 What, if you could tell me in your
14 own words, what did you understand Madoff's
15 strategy, investment strategy to be?

16 A. Clearly, he was buying stocks, 20 or
17 30 stocks that were traded on the New York Stock
18 Exchange, high quality stocks, and he was purchasing
19 puts to protect the downside, selling calls to make
20 some money by selling the calls, and these were all
21 dividend --

22 Q. Producing stocks?

23 A. -- producing stocks. And so we were
24 never, quote, naked in the stock market. We were
25 always protected by the puts and the calls -- sorry.

1 have a chairman of the -- Office of the Chairman.
2 So three people are in the Office of the Chairman.
3 That's just the Mets and only the Mets business.

4 Q. Okay.

5 A. SAP meets, I think they meet every
6 Monday morning. And so the partners that run SAP
7 meet every Monday morning.

8 Q. Okay.

9 A. But there is no executive committee.

10 Q. Over the whole thing?

11 A. Over the whole business. We're all
12 in the executive committee.

13 Q. Okay.

14 Did you have a personal or a social
15 relationship with Bernie Madoff?

16 A. Somewhat.

17 Q. Describe it, please.

18 A. Business social.

19 Q. And what would that be comprised of?

20 A. He came to a number of my family
21 affairs, whether it was a wedding or bar mitzvah.
22 Not all. I went to a couple of his, not all. I
23 don't think -- I can't recall a time that he and I
24 went out to dinner together, either personally or
25 with -- individually or with our wives. But we saw

1 them at social events.

2 Q. Okay. Just because you were at the
3 same event?

4 A. Yes, because we were at the same,
5 exactly right.

6 Q. Did you sit on any boards with Bernie
7 Madoff?

8 A. No. No.

9 Q. Did you ever vacation with
10 Mr. Madoff?

11 A. No. Never went on vacation with him.
12 Although I ran into him on two different times while
13 on vacation, but I didn't vacation with him.

14 Q. Where was that?

15 A. Once in Sardinia and once in the
16 South of France.

17 Q. Was that by design you ran into him?

18 A. Absolutely not. As a matter of fact,
19 as an aside, I could tell you that I was with my
20 brother and we saw him at our favorite restaurant
21 and we bought him dinner and my sister-in-law to
22 this day is angry at me for having bought him
23 dinner.

24 Q. Was she angry at the time or was she
25 angry --

1 A. Oh, no, she wasn't angry at the time.

2 Q. -- or after December 11th --

3 A. She wasn't angry at the time. She
4 was angry after. I said, it didn't matter, he was
5 using our money one way or the other.

6 Q. So be it.

7 How often would you, before you got
8 so involved with the hospital work, the health
9 system work when you were focusing more on the
10 Sterling work, how often would you communicate with
11 Madoff or his office during the week?

12 A. I think that my communication with
13 Bernie was pretty consistent throughout the whole 25
14 years, whether I was busy in the hospital or not.

15 Q. Okay.

16 A. And I -- Fred and I would visit him
17 maybe once a year, and maybe I would have a
18 conversation with Bernie on the phone two times in
19 addition to that parameter.

20 Q. Two times per year?

21 A. Yeah. So, if I saw Bernie -- if I
22 spoke to Bernie, whether in person or by phone, two,
23 three times a year, other than the -- and if the
24 social events I talked about, just so we know, for
25 25 years, if there were 15 social events over 15

1 A. I never had any discussions with
2 people.

3 Q. Do you know what front-running is?

4 A. Yes.

5 Q. What do you understand that to be?

6 A. That if some broker has information
7 or an order to buy 20,000 shares and those will
8 drive the stock up, he'll buy a thousand shares for
9 himself first before he buys it and then sells it
10 when he's gotten through the selling.

11 Q. Did you ever have any discussion with
12 anyone that Madoff might be involved in
13 front-running?

14 A. Not that I recall.

15 Q. Did you ever have any suspicion that
16 Madoff might be involved -- whether you discussed it
17 with anybody or not -- might be involved in
18 front-running or inside trading?

19 A. No. Because he did it in --
20 front-running would be a particular stock, again.

21 Q. I understand.

22 A. And he did it in lumps. And so my
23 sense of it was that because of the flow he had, he
24 had a sense of where the market was going, whether
25 it was one stock or 25 stocks. And that was his

1 Q. Their choice or your choice?

2 A. Their choice. It's their choice.
3 It's their choice.

4 Q. Now, we talked to -- in our
5 discussions with other people from Sterling, we've
6 talked about investment in Madoff, not just by the
7 Sterling partners, but by what I think we've called
8 outsiders.

9 A. Friends and family.

10 Q. Friends and family. Tell me about
11 your role in that, if you have any role.

12 MS. SESHENS: Objection to the form.

13 A. My role in that is that this was such
14 a blessing that I wanted to share with my friends
15 and family. And so if an opportunity came and if
16 somebody needed a safe, steady return to help them
17 live their life, we introduced them to an idea.

18 Q. And how would that introduction take
19 place?

20 A. Tell them we're doing it and just
21 tell them what we know, tell them what we knew.

22 Q. So give me -- what would you -- I've
23 become a good -- let's say it's 1990 and I'm a good
24 friend of yours and you're going to tell me about
25 Madoff. What would you tell me?

1 investment is, your percentage?

2 A. Yes.

3 Q. So the concept of Madoff having
4 minimums didn't strike you as unusual?

5 A. Oh, no.

6 Q. Didn't raise any questions in your
7 mind?

8 A. Any time you do fund raising you
9 always have minimums.

10 Q. When you would go to Madoff's office,
11 I think you said you visited once a year, you
12 visited, I think you said those visits started after
13 he was in the Lipstick Building.

14 A. Yes.

15 Q. What would be the purpose of that
16 visit?

17 A. Just to see how things are going,
18 what he sees for the next year, just his overview.

19 Q. Would you discuss any specifics about
20 your accounts or your investments?

21 A. No.

22 Q. Would you -- where would you meet in
23 his office?

24 A. At his office.

25 Q. Would you tour his office?

1 Duran?

2 A. No.

3 Q. Do you recall a company called Frank
4 Crystal & Company?

5 A. The name Frank Crystal strikes a
6 bell.

7 Q. Do you recall the reasons why -- I'm
8 assuming from your answer, I think you said you
9 declined to buy the insurance.

10 A. Yes.

11 Q. Or determined not to. Do you recall
12 the reasons why you decided not to buy insurance?

13 A. Why would we waste money? It was a
14 waste of money.

15 Q. Because?

16 A. Because Bernie's not going to do
17 anything wrong. We're not going to lose money in
18 Bernie, he's totally collared. Why would we waste
19 our money?

20 Q. What did you understand -- what types
21 of loss did you understand the insurance you were
22 looking at to protect?

23 A. I have no idea.

24 Q. Did it protect losses from bad
25 investments?

1 Q. But I just want to be clear. Did
2 anyone ever tell you that parts of Bernie's business
3 that should be transparent were in fact not
4 transparent and, therefore, that should be a concern
5 to you? Did anyone ever tell you that?

6 A. The last part concern, the answer is
7 no, because the only part that wasn't transparent is
8 the part as to why he goes in when he goes in and
9 when he comes out and what helps him make that
10 decision.

11 Q. Okay.

12 A. I didn't have to worry about that
13 because the fact is that if he is buying the stock
14 and long and short, which is all he did for us other
15 than being in treasuries, then we have nothing to
16 worry about. The nontransparent is when he went in
17 and when he went out.

18 Q. Okay.

19 A. And the fact is that not knowing that
20 shouldn't make you uncomfortable.

21 Q. Okay. Let me ask it this way then.

22 Did anyone ever advise you that there
23 was one or more reasons why you should be
24 uncomfortable investing your money with Madoff?

25 A. Not that I recall.

1 money, so they don't bring outside money in. So to
2 us this was a situation where Bernie had made enough
3 money, so his family is doing their own thing in
4 their proprietary business, and this part of the
5 business would no longer continue. But that wasn't
6 satisfactory to us, for our own needs.

7 Q. For your long-term planning?

8 A. For our long-term planning.

9 MR. LUCCHESI: Okay. We have just
10 about four minutes of tape left so we're going to
11 stop. Is lunch here? Why don't we take a real
12 quick lunch and then we'll come back. Off the
13 record.

14 THE VIDEOGRAPHER: Going off the
15 record, the time is 12:48. This ends tape 2.

16 (Luncheon recess taken.)

17 THE VIDEOGRAPHER: We are back on the
18 record. The time is 1:28. This is tape number 3.

19 BY MR. LUCCHESI:

20 Q. Mr. Katz, I want to go back over just
21 a few minor points from before lunch. We talked
22 about this friends and family that you may have
23 introduced to Madoff. You talked about criteria
24 that Madoff may have applied to who could be an
25 investor. Did you have any criteria yourself as to

1 who you would be comfortable recommending to -- that
2 they might want to invest in Madoff?

3 MS. SESHENS: Object to the form.

4 A. I would not solicit anybody. If
5 somebody came to me for advice and asked me what am
6 I doing, as a friend or a family I would tell them
7 what I'm doing and they might say, can we
8 participate in something like that. And if I
9 thought it was appropriate for them, I would do so.

10 Q. What would be the criteria by which
11 you would decide to determine for yourself if it was
12 appropriate for somebody?

13 A. Well, as I said before, I looked at
14 this as an exceedingly secure investment because
15 there we had our stocks, and puts and calls, so
16 nothing could happen. You might not make as much
17 money, maybe will make a little less money, the
18 treasuries went down and the returns were there, but
19 it was secure.

20 So, if the person understood what I
21 was telling them and looked at it, then I would see
22 if I could help to put them into Bernie.

23 Q. Well, based on your description of
24 the investment being secure, I take it from that you
25 mean you couldn't lose all your money?

1 A. I don't know.

2 Q. Has he opened such a fund?

3 A. I don't think so.

4 Q. Would you know if he did?

5 A. Yes, I would. No, I take it back. I
6 should but I'm not sure I do. It could happen -- it
7 could be there and I don't even know about it.

8 Q. How could that be?

9 A. Because I'm not involved in the
10 management strategy. I mean, in the investment
11 strategies.

12 Q. Is there a time when you were?

13 A. Never.

14 Q. Never been involved in any investment
15 strategies at Sterling Stamos?

16 A. No.

17 Q. Is the same true for your son David?

18 A. Yes.

19 Q. Did you suggest, as part of this
20 discussion about a fund of funds with the black box
21 concept, did you suggest that Madoff be a part of
22 that?

23 A. Yes.

24 Q. What was Mr. Stamos' reaction to
25 that?

1 of funds in which you would invest?

2 A. No.

3 Q. Not at any point in time?

4 A. No.

5 Q. How were decisions -- well, first of
6 all, who ran Sterling Stamos?

7 A. Peter Stamos.

8 Q. Were there -- what was his title?

9 A. President and chief executive
10 officer.

11 Q. Who were the decision-makers as far
12 as what types of investments would be made by
13 Sterling Stamos?

14 A. Peter was the chief investment
15 officer.

16 Q. Were there any other persons that
17 were decision-makers that would --

18 A. Peter made the decisions.

19 Q. Okay. What role did you have?

20 A. In?

21 Q. Sterling Stamos.

22 A. Only in where the business rented the
23 space and how many employees and budget, only on a
24 management of the business level. Zero involvement
25 in any investments.

1 Q. So management on the business level
2 would include what? You mentioned where the
3 business rented space.

4 A. Where the business rented space, what
5 the business plan was, how were they raising money,
6 some of the strategies in marketing and how you
7 market this thing, what do you -- what are you
8 looking to sell.

9 Q. What role did David play? David,
10 your son?

11 A. Same as me.

12 Q. Same as you?

13 A. Yeah.

14 Q. No decision-making with respect to
15 investments, particular investments of the Sterling
16 Stamos fund?

17 A. The only decision we made is putting
18 our own money into any particular fund as it was
19 offered to the limited partners. But not putting
20 the fund together, not picking managers, not
21 reviewing the managers, no review process. Nothing
22 to do with the investment strategy of the company at
23 all.

24 Q. Who is Ashok --

25 A. Ashok.

1 A. I think they do.

2 Q. Do you know who was on the investment
3 committee?

4 A. I don't want to guess. I certainly
5 know it was Peter and Ashok. But sometimes there
6 are committees and sometimes there aren't
7 committees.

8 Q. Were you ever a member of the
9 investment committee?

10 A. Absolutely not.

11 Q. Was your son ever a member of the
12 investment committee?

13 A. Absolutely not. It's not our
14 expertise.

15 Q. Just bear with us one second.

16 (Comments off the record.)

17 Q. Were you aware or are you aware of
18 the type of diligence that Mr. Stamos or people
19 working under his direction would perform before
20 deciding to invest with a particular manager in a
21 particular fund?

22 A. I don't know the details of it, but I
23 do know that as part of the management decisions
24 that were made in running the company, we had more
25 employees per money under management than any one of

1 our size doing due diligence, not only on who to
2 invest with, but to continue to follow through on a
3 continuing basis to see if they continued to do what
4 they're supposed to do.

5 Q. What --

6 A. What they did, I don't know.

7 Q. That was going to be my question.

8 A. What they did, I don't know.

9 Q. Did you understand them to evaluate
10 both -- first of all, do you understand one of the
11 due diligence aspects is to evaluate the risk of a
12 particular fund's or manager's investment strategy?

13 A. No. I don't know what they did and
14 how they did it.

15 Q. Do you understand that one of the
16 diligence aspects is to investigate the type and
17 evaluate the type of operational controls that a
18 particular fund brings to bear?

19 A. I don't know the details of how they
20 did and what they did.

21 Q. Did you ever participate in any
22 meetings or discussions where -- in your role at
23 Sterling Stamos -- where results of particular
24 diligence were discussed?

25 A. No, because that would be an

1 investment thing and we didn't participate in that.

2 Q. Would you receive reports in your --

3 A. Receive what?

4 Q. Did you receive reports --

5 A. On due diligence?

6 Q. Well, stop there, on due diligence?

7 A. No.

8 Q. Would you receive reports about

9 investment decisions that had been made --

10 A. No.

11 Q. -- by the Sterling Stamos

12 organization?

13 A. No.

14 Q. What types of reports or information
15 would you receive in your role at Sterling Stamos
16 regarding the operation of the business of Sterling
17 Stamos?

18 A. We'd have periodic meetings, talk
19 about how the company is doing, its P & L. Not in
20 its investments but its own P & L and its own
21 operations.

22 Q. So whether it was making money
23 itself?

24 A. That's correct. The Sterling Stamos
25 company itself which charges to manage money and

1 people in and use this asset as one of the assets
2 that they would send on to their investors.

3 Q. So that became another investment
4 opportunity -- your products are now an investment
5 opportunity for --

6 A. Merrill clients.

7 Q. -- Merrill Lynch's customers?

8 A. Yes.

9 MS. SESHENS: Objection to the form.

10 Q. So, did you sell, what -- did you
11 sell a percentage of the business to Merrill?

12 A. We sold 50 percent.

13 Q. Was it done in two different
14 tranches?

15 A. Yes. The payment was in two
16 tranches.

17 Q. What is, since the sale, what is
18 your -- has your role with the company changed?

19 A. Yes.

20 Q. How so?

21 A. Because it was originally built for
22 my family, as I described earlier, and so that Peter
23 would be like helping our family manage the family
24 money. He thought we had more money than we had,
25 everything with Madoff, so it was going to be a real

1 family office to manage that money.

2 Peter got totally enamored with what
3 he had grown, and got very excited, and instead of
4 sticking to the focus of running the family
5 business, he was now on a different plane and so it
6 doesn't have the same -- this is going to be like
7 U.S. Trust Company when I'm done, so I've got to go
8 back and find somebody else --

9 Q. To manage your family money?

10 A. -- to manage our family money and
11 build a family office again. So our interest
12 declined. We still own 25 percent of the company,
13 we still have a lot of money there as limited
14 partners, but we're not on the same wavelength.

15 Q. Do you have any role in the business
16 management -- the management of the business, as you
17 described it before?

18 A. I'm still on the Board of Directors,
19 but there are three members of Merrill Lynch on the
20 board, there's Peter and his father and there's me,
21 and we meet once every four to six months. And so
22 they're moving in a different direction. I don't
23 have a large input in it.

24 Q. So, just to sum up where you are with
25 that company, you still have limited partnership

1 thought Peter was a very bright person and could
2 accomplish some good stuff.

3 Q. Did you ever ask Peter his opinion of
4 Madoff?

5 A. Peter had an opinion of Madoff having
6 to do with the fact that he had been an investor, a
7 very satisfied investor. He would have liked me to
8 take all my money out of Madoff and give it to him
9 to manage. So I always got static from him as to
10 why you have so much money in one place. Because
11 you know my money in Sterling Stamos is with 125
12 different managers. So Peter believed in
13 diversification. And he would have loved me to move
14 all my money over.

15 Q. Did he advise you to do that?

16 A. No, never really advised me to do
17 that. Always sort of hustling for me to move some
18 more money over.

19 Q. You viewed that as a kind of a
20 business hustle?

21 A. Yes. A pleasant one, not a...

22 Q. I understand. They were competitors.

23 A. For my money.

24 Q. For your money.

25 A. They were friends and competitors for

1 my money.

2 Q. Now, certainly after you were setting
3 up, you set up Sterling Stamos, there were meetings
4 that you attended with Peter Stamos, your son David,
5 Peter's father I think you said --

6 A. Spiro.

7 Q. Spiro. And Ezra Merkin. Do you
8 recall one or more meetings with that cast of
9 characters?

10 MS. SESHENS: Objection to the form.

11 A. Cast of characters, I like that.

12 Q. With those individuals.

13 A. This is pretty good. No, I don't
14 recall.

15 Q. Do you know Ezra Merkin?

16 A. Yes.

17 Q. How do you know him?

18 A. I met him through Peter.

19 Q. And have you had more than one or two
20 meetings with Mr. Merkin?

21 A. I take that back. I met him through
22 Peter in our relationship which became friendlier
23 over -- he's an incredible baseball fan, he's a
24 crazy baseball fan, so he always liked to talk
25 baseball. I met Ezra earlier, didn't know him,

1 A. We lost more money than we had to.

2 Q. Because of Madoff?

3 A. Yeah.

4 Q. Had you -- was this a novel concept?

5 A. It's margin, we talked about it
6 earlier.

7 Q. It's similar to margin?

8 A. It's exactly margin.

9 Q. Except you're borrowing from the
10 bank?

11 A. Yeah. So the brokerage companies
12 borrow from the bank, too. They're just a conduit.
13 They do the same thing. It's not their money.

14 Q. Fair enough.

15 Did you view -- do you view your
16 investment strategies over the years on behalf of
17 the Sterling entities and on behalf of your family
18 to be relatively conservative?

19 MS. SESHENS: Objection to the form.

20 A. Very.

21 Q. Very conservative?

22 A. Very.

23 Q. Did you consider the double-up
24 accounts to be stepping outside that conservative
25 boundary or did you view that as a conservative

1 Q. Is it your testimony that the
2 discussions -- first of all, you never discussed it
3 with Ruth, correct?

4 A. Absolutely not.

5 Q. I asked that in a bad way.

6 A. I've never discussed any business
7 with Ruth, including anything in that document.

8 Q. The discussions that you had with
9 Bernie about the \$54 million, why don't you tell me
10 what that was. Tell me what the discussion was.

11 A. Let me put it in context. The
12 control of our media, of our content, is an
13 exceedingly valuable asset. Because of the document
14 that we got signed with Cablevision earlier, we had
15 a 30-day window to buy back that content. If we
16 didn't, Cablevision would own that content -- when I
17 say own it, they'd have control of it, they'd have
18 to pay us for it but they'd have control of the
19 content not only for the next ten years but because
20 of the way that thing read, forever. It was a
21 continuing, potentially forever. So we had a 30-day
22 window to buy that content back. We were able to
23 start a network once we got the content, which we
24 did, which is SNY.

25 We made a deal with the banks, two

1 banks to lend us each \$27 million for the \$54
2 million. We were satisfied that the two banks were
3 going to deliver the money. Because the content was
4 very valuable, worth substantially more than the \$54
5 million.

6 Banks being what banks are were
7 crossing the T's and dotting the I's, and we were
8 running out of time and we could not take the chance
9 that there would be a blip. Because if we didn't
10 pay by May 31st, we'd lose that opportunity, a
11 one-time opportunity, 30 days.

12 So I remember being in a car with
13 Fred, Marvin and we were coming into the City and we
14 were trying to figure out what to do. I said, we
15 just can't wait any longer. Let's call Bernie,
16 close one of our accounts or two of our accounts or
17 whatever it takes and get us \$54 million, even if
18 it's in the middle of a cycle.

19 So we called Bernie, told Bernie
20 where we were and he says, why break it, I'll wire
21 you \$54 million and either you'll pay me back in a
22 couple of days when you get the money from the bank
23 or at the end of the cycle on June 30th, when we
24 unwind whatever we have to unwind, you'll pay me
25 back the money.

1 We thanked him profusely, hung up the
2 phone. I never talked to him about it again. That
3 was the extent of the conversation we had with
4 Bernie. Never talked to Ruth.

5 The money came the next day.

6 Q. Bernie's money?

7 A. Bernie's money came the next day.
8 The same day the bank put the money in the bank.
9 The banker called me and said, what is going on
10 here, I got \$54 million just came into the account
11 and I just put 54 million in. I said, the deal
12 closed? Yes. We got our money? Yes. Okay, send
13 Bernie back his money, and we shipped Bernie back
14 his money the next day.

15 Q. Who did you give that instruction to?

16 A. The bank.

17 Q. You gave it directly to the bank?

18 A. Whether some pieces of paper had to
19 be sent to them, wire instructions, I don't know,
20 but the conversation took place between me and the
21 banker that the thing was completed. Because this
22 was very important that I was on top of closing that
23 deal to make sure we got the money in the bank to
24 send to Cablevision.

25 Q. Do you recall who the banker was that

1 (Recess taken.)

2 THE VIDEOGRAPHER: We're back on the
3 record. The time is 4:19. This is tape number 5.

4 BY MR. LUCCHESI:

5 Q. Mr. Katz, what was the benefit to
6 Sterling Stamos -- I'm sorry, the Sterling
7 organization to administering the accounts of the
8 friends and family?

9 MS. SESHENS: Objection to the form.

10 A. What was the benefit?

11 Q. Was there a benefit?

12 A. No. It cost us money to do so.

13 Q. Why did you do it?

14 A. 'Cause we're good guys.

15 Q. Any other reason?

16 A. None.

17 Q. You said it cost you money to do
18 that. What are you referring to?

19 A. That some of our employees are
20 spending time on doing things gratis for friends and
21 family.

22 Q. Is that a business practice that was
23 carried over with respect to Sterling Stamos
24 business?

25 MS. SESHENS: Objection to the form.

1 A. If people were similar to the same
2 people who were in Madoff, invested in Sterling
3 Stamos, they paid full fees at Sterling Stamos as
4 any other limited partner would have paid, the same
5 as I paid as a limited partner, I paid fees to
6 Sterling Stamos.

7 Q. So there's not this concept of one
8 side of the business introducing people and then
9 paying their freight, so to speak, with the Sterling
10 Stamos funds?

11 A. Right.

12 MS. SESHENS: Objection to the form.

13 Q. Did -- on the Sterling side, with
14 respect to the investments in Madoff, at any time
15 did the partners consider not providing that
16 service, the administrative service that's been
17 provided to the friends and family, or did they
18 consider charging for it? Was it ever a topic of
19 discussion?

20 A. There was a topic of discussion where
21 we talked about charging something in the area of
22 ten basis points, which would have covered costs,
23 but chose not to do so. It was not something we
24 wanted to do with friends. To think that we were
25 charging them anything, it didn't feel right, so we

1 didn't do it, but we did discuss it.

2 Q. When, approximately when was that
3 discussion?

4 A. I can't recall.

5 Q. Was there a circumstance or a
6 particular event that caused that discussion to take
7 place?

8 A. No. Sometimes we look at our
9 overhead and say, you know, how do we cut down our
10 overhead a little bit, what we were doing, and this
11 was a discussion.

12 Q. Are you able to tell me, as you sit
13 here today, approximately what the amount of
14 overhead investment or cost was that was associated
15 with administrating the friends and family accounts?

16 A. Talking about minimal. Minimal.
17 Talking about ten basis points. Hundred to \$200,000
18 of potential revenue we were going to get from it,
19 chose not to do so.

20 Q. That was the potential revenue?

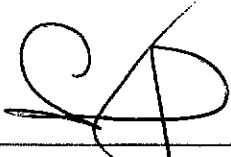
21 A. Yeah. The cost may have been the
22 same because I don't know how much time the office
23 spent on it, if he had one person or two people.
24 Whether it's helping them with their tax returns and
25 giving them information, whatever we had to do, we'd

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JURAT

I, SAUL B. KATZ, do hereby certify that I have read the foregoing transcript of my testimony taken on August 4, 2010, and have signed it subject to the following changes:

PAGE	LINE	CORRECTION
SEE ATTACHED	EXHIBIT A	



SAUL B. KATZ

Sworn and subscribed to before me on this day of 13th day of October, 2010

NOTARY PUBLIC: Ursula M. Mika

URSULA M. MIKA
NOTARY PUBLIC, STATE OF NEW YORK
No.01M16216250

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EXHIBIT A
 REDACTED

22	18	partners' money or the Sterling entity's money into	partners' money or the Sterling entities' money into REDACTED	Grammatical error
36	4	Fred's son-in-law is Wachler.	Fred's son-in-law is Wachtler.	Transcription error
45	13	world of derivatives that are going on, the answer	world of the derivatives that are going on, the answer	Grammatical error
46	17	against the company, lends me money. Brokerage	against, the company lends me money. Brokerage REDACTED	Grammatical error; Transcription error
77	9	system work when you were focusing more on the	system work, when you were focusing more on the	Grammatical error
77	25	25 years, if there were 15 social events over 15	25 years, if there were 15 social events over 25 REDACTED	Transcription error

EXHIBIT A
REDACTED

108	16	worry about. The nontransparent is when he went in	worry about. The nontransparency is when he went in REDACTED	Grammatical error
119	22	about this friends and family that you may have	about the friends and family that you may have REDACTED	Grammatical error

REDACTED

158	10	why you have so much money in one place. Because	why do you have so much money in one place. Because REDACTED	Transcription error
-----	----	--	---	---------------------

198	13	Fred, Marvin and we were coming into the City and we	Fred and Marvin, and we were coming into the City and we REDACTED	Grammatical error
-----	----	--	--	-------------------

216	1	If people were similar to the same	If people were similar to, the same	Grammatical error
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EXHIBIT A

216	2	people who were in Madoff, invested in Sterling	people who were in Madoff invested in Sterling REDACTED	Grammatical error
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