

# EXHIBIT G

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,

DAVID KATZ

Defendant.

(Volume I)

-----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 Tuesday,  
August 31, 2010, commencing at 10:10 a.m.

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## 1 A P P E A R A N C E S:

2

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New York, New York 10111  
4 BY: KATHRYN M. ZUNNO, ESQ.  
AMANDA E. FEIN, ESQ.  
5 FERNANDO A. BOHORQUEZ, ESQ.  
For Irving Picard, Trustee

6

DAVIS POLK & WARDWELL LLP  
450 Lexington Avenue  
New York, NY 10017  
8 BY: DANA M. SESHENS, ESQ.  
KAREN E. WAGNER, ESQ.  
9 For Sterling Equities, certain  
affiliated entities, and the Witness

10

## 11 ALSO PRESENT:

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

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1           A.        We don't talk.

2           Q.        You don't talk?

3           A.        No.

4           Q.        But Sterling is still invested in  
5 Sterling Stamos, right?

6           A.        Correct.

7           Q.        Is there a reason you don't talk?

8           A.        Our visions of the world kind of  
9 diverged.

10          Q.        Okay.  What do you mean by that?

11          A.        He looks at things differently.  We  
12 still want a smaller office.  We want what we  
13 originally wanted.

14          Q.        Was there a particular point in time  
15 when Sterling Stamos became something other than a  
16 family office?

17          A.        Yeah, when they started taking other  
18 people's money in more size than just big families,  
19 you know what I'm saying.

20          Q.        Okay.  And do you recall when that  
21 happened?

22          A.        No.

23          Q.        Was it prior to Merrill Lynch's  
24 involvement in Sterling Stamos?

25          A.        Yes.

1           A.           As we started doing well and proving  
2 ourselves they started to, you know -- proof is in  
3 the pudding, right?

4           Q.           Fair enough.

5                        At any time was the purpose of  
6 Sterling Stamos to recreate Madoff-like returns?

7           A.           It's always -- it was always a hurdle  
8 I think in our minds because it's just a natural  
9 hurdle because you've seen it for so long. But  
10 personally I didn't want it to be exactly the same  
11 because that means you're doing something like that  
12 and I wanted to be diversified. So in a way yes and  
13 in a way, no.

14          Q.           What was your understanding prior to  
15 the creation of Sterling Stamos about Madoff's  
16 returns?

17          A.           Steady. What else can you say?

18          Q.           Anything other than steady?

19          A.           No.

20          Q.           Do you know if Madoff ever had a  
21 negative month?

22          A.           Yeah.

23          Q.           How often?

24          A.           Not a lot.

25          Q.           So, is there a reason why you didn't

1 Q. Yeah.

2 A. I don't know.

3 MS. SESHENS: I think he said it  
4 wouldn't be problematic?

5 THE WITNESS: Yeah. I think you got  
6 one word backwards.

7 MS. SESHENS: So that's why I was  
8 confused by your question.

9 MS. ZUNNO: Let's just start over.

10 Q. The black box would mean what  
11 exactly? What does black box mean to you exactly?

12 A. It's a proprietary trading method.

13 Q. Proprietary trading method meaning  
14 what?

15 A. Meaning it's secret.

16 Q. And is there anything about the  
17 trading method being secret that you have, that you  
18 would have concerns about?

19 A. Not in this case, no, absolutely not.

20 Q. Why not?

21 A. Well, I guess Bernie was an  
22 outstanding citizen. He helped computerize NASDAQ,  
23 SEC writes rules with him. A lot of reasons.

24 Q. I guess putting Bernie aside, just  
25 the black box strategy in general --

1           A.           I really don't remember talking about  
2 Bernie. Although that's not a surprise, but I don't  
3 remember it.

4           Q.           Okay.

5           A.           Or Bank of New York I don't remember  
6 either. I thought it was somebody that was under  
7 Peter. Maybe that's where I'm confused.

8           Q.           Do you recall if anyone from Ivy told  
9 you and your father and Peter Stamos that they no  
10 longer invested in Madoff?

11          A.           Do I remember them telling us that?  
12                        No, because I remember talking about  
13 Bernie. That would have -- yeah. No.

14          Q.           Okay.

15                        Did you at any point, aside from this  
16 meeting, did you --

17          A.           Yeah.

18          Q.           Strike all of that.

19                        At any point did you learn that Ivy  
20 Asset Management no longer invested in Madoff?

21                        MS. SESHENS: Objection to the form.

22          A.           I have no idea they did.

23          Q.           Okay. Fair enough.

24                        Do you know someone named Tim Dick by  
25 any chance?

1 Q. What do you mean by that?

2 A. No official capacity. I was just  
3 there watching, and not all the time, either. Just  
4 certain things, they were in our space and so  
5 sometimes I'd go in meetings with them or something.

6 Q. When you say they were in our space,  
7 you're talking about 575 --

8 A. Yeah.

9 Q. Fifth, right?

10 A. Um-hum.

11 Q. You managed a fund at one point at  
12 Sterling Stamos, right?

13 A. No.

14 Q. You don't recall managing a fund  
15 called SP Trading?

16 A. SP Trading? No.

17 Q. Did you have any day-to-day  
18 responsibilities for Sterling Stamos?

19 A. No.

20 Q. At any point did you have any  
21 day-to-day responsibilities?

22 A. No.

23 MS. ZUNNO: Mark this Exhibit 4.

24 (Exhibit DK-4 marked for  
25 identification.)



1 that's where I totally left. I don't remember.

2 Q. When --

3 A. I'm sorry, go ahead.

4 Q. When did Sterling Stamos become  
5 registered?

6 A. I was just thinking that. I don't  
7 know.

8 Q. When I say registered, I mean  
9 registered investment advisor, just to clarify.

10 A. Yeah.

11 Q. You don't recall when?

12 A. (Witness shakes head.)

13 Q. Do you recall if it was shortly after  
14 the fund, the company was up and running?

15 A. It wasn't too long.

16 Q. Do you recall why Sterling Stamos  
17 registered?

18 A. I believe there were different  
19 regulations for the amount of people maybe in the  
20 fund that you could have without being registered.

21 Q. Did you have any concerns about  
22 Sterling Stamos registering as an investment  
23 advisor?

24 A. Concerns?

25 Q. Um-hum.

1 Ashok's, whoever that was at the time, and maybe  
2 Peter's brother.

3 Q. What was Peter's brother's name?

4 A. Well, there was a bunch. There was  
5 Chris.

6 Q. Basil?

7 A. Chris and Basil. Basil wasn't around  
8 a lot; Chris was around more.

9 Q. Okay.

10 A. Maybe Chris and actually maybe his  
11 father, because his father was at the Long Island  
12 Investors one, too. And that's all I remember.

13 Q. I think you also mentioned being  
14 present at some internal meetings?

15 A. Um.

16 Q. At Sterling Stamos?

17 A. Correct.

18 Q. What internal meetings were those?

19 A. It would range, you know, depending  
20 on when I walked in. If I saw the conference door  
21 closed, I would always stick my head in, probably  
22 unwanted, you know, and sit down. Or asked to be.  
23 You know, it'd be rude if they didn't ask me, so...

24 Q. Would you say that prior to Sterling  
25 Stamos registering as an investment advisor that you

1 were involved in the investment decisions of  
2 Sterling Stamos?

3 A. Not even close.

4 Q. Would you say that you were on the  
5 senior investment team at Sterling Stamos prior to  
6 registering?

7 A. That would defeat the whole purpose  
8 of having Sterling Stamos.

9 Q. What do you mean?

10 A. If we were going to do it, we'd do it  
11 ourselves, we'd do it. Right? We wanted Peter's  
12 brain.

13 Q. Do you know, aside from Peter, who  
14 else was involved in the investment decisions of  
15 Sterling Stamos?

16 A. Yeah. Depending on who you asked.  
17 If finances, but it was Peter and Ashok and I guess  
18 depending on who -- there's a few other people  
19 floating around the office. I don't remember their  
20 names. They're probably not there anymore.

21 Q. Prior to Sterling Stamos registering  
22 as an investment advisor, did your father, Saul  
23 Katz, have any involvement in the investment  
24 decisions at Sterling Stamos?

25 A. About the same I did. Nothing.

1 Except he went to less meetings, I'm sure.

2 Q. So he had no involvement in deciding  
3 which investment managers the funds would invest in?

4 A. Not that I know, not that I know of.

5 Q. Do you know if any meetings were  
6 scheduled with Madoff and Mr. Stamos as well as some  
7 Sterling partners to discuss the issue of Sterling  
8 Stamos registering as an investment advisor?

9 A. Wouldn't surprise me.

10 Q. Why wouldn't it surprise you?

11 A. Madoff was registered. He's a close  
12 friend, give maybe the ins and outs. Logical  
13 choice.

14 Q. Do you recall learning of any  
15 meetings with Madoff?

16 A. No.

17 Q. Let me just make sure I have that  
18 question formed as an actual question. Do you  
19 recall learning of any meetings that took place with  
20 Madoff regarding the subject of Sterling Stamos'  
21 registration?

22 A. No.

23 Q. Do you know Ezra Merkin?

24 A. Yeah.

25 Q. How do you know Ezra Merkin?

1 that?

2 A. Not that I recall.

3 Q. In 2002 when Sterling Stamos was  
4 first created, in its beginning stages, what's your  
5 understanding of the diligence process that Sterling  
6 Stamos used to consider investments?

7 A. I don't recall.

8 Q. Do you recall anything about the  
9 diligence process at Sterling Stamos at that time?

10 A. Nothing. I know they did something.  
11 I don't remember what they actively did.

12 Q. At any point in time did you gain an  
13 understanding of Sterling Stamos' diligence process?

14 A. No. No.

15 Q. Now, you had money invested in  
16 Sterling Stamos, right?

17 A. Right.

18 Q. Is there a reason why you wouldn't  
19 ask anyone at Sterling Stamos about that diligence  
20 process?

21 A. Why I wouldn't ask?

22 Q. Um-hum.

23 A. I'd ask them a lot of things, I  
24 guess.

25 Q. Did you think they had a good

1 diligence process at Sterling Stamos?

2 MS. SESHENS: Objection to the form.

3 A. I don't know. That would be a guess.

4 Q. So you would know nothing about  
5 Sterling Stamos' diligence process?

6 A. No. Not that I remember, anyway.

7 Q. Do you know if -- let me backtrack.  
8 Do you know when Kevin Barcelona retired at Sterling  
9 Stamos?

10 A. The date?

11 Q. Yeah. Around when.

12 A. If I remember correctly it was early  
13 on.

14 Q. Close in time to 2002?

15 A. Oh, no, that's not true. No, because  
16 he was someplace else, no, he was somewhere else and  
17 they wanted him and I think he had to do the right  
18 thing to come over. I couldn't tell you the date,  
19 though.

20 Q. What type of interaction, if any, did  
21 you have with Kevin Barcelona?

22 A. You mean in the office?

23 Q. Yeah.

24 A. Walking by, say, hey, what's going  
25 on.

1 Q. Did you ever discuss with him any  
2 tasks he was performing for Sterling Stamos?

3 A. No.

4 Q. Do you know if Sterling Stamos'  
5 diligence process changed at all after the Bayou  
6 incident?

7 A. No.

8 Q. Do you know if in connection with  
9 becoming a partial owner of Sterling Stamos whether  
10 Merrill Lynch imposed any requirements on Sterling  
11 Stamos' diligence process?

12 A. I'm sure there was, but I don't know.

13 Q. Did you ever discuss Sterling Stamos'  
14 diligence process with your father, Saul Katz?

15 A. No. Not that I remember.

16 MS. ZUNNO: Let's go off the record.  
17 Take a break for a couple minutes.

18 THE VIDEOGRAPHER: Going off the  
19 record, the time is 3:16.

20 (Recess taken.)

21 THE VIDEOGRAPHER: We're back on the  
22 record. The time is 3:27.

23 BY MS. ZUNNO:

24 Q. Going back to the Bayou matter,  
25 Mr. Katz, did there come a point in time when you

1 But when I stopped talking at all to Peter was  
2 probably, if I had to guess, it was around the  
3 Merrill thing. That's the only thing I can think  
4 of.

5 Q. At any point in time after the  
6 creation of Sterling Stamos did you question why  
7 Sterling Stamos could not replicate or do as well as  
8 Madoff's returns?

9 A. I didn't necessarily want them --

10 MS. SESHENS: Objection to form.

11 A. I didn't necessarily want them to do  
12 as well. I wanted them to do what they're supposed  
13 to do. There's some disciplines that they don't  
14 make that, they'll make three percent, and that's  
15 okay.

16 Q. Were Madoff and Stamos returns ever  
17 compared on like a pre- and post-tax basis? Does  
18 that sound familiar?

19 A. I'm sure.

20 Q. Do you have any understanding why  
21 that comparison was done?

22 A. To see which one's better pre- and  
23 post-tax.

24 Q. Why would one be better pre- and  
25 post-tax?



1 January of '08.

2 Q. Do you recall any particular decision  
3 that was made at the meeting in January '08 related  
4 to portfolio planning?

5 A. A decision? I don't recall.

6 Q. Mr. Katz, this document was in your  
7 hard copy files at Sterling.

8 A. Okay.

9 Q. That was represented to us by your  
10 counsel. Do you know if there are similar meeting  
11 agendas relating to meetings with anyone at Sterling  
12 Stamos in that file?

13 A. If you didn't get them, I don't have  
14 them.

15 Q. Okay. Fair enough.

16 (Exhibit DK-19 marked for  
17 identification.)

18 Q. Are you done reviewing Exhibit 19?

19 A. Think so.

20 Q. Mr. Katz, this was also in your hard  
21 copy files and produced to us by your counsel on  
22 Monday.

23 A. Um-hum.

24 Q. Can you explain to me how this  
25 document is used?

1           A.           Possibly.

2           Q.           Do you know if Brendan sent  
3 information like this on a regular basis to you?

4           A.           I don't think so.

5           Q.           What about to your father?

6           A.           I don't know.

7           Q.           Is it your understanding that  
8 Security Fund, Endow Master, Endow-Enhance,  
9 Sec-Select, Equity Select and Endow Select, is it  
10 your understanding those are Stamos funds?

11          A.           Correct.

12                        Are we done with this?

13          Q.           Yes.

14                        Just some follow-ups from yesterday.

15          A.           Sure.

16          Q.           You told me about Merrill Lynch's  
17 involvement in Sterling Stamos.

18                        MS. SESHENS: I think the record will  
19 speak for whatever he told you about that.

20                        MS. ZUNNO: Point taken.

21          Q.           Do you know why Sterling sold a  
22 percentage of its interest to Merrill Lynch?

23          A.           Sure.

24          Q.           Why?

25          A.           It wasn't the vehicle we originally

1 wanted to make. We wanted to make an office, an  
2 office, a family office, not an investment fund. It  
3 just happened to go that way.

4 Q. Do you know if Sterling at any point  
5 had any plan to sell all of its interest in Sterling  
6 Stamos?

7 A. Sure. We're not going to be there  
8 forever, if that's what you're saying.

9 Q. As of today, is there a plan to sell  
10 any -- to sell the rest of --

11 A. Sterling Stamos.

12 Q. -- interest in Sterling Stamos?

13 MS. SESHENS: Objection, relevant.

14 A. And I didn't wait.

15 I'm sure if somebody came up with the  
16 right number, we'd sell.

17 Q. Was anyone at Sterling opposed to the  
18 sale of a portion of its interest in Sterling Stamos  
19 to Merrill Lynch?

20 A. Opposed?

21 Q. Um-hum.

22 A. I don't think so.

23 Q. Do you know if Merrill Lynch ever  
24 requested any information about Sterling before  
25 purchasing an interest in Sterling Stamos?

1           A.           Yeah.  Yes.

2           Q.           Would you agree that the fact that  
3 Madoff was a black box, was that one of the reasons  
4 Sterling wanted to diversify away from Madoff?

5                       MS. SESHENS:  Objection.  Katie, I  
6 know we've given a lot of leeway on this, this is  
7 like the fourth or fifth time this line of  
8 questioning has been asked.  So I just want to note  
9 my objection, we've gone over this, it's been asked  
10 and answered and it's captured in the testimony that  
11 I think has been elicited thus far.

12                      MS. ZUNNO:  I note your objection.  I  
13 disagree that this was asked and answered.  But I'll  
14 ask my question again.

15 BY MS. ZUNNO:

16           Q.           Was the fact that Madoff was a black  
17 box one of the reasons Sterling wanted to diversify  
18 away from Madoff?

19           A.           No.

20           Q.           So other than diversifying away from  
21 Madoff, are there any other reasons why Sterling  
22 Stamos was created?

23           A.           Seemed like a good business, start a  
24 family office.  No.  I can't think of any other  
25 reason now.