

EXHIBIT U

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)

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SECURITIES INVESTOR PROTECTION
CORPORATION,

Videotaped

Plaintiff-Applicant,
v.

Rule 2004
Examination of:

BERNARD L. MADOFF INVESTMENT
SECURITIES, LLC,
Defendant.

ARTHUR FRIEDMAN

(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,
June 22, 2010, commencing at 10:11 a.m.

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BY: DANA M. SESHENS, ESQ.
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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. Same for the Brooklyn Cyclones.

2 Q. Now that's a -- just because I'm not
3 from here, that's a minor league team?

4 A. Yes. Single A.

5 Q. Single A?

6 A. Single A, not a full season, they
7 start in June.

8 Q. Is it affiliated with the Mets?

9 A. Oh, yes. We own the team.

10 Q. Part of the Fund system?

11 A. Yes.

12 Q. Do the Mets have other minor league
13 operations? Do they have a double A?

14 A. They do, but it's an affiliation.
15 Brooklyn Cyclones is the only one that we own, but
16 we have affiliation with all levels.

17 Q. And those, you don't have any -- the
18 affiliated minor league operations, you don't have
19 any job responsibilities with respect to those
20 entities?

21 A. No. No.

22 Q. Did you provide -- let me just
23 continue with the last part of the business that you
24 identified. You identified, depending on how you
25 were counting, the third or the fourth business

1 grouping for the Sterling entities as the
2 investments. Under that you broke out I think, at
3 least in my mind, kind of Madoff and then other
4 investments. So, can you tell me, maybe this is a
5 good time, what were your responsibilities with
6 respect to the investments being made by Sterling
7 partners or Sterling entities with Bernard Madoff?

8 A. With regard to Bernard Madoff?

9 Q. Yes.

10 A. As I said, I was the liaison with the
11 Madoff firm. Any dealings with the investment in
12 Madoff was done through me. That was by design, and
13 so that whenever anybody wanted to invest money in
14 Madoff, they would send me the check, or -- it
15 usually was in the form of a check, and I would
16 forward it on to Madoff. And vice versa, if they
17 wanted to withdraw money, they would notify me,
18 either by email or letter or telephone what they
19 wanted to withdraw, from what account, when, if
20 there was an urgency, and I would, again, transmit
21 that information to Madoff.

22 So, in every sense I was the liaison.

23 Q. You said that was by design. Why was
24 that the design?

25 A. From, to my recollection, from day

1 referred to as the ten accounts, that there were
2 actually ten accounts that were added and we just
3 grouped them, and I think for our own information we
4 referred to them as the ten accounts. Were they the
5 next, in other words four to thirteen, I don't
6 recollect if there was any in between.

7 Q. Okay. We have some documents that
8 show the ten accounts. So, let's just talk about
9 subsequent accounts, just generally.

10 Were you given direction by somebody
11 to invest with Madoff, or did you make that decision
12 on behalf of the Sterling entities on your own?

13 A. I never made a determination on my
14 own to open an account or to have somebody else open
15 an account.

16 Q. Okay. So, were you directed then to
17 open accounts at Madoff?

18 A. As each account was opened, or if it
19 was a case of more than one account at a time, there
20 was a discussion and I might very well have been
21 directed to do whatever was necessary to open
22 accounts in such and such name.

23 Q. You say there was a discussion. Who
24 would be the participants in the discussion?

25 A. It would usually be Mr. Saul Katz.

1 It may have been all of the partners in a given
2 situation, or whoever might have been involved in
3 opening the accounts.

4 Q. What would be the subject of
5 discussion?

6 A. Might be the names of the accounts,
7 who the partners were, what percentages, if there
8 were more than one partner, if it was a tenant-in-
9 common account, for example, what the percentages
10 were. And the paperwork involved, who would be
11 signing, what Social Security number would be used,
12 again, if it was more than one person. Just the
13 basics of opening the account.

14 Q. Other than the basics of opening the
15 account, what you've just mentioned, were there any
16 other factors or matters that were taken into
17 consideration in deciding whether to open a new
18 account with Bernie Madoff?

19 A. I wasn't involved, that I can
20 recollect, in making any kind of determination.

21 Q. Did you -- well, let me back up.

22 Did you have any understanding, when
23 you joined Sterling in January of '86, regarding
24 Madoff's investment strategy?

25 MS. SESHENS: At the time he joined?

1 Right? Correct?

2 MS. SESHENS: Object to the form.

3 A. Yes.

4 Q. You managed the accounts?

5 A. Yes.

6 Q. You set up many of the accounts?

7 A. What does it mean, "set up"?

8 Q. You did the paperwork to open the
9 accounts with Madoff?

10 A. I had the paperwork prepared and
11 necessary signatures and submitted them to the
12 Madoff firm, yes.

13 Q. Was it your understanding that many
14 of the accounts --

15 MR. LUCCHESI: Well, strike that.

16 Q. Did you purposely set up many of the
17 accounts as tenants in common?

18 MS. SESHENS: Objection.

19 A. Yes.

20 Q. Do you understand what "tenants in
21 common" --

22 A. Yes.

23 Q. What is that? What is that?

24 A. Tenants in common are an account of
25 more than one person, two or more, whereby there's

1 First of all, what do you recall him saying other
2 than, We ought to diversify? Do you recall him
3 saying anything more than that?

4 A. It was just -- no warning about
5 Madoff or any uneasy feeling about Madoff. It's
6 just a good idea which nobody disagreed with, to
7 spread money to more than one place.

8 Q. Okay. And then was that generally
9 agreed with, that we -- that you should spread the
10 money to more than one place?

11 A. I think the point was made, and maybe
12 some heads were nodded. There wasn't a vote or
13 anything like that, but everybody understood the
14 concept of diversifying and respected it and thought
15 it was the right thing.

16 Q. What steps were taken, if any, to
17 diversify?

18 A. At one point, Saul Katz decided that
19 we should -- diversification -- He wanted to
20 diversify, and his thought was a fund of funds would
21 be a good place to diversify funds. Relatively
22 conservative. The returns were purportedly good.
23 That's how Sterling Stamos was born.

24 Q. Before Sterling Stamos was born, you
25 had discussions with IV Management?

1 Does that say how to --

2 A. Define.

3 Q. How to define fraud?

4 A. Yes.

5 Q. What was that? Why did you write
6 that on this?

7 A. I was taking notes. I don't know,
8 conversation, I don't know with whom, maybe one or
9 more partners, I don't know.

10 Q. Okay. Do you recall what the concern
11 was, how to define fraud?

12 A. The question --

13 MS. SESHENS: Objection to form.

14 Q. Let me rephrase the question.

15 Was there an issue or a concern
16 raised about how fraud was defined in the insurance
17 policy?

18 A. There was just a curiosity, a fact-
19 finding question, how did it define. It wasn't...

20 Q. Other than learning that American
21 Securities had purchased third-party insurance for
22 their accounts at Madoff, was there any other
23 precipitating event that made the Sterling Group
24 think insurance was a good idea, potentially?

25 MS. SESHENS: Objection to the form.

1 A. No.

2 Q. Do you recall anything about the
3 discussion -- strike that.

4 Was there a discussion among the
5 partners about how fraud was defined?

6 A. I don't remember the discussion. I
7 presume it took place, but I don't remember. It was
8 just how is it defined, passed the information on
9 that I received and that was the end of it.

10 Q. Next line of handwriting says, "Get
11 Robert Duran here." Correct?

12 A. Yeah, speak to him directly, one on
13 one.

14 Q. And that's the meeting that you
15 referred to that you attended with Michael Katz?

16 A. Yes.

17 Q. Now, is the second page of that
18 document your notes from that meeting?

19 A. Yes.

20 Q. Do all of the -- is all of the
21 writing on that page related to the meeting with
22 Robert Duran?

23 A. No, doesn't appear to be.

24 Q. Is it just the part that's labeled
25 number 1 at the top?

1 you to all partners dated June 2001, June 13th,
2 2001. Is this a memo that you authored?

3 A. Yes.

4 Q. Is that the memo that you were
5 referring to a minute ago?

6 A. Yes.

7 Q. Does this help you place in time when
8 you may have met with Mr. Duran?

9 A. Yes.

10 Q. When do you think you met with
11 Mr. Duran?

12 A. Probably very shortly before June
13 13th, 2001.

14 Q. Okay. So, your initial memo, Exhibit
15 20, on this subject was in February, and you meet
16 with Mr. Duran in June. Was there a reason for the
17 passage of time? I guess there's always a reason
18 for the passage of time. Was there a reason it took
19 until June to set up that meeting?

20 A. I think for the most part the reason
21 was that there was no sense of urgency. But whether
22 he wasn't available or we weren't available, that I
23 don't recollect.

24 (Exhibit AF-22 marked for
25 identification.)

1 page of the chart.

2 A. Okay. If it was levered, you know, I
3 didn't think so, but it's not a great surprise that
4 it was a levered or doubling-up account.

5 Q. Okay. All right. Okay, that's all I
6 have for that right now.

7 Was the decision to do this
8 leveraging by borrowing money from a bank for
9 deposit into accounts at Madoff, was that the
10 subject of discussion among the partners prior to
11 doing it?

12 A. Yes, it was. Yes.

13 Q. Did anyone, did any of the partners
14 disagree that this was an appropriate or a wise
15 investment strategy?

16 MS. SESHENS: Object to the form.

17 A. I don't recollect anybody
18 disagreeing.

19 Q. Was there a separate discussion about
20 doubling-up accounts with respect to each time it
21 was done? In other words, was there a discussion
22 for Sterling 30, a separate discussion at the time
23 you did Sterling 10, et cetera?

24 A. The only discussion was we are
25 opening a Sterling 20. If anybody wants to put any

1 money in Sterling 20, it's open now, we intend to go
2 ahead and close it on X date. That virtually was
3 the only discussion because there was a voluntary
4 thing with all of those accounts, Sterling 20 and so
5 forth. It wasn't mandatory that you put in any --
6 that any individual partner put in any money.

7 Q. The money that went into the
8 double-up accounts, was there any restriction on
9 where that money, or limitation on where that money
10 could come from?

11 A. There was an understood restriction
12 that you just couldn't borrow it from Sterling
13 Equities Funding to put it in leverage and put it
14 into Madoff. That was understood.

15 Q. Could you take it out of an existing
16 Madoff account?

17 A. Yes.

18 Q. Did anyone do that, to your
19 knowledge?

20 A. Yes.

21 Q. Who did that?

22 A. I for one did it. I think almost
23 every partner did it.

24 Q. Okay. So Madoff didn't impose any
25 restrictions on where the money could come from?

1 to you, right, that it was cheaper, someone must
2 have told you that?

3 A. Yes.

4 Q. And then you wrote, "Everyone will
5 ask and know about BM."

6 A. Bernard Madoff.

7 Q. Why is that written there?

8 A. That anybody that went into the plan
9 would have to have a thorough briefing on the Madoff
10 operation.

11 Q. Was it a concern on your part that
12 people would, employees would ask and know about
13 Bernie Madoff?

14 A. No, I don't...

15 Q. You don't recall ever being
16 encouraged to keep Madoff kind of a well-kept
17 secret?

18 A. No.

19 Q. Do you recall any discussion about
20 that point at this meeting, that everyone will ask
21 and know about Madoff?

22 A. No, I don't recall any such concern
23 or discussion.

24 Q. I know we're looking at a copy of the
25 notes. Do you believe you wrote that, everyone will

1 like that.

2 Q. Was there any, ever any discussion
3 between Sterling -- representatives of Sterling and
4 Peter Stamos about Madoff as an investment
5 opportunity?

6 A. Between Sterling and Peter Stamos?

7 Q. Yes.

8 A. Yes.

9 Q. Tell me about those discussions.

10 A. Peter Stamos expressed an opinion
11 that Bernie Madoff was not transparent. That was
12 his, quote, objection. And he advised us, or he was
13 of the opinion that we shouldn't have as much money
14 in Madoff as we do, as we did at the time.

15 Q. At the time, this was before the
16 formation of the Sterling Stamos fund?

17 A. No, no.

18 Q. After?

19 A. That was in existence.

20 Q. When did he render that advice?

21 A. I don't remember the time, but I
22 remember thinking the natural thought, that, yes, if
23 these were our two major sources of investment,
24 then, sure, he would like us to take some money out
25 of Madoff and no doubt put it into his firm.

1 Q. So is it fair to say you discounted
2 his view, because you didn't think it was objective?

3 A. That's one of the reasons, yes.

4 Q. What other reasons?

5 A. The only danger that he put forth was
6 that if anything ever happened, and he didn't really
7 get into any reason that anything should happen, a
8 problem with Sterling, that Sterling might
9 encounter, would be if accounts were frozen and
10 while any kind of -- if they started to look into
11 Madoff's operation -- again, not saying that they'd
12 find anything, but just saying, just creating a fear
13 of just an investigation. And our accounts were
14 frozen, would we -- and at the same time the banks
15 said, well, pay us the money, you're in default, we
16 might have a problem.

17 So that was the only -- that was the
18 basis of his warning, we'll say, or saying that you
19 should have less money. Again, not that he could
20 point to and say there's something wrong or an
21 investigation would turn up anything wrong. Just
22 that if there were an investigation and if the money
23 was tied up, then we might run into a problem.

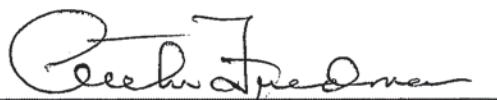
24 Q. Now, do you recall Mr. Stamos issuing
25 this warning and this advice -- you certainly recall

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JURAT

I, ARTHUR FRIEDMAN, do hereby certify that I have read the foregoing transcript of my testimony taken on June 22, 2010, and have signed it subject to the following changes:

PAGE LINE CORRECTION
SEE ATTACHED EXHIBIT A

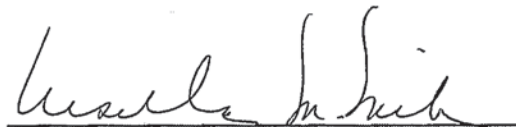


ARTHUR FRIEDMAN

Sworn and subscribed to before me on this day of

September 28, 2010

NOTARY PUBLIC:



URSULA M. MIKA
NOTARY PUBLIC, STATE OF NEW YORK
No. 01M0216250

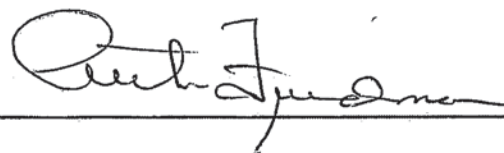
QUALIFIED IN QUEENS COUNTY
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JURAT

I, ARTHUR FRIEDMAN, do hereby certify that I have read the foregoing transcript of my testimony taken on June 23, 2010, and have signed it subject to the following changes:

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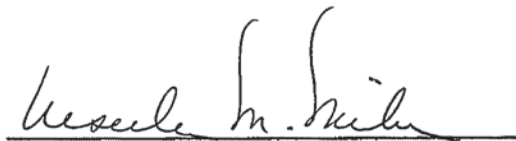


ARTHUR FRIEDMAN

Sworn and subscribed to before me on this day of

September 28, 2010

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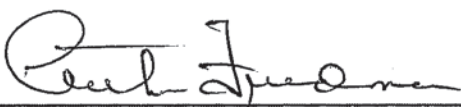


URSULA M. MIKA
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COMMISSION EXPIRES JANUARY 11, 2014

JURAT

I, ARTHUR FRIEDMAN, do hereby certify that I have read the foregoing transcript of my testimony taken on June 24, 2010, and have signed it subject to the following changes:

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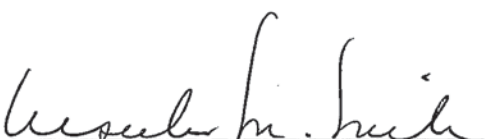


 ARTHUR FRIEDMAN

Sworn and subscribed to before me on this day of

September 28, 2010

NOTARY PUBLIC:



URSULA M. MIKA
 NOTARY PUBLIC, STATE OF NEW YORK
 No. 01MI6216250
 QUALIFIED IN QUEENS COUNTY
 COMMISSION EXPIRES JANUARY 11, 2014

EXHIBIT A

PAGE	LINE	ORIGINAL	CHANGE REDACTED	REASON
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353	6	just a good idea which nobody disagreed with, to	just a good idea, which nobody disagreed with, to	Grammatical error
353	25	had discussions with IV Management	had discussions with Ivy Management REDACTED	Transcription error

EXHIBIT A

PAGE	LINE	ORIGINAL	CHANGE REDACTED	REASON
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425	8	just how is it defined, passed the information on	Just how is it defined, I passed the information on	Transcription error
425	12	Yeah, speak to him directly, one on	Yeah, to speak to him directly, one on REDACTED	Transcription error